

Summary of Engagement and Quality Control Standards

Introduction

- In 1955, the Council set up the Research Committee.
- In 1964, the Council published the “Statement on Auditing Practices” as prepared by the Research Committee.
 - 1) Statements on Qualifications in Auditor’s Report
 - 2) Statement on MAOCARO
 - 3) Statement on Responsibilities of Joint Auditors
 - 4) Statement on Payments to Auditors for Other Services
- IFAC set up in 1977 to bring harmony in profession of accountancy.
- IFAC established the IAASB.
- ICAI is member of IFAC
- ICAI constituted the APC in 1982.
- In July, 2002, the APC has been converted into an AASB by the Council of the Institute.
- AASB of ICAI develops Statements on AAS & Guidance Notes. They are issued under authority of Council of ICAI.
- In 2007, the AAS are renamed it to **Engagement and Quality Control Standards**, viz.,
 - a) SAs - Audit of historical financial information
 - b) SREs - Review of historical financial information
 - c) SAEs - Audit of assurance engagements other than historical financial information
 - d) SRSs - Engagements to apply agreed upon procedures & other related services engagements such as compilation engagements.

Bifurcation of Numbers of Engagement and Quality Control Standards:

1 – 99	Standards on Quality Control (SQC)
100 – 899	Standards on Auditing
2000 – 2699	Standards on Review Engagements
3000 – 3699	Standards on Assurance Engagements
4000 – 4699	Standards on Related Services

Bifurcation of Numbers of Standards on Auditing:

100-199	Introductory Matters
200-299	General Principles and Responsibilities
300 – 499	Risk Assessment and Response to Assessed Risks
500 – 599	Audit Evidence
600 – 699	Using Work of Others

700 – 799 Audit Conclusions and Reporting

800 – 899 Specialized Areas

Various Things issued by ICAI

- **Statements** - Issued with a view to securing compliance by members on matters which in the opinion of the council of the institute are critical for the proper discharge of their functions. They are mandatory. With the introduction of standards, statements are no longer valid for that topic.
- **General Clarifications** – Issued by the Board under the authority of the council of institute with a view to clarify any issues arising from standards. They are mandatory.
- **Guidance Notes** – Issued to assist professional accountants in implementing the Engagement Standards & the Standards on Quality Control issued by the AASB under the authority of the Council. They are for guidance not compulsory.
- **Technical Guides** are ordinarily aimed at imparting broad knowledge about a particular aspect or of an industry to the professional accountants.
- **Practice Manuals** are aimed at providing additional guidance to professional accountants in performing audit & other related assignments.
- **Studies & other papers** are aimed at promoting discussion or debate or creating awareness on issues relating to quality control, auditing, assurance & related service, affecting the profession.
- Technical Guides, Practice Manuals and Other Papers are issued by AASB directly.

Procedure for Issuing SAs

- AASB determines the broad areas in which the SAs need to be formulated.
- AASB is assisted by Study Groups
- Study Groups prepares an exposure draft of the proposed SA and issued for comments by members of the Institute.
- Based on comments received, the SA is finalised by the AASB and submitted to the Council of the Institute.
- SA is then issued under authority of Council.

SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with SAs

Introduction & Objective	Responsibility of FS, Scope of Audit and Auditor's Req.	Ethical Requirements & Professional Skepticism	Professional Judgement
<p>An audit is the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.</p> <p>Objectives of the Auditor:</p> <ol style="list-style-type: none"> To obtain reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the FS are prepared in accordance with an AFRF; and To report on the FS, and communicate as required by the SAs, in accordance with the auditor's findings. 	<p>Responsibility for preparation of FS is of Mgmt.</p> <p>The scope of an audit will be determined by:</p> <ol style="list-style-type: none"> The terms of the engagement, The requirements of relevant legislation, The pronouncements of the Institute and The legal judgements given by various courts of law. <p>The terms of engagement cannot restrict the scope prescribed by legislation or by pronouncements of the Institute.</p> <p>Auditor's Requirements:</p> <ol style="list-style-type: none"> Ethical Requirements Relating to an Audit of Financial Statements Professional Skepticism Professional Judgment Sufficient Appropriate Audit Evidence and Audit Risk. 	<p>Ethical requirements comprise of Code of Ethics issued by ICAI.</p> <ol style="list-style-type: none"> Integrity; Objectivity; Professional competence and due care; Confidentiality; and Professional behavior Independence. <p>Professional skepticism is an attitude of auditor where is alert to:</p> <ol style="list-style-type: none"> Contradictory audit evidence. Information - question reliability of document Possible fraud. <p>It reduces risk of:</p> <ol style="list-style-type: none"> Overlooking unusual circumstances. Over generalising. Using inappropriate assumptions in determining NTE and evaluating results. <p>It is necessary to critical assessment of evidence.</p> <p>A belief that management are honest – does not relieve from being Skeptical.</p>	<p>An auditor is required to make professional judgment for decisions about:</p> <ol style="list-style-type: none"> Materiality and audit risk. The NTE of audit procedures required. Evaluating whether sufficient appropriate audit evidence has been obtained Drawing conclusions based on evidence.

SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with SAs

Sufficient Appropriate Audit Evidence and Audit Risk	Conduct of an Audit in Accordance with SAs
<ul style="list-style-type: none">To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level."Audit risk" is the risk that auditor gives inappropriate audit opinion when FS are materially misstated.<ul style="list-style-type: none">a) Inherent riskb) Control riskc) Detection riskAn auditor cannot obtain absolute assurance because of inherent limitations of an audit. These are:<ul style="list-style-type: none">a) The use of judgment,b) The use of test check,c) The inherent limitations of internal control andd) The fact that much of the evidence available to the auditor is persuasive rather than conclusive in nature.The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures. Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. Substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system. They are of two types:<ul style="list-style-type: none">a) Tests of details of transactions and balances;b) Analytical Procedures	<p>Complying with SAs Relevant to the Audit The auditor shall comply with all SAs relevant to the audit.</p> <p>Objectives Stated in Individual SAs To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant SAs in planning and performing the audit</p> <p>Complying with Relevant Requirements The auditor shall comply with each requirement of an SA unless, in the circumstances of the audit:<ul style="list-style-type: none">a) The entire SA is not relevant; orb) The requirement is not relevant because it is conditional and the condition does not exist.</p> <p>In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement.</p> <p>Failure to Achieve an Objective Modify the auditor's opinion or withdraw from the engagement.</p>

SA 210 - Agreeing the Terms of Audit Engagement

Introduction	Preconditions for an Audit	Audit Engagement Letter	Management Request for Change in Engagement
<p>The auditor and the client should agree on the terms of the engagement.</p> <p>The agreed terms would need to be recorded in an audit engagement letter.</p>	<ol style="list-style-type: none"> 1) Use by management of an AFRF in the preparation of the FS; and 2) Agreement of management and, where appropriate, TCWG to the premise (basis) on which an audit is conducted. <p>Limitation on Scope Prior to Audit Engagement Acceptance:</p> <p>Auditor believes the limitation will result in the auditor disclaiming an opinion, then he shall not accept such an engagement</p>	<p>Letter written by the auditor to his client.</p> <p>Principal Contents:</p> <ol style="list-style-type: none"> a) The objective and scope of the audit; b) The responsibilities of the auditor; c) The responsibilities of management; d) Identification of AFRF for the preparation of FS; and e) Reference to the expected form and content of any reports to be issued by the auditor. <p>Additional Matters can be added.</p> <p>If law or regulation prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies</p>	<ul style="list-style-type: none"> • If providing lower level of assurance, then consider the appropriateness of reason. • Where the terms of the engagement are changed, the auditor and the client should agree on the new terms. • Before agreeing to change, an auditor would consider any legal or contractual implications of the change. • The report would not include reference to the original engagement. • If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor shall withdraw from the audit engagement.

SA 220 - Quality Control for Audit Work

Introduction	Definitions	Requirements	Engagement Quality Control Review
<p>Quality control systems, policies and procedures are the responsibility of the audit firm.</p> <p>Objective: To provide the auditor with reasonable assurance that:</p> <p>a) The audit complies with professional standards and regulatory and legal requirements; and</p> <p>b) The auditor's report issued is appropriate in the circumstances.</p>	<p>a) Engagement partner: the partner or other person in the firm who is a member of ICAI and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm.</p> <p>b) Engagement quality control review (EQCR): a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.</p>	<p>Leadership Responsibilities for Quality on Audits</p> <p>Relevant Ethical Requirements</p> <p>Independence</p> <p>Acceptance and Continuance of Client Relationships and Audit Engagements</p> <p>Assignment of Engagement Teams</p> <p>Engagement Performance</p> <p>1) Direction, Supervision and Performance</p> <p>2) Reviews</p> <p>3) Consultation</p> <p>4) Engagement Quality Control Review</p> <p>Monitoring</p>	<p>For audits of listed entities, and those other audit engagements for which the firm has determined that an EQCR is required, the engagement partner shall:</p> <p>a) Determine that an EQCRer has been appointed;</p> <p>b) Discuss significant matters arising during the audit engagement with the EQCRer; and</p> <p>c) Not date the auditor's report until the completion of the EQCR.</p> <p>EQCRer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report.</p>

SA 230 - Documentation

Nature and Purposes	Documentation of the Audit Procedures Performed and Audit Evidence Obtained	Other Points
<p>Documentation means the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.</p> <p>Audit documentation provides:</p> <ol style="list-style-type: none"> a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. <p>Additional purposes:</p> <ul style="list-style-type: none"> • Assisting the engagement team to plan and perform the audit. • Enabling the engagement team to be accountable for its work. • Retaining a record of matters of continuing significance to future audits. • Enabling the conduct of external inspections. 	<p>Form, Content and Extent of Audit Documentation</p> <ul style="list-style-type: none"> • Such that an experienced auditor, having no connection with audit, is able to understand: <ol style="list-style-type: none"> a) The NTE of the audit procedures performed; b) The results of the audit procedures performed, and the audit evidence obtained; and c) Significant matters arising during the audit, the conclusions reached thereon. • The form and content of working papers are affected by: <ol style="list-style-type: none"> a) The nature of engagement. b) The form of auditor's report. c) The nature and complexity of the client's business. d) The nature and condition of the client's records and degree of reliance on internal controls. e) The needs in particular circumstances for direction, supervision and review of work performed by assistants. • Also record: <ol style="list-style-type: none"> a) Who performed the audit work and it's date; and b) Who reviewed the audit work and it's the date. c) Departure from Requirements from SA. 	<p>Working papers are prepared at each and every stage of audit.</p> <p>Classification of Working Papers</p> <ol style="list-style-type: none"> 1) Permanent audit file 2) Current audit file <p>Assembly of the Final Audit File:</p> <p>Within 60 days (SQC-1) after the date of the auditor's report.</p> <p>Auditor should preserve these working papers for seven years from the date of Auditors Report (SQC-1)</p>

