

SAM & Company, a Chartered Accountant firm, is in the process of finalising the audit of Health is Wealth Limited which is a Company listed on the Bombay Stock Exchange. Health is Wealth Limited has made its presence felt in over 10 countries, including India, making it a leader in the global fitness industry. It runs a chain of fitness centres that offers energetic group workouts and multiple workout formats to choose from. It also offers the best equipment, knowledgeable staff and personal advice in a welcoming environment.

SAM & Company being a very reputed firm, was appointed for the statutory audit of Health is Wealth Limited. The Engagement Partner CA A and her team of 8 members have conducted the audit in an efficient and effective manner. The senior manager in the team, CA K is of the opinion that they have obtained sufficient appropriate audit evidence, which concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. One of the articled clerks, Mr. N, is a fresher and this audit is his first experience as an auditor in a limited company. He is a sharp boy and has grasped all the concepts and techniques very well. However, the term "pervasive" confused him so CA K patiently explained to Mr. N the pervasive effects on the financial statements as per the auditor's judgement. He explained that - Pervasive effects on the financial statements are those that, in the auditor's judgement:

- (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.
- (iv) Are confined to specific elements, accounts or items of the financial statements.

Mr. N understood the term well and thanked CA K for clearing all his doubts.

CA A disagreed with CA K that they have obtained sufficient appropriate audit evidence, which concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. So, the entire team held various meetings and discussions, and finally reached to a conclusion. They concluded that they have obtained reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion took into account:

- (a) Whether sufficient appropriate audit evidence had been obtained.
- (b) Whether uncorrected misstatements were material, individually or in aggregate.
- (c) The evaluations.

The Auditor's Report was prepared in writing and it was decided that an unmodified opinion would be expressed. The first section of the auditor's report included the auditor's opinion and had the heading "Opinion". Following the Opinion section was a section with the heading "Basis for Opinion". When expressing an unmodified opinion on financial statements, the auditor's opinion used the following phrase,

"In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]."

During the audit, the audit team had observed that there was uncertainty in Health is Wealth Limited relating to the future outcome of a regulatory action. So, a paragraph was included in the auditor's report that referred to this matter which was appropriately disclosed in the financial statements and that, in the auditor's judgment, was of such importance that it was fundamental to users' understanding of the financial statements.

CA A also determined whether the financial statements included the comparative information required by the applicable financial reporting framework and whether such information was appropriately classified. One team member, Mr R was curious to know whether the auditor's opinion referred to the corresponding figures or not, whenever the corresponding figures are presented. CA A explained the circumstances to Mr R in which, when the corresponding figures are presented, auditor's opinion referred to the corresponding figures.

Based on the above information, answer the following questions:

CA K explained to Mr. N the pervasive effects on the financial statements in the auditor's judgement. Which of the following combination best answers as explained by CA K ?

- (a) (i) and (ii)
- (b) (ii) and (iii)
- (c) (iii) and (iv)
- (d) (i), (ii) and (iii)

When expressing an unmodified opinion on financial statements, SAM & Company used the following phrase:

'In our opinion, the accompanying financial statements **give a true and fair view of** [...] in accordance with [the applicable financial reporting framework]."

Which is the other phrase which is regarded as being equivalent to the above phrase and could also be used by SAM & Company?

- (a) In our opinion, the accompanying financial statements give a true and correct view of [...] in accordance with [the applicable financial reporting framework];
- (b) In our opinion, the accompanying financial statements present correctly, in all material respects, [...] in accordance with [the applicable financial reporting framework];
- (c) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework];
- (d) In our opinion, the accompanying financial statements give a correct and fair view of [...] in accordance with [the applicable financial reporting framework].

Which of the following statements is not included in the section with the heading "Basis for Opinion" in the Auditor's Report?

- (a) Audit was conducted in accordance with the Accounting Standards.
- (b) Auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
- (c) Description of the auditor's responsibilities under the SAs.
- (d) States whether the auditor believes that the audit evidence the auditor has obtained, is sufficient and appropriate to provide a basis for the auditor's opinion.

A paragraph was included in the Auditor's Report of Health is Wealth Limited that referred to a matter which was appropriately disclosed in the financial statements that, in the auditor's judgment, was of such importance that it was fundamental to users' understanding of the financial statements. What is this section of the Auditor's Report called?

- (a) Other Matters.
- (b) Emphasis of Matters.
- (c) Key Audit Matters.
- (d) Auditor's Responsibilities for the Audit of the Financial Statements.

CA A explained the circumstances to Mr. R in which, when the corresponding figures are presented, auditor's opinion referred to the corresponding figures. Which of these circumstances did he mention to Mr. R?

- (a) If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which a modified opinion has been previously issued.
- (b) If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is resolved.
- (c) Prior Period Financial Statements are audited by another auditor.
- (d) Prior Period Financial Statements not audited.

Answer	
(d)	(i), (ii) and (iii)
(c)	In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework];
(a)	Audit was conducted in accordance with the Accounting Standards.
(b)	Emphasis of Matters.
(d)	Prior Period Financial Statements not audited.