

# SA 705\*

## MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

*(Effective for all audits relating to  
accounting periods beginning on or after April 1, 2011<sup>1</sup>)*

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\*Published in February, 2010 issue of the Journal.

<sup>1</sup> The Council of the ICAI, in partial modification of the decision taken by it at its 291<sup>st</sup> meeting held in December 2009, has decided that the effective date/applicability of three standards viz SA 700 (Revised), SA 705 and SA 706 be postponed by one year and consequently the said Standards shall now be effective/applicable for audits of financial statements for periods beginning on or after 1<sup>st</sup> April, 2012 (instead of audits of financial statements for periods beginning on or after 1<sup>st</sup> April, 2011 as was earlier decided).

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Standard on Auditing (SA) 705, “Modifications to the Opinion in the Independent Auditor’s Report” should be read in the context of the “Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services<sup>2</sup>”, which sets out the authority of SAs and SA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”<sup>3</sup>.

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<sup>2</sup> Published in the July, 2007 issue of the Journal.

<sup>3</sup> Published in the March, 2010 issue of the Journal.

## *Modifications to the Opinion in the Independent Auditor's Report*

### **Introduction**

#### **Scope of this SA**

1. This Standard on Auditing (SA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised)<sup>4</sup>, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

#### *Types of Modified Opinions*

2. This SA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon: (Ref: Para A1)

- (a) 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; and
- (b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

#### **Effective Date**

3. This SA is effective for audits of financial statements for periods beginning on or after April 1, 2011.

#### **Objective**

4. The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

- (a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

#### **Definitions**

5. For purposes of the SAs, the following terms have the meanings attributed below:

- (a) Pervasive – A term used, in the context of misstatements, to describe the

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<sup>4</sup> SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements".

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effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (i) Are not confined to specific elements, accounts or items of the financial statements;
  - (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
  - (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.
- (b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion.

### **Requirements**

#### **Circumstances When a Modification to the Auditor's Opinion Is Required**

6. The auditor shall modify the opinion in the auditor's report when:
- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2-A7)
  - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8-A12)

#### **Determining the Type of Modification to the Auditor's Opinion**

##### *Qualified Opinion*

7. The auditor shall express a qualified opinion when:
- (a) 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; or
  - (b) 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.

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### *Adverse Opinion*

8. 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*

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

10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, 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.

### *Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement*

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

12. If management refuses to remove the limitation referred to in paragraph 11, the auditor shall communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate

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the gravity of the situation, the auditor shall: (Ref: Para A13-A14)

- (i) Resign from the audit, where practicable and not prohibited by law or regulation; or
- (ii) If resignation from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

14. If the auditor resigns as contemplated by paragraph 13(b)(i), before resigning, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)

### *Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion*

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report<sup>5</sup> in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. (Ref: Para. A16)

## **Form and Content of the Auditor's Report When the Opinion Is Modified**

### *Basis for Modification Paragraph*

16. When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by the SA 700 (Revised), include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification. The auditor shall place this paragraph immediately before the opinion paragraph in the auditor's report and use the heading "*Basis for Qualified Opinion*", "*Basis for Adverse Opinion*", or "*Basis for Disclaimer of Opinion*", as appropriate. (Ref: Para. A17)

17. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures),

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<sup>5</sup> SA 805, "Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement" deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.

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the auditor shall include in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in the basis for modification paragraph. (Ref: Para. A18)

18. If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor shall include in the basis for modification paragraph an explanation of how the disclosures are misstated.

19. If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:

- (a) Discuss the non-disclosure with those charged with governance;
- (b) Describe in the basis for modification paragraph the nature of the omitted information; and
- (c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A19)

20. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the basis for modification paragraph, the reasons for that inability.

21. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the basis for modification paragraph the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof. (Ref: Para. A20)

### *Opinion Paragraph*

22. When the auditor modifies the audit opinion, the auditor shall use the heading "*Qualified Opinion*", "*Adverse Opinion*", or "*Disclaimer of Opinion*", as appropriate, for the opinion paragraph. (Ref: Para. A21, A23-A24)

23. When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state in the opinion paragraph that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph:

- (a) The financial statements present fairly, in all material respects (or give a true and fair view) in accordance with the applicable financial reporting framework when reporting in accordance with a fair presentation framework; or
- (b) The financial statements have been prepared, in all material respects, in

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accordance with the applicable financial reporting framework when reporting in accordance with a compliance framework.

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase “except for the possible effects of the matter(s)…” for the modified opinion. (Ref: Para. A22)

24. When the auditor expresses an adverse opinion, the auditor shall state in the opinion paragraph that, in the auditor’s opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph:

- (a) The financial statements do not present fairly ( or give a true and fair view) in accordance with the applicable financial reporting framework when reporting in accordance with a fair presentation framework; or
- (b) The financial statements have not been prepared, in all material respects, in accordance with the applicable financial reporting framework when reporting in accordance with a compliance framework.

25. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall state in the opinion paragraph that:

- (a) because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion; and, accordingly,
- (b) the auditor does not express an opinion on the financial statements.

#### *Description of Auditor’s Responsibility When the Auditor Expresses a Qualified or Adverse Opinion*

26. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the description of the auditor’s responsibility to state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s modified audit opinion.

#### *Description of Auditor’s Responsibility When the Auditor Disclaims an Opinion*

27. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the introductory paragraph of the auditor’s report to state that the auditor was engaged to audit the financial statements. The auditor shall also amend the description of the auditor’s responsibility and the description of the scope of the audit to state only the following: “Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with Standards on Auditing issued



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by the Institute of Chartered Accountants of India. Because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion”.

#### **Communication with Those Charged with Governance**

28. When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification. (Ref: Para. A25)

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### **Application and Other Explanatory Material**

#### **Scope of this SA**

*Types of Modified Opinions* (Ref: Para. 2)

A1. The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

| <i>Nature of Matter Giving Rise to the Modification</i>   | <i>Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i> |                               |
|---|--|-------------------------------|
|   | <i>Material but Not Pervasive</i>  | <i>Material and Pervasive</i> |
| Financial statements are materially misstated             | Qualified opinion  | Adverse opinion               |
| Inability to obtain sufficient appropriate audit evidence | Qualified opinion  | Disclaimer of opinion         |

#### **Nature of Material Misstatements** (Ref: Para. 6(a))

A2. SA 700 (Revised) requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from

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material misstatement<sup>6</sup>. This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with SA 450<sup>7</sup>.

