



Concluding and Reporting

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Chamber of Tax Consultants – Webinar 20th March 2020

Key contents of this webcast

- ❑ Genesis of changes in auditor reporting
- ❑ Key Audit Matters (KAMs) reporting – SA 701
- ❑ Going concern reporting – SA 570
- ❑ Other information reporting – SA 720
- ❑ Other changes to reporting standards SAs 700, 705 and 706
- ❑ Latest changes to: CARO reporting – CARO, 2020

Genesis of changes in auditor reporting

- ❑ New auditor's report requirements are a culmination of years of discussion between auditing profession (IAASB, IFAC) and the stakeholders (lender-investor-creditor lobbies, regulators)
- ❑ Stakeholders were asking: Why auditors don't share more about the audit? What they did? And, why none of that is transparent?
- ❑ The Global Financial Crisis of 2007-08 gave their voice a new and powerful urgency because the Crisis undermined investor confidence in financial reporting
- ❑ It was found in research that the only thing people were reading in the erstwhile auditor's report was the opinion paragraph to see if the entity had 'passed' or 'failed'. This was clearly not enough

..Genesis

- ❑ It was felt that the erstwhile reports were incomplete and very similar to one another. Stakeholders could not differentiate diverse situations at different companies. IFRS is highly dependent on estimates, fair values, judgements, substance over form – reports should assure users that the auditor did indeed take all of these issues into account, and state how he/she did so
- ❑ Stakeholders said: Audit is perhaps the least understood service. Tell us clearly what your responsibilities are, but not boilerplate. Tell us what really you have been focusing on
- ❑ It is this background that has resulted in
 - Putting the opinion paragraph right at the beginning of the auditor's report
 - Introduction of a Key Audit Matters (KAMs) paragraph for listed entities
 - Renewed emphasis on reporting on Going Concern and Other Information
 - Enhanced description of auditor's responsibility

..Genesis

- ❑ In India, the need for greater disclosure in auditor's reports has sprung more as a regulators' reaction to the various financial scams that have periodically been coming into media glare than from stakeholder pressure
- ❑ Revelation of large frauds tend to become a political embarrassment for governments and its regulators, which they want to prevent
- ❑ MCA wants the audited financial statements to give warning of frauds before they actually happen, and they want to put the burden of this on the auditor
- ❑ The enhanced CARO, 2020 is illustrative of the expanded role of auditors as now expected by the Ministry of Corporate Affairs

Key audit matters (KAMs) reporting – SA 701

- ❑ SA 701 was added to the bouquet of reporting standards to be effective from fiscal 2018-19, introducing the new concept of requiring the auditors to report on KAMs.
- ❑ ICAI has an Implementation Guide to SA 701 in FAQ form
- ❑ KAMs are defined as: “Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with TCWG”
- ❑ This is the most path-breaking change in auditor reporting: matters considered to be internal to entities and to the auditor are now being put out into the public domain.
- ❑ Reporting KAMs is mandatory for all listed entities and where required by law/regulation, but auditors are advised to report KAMs even for large unlisted companies with exposure to many stakeholders eg public interest entities, large private limited companies, etc

..SA 701

- ❑ Stakeholders (ie. lenders-investors-creditors) believed that the erstwhile auditor's report was “too boilerplate” or “opaque” and did not provide them with the information that they were looking for in order to be sufficiently forewarned of significant matters that could influence their investment, lending and other business decisions
- ❑ Auditor has to make 2 kinds of challenging assertions in public domain:
 - that bring out internal matters about the entity's business [that might make the management uneasy], and
 - that reveal details of the audit process followed [that might make the auditor uneasy].
- ❑ However, it is argued that KAMs are an auditor's story about the audit and not the auditor's story about the entity

