#### <u>SA – 700 (Revised)</u>

Forming an Opinion and Reporting on Financial Statements

#### <u>SA-701</u>

Communicating Key Audit Matters in the Independent Auditor's Report

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## **SA – 700**

Forming an Opinion and Reporting on Financial Statements

**Change in Format** 

**Addition of Contents** 

# Format <u>Comparison</u>

SA 700 (Revised)	SA 700 (Old)
Title	Title
Addressee	Addressee
Opinion	Introductory Paragraph
Basis for Opinion	Management Responsibility
Going Concern	Auditors Responsibility
Key Audit Matters	Auditors Opinion
Management Responsibility	Other Reporting Responsibilities
Auditors Responsibility	Signature
Other Reporting Responsibilities	Date, Place
Signature	
Date, Place	

#### **INDEPENDENT AUDITOR'S REPORT**

The Members of **XXX LIMITED** Kochi

#### Report on the Financial Statements Opinion

We have audited the standalone financial statements of ABC Company Limited, which comprise the balance sheet as at 31st M arch 20XX, and the statement of profit and loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)]. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies A ct, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at M arch 31, 20XX, and its profit/ loss, (changes in equity) and its cash flows for the year ended on that date.

#### **Basis of Opinion**

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material Uncertainty Related to Going Concern

We draw attention to Note XX in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note XX, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with SA 701.]

#### Management's Responsibility for the Financial Statements Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors are also responsible for overseeing the Company's financial reporting process.

#### Auditor's Responsibility Auditor's Responsibilities for the Audit of the Financial Statements

**Report on Other Legal and Regulatory Requirements** 

**Signature** 

**Date & Place** 

# **SA - 701**

#### Communicating Key Audit Matters in the Independent Auditor's Report

# **SA - 701**

### **Objectives**

- To determine Key Audit Matters (KAM)
- Communicate those matters by describing them in the Auditors Report.

# **Key Audit Matters**

- □ Those matters that, <u>in the auditors judgement, were of most</u> <u>significance</u> in the audit of FS of the current period.
- Key Audit Matters are selected from the matters communicated with those charged with governance. (SA 260)

### **Determining Key Audit Matters**

□ The auditor shall determine,

From the matters communicated with TCWG, those matters that require significant auditor attention in performing the audit.

## **Determining** Key Audit Matters

- The auditor shall take into account:
  - Initial Assessment SA 315.
  - Significant management judgements.
  - The effect of audit of significant events or transactions that occurred during the period.

Matters communicated to those charged with governance

Matters that require significant auditor attention during the audit

Key Audit Matters (matters of most significance)

# Purpose

- To enhance the communicative value of the AR by providing greater transparency about the audit that was performed.
- KAM provide additional information to the intended users to assist them in understanding those matters that, in the auditors judgement, were of most significance in the audit of FS of the current period.

### **Communicating** Key Audit Matters

A separate section in the auditors report under the heading "Key Audit Matters"

The introductory language in this section shall state:

- Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period and
- These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

## **Communicating** Key Audit Matters

## The auditor shall

- Describe each key audit matter, using an appropriate sub-heading;
- The description of each KAM shall include a reference to the related disclosures, if any, in the FS and shall address :
  - Why the matter was considered to be a KAM
  - How the matter was addressed in the audit.

# Applicability

#### **Applies to**

- complete set of general purpose financial statements of listed entities.
- Circumstances when the auditor **otherwise decides** to communicate KAM in the Auditors Report.
- Also when the auditor is required by **law or regulation** to communicate KAM in the AR.

SA 705 <u>prohibits</u> the auditor from communicating key audit matters when the auditor <u>disclaims an opinion</u> on the FS, unless such reporting is required by a law or regulation.

# **KAM – Not a Substitute**

• Communicating KAM is **NOT a substitute** for:

Disclosures in the FS.

□ A modified opinion.

□ Reporting in accordance with SA 570

## **No Communication**

- Circumstances in which a KAM is not communicated:
  - Law or regulation precludes public disclosure about the matter.
  - When the auditor determines that the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **No Communication**

- A matter giving rise to a modified opinion (SA 705)
- Material uncertainty about Going Concern (SA 570)

#### Eventhough both the above are by their nature, KAMs:

- these shall be reported in accordance with applicable SAs and
- □ include a reference about the same in the KAM section.

## **No Key Audit Matter**

Except for the matters described in the Basis of Opinion Paragraph, we have determined that there are no key audit matters to communicate in our report.

# EoM Vs KAM

- Emphasis of Matter Paragraph is not a substitute for KAM.
- Matter that is not determined to be a key audit matter, but which, in the auditor's judgement, is fundamental to the users' understanding of the financial statements is included in EoM Paragraph.

## **Documentation**

#### **The auditor shall include in the audit documentation:**

- The matters that required significant auditor attention and the rationale for determination as to whether or not each of the matter is a KAM.
- Where applicable, the rationale for determination that there are no KAMs.
- Where applicable, the rationale for determination not to communicate the KAM.



