

CSAS-3

Auditing Standard on Forming of Opinion

Contents

Scope	2
Effective Date	2
Objective	2
Definitions	2
i. Auditor	2
ii. Audit Evidence	2
iii. Records.....	2
iv. Materiality.....	2
v. Misstatement.....	3
vi. Third Party.....	3
vii. Third Party Information	3
Requirements	3
1. Process for forming of Opinion	3
2. Precedence and Practices	3
3. Forming an opinion on report of third party	4
4. Form of Opinion and Qualification	4
5. Opinion Paragraph	5
6. Communication with Those Charged with Governance	6
7. Auditor’s Responsibility	6
8. Format of Report.....	6

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Auditing Standard on Forming of Opinion

Scope

This Auditing Standard ('the Standard') is applicable to Auditor while carrying out Audit under the Companies Act, 2013 or SEBI Act, 1992 or any other law for the time being in force. This Standard deals with basis and manner for forming Auditor's opinion on subject matter of the audit.

Effective Date

This Standard is effective for audit conducted by Auditor on or after.....

Objective

The objective of the standard is to lay down the basis and manner, enabling the Auditor to:

- a) form an opinion, based on evaluation of the conclusions drawn from the audit evidence obtained; and
- b) clearly express such opinion through a written report.

Definitions

i. Auditor

Auditor means a Member of the Institute of Company Secretaries of India undertaking the Audit.

ii. Audit Evidence

Audit evidence is evidence obtained during the audit and recorded in the audit file and working papers either in physical or electronic form.

iii. Records

For the purpose of this Standard the term records include:

- (i) Minutes, returns, forms, indexes, and Statutory Registers
- (ii) Books and papers including books of accounts, deeds, vouchers;
- (iii) Agreements, Memorandum of understanding; and
- (iv) Other documents maintained by the Auditee either in physical or electronic form.

iv. Materiality

Materiality is the threshold above which missing or incorrect information is considered to have an impact on the decision making of Auditor. Information is material if its omission

or misstatement could influence the opinion of Auditor. Materiality can also be construed in terms of net impact.

v. Misstatement

Misstatement means any information which is false, incorrect, incomplete or misleading.

vi. Third Party

Any person who does not have a direct connection with the given assignment but whose inputs might influence the opinion and includes an expert.

vii. Third Party Information

The third party information means the information that either belongs to or is obtained from the third party.

Requirements

1. Process for forming of Opinion

1.1 Forming of opinion based on the audit observations is an important part of any audit as through this process the outcome of audit are presented in the form of Audit Report to the intended users. Audit inter alia involves reporting compliance of or deviations from the applicable laws.

1.2 Auditor shall consider materiality while forming his opinion and adhere to the principles of completeness, objectivity, timeliness and contradictory process while reporting:

- (i) The **principle of completeness** requires the Auditor to consider all relevant audit evidence before issuing a report;
- (ii) The **principle of objectivity** requires the Auditor to apply professional judgment and skepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and appropriate manner;
- (iii) The **principle of timeliness** implies preparing the report in due time; and
- (iv) The **principle of a contradictory** process implies checking the accuracy of facts and incorporating responses from concerned persons.

2. Precedence and Practices

Auditor shall adhere to generally accepted precedence and practices in relation to opinion formation as may be available from historical perspective of any kind of audit.

3. Forming an opinion on report of third party

Sometimes due to circumstances like geographical constraints or want of expertise an Auditor may be required to rely on the third party reports and third party reports may sometime also be arranged by the Auditee.

The auditor shall adhere to the following while forming opinion on third party reports:

- (i) The Auditor shall clearly indicate the fact of use of third party report and shall also record the circumstances necessitating the use of third party report;
- (ii) The Auditor shall indicate the fact if third party report is arranged by Auditee;
- (iii) The Auditor shall consider the important findings/observation of third party;
- (iv) The Auditor shall, if necessary and possible, carry out a supplemental test to check veracity of the third-party report.