..SA 701

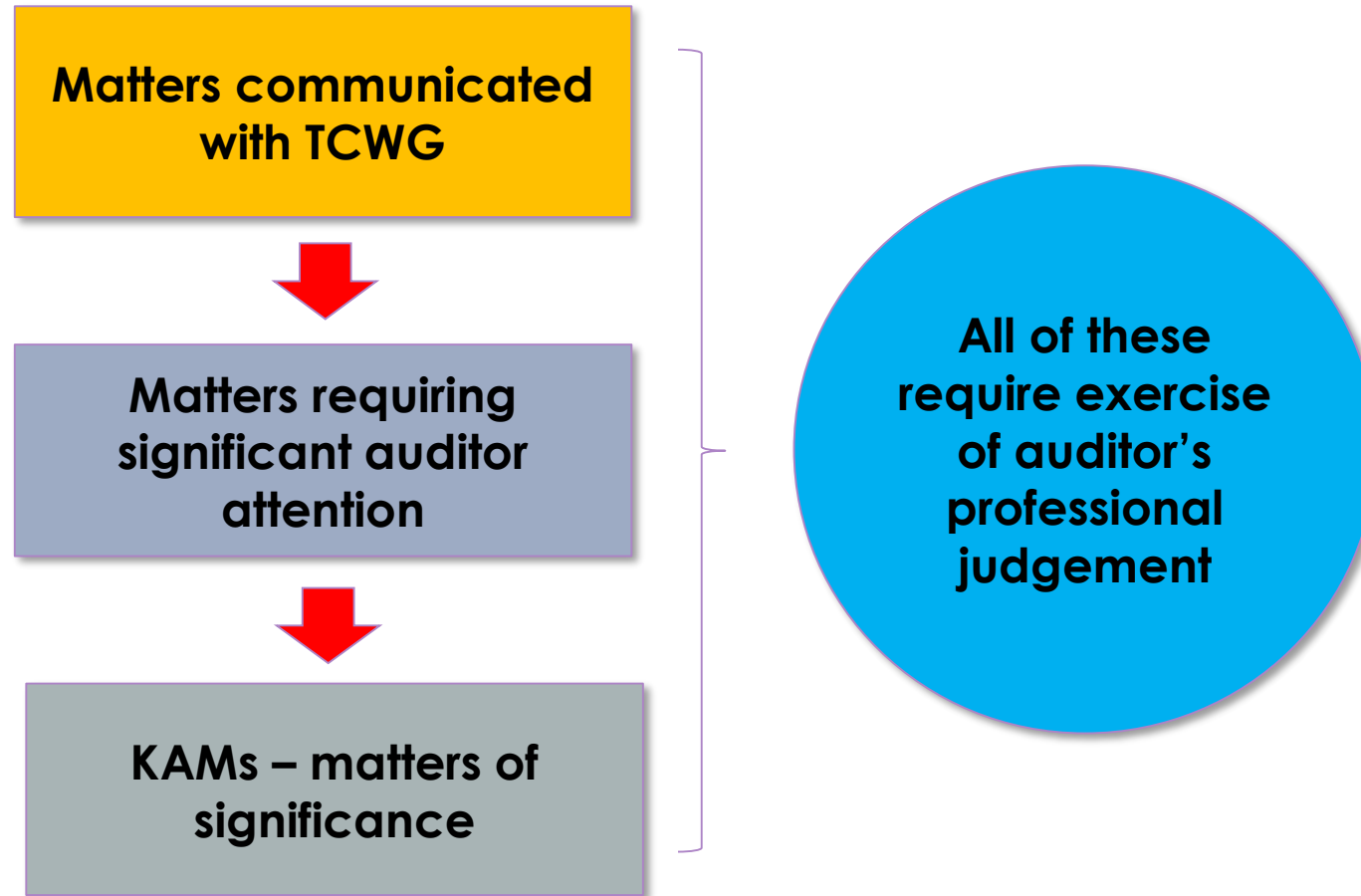
- ❑ No illustrative KAMs in SA. The concept is to encourage free expression and not provide any template
- ❑ KAMs communication is:
 - to enhance transparency about the audit
 - to provide additional information on matters of most significance in the current period audit, and
 - to assist users in understanding the entity, and areas of significant management judgement
- ❑ KAMs communication is additional to and not a substitute for anything else, nor is it a separate opinion on individual matters
- ❑ KAMS reporting is only done on a full set of FS of listed Cos, ie. not applicable to quarterly reporting

..SA 701

- ❑ In determining matters of most significance the auditor would consider:
 - areas of significant or higher assessed risk of material misstatement,
 - areas of significant auditor judgements where management has used its judgement, including accounting estimates having high estimation uncertainty,
 - significant events and transactions that occurred in the current period
- ❑ Each KAM to be a separate paragraph with separate sub-heading
- ❑ Each KAM refers to (a) related disclosure in the FS, (b) why the matter is a KAM, and (c) how the matter was addressed by the auditor
- ❑ Auditor has to describe KAMs in his auditor's report except:
 - Where law or regulation precludes such disclosure, and
 - In extremely rare circumstances where the auditor determines that the adverse consequences of communicating a KAM would outweigh the public interest benefits of such communication