SA 240 - Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Fraud & Error and it's Responsibility	Objectives	Auditor's duties
<p>Error refers to an unintentional misstatement in FS.</p> <p>Fraud refers to an intentional act by one or more individuals among management, TCWG, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.</p> <p>The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional.</p> <p>Responsibility for detection of Frauds & Errors:</p> <ul style="list-style-type: none"> The primary responsibility for the prevention & detection of frauds & errors rests with <ul style="list-style-type: none"> a) Those charged with governance; and b) The management of an entity. The responsibility of the management includes implementing & ensuring the continued operation of accounting and internal control systems, which are designed to prevent and detect frauds and errors. 	<ul style="list-style-type: none"> a) To identify and assess the risks of material misstatement in FS due to fraud; b) To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and c) To respond appropriately to identified or suspected fraud. 	<ul style="list-style-type: none"> To obtaining reasonable assurance that FS taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of FS may not be detected. Risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. The auditor is responsible for maintaining professional skepticism throughout the audit. <p>The auditor shall:</p> <ul style="list-style-type: none"> Consider the risk of material misstatements in FS resulting from the fraud, while planning and performing audit. Discuss with other members of the audit team Make the enquiries of the management as to whether they are aware of any fraud that has affected the organisation Evaluate unusual or unexpected relationships Based on assessment of inherent and control risks, he should design substantive procedures to reduce detection risk to an acceptably low level

SA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements

Introduction	Responsibility of Management	Responsibility of the Auditor
<p>The management is required to consider the requirements of various laws and regulations in preparation and presentation of FS. For example, Companies Act, Income Tax Act, Excise Act, Customs Act, Banking Act etc.</p> <p>An audit cannot be expected to detect non-compliance with all laws and regulations.</p> <p>Indications that Non-compliance may have Occurred:</p> <ul style="list-style-type: none">• Investigation by government departments or payment of fines or penalties.• Payments for unspecified services to consultants, related parties or government employees.• Purchases at prices significantly above or below market price.• Unusual payments in cash and other unusual transactions.• Unusual transactions with companies registered in tax havens (tax free countries like Dubai, Singapore, Mauritius etc.).• Unauthorised transactions or improperly recorded transactions.	<ul style="list-style-type: none">• The responsibility for the prevention and detection of non-compliance rests with management.• The following policies and procedures may help the management in prevention and detection of non compliance with laws and regulations:<ul style="list-style-type: none">a) Monitoring legal requirements.b) Proper training and understanding of laws and regulations to employeesc) Taking timely and appropriate action with defaulting employees.d) Establishing appropriate systems of internal controls.e) Establishing a legal department.	<p>The auditor is responsible for obtaining reasonable assurance.</p> <p>In conducting an audit of FS, the auditor takes into account the applicable legal and regulatory framework.</p> <p>Under this SA, auditor shall:</p> <ul style="list-style-type: none">a) obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations which has direct effect on the determination of amounts and disclosures in FS;b) Perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have material effect on FS. Specified Audit Procedures include Inquiries with Management and Inspecting correspondence with regulatory authorities. <p>Procedures when Non-compliance is Discovered:</p> <p>Obtain an understanding of the nature of the act and the circumstances in which it has occurred, and sufficient other information to evaluate the possible effect on FS.</p> <p>Withdrawal from the Engagement:</p> <p>May withdraw, when the entity does not take the remedial action that the auditor considers necessary, even when the non-compliance is not material to FS.</p>

SA 260 - Communication of Audit Matters with those Charged with Governance

Introduction	Relevant Persons and Matters	Forms of Communication
<p>The auditor should communicate audit matters of governance interest arising from the audit of FS with TCWG of an entity.</p> <p>Those charged with governance: The person with responsibility for overseeing the strategic direction of the entity (generally, top level management).</p> <p>Management – The person(s) with executive responsibility for the conduct of the entity's operations (generally, middle & lower level management).</p>	<p>Relevant Persons with whom audit matters of governance interest are to be communicated, will be based on following factors:</p> <ol style="list-style-type: none"> a) Governance Structure of the entity. b) Circumstances of engagement c) Legal requirements d) Specific Audit matters <p>Audit Matters to be communicated may include:</p> <ol style="list-style-type: none"> a) The responsibilities of the auditor in relation to audit of FS. b) The general approach and overall scope of the audit; c) The selection of or changes in, significant accounting policies; d) The potential effect of any significant risks, such as pending litigation, that are required to be disclosed in FS; e) Adjustments to financial statements arising out of audit; f) Material uncertainties that casts doubt on entity's ability to continue as a going concern; g) Disagreements with management on significant matters. h) Expected modifications to the auditor's report; i) Fraud involving management; 	<ul style="list-style-type: none"> • Orally or in Writing. When audit matters of governance interest are communicated orally, the auditor should document in the working papers the matters communicated and any responses to those matters. • To avoid misunderstandings, an audit engagement letter may: <ol style="list-style-type: none"> a) Describe the form; b) Identify the relevant persons with whom such communications will be made; c) Identify any specific audit matters of governance interest which is to be communicated. • Communication between the auditor and TCWG cannot be regarded as a substitute for such qualified, adverse or disclaimer of opinion.