A3. SA 450 defines a misstatement as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial statements may arise in relation to:

- (a) The appropriateness of the selected accounting policies;
- (b) The application of the selected accounting policies; or
- (c) The appropriateness or adequacy of disclosures in the financial statements.

### *Appropriateness of the Selected Accounting Policies*

A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise when:

- (a) The selected accounting policies are not consistent with the applicable financial reporting framework; or
- (b) The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation.

A5. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements.

### *Application of the Selected Accounting Policies*

A6. In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:

- (a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or

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<sup>6</sup> SA 700 (Revised), paragraph 11.

<sup>7</sup> SA 450, "Evaluation of Misstatements Identified during the Audit", paragraph 4(a).

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- (b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

*Appropriateness or Adequacy of Disclosures in the Financial Statements*

A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:

- (a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;
- (b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or
- (c) The financial statements do not provide the disclosures necessary to achieve fair presentation.

**Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence**  
(Ref: Para. 6(b))

A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:

- (a) Circumstances beyond the control of the entity;
- (b) Circumstances relating to the nature or timing of the auditor's work; or
- (c) Limitations imposed by management.

A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.

A10. Examples of circumstances beyond the control of the entity include when:

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.

A11. Examples of circumstances relating to the nature or timing of the auditor's work include when:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate

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audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.

- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

A12. Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include when:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from requesting external confirmation of specific account balances.

### **Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement (Ref: Para. 13(b)-14)**

A13. The practicability of resigning from the audit may depend upon the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation in the Basis for Disclaimer of Opinion paragraph prior to resigning.

A14. In certain circumstances, resignation from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor appointed to audit the financial statements of public sector entities. It may also be the case of entities where the auditor is appointed to audit the financial statements covering a specific period, or appointed for a specific period and is prohibited from resigning before the completion of the audit of those financial statements or before the end of that period, respectively. The auditor may also consider it necessary to include an Other Matter paragraph in the auditor's report<sup>8</sup>.

A15. When the auditor concludes that resignation from the audit is necessary because of a scope limitation, there may be a professional, regulatory or legal requirement for the auditor to communicate matters relating to the resignation

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<sup>8</sup> SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report", paragraph A5.

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from the engagement to regulators or the entity's owners.

#### **Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion (Ref: Para. 15)**

A16. The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:

- The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under a different financial reporting framework<sup>9</sup>.
- The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position (see SA 510<sup>10</sup>). In this case, the auditor has not expressed a disclaimer of opinion on the financial statements as a whole.

#### **Form and Content of the Auditor's Report When the Opinion Is Modified**

##### *Basis for Modification Paragraph* (Ref: Para. 16-17, 19(b), 21)

A17. Consistency in the auditor's report helps to promote the users' understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and in the description of the basis for the modification may not be possible, consistency in both the form and content of the auditor's report is desirable.

A18. Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s), individually and in aggregate, on the financial statements should be mentioned in the auditor's report. In circumstances where it is not practicable to quantify the effect of modifications made in the audit report accurately, the auditor may do so on the basis of estimates made by the management after carrying out such audit tests as are possible and clearly indicate the fact that the figures are based on management estimates. Ordinarily, this information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion and may include a reference to a more extensive discussion, if any, in a note to the

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<sup>9</sup> See paragraph A31 of SA 700 (Revised) for a description of this circumstance.

<sup>10</sup> SA 510, "Initial Audit Engagements —Opening Balances", paragraph 10.

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financial statements. An example of the financial effects of material misstatements that the auditor may describe in the basis for modification paragraph in the auditor's report is the quantification of the effects on income tax, profit before taxes, net profit and reserves if inventory is overstated.

A19. Disclosing the omitted information in the basis for modification paragraph would not be practicable if:

- (a) The disclosures have not been prepared by management or the disclosures are otherwise not readily available to the auditor; or
- (b) In the auditor's judgment, the disclosures would be unduly voluminous in relation to the auditor's report.

A20. An adverse opinion or a disclaimer of opinion relating to a specific matter described in the basis for qualification paragraph does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.

#### *Opinion Paragraph* (Ref: Para. 22-23)

A21. Inclusion of this paragraph heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.

A22. When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the opinion paragraph as these are not sufficiently clear or forceful.

#### *Illustrative Auditors' Reports*

A23. Illustrations 1 and 2 in the Appendix contain auditors' reports with qualified and adverse opinions, respectively, as the financial statements are materially misstated.

A24. Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial statements. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In each of the latter two cases, the possible effects on the financial statements of the inability are both material and pervasive.

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**Communication with Those Charged with Governance (Ref: Para. 28)**

A25. Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the proposed wording of the modification enables:

- (a) The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);
- (b) The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and
- (c) Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

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**Additions**

Paragraph 17 and A18 of ISA 705 requires the auditor to include in the basis for modification paragraph, a description and quantification of the financial effect of the misstatement. Since the said paragraph covers only the effect of the individual quantification of the misstatement on the financial statements, the paragraph A18 has been changed also to include the effect of the aggregate quantifications of the misstatements on the financial statements.

## Appendix

(Ref: Para. A23-24)

### Illustrative Formats of Auditors' Reports with Modifications to the Opinion

#### Illustration 1

Circumstances include the following:

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements. The audit opinion is qualified for the misstatement.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

#### INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

#### Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for 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 Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial



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statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>11</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### *Basis for Qualified Opinion*<sup>12</sup>

*The Company's inventories are carried in the Balance Sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Act. The Company's records indicate that had management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX would have been required to write the inventories down to their net realisable*

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<sup>11</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>12</sup> "Basis for Qualified Opinion" and "Qualified Opinion" paragraphs are in italics as required under Sec. 227(3)(e) of the Companies Act.

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*value. Accordingly, cost of sales would have been increased by Rs. XXX, and income tax, net profit and shareholders' funds would have been reduced by Rs. XXX, Rs. XXX and Rs. XXX, respectively.*

### **Qualified Opinion**

*In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the 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:*

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;*
- (b) in the case of the Profit and Loss Account, of the profit/ loss for the year ended on that date; and*
- (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.*

### **Report on Other Legal and Regulatory Requirements**

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Act, we report that:
  - a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
  - b. In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from branches not visited by us]<sup>13</sup>;
  - c. the report on the accounts of the branch offices audited under section 228 by a person other than the company's auditor has been forwarded to us as required by clause (c) of sub-section (3) of section 228 and have been dealt with in preparing our report in the manner considered necessary by us<sup>14</sup>;

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<sup>13</sup> To be included if relevant.