..SA 701

- ❑ Matters giving rise to a modified opinion and going concern disclosure are KAMs, but as they are already described elsewhere in the report they are not repeated. But the KAMs paragraph includes a reference to them and the location in the report where they are described
- ❑ If auditor has no KAMs to report, he must nevertheless have a KAMs paragraph and say that he found no reportable KAMs
- ❑ Auditor is required to communicate the matters that he has decided to communicate as KAMs to TCWG. Likewise, if he determines that there are no such matters, he has to communicate that as well
- ❑ EOM is not a substitute for KAM, but a matter that does not qualify for KAM but is fundamental to users' understanding, can be an EOM (eg a subsequent event)
- ❑ If auditor disclaims opinion, he shall not give any information as KAM



Sample reporting of a KAM

Key audit matter	How the matter was addressed in audit
<p><i>Income Tax:</i></p> <p>Due to the multiple tax jurisdictions within which the Group operates and the ambiguity of tax laws, determining the amounts that should be recognised for tax is subject to judgement and is thus a key audit matter.</p> <p>Management's judgement includes consideration of regulations by various tax authorities with respect to transfer pricing regulations and other tax positions. Where there is uncertainty, management makes provision for tax based on the most probable outcome. management's disclosures with regards to uncertainties are contained in Note XX, while the income tax disclosures are contained in Note YY.</p>	<p>We involved our tax specialists to evaluate the recognition and measurement of the current and deferred tax assets and liabilities.</p> <p>This included:</p> <ul style="list-style-type: none">- Analysing the current and deferred tax calculations for compliance with the relevant tax legislation.- Evaluating management's assessment of the estimated manner in which the timing differences, including the recoverability of the deferred tax assets, would be realised by comparing this to evidence obtained in respect of other areas of the audit, including cash flow forecasts, business plans, minutes of directors' meetings, and our own knowledge of the business.

Going concern reporting – SA 570

- ❑ Companies die because they no longer remain going concerns
- ❑ And, when they die, their stakeholders lose most or all of their money.
Thus, going concern evaluation by an auditor is a key auditor responsibility
- ❑ Ind-AS 1 requires management to make a forward-looking going concern assessment of at least 12 mths from reporting date.
- ❑ The auditor concludes whether the management's judgement of going concern, evaluated by him against sufficient appropriate audit evidence, was appropriate, not appropriate or whether a material uncertainty exists, and reports accordingly
- ❑ Auditors are accused of not promptly raising “red flags” on going concern

..Going concern

- ❑ When auditor has a doubt about the validity of the assumptions and/or methodology used by management about its conclusion on going concern, he performs additional procedures
- ❑ These may include:
 - Evaluating reliability of underlying data
 - Determining if there is adequate support for assumptions underlying the forecasts
 - Comparing prospective financial information with historical data to check its reasonableness
 - Consider if additional facts are available since management's assessment
 - Obtaining understanding and written representations from management and TCWG regarding future actions and their feasibility

..Going concern

❑ ..Additional procedures may include:

- Analysing/ discussing cash flow, profit and other forecasts with management
- Analysing/ discussing latest available financial information
- Understanding terms of borrowings, breaches if any
- Reading minutes of shareholders and board meetings for references of financing difficulties
- Confirming existence, legality and enforceability of arrangements to provide financial support with related parties/ third parties and assessing the financial ability of such parties.
- Where such parties are said to have pledged support by loan subordination, funding commitments or guarantees, to obtain written confirmation (including terms and conditions) and evidence of their ability to provide the support

..Going concern

❑ Additional procedures may include:

- Inquiring with legal counsel re pending/ expected litigation, claims, assessment of their outcome, and estimate of their financial implications
- Evaluating entity's ability to honour unfulfilled customer orders
- Performing audit procedures re subsequent events to understand whether those affect going concern negatively
- Confirming existence, terms, and adequacy of borrowing facilities
- Obtaining/ reviewing reports of regulatory action
- Determining adequacy of support for any planned disposals of assets

..Going concern

❑ Auditor's conclusion on going concern:

- He evaluates whether sufficient appropriate audit evidence has been obtained to conclude on the appropriateness of management's assertion on going concern
- Based on above, he concludes whether in his professional judgement a material uncertainty exists re conditions/ events that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern
- Material uncertainty exists when the magnitude of its potential impact and likelihood of its occurrence is such that, in the auditor's judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for fair presentation of the FS or for the FS not to be misleading