SA 265 - Communicating Deficiencies in Internal Control to TCWG and Management

Introduction	Significant deficiency in internal control	Requirements
<p>The auditor should communicate appropriately to TCWG and management, deficiencies in internal control that the auditor has identified during the audit.</p> <p>This SA does not impose additional responsibilities on the auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of SA 315 and SA 330.</p> <p>Deficiency in internal control:</p> <p>This exists when:</p> <ul style="list-style-type: none"> (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or (ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing. 	<p>Significant deficiency is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of TCWG.</p> <p>Indicators of Significant Deficiencies:</p> <ol style="list-style-type: none"> 1) Evidence of ineffective aspects of the control environment, such as management interested transactions are not being appropriately scrutinised. 2) Absence of a risk assessment process within the entity. 3) Evidence of an ineffective response to identified significant risks (e.g., absence of controls over such a risk). 4) Misstatements detected by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control. 5) Disclosure of a material misstatement due to error or fraud as prior period items. 	<ul style="list-style-type: none"> • If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, whether, individually or in combination, they constitute significant deficiencies. • The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to TCWG on a timely basis. • The auditor shall include in the written communication of significant deficiencies in internal control: <ol style="list-style-type: none"> a) A description of the deficiencies and an explanation of their potential effects; and b) Sufficient information to enable those charged with governance and management to understand the context of the communication. c) In explaining the potential effects of the significant deficiencies, the auditor need not quantify those effects. He may include suggestions for remedial action.

SA 299 - Responsibility of Joint Auditors

Introduction	Relationship among Joint Auditors	Reporting Responsibilities
<p>Joint audit refers to audit of financial statements of business by more than one auditor.</p> <p>This SA does not deal with the Branch Auditors.</p> <p>Division of Work</p> <ul style="list-style-type: none">Where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves.<ul style="list-style-type: none">a) Geographical basis: East, West, North & South or State wise etc.b) Functional basis: Purchase, Sales, Production, Marketing, Selling etc.c) Financial statement basis: Profit & Loss Account & Balance Sheetd) Time period basisThe division of work among joint auditors should be adequately documented and preferably communicated to the entity.	<p>For audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him.</p> <p>On the other hand, all the joint auditors are jointly and severally responsible:</p> <ul style="list-style-type: none">a) In respect of the audit work which is not divided;b) In respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by the joint auditors.c) In respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;d) For examining that the FS comply with the disclosure requirements of the relevant statute; ande) For ensuring that the audit report complies with the requirements of the relevant statute. <p>When within the area of one joint auditor, if someone is appointed as branch auditor or expert, then it will be his own authority and responsibility and for that other joint auditor will not be held responsible.</p>	<p>Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report.</p> <p>A joint auditor is not bound by the views of the majority.</p>

SA 300 - Audit Planning

Objective	Preliminary Engagement Activities	Overall Audit Strategy	Audit Plan
<p>The Objective of the Auditor is to plan the audit so that it will be performed in an Effective and Timely Manner.</p> <p>Planning ensures that:</p> <ul style="list-style-type: none"> a) Appropriate attention is devoted to important areas of the audit; b) Potential problems are promptly identified; c) Work is completed properly and in time; d) Assistants are utilised properly; and e) Work done by other auditors and experts is co-ordinated. 	<p>The auditor shall undertake the following activities at the Beginning of the Current Audit Engagement:</p> <ul style="list-style-type: none"> a) Performing procedures required by SA 220, regarding continuance of the client relationship; b) Evaluating compliance with ethical requirements, including independence, as required by SA 220; and c) Understanding of the terms of engagement, as required by SA 210. <p>Audit Planning includes:</p> <ul style="list-style-type: none"> a) Developing an overall audit strategy for the expected scope and conduct of the audit; and b) Developing an audit plan / programme showing the nature, timing and extent of audit procedures. 	<p>In establishing the overall audit strategy, the auditor shall:</p> <ul style="list-style-type: none"> a) Identify the characteristics of the engagement that define its scope; b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required; c) Consider the important areas that would require more efforts of the engagement team; d) Consider the results of preliminary engagement activities; and e) Ascertain the nature, timing and extent of resources necessary for the engagement. 	<p>The auditor shall develop an audit plan that shall include a description of:</p> <ul style="list-style-type: none"> a) The NTE of planned risk assessment procedures, as per SA 315. b) The NTE of planned further audit procedures at the assertion level, as per SA 330. c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs. d) The NTE of direction and supervision of engagement team members and the review of their work. <p>Revision of Audit Plan:</p> <p>Planning should be continuous throughout the engagement. Also plans should be revised as and when necessary during the course of audit.</p>

SA 315 - Identifying & Assessing the Risk of Material Misstatement by Understanding the Entity & its Environment

