

## ANNOUNCEMENT<sup>1</sup>

### **Manner of Disclosure in the Auditor's Report of the Fact of Inclusion of Unaudited Financial Statements/ Information of Component/s in the Financial Statements Audited by the Principal Auditor(s)**

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1. An independent auditor of the financial statements of an entity may, at times, need to rely upon work of the other auditors. For example, in an audit of the stand alone financial statements of an entity the independent auditor thereof (the Principal Auditor) may need to rely upon the financial statements of the entity's component/s such as branch/es, division/s, etc., which have been audited by other independent auditor/s. Similarly, in an audit of the consolidated financial statements of a group, the independent auditor thereof (the Principal Auditor), may need to rely upon the work of the independent auditors of the components of the group such as subsidiary/ies, joint venture/s, associate/s, etc., whose audited financial statements/ information have been included in the consolidated financial statements and have been audited by their respective independent auditors (the Component Auditors).
2. There may also be a situation where the financial statements of one or more components included in the stand alone financial statements of an entity/ consolidated financial statements of a group have not been audited either by the Principal Auditor or the Component Auditor/s.
3. Members have sought guidance on the appropriate manner of disclosure of information in the independent auditor's report of the Principal Auditor about the fact that the financial statements/ information pertaining to certain/ all components, included in the stand alone financial statements of an entity/ consolidated financial statements of a group are unaudited.
4. The Council at its 331st meeting held on 10<sup>th</sup> February, 2014 considered the above matter and decided as under:

**Situation 1** Component/s is/ are unaudited and such component/s is/ are not material to the financial statements of the entity/ consolidated financial statements of the Group

**Situation 2** Component/s is/ are audited by auditor/s other than the Principal Auditor and such component/s is/ are not material to the financial statements of the entity/ consolidated financial

#### **Disclosures in the Principal Auditor's Report**

The principal auditor may or may not disclose the fact of such component/s in the Principal Auditor's report. In case the Principal Auditor decided to make such disclosure, the same would be done under the "Other Matters" paragraph, pursuant to SA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*. An illustrative manner of reporting is given in Illustration 2 in the

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<sup>1</sup> This announcement has been issued by Auditing and Assurance Standards Board under the authority of the Council of ICAI. ([http://www.icaai.org/new\\_post.html?post\\_id=662&c\\_id=38](http://www.icaai.org/new_post.html?post_id=662&c_id=38))

statements of the Group

Appendix to SA 706.

**Situation 3**

Component/s is/ are audited by auditor/s other than the Principal Auditor and such component/s is/ are material to the financial statements of the entity/ consolidated financial statements of the Group

The principal auditor would need to disclose the fact of such component/s in the Principal Auditor's report. Such disclosure would be done under the "Other Matters" paragraph, pursuant to SA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*. An illustrative manner of reporting is given in Illustration 2 in the Appendix to SA 706.

**Situation 4**

Component/s is/ are unaudited and such component/s is/ are material to the financial statements of the entity/ consolidated financial statements of the Group

The Principal Auditor needs to consider its/ their impact on the auditor's opinion on the financial statements of the entity/ consolidated financial statements of the group, in terms of the principles laid down in SA 705, *Modifications to the Opinion in the Independent Auditor's Report*.

5. Further, in case of the auditor's reports of the statutory central auditors, the manner of disclosure about the audited/ unaudited components as given in the illustrative formats of the auditor's report in the Guidance Note on Audit of Banks would continue to apply.