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GUIDANCE NOTE ON REVISION OF THE AUDIT REPORT

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Handbook of Auditing Pronouncements-II

Foreword

The Institute has already issued two Guidance Notes on the subject, namely Guidance Note on Auditor's Report on Revised Accounts of Companies Before Circulation to Shareholders' and 'Revision/Rectification of Financial Statements'. However, both these Guidance Notes are applicable to a situation wherein the accounts were revised by the management and these Guidance Notes do not deal with the situations when accounts were revised by the management because when certain facts came to the knowledge of the auditor which were prevailing on the date of signing of audit report or the course of action which an auditor can adopt. In some cases even after the adoption of accounts by the AGM, the management proposes revision and approaches the auditor for the issuance of a revised report. While appreciating the various situations as emerging out across the globe, the Council considers that members need guidance regarding revision of the audit report if the same has been issued, in case the auditors consider necessary to do so. A revision of audit report may be warranted in other instances involving reasons such as apparent mistakes, wrong information about facts, subsequent discovery of facts existing at the date of the audit report etc. The nature and range of instances may vary from one enterprise to another depending upon facts and circumstances.

The Committee on Ethical Standards & Unjustified Removal of Auditors (CESURA) has done a commendable job while recommending the Guidance Note on revision of Audit Report to the Council and this Guidance Note has far reaching implications to uphold the standing of the profession in the public esteem and transparency in the system.

I compliment all the members and officials of the Committee on Ethical Standards & Unjustified Removal of Auditors and particularly Shri Sunil Goyal, Chairman, Shri R.C. Chandiwala, Vice-Chairman who spared no efforts to analyse categorically and address all the aspects involved in the matter and came out with a guidance note on the subject.

I am confident that this Guidance Note would guide the members in discharging their responsibilities towards the profession and the society at large.

Place: New Delhi
Date: 6th January, 2003

ASHOK CHANDAK
President

Guidance Note on Revision of the Audit Report

Preface

The audit report issued by the auditor is a very important document as stakeholders, Government agencies and public at large rely upon the same in analyzing the financial health of any entity. An auditor holds out his opinion about the entity to the public at large by way of his audit report. This also makes him accountable under the Code of Ethics for any lapses on his part. Being a document of such a great importance, members of profession are expected to, and do take great care in preparation and issuance of the same. However, in certain circumstances, the revision of audit report becomes necessary due to apparent mistakes or factual inaccuracies. This Guidance Note aims to provide procedure to be followed by the members for revision of the audit report. It also confirms that the audit report once issued cannot be withdrawn. However, it may be revised as per the procedure laid down in this Guidance Note. It is felt that this Guidance Note would enhance the confidence of public in independence of the profession.

I wish to place on record my sincere thanks to the Shri R.C. Chandiwala, Vice-Chairman and other members and invitees of the Committee on Ethical Standards & Unjustified Removal of Auditors (CESURA) for their considered views, whole-hearted support and co-operation for the preparation of the Guidance Note. I also sincerely thanks to Shri Ashok Chandak, President and Shri R. Bupathy, Vice-President of the Institute for their encouragement and guidance in the publication of the Guidance Note. I extend my thanks to Dr. Ashok Haldia, Secretary of the Institute for his valued views and co-operation in the matter.

I wish to convey my sincere thanks to Shri Vijay Kapur, Secretary, Auditing & Assurance Standards Board who prepared the basic draft of the document and for his valued contribution.

I compliment Shri G.D. Khurana, Director (Legal), Dr. Alok Ray, Secretary to the Committee and other officials of the Committee for their devoted co-operation and secretarial assistance.

I am sure that this Guidance Note will be of immense help to the members in discharging their onerous responsibilities as well as to ensure the independence and ethical standards in the profession.

Place: Jaipur
Date: January 1, 2003

SUNIL GOYAL
CHAIRMAN
Committee on Ethical Standards and
Unjustified Removal of Auditors

Introduction

1. This Guidance Note aims to provide guidance to members regarding revision of the audit report after the same has been issued, in case the auditor considers necessary to do so. It lays down the procedures to be followed by the auditor who, subsequent to the date of his report, becomes aware that facts may have existed at that date which might have affected his report had he been aware of such facts at the time of issuance of the audit report. Accordingly, this Guidance Note does not apply to situations arising from developments occurring after the date of the audit report; neither does it apply to situations where, after issuance of the audit report, final determinations or resolutions are made of contingencies or other matters which had been disclosed in the financial statements or which had resulted in qualification/ disclaimer/ adverse opinion in the original audit report.

2. A revision of the audit report may be warranted in several instances involving reasons such as apparent mistakes, wrong information about facts, subsequent discovery of facts existing at the date of the audit report, etc. The nature and range of instances may vary from one enterprise to another depending upon facts and circumstances. As it encompasses variety of conditions which might be encountered, these procedures are set out only in general terms for guidance of members and for having uniform approach in such cases. Members are advised to exercise professional judgement depending upon the actual facts and circumstances of the case.

3. The revision of the audit report would mean issuing a revised audit report as per procedure hereafter provided. The auditor under no circumstances is permitted to withdraw in any manner whatsoever the audit report once issued. However, the auditor may take steps to prevent reliance on the audit report issued by him in the manner hereafter provided.