Objective and Definitions	Requirements	Understanding of the Entity and Its Environment, Including the Entity's Internal Control
<p>Objective of Auditor:</p> <ul style="list-style-type: none"> Is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control. It would provide a basis for designing and implementing responses to the assessed risks of material misstatement. This will help the auditor to reduce the risk of material misstatement to an acceptably low level. <p>Definitions:</p> <p>a) Risk assessment procedures: The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.</p> <p>b) Significant risk: An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.</p>	<p>Steps:</p> <ol style="list-style-type: none"> 1) Risk Assessment Procedures and Related Activities 2) Discussion among the Engagement Team 3) The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control <p>After the above steps, the auditor is able to identify the 4th and 5th Step.</p> <ol style="list-style-type: none"> 4) Identifying and Assessing the Risks of Material Misstatement at the financial statement and assertion levels. 5) Risks that Require Special Audit Consideration. Here, auditor considers: <ol style="list-style-type: none"> a) Whether the risk is a risk of fraud; b) Whether the risk is related to recent significant economic, accounting, or other developments; c) The complexity of transactions; d) Whether the risk involves significant transactions with related parties; e) The degree of subjectivity in the measurement of financial information; and f) Whether the risk involves significant unusual transactions. 6) Revision of Risk Assessment 	<p>The Entity and Its Environment</p> <ul style="list-style-type: none"> Relevant industry, regulatory, and other external factors including the AFRF. The nature of the entity, including: <ol style="list-style-type: none"> a) Its operations; b) Its ownership and governance structures; c) The types of investments; and d) The way that the entity is structured and how it is financed; The entity's selection and application of accounting policies. The entity's objectives and strategies. The measurement and review of the entity's financial performance. <p>Components of Internal Control</p> <ol style="list-style-type: none"> 1) Control environment 2) The Entity's Risk Assessment Process 3) The information system, relevant to financial reporting, and communication. 4) Other Control activities relevant to the audit 5) Monitoring of controls

SA 320 - Materiality in Planning and Performing an Audit

Introduction and Objective

- Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users of financial information.
- Materiality should be considered by the auditor when:
 - a) Determining the nature, timing and extent of audit procedures;
 - b) Evaluating the effect of misstatements.
- Whether the **particular information/item is material can be judged from:-**
 - a) Its size/amount.
 - b) Its nature (Eg. abnormal, non-recurring, extraordinary etc.).
 - c) Its legal requirements (Eg. Securities premium used for payment of dividend).
 - d) Its qualitative materiality (Eg. Fraud committed by managing director of small amount).
 - e) The auditor needs to consider the possibility of misstatements of relatively small amounts that, cumulatively, could have a material effect on the financial information. (Eg. An error of Rs. 10 in calculation of monthly interest in each savings account by Bank).
- The auditor's determination of materiality is a matter of professional judgment.

Requirements

Determining Materiality and Performance Materiality – for financial statements as a whole as well as assertion level(s).

Performance materiality means the amount or amounts set by the auditor at less than materiality level to reduce the detection risk to an acceptably lower level. It is determined for both financial statements as a whole as well as assertion level(s).

Revision as the Audit Progresses:

The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.

SA 330 - The Auditor's Responses to Assessed Risks

Introduction and Objective	Compliance Procedure - Tests of Controls	Substantive Procedures
<p>This SA deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SA 315.</p> <p>The objective of the auditor is to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.</p> <p>Requirements:</p> <p>Overall Responses</p> <p>The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.</p> <p>Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level</p> <p>The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.</p> <p>The above responses are by way of Audit Procedure which is either Compliance Procedures or Substantive Procedures.</p>	<ul style="list-style-type: none"> The auditor shall design and perform tests of controls when: <ul style="list-style-type: none"> a) The auditor intends to rely on controls in determining the NTE of substantive procedures; or b) Substantive procedures alone cannot provide sufficient appropriate audit evidence. <p>Nature and Extent of Tests of Controls:</p> <ul style="list-style-type: none"> The auditor shall obtain evidence about the operating effectiveness of the controls, including: <ul style="list-style-type: none"> (i) How the controls were applied at relevant times during the period under audit. (ii) The consistency with which they were applied. (iii) By whom or by what means they were applied. Controls tested at interim period: Obtain audit evidence about significant changes subsequent to the interim period Controls tested in previous audits: <ul style="list-style-type: none"> a) If there have been changes - test the controls in the current audit. b) No changes - test the controls at least once in every third audit, and somewhat in each audit. Significant risk: test those controls in the current period. 	<ul style="list-style-type: none"> Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. Substantive Procedures Related to the Financial Statement Closing Process: <ul style="list-style-type: none"> a) Agreeing or reconciling the FS with the underlying accounting records; and b) Examining material journal entries and other adjustments. The auditor shall perform substantive procedures that are specifically responsive to significant risks. When substantive procedures are performed at an interim date, the auditor shall cover the remaining period. The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the AFRF. After the Compliance Procedure and Substantive Procedures are done, the auditor shall decide whether sufficient appropriate audit evidence has been obtained.

SA 402 - Audit Considerations Relating to an Entity using a Service Organisation

Introduction and Objective	Requirements
<p>Service organization is a third-party organisation that provides services to user entities that are part of those entities' information systems relevant to financial reporting.</p> <p>Objectives:</p> <p>The objectives of the user auditor, when the user entity uses the services of a service organisation, are:</p> <ul style="list-style-type: none">a) To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; andb) To design and perform audit procedures responsive to those risks. <p>Definitions:</p> <p>Type A – Report on Description and Design of Controls at a Service Organisation</p> <p>Type B – Report on Description, Design, and Operating Effectiveness of Controls at a Service Organisation</p> <p>In Type B report service organisation's auditor would additionally report about operating effectively of internal controls based on the results his tests of control.</p>	<p>Obtaining an Understanding of the Services Provided by a Service Organisation, Including Internal Control:</p> <p>It includes obtaining understanding about:</p> <ul style="list-style-type: none">a) The nature of the services provided by the service organisation and the significance of those services to the user entity;b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;c) The degree of interaction between the activities of the service organisation and those of the user entity; andd) The nature of the relationship between the user entity and the service organisation. <ul style="list-style-type: none">• The user auditor shall evaluate the design and implementation of relevant controls at the user entity that relate to the services provided by the service organisation.• If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures:<ul style="list-style-type: none">a) Contacting the service organisation, through the user entity, to obtain specific information;b) Visiting the service organisation and performing procedures;c) Obtaining a Type 1 or Type 2 report, if available; ord) Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