<sup>14</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329<sup>th</sup> adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

*Modifications to the Opinion in the Independent Auditor's Report*

- d. The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from branches not visited by us]<sup>15</sup>;
- e. *Except for the effects of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;*
- f. On the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.
- g. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.<sup>16</sup>

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>17</sup>)  
Membership Number

Place of Signature  
Date

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<sup>15</sup> To be included if relevant.

<sup>16</sup> Attention of the readers is invited to the Announcement issued by the Council of the ICAI (pursuant to a decision taken in this regard at its 312<sup>th</sup> meeting held in December, 2011) regarding the auditor's reporting responsibilities pursuant to clause 4(ix)(a) of the Companies (Auditor's Report) Order, 2003 and section 227(3)(g) of the Companies Act, 1956 wrt the cess payable under Section 441A of the Companies Act, 1956. Pursuant to the said Announcement since the operative date of section 227 (3)(g) has not yet been notified by the Central Government, the statutory auditor's report need not contain any comment on section 227 (3)(g) of the Companies Act, 1956. The complete text of the Announcement is published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>17</sup> Partner or Proprietor, as the case may be.

**Illustration 2:**

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements of a parent company prepared under accounting principles generally accepted in India (*as required for compliance with SEBI's regulatory requirement*).
- The terms of the group audit engagement reflect description of management's responsibility for the financial statements in SA 210.
- The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so. An adverse audit opinion is given under the circumstances.

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Directors of ABC Company Limited**

We<sup>18</sup> have audited the accompanying consolidated financial statements of ABC Company Limited ("the Company") and its subsidiaries, which comprise the consolidated Balance Sheet as at March 31, 20XX, and the consolidated Statement of Profit and Loss and consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Company in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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<sup>18</sup> As there is no reporting on "Other Legal Requirements", there is no necessity of including the heading "Report on the Financial Statements" above the introductory paragraph.

## *Modifications to the Opinion in the Independent Auditor's Report*

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>19</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

### *Basis for Adverse Opinion*

*As explained in Note X, the Company has not consolidated the financial statements of subsidiary XYZ Company it acquired during 20XX because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This acquisition is therefore accounted for as an investment. Under the accounting principles generally accepted in India, the subsidiary should have been consolidated because it is controlled by the Company. Had XYZ been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the financial statements of the failure to consolidate have not been determined.*

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<sup>19</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

**Handbook of Auditing Pronouncements-I.A**

**Adverse Opinion**

*In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India:*

- (a) in the case of the consolidated Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;*
- (b) in the case of the consolidated Profit and Loss Account, of the profit/ loss for the year ended on that date; and*
- (c) in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.*

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>20</sup>)  
Membership Number

Place of Signature

Date

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<sup>20</sup> Partner or Proprietor, as the case may be.

*Modifications to the Opinion in the Independent Auditor's Report*

**Illustration 3:**

Circumstances include the following:

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statement. The audit opinion is qualified for the misstatement.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

**INDEPENDENT AUDITOR'S REPORT**

**To the Members of ABC Company Limited**

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for 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 standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control 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.

## *Handbook of Auditing Pronouncements-I.A*

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control<sup>21</sup>. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### *Basis for Qualified Opinion*

*ABC Company Limited's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs. XXX in the Balance Sheet as at March 31, 20XX, and ABC's share of XYZ Company's net income of Rs. XXX is included in ABC Company Limited's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company Limited's investment in XYZ Company as at March 31, 20XX and ABC Company Limited's share of XYZ Company's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.*

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<sup>21</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329th adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.



## ***Modifications to the Opinion in the Independent Auditor's Report***

### ***Qualified Opinion***

*In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects<sup>22</sup> of the matter described in the Basis for Qualified Opinion paragraph, the 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:*

*(a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;*

*(b) in the case of the Profit and Loss Account, of the profit/ loss for the year ended on that date; and*

*(c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.*

### **Report on Other Legal and Regulatory Requirements**

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Companies Act, 1956, we report that:
  - a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit except for the matter described in the Basis for Qualified Opinion paragraph;
  - b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from branches not visited by us]<sup>23</sup>;
  - c. the report on the accounts of the branch offices audited under section 228 by a person other than the company's auditor has been forwarded to us as required by clause (c) of sub-section (3) of section 228 and

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<sup>22</sup> Note the use of words "possible effects" as the auditor was unable to obtain sufficient appropriate audit evidence.

<sup>23</sup> To be included if relevant.

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have been dealt with in preparing our report in the manner considered necessary by us<sup>24</sup>;

- d. the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from branches not visited by us]<sup>25</sup>;
- e. *except for the possible effects<sup>26</sup> of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;*
- f. on the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.
- g. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.<sup>27</sup>

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<sup>24</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329<sup>th</sup> adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>25</sup> To be included if relevant.

<sup>26</sup> Note the use of words "possible effects" as the auditor was unable to obtain sufficient appropriate audit evidence.

<sup>27</sup> Attention of the readers is invited to the Announcement issued by the Council of the ICAI (pursuant to a decision taken in this regard at its 312<sup>th</sup> meeting held in December, 2011) regarding the auditor's reporting responsibilities pursuant to clause 4(ix)(a) of the Companies (Auditor's Report) Order, 2003 and section 227(3)(g) of the Companies Act, 1956 wrt the cess payable under Section 441A of the Companies Act, 1956. Pursuant to the said Announcement since the operative date of section 227 (3)(g) has not yet been notified by the Central Government, the statutory auditor's report need not contain any comment on section 227 (3)(g) of the Companies Act, 1956. The complete text of the Announcement is published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

*Modifications to the Opinion in the Independent Auditor's Report*

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>28</sup>)  
Membership Number

Place of Signature

Date

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<sup>28</sup> Partner or Proprietor, as the case may be.

**Illustration 4:**

Circumstances include the following:

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial statements. That is, the auditor was unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the Company's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. A disclaimer of audit opinion is given in the circumstances.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

**INDEPENDENT AUDITOR'S REPORT**

**To the Members of ABC Company Limited**

**Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Financial Statements***

Management is responsible for 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 standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

## ***Modifications to the Opinion in the Independent Auditor's Report***

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

*The Company's investment in its joint venture XYZ Company is carried at Rs. XXX in the Company's Balance Sheet, which represents over 90% of the Company's net assets as at March 31, 20XX. We were not allowed access to the management and the auditors of XYZ Company. As a result, we were unable to determine whether any adjustments were necessary in respect of the Company's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ Company's income and expenses for the year, and the elements making up the Cash Flow Statement.*

### ***Disclaimer of Opinion***

*Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.*

### **Report on Other Legal and Regulatory Requirements**

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Companies Act, 1956, we report that:
  - a. As described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
  - b. Due to the possible effects<sup>29</sup> of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [and proper

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<sup>29</sup> Note the use of words "possible effects" as the auditor was unable to obtain sufficient appropriate audit evidence.