..Going concern

❑ .. Auditor's conclusion:

- If auditor concludes that management's use of going concern (ie at reporting date) is appropriate but a material uncertainty exists, auditor determines whether FS:
 - Adequately disclose the principal events or conditions and management's plans to deal with them
 - Disclose clearly that there is a material uncertainty re going concern and that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Such disclosure may include disclosures about management's evaluation of the significance of the events/ conditions, and the significant judgements made by management for making that assessment
- If events/ conditions have been identified but, based on available evidence, auditor concludes that no material uncertainty exists, he evaluates whether the FS provide adequate disclosures about these events/ conditions

..Going concern

❑ Implications in the auditor's report:

Facts	Response
If FS are prepared on going concern basis but in auditor's judgement use of going concern assumption is inappropriate	Adverse opinion (even if disclosure is made)
Going concern basis is appropriate but material uncertainty exists and adequate disclosure is made	Unmodified opinion. Report contains separate paragraph called "Material Uncertainty related to Going Concern" – which draws attention to the related Note, states that these events/ conditions indicate that material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the opinion is not modified in that respect

..Going concern

❑ Implications in the auditor's report:

Facts	Response
Material uncertainty exists and adequate disclosure is not made in the FS	Qualified opinion or adverse opinion as appropriate. In the Basis for Qualified (Adverse) Opinion section, state that material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the FS do not adequately disclose this matter

..Going concern

❑ Use of alternative basis of accounting

- Where going concern assumption is inappropriate, the entity may choose to present its FS as per another basis (eg liquidation basis).
- Auditor may perform audit accordingly and issue an unmodified opinion provided there is adequate disclosure about changed basis of accounting.
- Auditor may give an EOM paragraph to draw users' attention to alternative basis of accounting and the reasons therefor

..Going concern

❑ Auditor's report:

- **Clean opinion** for adequate disclosure – “Material Uncertainty Related to Going Concern” section of report

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 XX, these events or conditions, along with other matters as set forth in the said Note, 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.

- The auditor may, in addition to the minimum above, give additional information:
 - That the existence of material uncertainty is fundamental to the users' understanding of the FS; or
 - How the matter was addressed in the audit

..Going concern

□ .. Auditor's report:

■ **Qualified opinion** for inadequate disclosure

- In our opinion and to the best of our information and according to the explanations given to us, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion section of our report, the aforesaid standalone financial statements give the information required by the Act 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 March 31, 20XX, and profit/loss, (changes in equity) and its cash flows for the year ended on that date.
- **Basis for Qualified Opinion:** As discussed in Note YY, the Company's financing arrangements expire and amounts outstanding are payable on April 30, 20X2. The Company has been unable to conclude renegotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

..Going concern

□ .. Auditor's report:

■ **Adverse opinion** for inadequate disclosure:

- In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly (or do not give a true and fair view of), the financial position of the entity as at March 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India.
- **Basis for Adverse Opinion:** The entity's financing arrangements expired and the amount outstanding was payable on March 31, 20X1. The entity has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

..Going concern

- ❑ When management refuses auditor's request to make or extend its assessment
 - Auditor is unable to obtain sufficient appropriate audit evidence re use of going concern assumption. Therefore he may give a **qualified opinion or a disclaimer of opinion**
- ❑ Communication with TCWG – to include
 - Whether events/ conditions constitute a material uncertainty
 - Whether management's use of going concern is appropriate
 - Adequacy of related disclosures
 - Where applicable, the implications in the auditor's report
- ❑ Significant delay in approval of FS
 - If there is significant delay in approval of FS, auditor inquires if this has anything to do with events/ conditions for going concern assessment. If so, he should revisit the audit, perform additional procedures and consider the effect of his conclusion afresh

Coronavirus, going con

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https://www.icaew.com/insights/features/2020/mar-2020/coronavirus-going-concern-and-the-auditors-report

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🏠 > Insights > Features > Features > Coronavirus, going concern and the auditor's report



https://www.icaew.com/insights/features/2020/mar-2020/coronavirus-going-concern-and-the-auditors-report

Coronavirus, going concern and the auditor's report



17 March 2020: ICAEW's Technical Advisory Service considers the potential impact of coronavirus on going concern and the auditor's report.

The definition of going concern, management and auditor responsibilities relating to going concern and the implications for the audit report have not changed as a result of the coronavirus pandemic.