SA 450 - Evaluation of Misstatements Identified during the Audit

Introduction and Objective

This SA deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements on FS. The auditor's conclusion required by SA 700 takes into account the auditor's evaluation of uncorrected misstatements

Objective:

To evaluate:

- a) The effect of identified misstatements on the audit; and
- b) The effect of uncorrected misstatements, if any, on the financial statements.

Requirements

- The auditor shall **accumulate misstatements** identified during the audit, other than those that are clearly trivial (not material).
- The auditor shall determine whether the **overall audit strategy and audit plan need to be revised** if:
 - a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or
 - b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320 on 'Audit Materiality'.
- The auditor shall determine whether **uncorrected misstatements** are material, individually or in aggregate. In making his determination, the auditor shall consider:
 - a) The size and nature of the misstatements
 - b) The effect of uncorrected misstatements related to prior periods
- The auditor shall **communicate with TCWG** uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report
- The auditor shall request a **written representation** from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial.

SA 500 - Audit Evidence

Introduction	Nature of Assertions & Types of Audit Evidence	Reliability of Audit Evidence	Reliability and Methods of Audit Evidence
<ul style="list-style-type: none"> The auditor should obtain sufficient appropriate audit evidence by performing compliance and substantive procedures to enable him make an opinion on FS. Sufficiency refers to the quantum of audit evidence obtained; appropriateness relates to its relevance and reliability. Factors affecting sufficient appropriate audit evidence: <ol style="list-style-type: none"> The degree of risk of misstatement; The materiality of the item; The experience gained during previous audits; The results of auditing procedures, including fraud or error which may have been found; The type of information available; The trend from ratios and analysis. 	<p>Compliance procedures:</p> <ol style="list-style-type: none"> Existence Effectiveness Continuity <p>Substantive procedures:</p> <ol style="list-style-type: none"> Existence Rights and Obligations Occurrence Completeness Valuation Measurement Presentation and Disclosure <p>Types of Audit Evidence:</p> <ol style="list-style-type: none"> Internal or External Oral or Written. <ul style="list-style-type: none"> Internal evidence is one that has been created, used and retained within the client's organization. Eg: Copy of Sales invoice, Payroll Report. External evidence is one, which originates outside the client's organization. Eg: Purchase Invoice. 	<p>Based on:</p> <ol style="list-style-type: none"> Source - Internal or External Nature - Visual, Documentary or Oral Circumstances under which it is obtained. Nature of assertion obtained and its materiality. <p>Generally,</p> <ol style="list-style-type: none"> External evidence (e.g. confirmation received from a third party) is usually more reliable than internal evidence. Internal evidence is more reliable when related internal control is satisfactory. Written evidence is usually more reliable than oral representations. Evidence obtained by the auditor himself is more reliable than that obtained through the entity. Evidence provided by original documents is more reliable than audit evidence provided by photocopies. 	<ul style="list-style-type: none"> Work of management expert, the auditor shall: <ol style="list-style-type: none"> Evaluate his competence, capabilities and objectivity; Obtain understanding of his work; and Evaluate the appropriateness of his work. If: <ol style="list-style-type: none"> Audit evidence obtained from one source is inconsistent with another; or The auditor has doubts over the reliability of audit evidence. <p>Then, he shall do additional audit procedures or shall modify the report.</p> <p>Methods for obtaining Audit Evidence:</p> <p>Inspection Observation Inquiry and confirmation Computation Analytical review</p>

SA 510 – Initial Engagement – Opening Balances

Introduction	Objective	Requirements
<p>Initial Engagement is an engagement where:</p> <ul style="list-style-type: none">a) FS are audited for first time; orb) FS for P.Y. were audited by another auditor	<p>Auditor should obtain sufficient appropriate Audit Evidence that:</p> <ul style="list-style-type: none">a) Closing Balance of P.Y. has been correctly brought forward;b) The opening balance does not contain a material mis-statement;c) Accounting policies are consistently followed	<ul style="list-style-type: none">1) Audit Procedures:<ul style="list-style-type: none">• Read most recent FS for checking whether they are correctly brought forward.• Current year's procedure to give evidence about opening balance Eg. Collection from Debtors• Specific audit procedures for opening balance• Appropriate accounting policies2) Consistency of Accounting Policies3) Relevant information in Previous Auditor's Report: If the prior period's FS were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's FS4) Audit conclusion

SA 520 – Analytical Procedure

Introduction	Nature & Purpose	Extent of Reliance	Investigating Unusual Items
<p>Analytical Procedures means evaluation of Financial Information through analysis of relationships (i.e. Ratios & Trends) amongst both Financial & Non – Financial Data.</p> <p>It also includes investigation of identified fluctuations or inconsistency in relationships.</p>	<ol style="list-style-type: none"> 1) Includes comparison with: <ol style="list-style-type: none"> a) Prior periods b) Budget c) Estimates of Auditor d) Industry Standards 2) While using Analytical Procedures, auditor shall: <ol style="list-style-type: none"> a) Determine the Suitability b) Evaluate Reliability of data c) Develop an Expectation d) Determine the difference 3) Useful at all stages 	<ol style="list-style-type: none"> 1) Materiality of Item 2) Other Audit Procedures for same objective 3) Accuracy predicted 4) Assessment of Inherent & Control Risk. 	<ol style="list-style-type: none"> 1) Inquiries with Management 2) Other Audit Procedures

