

# Audit Opinion

## Session-02

November - - 2018

# Audit Opinion

- After concluding the field work the auditor forms an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- An opinion is a clear written statement of the auditor expressed in a standardized format, either unmodified or modified
- An opinion is generally used in an attestation engagement.

# Contd..

- In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether
  - The financial statements as a whole are free from material misstatement whether due to fraud or error.
  - Whether sufficient appropriate audit evidence has been gathered
  - Whether uncorrected misstatements are material, individually or in aggregate

# Contd..

- The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework.

# Contd..

- This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
  - The financial statements appropriately disclose the significant accounting policies selected and applied.
  - The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

# Contd..

- The accounting estimates made by management are reasonable
- The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:
  - The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements
  - The terminology used in the financial statements, including the title of each financial statement, is appropriate

# **AUDIT OPINIONS**

# Unmodified Opinion

- The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework



# Unmodified Opinion

- The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- If the auditor:
  - (a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement;
  - (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,
- The auditor shall modify the opinion in the auditor's report

# Determining Key Audit Matters

- The auditor shall determine, from the matters communicated that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:
  - Areas of higher assessed risk of material misstatement, or significant risks identified
  - Auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.

# Determining Key Audit Matters

- The effect on the audit of significant events or transactions that occurred during the period.
- The auditor shall determine which of the matters determined were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

# Communicating Key Audit Matters

- The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters,"

# Communicating Key Audit Matters

- The introductory language in this section of the auditor's report shall state that:
  - 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]
  - 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

# **TYPES OF MODIFIED OPINIONS**

# Modified Opinion(s)

- There are three types of modified opinions.
  - Qualified opinion,
  - An adverse opinion,
  - Disclaimer of opinion.
- The decision regarding which type of modified opinion is appropriate depends upon:
  - The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated
  - The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements

# Circumstances When a Modification to the Auditor's Opinion is required

- The auditor shall modify the opinion in the auditor's report when:
  - The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement
  - The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.



# Qualified Opinion

- The auditor shall express a qualified opinion when:
  - The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements
  - The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive

# Adverse Opinion

- The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

# Disclaimer of Opinion

- The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion
- Auditor concludes that the possible effects on the financial statements of undetected misstatements, could be both material and pervasive.

# Disclaimer of Opinion

- The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that
  - *It is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements*

# Emphasis of Matter paragraph

A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that *it is fundamental to users' understanding of the financial statements.*

# Emphasis of Matter paragraph Contd...

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

*The auditor would not be required to modify the opinion as a result of the matter*

# Other Matter paragraph

A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report

# Contd..

If the auditor considers it necessary to communicate a significant matter other than those that are presented or disclosed in the financial statements the auditor shall include an **Other Matter paragraph** in the auditor's report, provided this is not prohibited by law or regulation



# Report Structure- Attestation Engagement

- Title
- Addressee
- Description of the subject matter
- Extent and limits of the audit including the time period
- Responsibilities of the responsible party and the auditor
- Audit criteria
- Identification of the audit standards and level of assurance
- A summary of the work performed and methods used
- Opinion/ Conclusion
- Replies from the audited entity
- Report date
- signature

# Report Structure- Direct Reporting Engagement

- Title
- Identification of the auditing standards
- Executive summary
- Description of the subject matter
- Audit criteria
- Conclusion(s) based on answers to specific audit questions or opinion
- Findings
- Conclusion
- Replies from the audited entity
- recommendations

**THANK YOU**