Coronavirus will nevertheless have a significant impact on a large number of businesses. Some entities which were previously a going concern may no longer be. Many that continue to be a going concern may now face material uncertainties relating to their ability to continue as such. It is unlikely to be appropriate to take a blanket approach or use boiler-plate wording: each entity must be assessed based on its own situation.

Is an entity a going concern?

An entity is a going concern unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so.

For some entities, the impact of coronavirus may leave management with no realistic alternative but to liquidate or cease trading. Others may need to scale back operations or seek additional finance and some may not be significantly affected.

It is the responsibility of management to make the assessment as to whether the entity is a going concern. In

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Other information reporting – SA 720

- ❑ Typically, SA 720 has received lesser attention in India than other reporting standards ever since it became effective in 2010. It is now revised wef 2018, bringing ‘Other Information’ in prominent focus
- ❑ ‘Other Information’ is financial or non-financial information (other than audited FS and auditor’s report) contained in the annual report that may be same as, or in summary, or provides greater details of information that is contained in the FS, or about which the auditor has obtained knowledge during audit
- ❑ Objectives of the SA are to prevent material inconsistency between ‘Other Information’ and (a) the FS, and (b) the auditor’s knowledge, by the auditor responding appropriately and/or reporting

..Other information

- ❑ Requirements of the SA do not apply to preliminary announcements of financial information or to securities offering documents, including prospectuses
- ❑ The SA requires an auditor to obtain ‘Other Information’ in a timely manner by discussions and arrangements with the management. If some documents are expected to be not available until report issuance, he is required to obtain a written representation that the final versions thereof will be provided to him when available, and before their issuance by the entity, so that the auditor can complete his procedures under the SA

..Other information

- ❑ While the standard requires the auditor ‘to read’ the ‘Other Information’, what it means is that the auditor should perform the audit procedure of comparing, aggregating or disaggregating both sets of information (and the knowledge obtained by him) in order to detect material inconsistencies, if any.
- ❑ The auditor is also required to remain alert for indications that ‘Other Information’ not related to the FS or the auditor’s knowledge appears to be materially misstated – this is for the auditor to comply with the ethical requirement of not being associated with ‘Other Information’ that the auditor believes contains a materially false or misleading statement, a statement furnished negligently, or omits or obscures any necessary information such that the other information is misleading

..Other information

- ❑ When the auditor identifies an inconsistency, he determines if the ‘Other Information’ is materially misstated, the FS are materially misstated, or his understanding of the entity and its environment needs to be updated
- ❑ If ‘Other Information’ is misstated, he asks management to make the correction. If they refuse, he escalates the matter to TCWG.
- ❑ If even TCWG do not ensure the correction, the auditor may have evaluate whether there is reason to question the integrity of the management/ TCWG. If there is a clear intention to mislead, he may take legal advice and consider giving a disclaimer of opinion on the FS as he would then be unable to rely on management's representations. He may also consider withdrawing from the engagement

..Other information

- ❑ If the auditor concludes that a material misstatement exists in ‘Other Information’ obtained by him after the date of the auditor’s report, he shall ensure that it is duly corrected. If the ‘Other Information’ is not duly corrected by management/ TCWG, he shall examine his legal rights and obligations and seek to appropriately bring the uncorrected material misstatement to the attention of users for whom the auditor’s report is prepared
- ❑ If the auditor concludes that the inconsistency points to a misstatement in the FS, he updates his understanding of the entity and its environment (ie. revises risk assessment), he evaluates the procedure for dealing with the uncorrected misstatements in the FS, and considers if this should be treated as a subsequent event

..Other information

- ❑ Reporting: An “Other Information Paragraph” is now required to be inserted in the auditor’s report in case of a listed/ unlisted company. SA 720(R) provides 7 illustrative reports in various circumstances for listed and unlisted companies where the audit opinion is either clean, qualified, adverse or a disclaimer and where the auditor has obtained all of the ‘Other Information’ or has obtained only a part of it or has not obtained any of the ‘Other Information’ prior to the date of his report. Auditors are advised to study these 7 illustrations and report appropriately
- ❑ The auditor is required to document the procedures performed under this SA and the final version of the ‘Other Information’ on which the auditor has performed the required work

..Other information

- ❑ For illustration, an Other Information paragraph for a stand-alone listed/unlisted entity with clean opinion is as under:

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the X report*, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

* [Note: A more specific description of the other information, such as "the MD&A or chairman's statement," may be used to identify the other information.]