SA 530 – Audit Sampling

Introduction	Requirement
<p>Auditor always has lack of time, so he carries test audit.</p> <p>Definitions:</p> <p>1) Audit Sampling: Application of Audit Procedure to less than 100% of Population.</p> <p>2) Sampling Risk: Risk that Auditor's opinion based on sample would be different if whole population was subject to audit.</p> <p>(a) Compliance Procedure:</p> <ul style="list-style-type: none">• Risk of under reliance.• Risk of over reliance. <p>(b) Substantive Procedure:</p> <ul style="list-style-type: none">• Risk of incorrect rejection.• Risk of incorrect acceptance. <p>3) Anomaly A misstatement or deviation that is demonstrable not representative of misstatement or deviation in population.</p>	<p>1) Sample Design, Size & Selection</p> <p>a) Design: Depends on Purpose of Audit Procedure & Characteristics of Population. Eg: Stratification.</p> <p>b) Size: Depends on Level of Sampling Risk auditor is ready to take.</p> <p>c) Selection: Such that each unit should have chance of selection.</p> <p>2) Performing audit procedures & finding out deviations & misstatements.</p> <p>3) Investigating nature & cause of deviations & misstatements. If it's Anomaly, obtain high degree of certainty.</p> <p>4) Projecting misstatements.</p> <p>5) Evaluating results of audit sampling.</p> <p>6) Sampling methods:</p> <p>a) Random</p> <p>b) Systematic</p> <p>c) Haphazard</p> <p>d) Block</p> <p>e) Monetary unit.</p>

SA 540 – Audit of Accounting Estimates

Introduction	Objective	Requirements
<p>1) Risk of material misstatement is higher when accounting estimates are involved.</p> <p>2) Management may use the authority to make or change accounting estimate as a tool for manipulating the books.</p> <p>3) Definitions:</p> <p>(a) Accounting Estimate: It is an approximation of the amount in absence of precise means of measurement.</p> <p>(b) Estimation Uncertainty: Possibility that an estimate could be wrong.</p>	<p>1) Accounting Estimates including Fair Value Estimates are Reasonable; &</p> <p>2) Disclosures in FS are adequate.</p> <p>Auditors Requirements</p> <ul style="list-style-type: none">• Risk Assessment Procedures and Related Activities• Responses to Assessed Risks• Further Substantive Procedures to Respond to Significant Risks - Estimation Uncertainty• Evaluating the Reasonableness & Disclosure of the Accounting Estimates• Indicators of Possible Management Bias• Written Representations• Documentation <p>Risk Assessment Procedures and Related Activities</p> <p>The auditor shall obtain understanding of:</p> <ul style="list-style-type: none">• The requirements of the AFRF.• How mgmt. identifies those transactions, events that need accounting estimates• How mgmt. makes the accounting estimates i.e. the method, relevant controls; whether expert used; the assumptions; change in the methods etc.	<p>Responses to Assessed Risks</p> <p>The auditor shall determine:</p> <ul style="list-style-type: none">• Whether management has appropriately applied the requirements of AFRF; and• Whether the methods are appropriate. <p>The auditor shall undertake the following:</p> <ul style="list-style-type: none">• Whether events occurring up to date of auditor's report provide audit evidence.• Test how Mgmt. made accounting estimate.• Test the operating effectiveness of it.• Develop a point estimate or a range. <p>Estimation Uncertainty</p> <p>For Estimation Uncertainty, the auditor shall evaluate the following:</p> <ul style="list-style-type: none">• How management has considered alternative assumptions, and why it has rejected them.• Whether the significant assumptions used by management are reasonable.

SA 550 - Related Parties

Introduction and Objective	Audit Procedures	Examining Identified Related Party Transactions
<p>Accounting Standard (AS) 18, 'Related Party Disclosure', requires the disclosure of the Related Parties and also the transactions with them in notes to accounts.</p> <p>Objectives:</p> <ul style="list-style-type: none"> The objectives of the auditor are: <ul style="list-style-type: none"> a) Irrespective of requirements of AFRF, to obtain an understanding of related party relationships and transactions sufficient to be able: <ul style="list-style-type: none"> i) To recognise fraud risk factors, if any, arising from related party relationships and transactions; and ii) To conclude whether the financial statements, insofar as they are affected by those relationships & transactions: <ul style="list-style-type: none"> - Achieve a true and fair presentation; or - Are not misleading; and b) Where the AFRF establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed. 	<ul style="list-style-type: none"> Management is responsible for the identification and disclosure of related parties and its transactions. The auditor needs to have a level of knowledge of the entity's business and industry that will enable him to identify the related parties. The auditor should review information provided by the management and should perform the following procedures: <ul style="list-style-type: none"> a) Review his working papers for the prior years; b) Review the entity's procedures for identification of related parties; c) Inquire as to the association of directors and KMP, officers with other entities; d) Review shareholder records to determine the names of principal shareholders; e) Review MOA, AOA, minutes of the meetings of shareholders and the BoD and its committees; f) Inquire of other auditors as to their knowledge of related parties; g) Review the entity's income tax returns; and h) Review the joint venture and other relevant agreements 	<ul style="list-style-type: none"> In examining the identified related party transactions, the auditor should obtain sufficient appropriate audit evidence as to whether these transactions have been properly recorded and disclosed. The auditor would consider performing procedures such as: <ul style="list-style-type: none"> a) Confirming the terms and amount of the transaction with the related party. b) Obtaining confirmation from persons associated with the transaction, such as, banks, lawyers, guarantors and agents. <p>Written Representations</p> <p>The auditor should obtain a written representation from management concerning:</p> <ul style="list-style-type: none"> The completeness of information provided regarding the identification of related parties; and The adequacy of related party disclosures in the financial statements.