## *Handbook of Auditing Pronouncements-I.A*

returns adequate for the purposes of our audit have been received from branches not visited by us]<sup>30</sup>;

- c. the report on the accounts of the branch offices audited under section 228 by a person other than the company's auditor has been forwarded to us as required by clause (c) of sub-section (3) of section 228 and have been dealt with in preparing our report in the manner considered necessary by us<sup>31</sup>;
- d. The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from branches not visited by us]<sup>32</sup>;
- e. *Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;*
- f. On the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.
- g. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.<sup>33</sup>

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<sup>30</sup> To be included if relevant.

<sup>31</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329<sup>th</sup> adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>32</sup> To be included if relevant.

<sup>33</sup> Attention of the readers is invited to the Announcement issued by the Council of the ICAI (pursuant to a decision taken in this regard at its 312<sup>th</sup> meeting held in December, 2011) regarding the auditor's reporting responsibilities pursuant to clause 4(ix)(a) of the Companies (Auditor's Report) Order, 2003 and section 227(3)(g) of the Companies Act, 1956 wrt the cess payable under Section 441A of the Companies Act, 1956. Pursuant to the said Announcement since the operative date of section 227 (3)(g) has not yet been notified by the Central Government, the statutory auditor's report need not contain any comment on section 227 (3)(g) of the Companies Act, 1956. The complete text of the Announcement is published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of

*Modifications to the Opinion in the Independent Auditor's Report*

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>34</sup>)  
Membership Number

Place of Signature

Date

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Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>34</sup> Partner or Proprietor, as the case may be.

**Illustration 5:**

Circumstances include the following:

- Audit of a complete set of separate general purpose financial statements of a company prepared under the Companies Act, 1956 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. A disclaimer of audit opinion is given in the circumstances.
- In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements.

**INDEPENDENT AUDITOR'S REPORT**

**To the Members of ABC Company Limited**

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Financial Statements***

Management is responsible for 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 standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.



## ***Modifications to the Opinion in the Independent Auditor's Report***

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

*We were appointed as auditors of the Company after March 31, 20XX and thus could not observe the counting of physical inventories at the beginning and end of the year. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and March 31, 20X1 which are stated in the Balance Sheet at Rs. XXX and Rs. XXX, respectively.*

*In addition, the introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs. XXX as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the Statement of Profit and Loss and Cash Flow Statement.*

### ***Disclaimer of Opinion***

*Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.*

### **Report on Other Legal and Regulatory Requirements**

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Companies Act, 1956, we report that:

*Handbook of Auditing Pronouncements-I.A*

- a. As described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- b. Due to the possible effects<sup>35</sup> of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from branches not visited by us]<sup>36</sup>;
- c. the report on the accounts of the branch offices audited under section 228 by a person other than the company's auditor has been forwarded to us as required by clause (c) of sub-section (3) of section 228 and have been dealt with in preparing our report in the manner considered necessary by us<sup>37</sup>;
- d. The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from branches not visited by us]<sup>38</sup>;
- e. *Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;*
- f. On the basis of written representations received from the directors as on March 31, 20X1, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20X1, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.
- g. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the

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<sup>35</sup> Note the use of words "possible effects" as the auditor was unable to obtain sufficient appropriate audit evidence.

<sup>36</sup> To be included if relevant.

<sup>37</sup> The underlined text has been added pursuant to decision of Council of ICAI taken at its 329<sup>th</sup> adjourned meeting held in January 2014. The complete text of the Announcement in this regard has been published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>38</sup> To be included if relevant.

*Modifications to the Opinion in the Independent Auditor's Report*

manner in which such cess is to be paid, no cess is due and payable by the Company.<sup>39</sup>

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>40</sup>)  
Membership Number

Place of Signature

Date

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<sup>39</sup> Attention of the readers is invited to the Announcement issued by the Council of the ICAI (pursuant to a decision taken in this regard at its 312<sup>th</sup> meeting held in December, 2011) regarding the auditor's reporting responsibilities pursuant to clause 4(ix)(a) of the Companies (Auditor's Report) Order, 2003 and section 227(3)(g) of the Companies Act, 1956 wrt the cess payable under Section 441A of the Companies Act, 1956. Pursuant to the said Announcement since the operative date of section 227 (3)(g) has not yet been notified by the Central Government, the statutory auditor's report need not contain any comment on section 227 (3)(g) of the Companies Act, 1956. The complete text of the Announcement is published in Paragraph 'C', "Announcements/Clarifications" of Section 1, "Announcements of the Council regarding Status of Various Documents issued by the Institute of Chartered Accountants of India", included in Volume I.A of the Handbook.

<sup>40</sup> Partner or Proprietor, as the case may be.

## Illustrative Format of Independent Auditor's' Report on the Standalone Financial Statements of a Company Under The Companies Act, 2013 and The Rules Thereunder

### Illustration 6<sup>41</sup>:

Circumstances include the following:

- Audit of a complete set of standalone general purpose financial statements of a company prepared under the Companies Act, 2013 financial reporting framework.
- The terms of audit engagement reflect description of management's responsibility for the financial statements in SA 210, Agreeing the Terms of Audit Engagement.
- The independent auditor :
  - Has issued a Qualified Opinion with respect to the true and fair view of the financial statements on account of misstatement of inventories. The misstatement is deemed to be material but not pervasive to the financial statements.
  - In addition to expressing an opinion on the true and fair view of the financial statements, the auditor has other reporting responsibilities required under the Companies Act 2013 and/or other regulatory requirements. However, the auditor does not have the responsibility to report on internal financial controls pursuant to section 143(3)(i) of the Companies Act 2013.

### INDEPENDENT AUDITOR'S' REPORT

#### TO THE MEMBERS OF ABC COMPANY LIMITED

#### Report on the Standalone<sup>42</sup> Financial Statements

We have audited the accompanying standalone financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at 31<sup>st</sup> March, 20XX, the Statement of Profit and Loss, the Cash Flow Statement, and a summary of the significant accounting policies and other explanatory information for the year then ended, [*in which are incorporated the Returns for the year*

<sup>41</sup> This illustration has been added pursuant to decision of the Council of ICAI taken at its meeting held in November 2014. The complete text of the Announcement in this regard has been hosted on ICAI's website.