Other changes to reporting standards SAs 700, 705 and 706

- ❑ **The ICAI has recently published a revised Implementation Guide to Reporting Standards SAs 700, 705 and 706**
 - ❑ The order of paragraphs in the Auditor's Report has changed so that the most important information, the Auditor's Opinion, comes first
 - ❑ Enhanced description of the auditor's responsibilities, key features of the audit, and responsibilities of the MGT and those charged with governance, particularly relating to going concern
-
- ❑ For listed companies, the Auditor's Report will include a new section to describe Key Audit Matters (KAMs) – *already dealt with above*
 - ❑ Enhanced auditor reporting on Going Concern – *already dealt with above*
 - ❑ Enhanced auditor reporting on Other Information (in documents containing audited financial statements) – *already dealt with above*

..Other changes

Erstwhile order of paragraphs	Revised order of paragraphs
Title	Title
Addressee	Addressee
Introductory paragraph	Opinion paragraph
Management's responsibility paragraph	Basis for opinion paragraph
Auditor's responsibility paragraph	Going concern paragraph NEW
Basis for modified opinion paragraph	KAMs paragraph NEW
Opinion paragraph	Other information paragraph NEW
Emphasis of matter/ other matters paragraph	Management's responsibility paragraph
Other reporting responsibilities paragraph	Auditor's responsibility paragraph
Signature	Emphasis of matter/ other matters paragraph
Date	Other reporting responsibilities paragraph
Place	Signature
	Place
	Date

..Other changes

- ❑ Opinion para now includes contents of old Introductory Paragraph
- ❑ Basis para now required even for clean opinions
- ❑ Management's responsibility para also includes responsibility for appropriateness of going concern assumption and identification of all who are responsible for financial reporting process oversight
- ❑ Complete overhaul of auditor's responsibility para. It may now be annexed to the auditor's report or hosted on a website referenced in the report. It does not "add" to auditor's responsibilities under SAs, but requires auditor to make specific written and signed assertions about the audit procedures that he carried out in different areas

Latest changes to: CARO reporting – CARO, 2020

- ❑ CARO, 2020 is applicable to companies having FYs starting 1/4/2019
- ❑ Changes to CARO include increased reporting responsibilities on auditors in respect of the following matters:
 - Records of intangible assets
 - Revaluation of PPE and intangible assets by registered valuer
 - Proceedings against company for benami transactions
 - Discrepancies of > 10% during inventory count
 - Sanction of working capital limits of > ₹5cr on security of current assets
 - Investments, loans, advances, securities, guarantees to all parties, with separate details for subsidiaries and associates; evergreening of loans by renewing, or giving new loans to pay off old, or extending tenure; and giving of loans or advances repayable on demand, or without repayment terms
 - GST included in statutory dues

..CARO changes

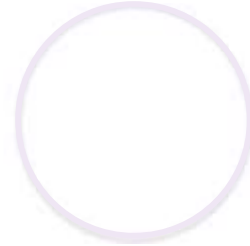
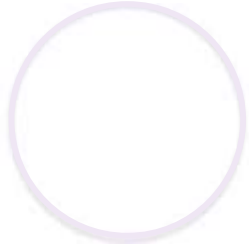
❑ Changes/ new matters:

- Amounts outside books disclosed as income for tax under schemes like voluntary disclosure or vivad-se-vishwas, whether brought into books
- Defaults in repayment of loans/ borrowings to any party; company declared wilful defaulter; user of loans for purpose granted; short-term loans used for long-term; loans taken to meet obligations of subsidiaries/ associates/ JVs; loans raised on pledge of securities of subsidiaries/ associates/ JVs
- Fraud reporting u/s 143(12) of Companies Act
- Consideration of whistle-blower complaints
- Default in payment of interest on/ repayment of deposits by nidhis
- Internal auditor, and consideration of internal audit reports
- Non-banking or housing finance activities without RBI certificate

..CARO changes

❑ Changes/ new matters:

- Whether core investment company fulfills RBI criteria; and whether Group contains more than one CIC
- Cash losses incurred
- Resignation of statutory auditors; their issues, objections, concerns addressed
- Auditor's opinion on going concern based on specified audit procedures
- Utilisation of unspent CSR amount
- Qualifications/ adverse comments in CARO by auditors of companies that are consolidated
- Basis for unfavourable/ qualified responses to CARO questions to be given



End