4. Form of Opinion and Qualification

4.1 Unmodified Opinion

The Auditor shall express an unmodified opinion when the Auditor concludes that-

- (i) there is due compliance with the applicable law in terms of timelines and process; and
- (ii) the records as a whole are free from material misstatement and maintained in accordance with applicable laws.

4.2 Modified Opinion

The Auditor shall modify the opinion, if the Auditor:

- (i) concludes, based on the audit evidence obtained, that there is material non-compliance with the applicable laws in terms of timelines and process; or
- (ii) concludes, based on the audit evidence obtained, that the records as a whole are not free from material misstatement; or are not maintained in accordance with applicable laws; or
- (iii) is unable to obtain sufficient appropriate audit evidence to conclude there is due compliance with the applicable laws in terms of timelines and process
- (iv) is unable to obtain sufficient and appropriate audit evidence to conclude that the records as a whole are free from material misstatement; or are maintained in accordance with applicable laws.

4.3 Management-imposed Limitation

4.3.1 If, after accepting the engagement, the Auditor becomes aware that Management has imposed a limitation on the scope of the audit which, in the opinion of the Auditor, is

likely to result in the need to express a qualified opinion or to disclaim an opinion, the Auditor shall request the Management to remove the limitation.

4.3.2 If Management refuses to remove the limitation, the Auditor shall communicate the matter to those charged with governance and compliances, unless all of those charged with governance are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

4.3.3 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 of unavailable audit evidence could be non-material, the Auditor shall qualify the opinion; or

(b) If the Auditor concludes that the possible effects of unavailable audit evidence could be material the Auditor shall:

(i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or

(ii) If withdrawal from the audit before issuing the audit report is not practicable or possible, disclaim an opinion.

4.3.4 If the Auditor withdraws as contemplated above, before withdrawing, the Auditor shall communicate to those charged with governance any matters regarding non-compliance identified during the audit that would have given rise to a modification of the opinion.

5. Opinion Paragraph

5.1 When the Auditor modifies the audit opinion, the Auditor shall use the heading "Adverse Opinion," "Qualified Opinion," or "Disclaimer of Opinion," as appropriate, for the opinion paragraph.

5.2 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 and then continue with the opinion and describe reasons in the "Basis for Adverse Opinion" paragraph.

5.3 When the Auditor expresses a qualified opinion, 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 and then continue with the opinion and describe reason in the "Basis for Qualified Opinion" paragraph.

5.4 When the Auditor disclaims an opinion the Auditor shall state in the opinion paragraph the opinion is disclaimed because of the matter described in the "Basis for Disclaimer of Opinion" paragraph and describe reasons in the "Basis for Disclaimer of Opinion" paragraph.

6. Communication with Those Charged with Governance

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. Those charged with the governance, where appropriate, shall be given opportunity to supply further information, explanation and material in respect of the matter(s) giving rise to expected modification.

7. Auditor's Responsibility

The Auditor's report shall include a section with the heading "Auditor's Responsibility". Auditor's Report shall state that the responsibility of the Auditor is to express the opinion on the compliance with the applicable and maintenance of records based on audit. Auditor's Report shall also state that the audit was conducted in accordance with applicable Standards. The Auditor's Report shall also explain that those Standards require that the Auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about level of compliance with applicable laws and maintenance of records.

8. Format of Report

8.1 The report shall be addressed to the appointing authority unless otherwise specified in Audit engagement letter or provided in the applicable law. The report shall be detailed enough to serve its intended purpose, but, it shall avoid unnecessary details. Where specific formats (like MR-3 for Secretarial Audit Report)) are prescribed, those formats shall be followed for reporting. If any information cannot be captured within the paragraphs of the report, it shall be given in form of annexure(s).

8.2 Signature block shall mention the name of the audit firm, the personal name of the Auditor or both, as appropriate for the particular jurisdiction along with certificate of practice number and the membership number, specifying whether associate or fellow member. The Auditor should clearly mention date and place of signing the report, in case

report is signed by two different persons at on different dates or different places; same should be mentioned in the report.