<sup>42</sup>Where the Company does not have any requirement to prepare consolidated financial statements under the Companies Act 2013, in the auditor's report, the term "Standalone financial statements", wherever appearing, would be replaced by the term "financial statements".

### ***Modifications to the Opinion in the Independent Auditor's Report***

*ended on that date audited by the branch auditors of the Company's branches at (location of the branches)]<sup>43</sup>.*

#### **Management's Responsibility 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 ("the Act") with respect to the preparation of these standalone 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 preparation of the Act for safeguarding 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.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these standalone financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks

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<sup>43</sup> Where applicable

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of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial control system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the standalone financial statements.

### **Basis for Qualified Opinion**

The Company's inventories are carried in the Balance Sheet at Rs. XXX (*As at 31st March 20YY: Rs. YYY*). The Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standard - 2 "Valuation of Inventories". The Company's records indicate that had the Management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX (*As at 31st March 20YY: Rs. YYY*) would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by Rs. XXX (*Previous year ended 31st March, 20YY: Rs. YYY*), and income tax, profit for the year and shareholders' funds would have been reduced by Rs. X, Rs. XX and Rs. XXX, respectively (*Previous year ended 31st March, 20YY: Rs. Y, Rs. YY and Rs. YYY, respectively*). This matter was also qualified in our report/ the report of the predecessor auditors on the financial statements for the year ended 31st March 20YY.<sup>44</sup>

### **Qualified Opinion**

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the

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<sup>44</sup> Where applicable and only in such case, disclosure of previous year figures is required - Attention of the readers is drawn to the provisions of Standard on Auditing (SA) 710, *Comparative Information—Corresponding Figures And Comparative Financial Statements* .

### *Modifications to the Opinion in the Independent Auditor's Report*

Basis for Qualified Opinion paragraph above, 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 31<sup>st</sup> March, 20XX, and its profit/loss and its cash flows for the year ended on that date.

#### **Other Matter<sup>45</sup>**

We did not audit the financial statements/information of \_\_\_\_\_(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs.\_\_\_\_\_ as at 31<sup>st</sup> March, 20XX and total revenues of Rs.\_\_\_\_\_ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not qualified in respect of this matter.

#### **Report on Other Legal and Regulatory Requirements**

As required by Section 143 (3) of the Act, we report that:

- a) *We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.*
- b) *Except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from the branches not visited by us<sup>46</sup>].*
- c) *[The reports on the accounts of the branch offices of the Company audited under Section 143 (8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report<sup>47</sup>.]*

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<sup>45</sup> Where applicable.

<sup>46</sup> Where applicable.

<sup>47</sup> Where applicable.

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- d) *The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from the branches not visited by us<sup>48</sup>].*
- e) *Except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.*
- f) *The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.*
- g) *On the basis of the written representations received from the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164 (2) of the Act.*
- h) *The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.*
- i) *With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:*
  - i. *The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements; [or the Company does not have any pending litigations which would impact its financial position<sup>49</sup>]*
  - ii. *The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements; [or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.<sup>50</sup>]*

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<sup>48</sup> Where applicable.

<sup>49</sup> As may be applicable.

<sup>50</sup> As may be applicable.



***Modifications to the Opinion in the Independent Auditor's Report***

- iii. *There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company<sup>51</sup>}.}*

For XYZ & Co  
Chartered Accountants  
(Firm's Registration No.)

Signature  
(XXXXX X. XXXX)  
(Designation<sup>52</sup>)  
(Membership No. XXXXX)

Place of Signature:

Date:

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<sup>51</sup> As may be applicable.

<sup>52</sup> Partner or Proprietor, as the case may be.

## Illustrative Format of Independent Auditor's Report on the Standalone Financial Statements of a Company Under The Companies Act, 2013 and the Rules Thereunder

### **Illustration 7<sup>53</sup>**

*Circumstances include the following:*

- *Audit of a complete set of standalone general purpose financial statements of a company prepared under the Companies Act, 2013 financial reporting framework.*
- *The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210.*
- *The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statement. The audit opinion is **qualified** for the misstatement.*
- *In addition to the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013 and/or other regulatory requirements. **However, the auditor does not have the responsibility to report on internal financial controls of the Company pursuant to section 143(3)(i) of the Companies Act 2013.***

### INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

### Report on the Standalone<sup>54</sup> Financial Statements

We have audited the accompanying standalone financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information *{in which are incorporated returns for the year*

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<sup>53</sup> This illustration has been added pursuant to decision of the Council of ICAI taken at its meeting held in November 2014. The complete text of the Announcement in this regard has been hosted on ICAI's website.

<sup>54</sup>Where the Company does not have any requirement to prepare consolidated financial statements under the Companies Act 2013, in the auditor's report, the term "Standalone financial statements", wherever appearing, would be replaced by the term "financial statements".

### ***Modifications to the Opinion in the Independent Auditor's Report***

*ended on that date audited by the branch auditors of the Company's branches at (location of branches)}<sup>55</sup>.*

#### **Management's Responsibility 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 ("the Act") with respect to the preparation of these standalone 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 referred 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 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.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected

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<sup>55</sup>Where applicable.

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depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial control system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

ABC Company Limited's investment in XYZ Company, a foreign associate whose net worth has been fully / substantially eroded, is carried at Rs. XXX in the Balance Sheet as at March 31, 20XX. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company Limited's investment in XYZ Company as at March 31, 20XX because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

### **Qualified Opinion**

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects<sup>56</sup> of the matter described in the Basis for Qualified Opinion paragraph, 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 31<sup>st</sup> March 20XX, and its profit/loss and its cash flows for the year ended on that date:

### **Other Matter<sup>57</sup>**

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<sup>56</sup> Note the use of words "possible effects" as the auditor was unable to obtain sufficient appropriate audit evidence.

<sup>57</sup> Where applicable.

### *Modifications to the Opinion in the Independent Auditor's Report*

We did not audit the financial statements/information of \_\_\_\_\_(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs.\_\_\_\_\_ as at 31st March, 20XX and total revenues of Rs.\_\_\_\_\_ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not qualified in respect of this matter.