4. It must be appreciated that the revision of the audit report is a matter of great significance since confidence of the stakeholders rests on the opinion expressed by the auditor in the audit report. The Guidance Note recognises that though the instances of revision of the audit report may be rare in actual practice, members are expected to exercise care and caution in view of the significance of the matter. Such a step on the part of the auditor not only demonstrates the independence of auditor to act in a free and fair manner but would also enhance confidence of the public at large in the profession.

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5. It is clarified that revision of audit report does not absolve the member from the professional misconduct, if any, committed by him.

6. The Framework for SAPs and Guidance Notes on Related Services issued by the Institute of Chartered Accountants of India distinguishes between audit and related services. As per the Framework, related services comprise of reviews, agreed-upon procedures and compilation. This Guidance Note is applicable whenever an audit or related services is carried out. Therefore, the reference to the "audit report" includes any report that may be issued pursuant to audit or related services rendered to the entity. It may be noted that reference to financial statements in the Guidance Note may be construed as reference to financial or other such statements which may be the subject matter of report.

7. It may be clarified that the auditor has no obligations to perform auditing procedures or make any enquiry regarding the audited financial statements after the auditor has signed the report. The responsibility to inform the auditor, of such facts which existed on the date of the report, primarily rests with management. However, the auditor may come to know of such facts through other sources also.

Revision of Financial Statements by Management

8. As stated above, the management is expected to inform the auditor of any facts which existed on the date of the audit report which may affect the financial statements. When auditor becomes aware of such facts which may affect the financial statements, the auditor may consider whether the financial statements need amendment and discuss the matter with the management and may advise the management to revise the financial statements. When management agrees with the auditor's suggestion and decides to revise the financial statements then while reporting on such revised financial statements, members are expected to follow the Guidance Note on Audit Report on Revised Accounts of Companies Before Circulation of Shareholders. Members may not that the said Guidance Note also deals with the manner of revising the audit report under circumstances mentioned therein. Further, members' attention is also invited to the Guidance Note on Revision/Rectification of Financial Statements dealing with auditor's responsibility in case of revision/rectification of balance sheet and profit and loss account of a company already adopted by the company at its annual general meeting.

Revision of the Audit Report

9. When an auditor considers that:

- ◆ amendment in financial statements is not warranted, or
- ◆ when he advises amendment to financial statements as above
- ◆ but the management does not intend to revise the same, or
- ◆ when management agrees for revision in financial statements but is unable to do so despite its bonafide intentions but management extends its cooperation to the auditor and agrees to ensure that anyone in receipt of the previously issued financial statements together with the audit report thereon is informed of the situation and would be issued the revised audit report, the auditor may then consider issuing the revised report as under:
- ◆ Refer to the earlier report issued by the auditor on the financial statements; and

State the Reasons for Revising the Report

10. In case of corporate entities, the auditor may consider revising the report till the accounts are adopted at annual general meeting. But in case of entities which are not required to adopt accounts by any such body, the auditor may consider revision of the audit report within a reasonable time having regard to prevailing circumstances but not later than issuance of the audit report for the accounts of immediately next accounting period.

11. A situation may also arise where the auditor is a continuing one, the auditor may consider that it may not be necessary to revise the financial statements and issue a revised report in view of the fact that appropriate disclosures are made in the financial statements to be released pertaining to the immediate following period when such situation is imminent.

Preventing Reliance on the Audit Report

12. When management neither agrees for revision of financial statements as laid down in para 8 nor takes steps as narrated in para 9 above, the auditor would notify those persons ultimately responsible for the overall direction of the entity that action will be taken by the auditor to prevent future reliance on the audit report. The steps that can appropriately be taken will depend upon

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the degree of certainty of the auditor's knowledge that there are persons who are currently relying or who will rely on the financial statements and the audit report, and who would attach importance to the information and the auditor's ability as a practical matter to communicate with them. The action taken will depend on the auditor's legal rights and obligations and the recommendations. In appropriate circumstances the auditor may consider seeking legal advice. The auditor may take the following steps to the extent applicable:

- (a) Notify the client that the audit report must no longer be associated with the financial statements.
- (b) Notify Regulatory Agencies having jurisdiction over the client that the audit report should no longer be relied upon. The Registrar of Companies, the Securities and Exchange Board of India, Reserve Bank of India, Income-tax Department, Insurance Regulatory and Development Authority or any other Governmental Regulatory body are appropriate agencies for this purpose as to entities within their jurisdiction.
- (c) Making an appropriate statement at the annual general meeting, if requested by the Chairman.

Withdrawal from Engagement

13. When management neither agrees to revise the financial statements nor agrees to ensure that anyone in receipt of the previously issued financial statements and audit report thereon will be informed of the situation and would be issued revised audit report, the auditor may also conclude that withdrawal from the further engagement with the entity is necessary. Factors that would affect the auditor's conclusion include the implications of the involvement of the highest authority within the entity which may affect the reliability of management representations, and the effects on the auditor of continuing association with the entity. In appropriate circumstances, the auditor may consider seeking legal advice.

14. In case of an auditor being a partnership firm, it is recommended that the partner who signed the original audit report, should also sign the revised report or the letter indicating preventing reliance on the audit report, as the case may be. In case of signing by any other partner, the reasons thereof should be stated.