### **Report on Other Legal and Regulatory Requirements**

As required by section 143 (3) of the Act, we report that:

- g. We have sought and, except for the matters described in the Basis for Qualified Opinion paragraph, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- h. Except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph above, in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from branches not visited by us*]<sup>58</sup>;
- i. *The reports on the accounts of the branch offices of the Company audited under section 143(8) of the Act by the branch auditors have been sent to us and have been properly dealt with by us in preparing this report.*<sup>59</sup>
- j. the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [*and with the returns received from branches not visited by us*]<sup>60</sup>;
- k. Except for the possible effects<sup>61</sup> of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, Statement

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<sup>58</sup>Where applicable.

<sup>59</sup>Where applicable.

<sup>60</sup>Where applicable.

<sup>61</sup>Note the use of words "possible effects" as the auditor was unable to obtain sufficient appropriate audit evidence.

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of Profit and Loss and Cash Flow Statement comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2013;

- I. The matter described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- m. On the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of section 164(2) of the Act.
- n. The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.
- o. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
  - i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements; *[or the Company does not have any pending litigations which would impact its financial position<sup>62</sup>]*
  - ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements; *[or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.<sup>63</sup>]*
  - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company *{or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were*

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<sup>62</sup> As may be applicable.

<sup>63</sup> As may be applicable.

***Modifications to the Opinion in the Independent Auditor's Report***

*required to be transferred to the Investor Education and Protection Fund  
by the Company<sup>64</sup>.*

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>65</sup>)  
Membership Number

Place of Signature

Date

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<sup>64</sup> As may be applicable

<sup>65</sup> Partner or Proprietor, as the case may be.

**Illustrative Format of Independent Auditor's Report on the Standalone Financial Statements of a Company under the Companies Act, 2013 and the Rules Thereunder**

**Illustration 8<sup>66</sup>**

*Circumstances include the following:*

- *Audit of a complete set of standalone general purpose financial statements of a company prepared under the Companies Act, 2013 financial reporting framework.*
- *The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210, Agreeing the Terms of Audit Engagement.*
- *The independent auditor:*
  - *Has issued an **Adverse opinion** on the true and fair view of the financial statements on account of events that indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern which has not been disclosed in the financial statements (and notes thereto).*
  - *In addition to expressing opinion on the true and fair view of the audit of financial statements, the auditor has other reporting responsibilities required under the Companies Act, 1956 and/or other regulatory requirements. However, the auditor does not have the responsibility to report on internal financial controls of the Company pursuant to section 143(3)(i) of the Companies Act 2013.*

**INDEPENDENT AUDITOR'S REPORT**

**To the Members of ABC Company Limited**

**Report on the Standalone<sup>67</sup> Financial Statements**

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<sup>66</sup> This illustration has been added pursuant to decision of the Council of ICAI taken at its meeting held in November 2014. The complete text of the Announcement in this regard has been hosted on ICAI's website.

<sup>67</sup>Where the Company does not have any requirement to prepare consolidated financial statements under the Companies Act 2013, in the auditor's report, the term "Standalone financial statements", wherever appearing, would be replaced by the term "financial statements".



### *Modifications to the Opinion in the Independent Auditor's Report*

We have audited the accompanying standalone financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information *{in which are incorporated returns for the year ended on that date audited by the branch auditors of the Company's branches at (location of branches)}*<sup>68</sup>.

#### **Management's Responsibility 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 ("the Act") with respect to the preparation of these standalone 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 referred 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 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.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable

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<sup>68</sup>Where applicable.

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assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial control system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

#### **Basis for Adverse Opinion**

The Company's financing arrangements expired and the amount outstanding was payable on March 31, 20XX. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

#### **Adverse Opinion**

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements do not give the information required by the Companies Act, 2013 in the manner so required and also do not 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 31<sup>st</sup> March, 20XX, and its profit/loss and its cash flows for the year ended on that date.

### *Modifications to the Opinion in the Independent Auditor's Report*

#### **Other Matter<sup>69</sup>**

We did not audit the financial statements/information of \_\_\_\_\_(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs.\_\_\_\_\_ as at 31st March, 20XX and total revenues of Rs.\_\_\_\_\_ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

#### **Report on Other Legal and Regulatory Requirements**

As required by section 143 (3) of the Act, we report that:

- a. We have sought and, except for the possible effects of the matter described in the Basis for Adverse Opinion paragraph above, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- b. Except for the possible effects of the matter described in the Basis for Adverse Opinion paragraph above, in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from branches not visited by us*]<sup>70</sup>;
- c. [*The reports on the accounts of the branch offices of the Company audited under section 143(8) of the Act by the branch auditors have been sent to us and, except for the possible effects of the matter described in the Basis for Adverse Opinion paragraph above, have been properly dealt with by us in preparing this report.*]<sup>71</sup>
- d. The Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [*and with the returns received from branches not visited by us*]<sup>72</sup>;

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<sup>69</sup>Where applicable.

<sup>70</sup>Where applicable.

<sup>71</sup>Where applicable.

<sup>72</sup>Where applicable.

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- e. Except for the matter described in the Basis for Adverse Opinion paragraph above, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2013;
- f. The matter described in the Basis for Adverse Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.
- g. On the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of section 164(2) of the Act.
- h. The adverse remarks relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Adverse Opinion paragraph above.
- i. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
  - i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements; *[or the Company does not have any pending litigations which would impact its financial position<sup>73</sup>]*
  - ii. Except for the possible effects of the matter described in the Basis for Adverse Opinion paragraph above, the Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements; *[or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.<sup>74</sup>]*
  - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company *{or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were*

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<sup>73</sup> As may be applicable.

<sup>74</sup> As may be applicable.

***Modifications to the Opinion in the Independent Auditor's Report***

*required to be transferred to the Investor Education and Protection Fund  
by the Company<sup>75</sup> }.*

For XYZ and Co.

Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Audit Report)  
(Designation<sup>76</sup>)  
Membership Number

Place of Signature

Date

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<sup>75</sup> As may be applicable.

<sup>76</sup> Partner or Proprietor, as the case may be.

## **Illustrative Format of Independent Auditor's Report on the Standalone Financial Statements of a Company Under the Companies Act, 2013 and the Rules Thereunder**

### **Illustration 9<sup>77</sup>**

Circumstances include the following:

- Audit of a complete set of standalone general purpose financial statements of a company prepared under the Companies Act, 2013 financial reporting framework.
- The terms of the audit engagement reflect description of management's responsibility for the financial statements in SA 210, Agreeing the Terms of Audit Engagement.
- The independent auditor:
  - Has given a disclaimer of opinion on the financial statements on account of the fact that the auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.
  - In addition to expressing opinion on the true and fair view of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2013 and/or other regulatory requirements. However the auditor is not required to report on the internal financial controls pursuant to section 143(3)(i) of the Companies Act 2013.

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

To the Members of ABC Company Limited

### **Report on the Standalone<sup>78</sup> Financial Statements**

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<sup>77</sup> This illustration has been added pursuant to decision of the Council of ICAI taken at its meeting held in November 2014. The complete text of the Announcement in this regard has been hosted on ICAI's website.

<sup>78</sup>Where the Company does not have any requirement to prepare consolidated financial statements under the Companies Act 2013, in the auditor's report, the term "Standalone financial statements", wherever appearing, would be replaced by the term "financial statements".

### *Modifications to the Opinion in the Independent Auditor's Report*

We were engaged to audit the accompanying standalone financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20X1, and the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information {in which are incorporated the returns for the year ended on that date audited by the branch auditors of the Company's branches at (location of branches)}<sup>79</sup>.

#### **Management's Responsibility 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 ("the Act") with respect to the preparation of these standalone 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 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 for ensuring 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.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with the Standards on Auditing under Section 143(10) of the Act.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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<sup>79</sup>Where applicable.

## *Handbook of Auditing Pronouncements-I.A*

### **Basis for Disclaimer of Opinion**

We were appointed as auditors of the Company after March 31, 20X1 and thus could not observe the counting of physical inventories at the beginning and end of the year. Accordingly, we were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and March 31, 20X1 which are stated in the Balance Sheet at Rs. XXX and Rs. XXX, respectively.

In addition, the introduction of a new computerised accounts receivable system in September 20X0 resulted in numerous errors in accounts receivable. As of the date of our audit report, Management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs. XXX as at March 31, 20X1.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable in the Balance Sheet, and the corresponding elements making up the Statement of Profit and Loss and Cash Flow Statement.

### **Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

### **Other Matter<sup>80</sup>**

We did not audit the financial statements/information of \_\_\_\_\_(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs. \_\_\_\_\_ as at 31st March, 20X1 and total revenues of Rs. \_\_\_\_\_ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us.

### **Report on Other Legal and Regulatory Requirements**

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<sup>80</sup> Where applicable.



### *Modifications to the Opinion in the Independent Auditor's Report*

As required by section 143 (3) of the Act, we report that:

- a. As described in the Basis for Disclaimer of Opinion paragraph, we sought but were unable to obtain all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- b. Due to the possible effects<sup>81</sup> of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [*and proper returns adequate for the purposes of our audit have been received from branches not visited by us*]<sup>82</sup>;
- c. [*The reports on the accounts of the branch offices of the Company audited under section 143(8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report*]<sup>83</sup>]
- d. Due to the possible effects<sup>84</sup> of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [*and with the returns received from branches not visited by us*]<sup>85</sup>;
- e. Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the aforesaid financial statements comply with the Accounting Standards under Section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014;
- f. The matter described in the Basis for Disclaimer of Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Company.

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<sup>81</sup> Note the use of words "possible effects" as the auditor was unable to obtain sufficient appropriate audit evidence.

<sup>82</sup>Where applicable.

<sup>83</sup>Where applicable

<sup>84</sup> Note the use of words "possible effects" as the auditor was unable to obtain sufficient appropriate audit evidence.

<sup>85</sup>Where applicable.

*Handbook of Auditing Pronouncements-I.A*

- g. On the basis of written representations received from the directors as on March 31, 20X1, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20X1, from being appointed as a director in terms of section 164(2) of the Act.
- h. The reservation relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Disclaimer of Opinion paragraph above.
- i. With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
  - i. Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements;
  - ii. Due to the possible effects of the matter described in the Basis for Disclaimer of Opinion paragraph, we are unable to state whether the Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements;
  - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company *{or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company<sup>86</sup>}*.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

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<sup>86</sup> As may be applicable.

*Modifications to the Opinion in the Independent Auditor's Report*

Signature

(Name of the Member Signing the Audit Report)

(Designation<sup>87</sup>)

Membership Number

Place of Signature

Date

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<sup>87</sup>Partner or Proprietor, as the case may be.

## Modified Opinion on the Consolidated Financial Statements

### Illustration 10<sup>88</sup>

Note:

The following illustrative format is based on the assumptions that:

The Group has:

- Certain components which have been audited by auditor/s other than the Principal Auditor and such component/s is/ are material to the consolidated financial statements of the Group. The auditors of such components which are Indian companies, there is no requirement to report on section 143(3)(i) of the Companies Act, 2013.
- Certain components which are unaudited and such component/s is/ are not material to the consolidated financial statements of the Group.

The independent auditor of Consolidated Financial Statements:

- Has issued a Qualified Opinion with respect to the true and fair view of the financial statements on account of misstatement of inventories and unaudited financial statements of a branch of a subsidiary. The misstatement is deemed to be material but not pervasive to the financial statements.
- Disclosed the aforementioned facts about the Components in the “Other Matters” Paragraph in accordance with the Announcement issued by the Auditing and Assurance Standards Board under the authority of the Council of ICAI in February 2014
- Does not have the responsibility to report on internal financial controls pursuant to section 143(3)(i) of the Companies Act 2013.

### ILLUSTRATIVE FORMAT OF INDEPENDENT AUDITOR’S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF A GROUP UNDER THE COMPANIES ACT, 2013 AND THE RULES THEREUNDER

#### INDEPENDENT AUDITOR’S REPORT

#### TO THE MEMBERS OF ABC COMPANY LIMITED

<sup>88</sup> This illustration has been added pursuant to decision of the Council of ICAI taken at its meeting held in April 2015. The complete text of the Announcement in this regard has been hosted on ICAI’s website.

## *Modifications to the Opinion in the Independent Auditor's Report*

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of ABC COMPANY LIMITED (hereinafter referred to as "the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, comprising of the Consolidated Balance Sheet as at 31st March, 20XX, the Consolidated Statement of Profit and Loss, the Consolidated Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the consolidated financial statements").

### **Management's Responsibility for the Consolidated Financial Statements**

The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group including its Associates and Jointly controlled entities 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. The respective Board of Directors of the companies included in the Group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the 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, which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.

### **Auditor's Responsibility**

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Our responsibility is to express an opinion on these consolidated financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on whether the Holding Company has an adequate internal financial controls system over financial reporting in place and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in subparagraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our qualified audit opinion on the consolidated financial statements.

#### **Basis for Qualified Opinion**

- (a) The inventories are carried in the Consolidated Balance Sheet at Rs. XXX (As at 31st March 20YY: Rs. YYY). In one of the subsidiaries of the Holding Company, the other auditor who audited the financial statements / financial information of the subsidiary has reported that

### *Modifications to the Opinion in the Independent Auditor's Report*

the Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from the Accounting Standard - 2 "Valuation of Inventories". The report of the other auditor states that had the Management stated the inventories at the lower of cost and net realisable value, an amount of Rs. XXX (As at 31st March 20YY: Rs. YYY) would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by Rs. XXX (Previous year ended 31st March, 20YY: Rs. YYY), and income tax, profit for the year, minority interest and shareholders' funds would have been reduced by Rs. X, Rs. XX, Rs. AA and Rs. XXX, respectively (Previous year ended 31st March, 20YY: Rs. Y, Rs. YY, Rs. ZZ and Rs. YYY, respectively). This matter was also qualified in our report/ the report of the predecessor auditors on the consolidated financial statements for the year ended 31st March 20YY.<sup>89</sup>

- (b) In case of one of the subsidiaries of the Holding Company not audited by us, the other auditor who audited the subsidiary has reported that they did not audit the financial statements/information of \_\_\_\_\_(number) branches of the subsidiary whose financial statements / financial information reflect total assets of Rs. \_\_\_\_\_ as at 31st March, 20XX and total revenues of Rs. \_\_\_\_\_ for the year ended on that date, as considered in these consolidated financial statements. The financial statements/information of these branches is pending audit by their branch auditors whose reports have not yet been furnished to the auditors of the subsidiary, and their opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the unaudited information provided by the Management of the subsidiary.

### **Qualified Opinion**

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph above, the aforesaid consolidated financial

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<sup>89</sup> Where applicable and only in such case, disclosure of previous year figures is required - Attention of the readers is drawn to the provisions of Standard on Auditing (SA) 710, Comparative Information—Corresponding Figures And Comparative Financial Statements.

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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 consolidated state of affairs of the Group, its associates and jointly controlled entities as at 31st March, 20XX, and their consolidated profit/loss and their consolidated cash flows for the year ended on that date.

#### Other Matters

- (a) We did not audit the financial statements / financial information of \_\_\_\_\_ subsidiaries, and \_\_\_\_\_ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. \_\_\_\_\_ as at 31st March, 20XX, total revenues of Rs. \_\_\_\_\_ and net cash flows amounting to Rs. \_\_\_\_\_ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. \_\_\_\_\_ for the year ended 31<sup>st</sup> March, 20XX, as considered in the consolidated financial statements, in respect of \_\_\_\_\_ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-sections (3) and (11) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.
- (b) We did not audit the financial statements / financial information of \_\_\_\_\_ subsidiaries, and \_\_\_\_\_ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. \_\_\_\_\_ as at 31st March, 20XX, total revenues of Rs. \_\_\_\_\_ and net cash flows amounting to Rs. \_\_\_\_\_ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. \_\_\_\_\_ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of \_\_\_\_\_ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to



### *Modifications to the Opinion in the Independent Auditor's Report*

us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-sections (3) and (11) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on such unaudited financial statements / financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements / financial information are not material to the Group.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements / financial information certified by the Management.

#### **Report on Other Legal and Regulatory Requirements**

1. As required by the Companies (Auditor's Report) Order, 2015 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, based on the comments in the auditors' reports of the Holding company, subsidiary companies, associate companies and jointly controlled companies incorporated in India, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.
2. As required by Section 143(3) of the Act, we report, to the extent applicable, that:
  - (a) We have sought and, except for the possible effect of the matter described in sub-paragraph (b) of the Basis for Qualified Opinion above, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated financial statements.
  - (b) In our opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph above, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.

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- (c) Except for the matter described in sub-paragraph (b) of the Basis for Qualified Opinion paragraph above, the reports on the accounts of the branch offices of the Holding Company, and its subsidiaries, associate companies and jointly controlled companies incorporated in India, audited under Section 143 (8) of the Act by branch auditors have been sent to us / the other auditors, as applicable, and have been properly dealt with in preparing this report.
- (d) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss, and the Consolidated Cash Flow Statement dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.
- (e) In our opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph above, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
- (f) The matters described in the Basis for Qualified Opinion paragraph above, in our opinion, may have an adverse effect on the functioning of the Group.
- (g) On the basis of the written representations received from the directors of the Holding Company as on 31st March, 20XX taken on record by the Board of Directors of the Holding Company and the reports of the other statutory auditors of its subsidiary companies, associate companies and jointly controlled companies incorporated in India, except for \_\_ (number) director/s of \_\_ (number) of the Group's subsidiary company/ies /, associate company/ies and jointly controlled company/ies incorporated in India who are disqualified from being appointed as a director in terms of Section 164(2) of the Act, none of the other directors of the Group's companies, its associate companies and jointly controlled companies incorporated in India is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164 (2) of the Act. The list of subsidiary company/ies, associate company / ies, jointly controlled companies incorporated in India where the disqualification arose and the respective directors are stated below:

XXXXXXXX

*Modifications to the Opinion in the Independent Auditor's Report*

- (h) The qualification relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.
- (i) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- i. Except for the possible effect of the matter described in sub-paragraph (b) of the Basis of Qualified Opinion above, the consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group, its associates and jointly controlled entities – Refer Note XX to the consolidated financial statements.

Or

Except for the possible effect of the matter described in sub-paragraph (b) of the Basis of Qualified Opinion above, there were no pending litigations which would impact the consolidated financial position of the Group, its associates and jointly controlled entities.<sup>90</sup>

- ii. Except for the possible effect of the matter described in sub-paragraph (b) of the Basis of Qualified Opinion above, provision has been made in the consolidated financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer (a) Note XX to the consolidated financial statements in respect of such items as it relates to the Group and (b) the Group's share of net profit/loss in respect of its associates.

Or

Except for the possible effect of the matter described in sub-paragraph (b) of the Basis of Qualified Opinion above, the Group, its associates and jointly controlled entities did not have any material foreseeable losses on long-term contracts including derivative contracts.<sup>91</sup>

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<sup>90</sup> Where applicable.

<sup>91</sup> Where applicable.

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- iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

Or

Following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

Or

There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.

|                                  |  |
|----------------------------------|--|
| Place of Signature:<br><br>Date: | For XYZ & Co<br><br>Chartered Accountants<br>(Firm's Registration No.)<br><br>Signature<br>(Name of the Member Signing the Audit Report)<br>(Designation <sup>92</sup> )<br>(Membership No. XXXXX) |
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<sup>92</sup>Partner or Proprietor, as the case may be.