SA 560 – Subsequent Events

Introduction	Objectives	Audit Procedures	Facts Known After the Date of Auditor's Report but Before the FS are Issued	Facts Known After the FS have been Issued
<p>Subsequent events means, significant events which occurs after the BS date but before the date of the auditor's report.</p> <p>As per AS 4, there are two types:</p> <p>a) Adjusting Events: Provides additional evidence as to conditions that existed at the BS date. They are adjusted in books.</p> <p>b) Non-adjusting Events: Do not provide additional evidence as to conditions that existed at the BS date. They are disclosed in notes to accounts</p> <p>Non-adjusting Events which affects the going concern will be treated as an Adjusting event.</p>	<p>a) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the FS and the date of the auditor's report that require adjustment of, or disclosure in, the FS are appropriately reflected in those FS; and</p> <p>b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.</p>	<p>The procedures to identify subsequent:</p> <p>a) Reviewing Mgmt. procedures to identify the subsequent events.</p> <p>b) Reading minutes of the meetings of SHs & BoD.</p> <p>c) Read entity's latest available interim FS, budgets, cash flow forecasts and other related management reports.</p> <p>d) Inquiring with entity's lawyers regarding the status of litigation and claims.</p> <p>e) Inquiring of Mgmt. as to whether any subsequent events have occurred after the BS date.</p>	<p>a) Discuss with Mgmt. or TCWG.</p> <p>b) Determine whether FS need amendment;</p> <p>c) Inquire how Mgmt. intends to address the issue.</p> <p>If Mgmt. amends FS:</p> <p>a) Check the amendments; and</p> <p>b) Provide a new auditor's report on the amended FS.</p> <p>• Mgmt. does not amend, then:</p> <p>a) If Report has not yet provided to entity, modify the opinion; or</p> <p>b) If report already provided, tell Mgmt. not to issue FS to third parties. If Mgmt. issues, take appropriate action, to prevent reliance on auditor's report.</p>	<p>a) Discuss with management or TCWG.</p> <p>b) Determine whether the FS need amendment;</p> <p>c) Inquire how management intends to address the issue.</p> <p>If management amends FS:</p> <p>a) Extend the audit procedures for amendments;</p> <p>b) Review the steps taken by mgmt. to inform others about amendment; and</p> <p>c) Provide a new auditor's report on the amended FS.</p> <p>• Management does not amend the FS then, take appropriate action, to prevent reliance on the auditor's report.</p>

SA 570 – Going Concern

Introduction	Audit Procedures	Audit Conclusion
<ol style="list-style-type: none">1) Going Concern is one of the fundamental accounting assumptions (AS 1).2) Going Concern means entity has neither the need nor the intention to liquidate the business.3) Objectives:<ol style="list-style-type: none">a) To obtain sufficient appropriate audit evidence regarding appropriateness of going concern assumption.b) To conclude, whether material uncertainty exists.c) To determine implications on Auditor's Report.	<p>Indicators that question going concern:</p> <ol style="list-style-type: none">a) Financial indicators:<ul style="list-style-type: none">• Adverse key financial ratios.• Substantial operating losses.• Substantial negative cash flows from operations.• Discontinuance of dividends.• Inability to pay creditors on time.• Difficulty in complying with the terms of loan agreements.b) Operating indicators:<ul style="list-style-type: none">• Loss of KMP.• Loss of a major market, franchise, licence, or principal supplier.• Labour difficulties.c) Other indicators:<ul style="list-style-type: none">• Non-compliance with statutory requirements.• Pending legal cases that may result in huge liability.• Changes in legislation or government policy. <p>The significance of such indications can be mitigated (lowered) by other factors.</p> <p>Auditor may gather evidence by:</p> <ol style="list-style-type: none">a) Reviewing subsequent events;b) Review compliance with debts;c) Budgeted cash-flow;d) Minutes of meeting;e) Assessing feasibility of clients' recovery plan.	<ol style="list-style-type: none">1) Going concern assumption appropriate but material uncertainty exists:<ol style="list-style-type: none">a) If adequate disclosure in FS, unmodified opinion with EoM paragraph;b) If adequate disclosure NOT in FS, qualified or adverse opinion.2) Going concern assumption NOT appropriate - Adverse Opinion.3) Communication with TCWG.4) Significant delay in approval of FS.

SA 580 – Representation by Management

Introduction & Objective	Basic elements of Management Representation Letter	Representations by Management as Audit Evidence	Refusal by Management to provide Representation
<p>Written representations are written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.</p> <p>Although written representations are audit evidence, they do not provide sufficient appropriate audit evidence on their own.</p> <p>Objectives</p> <p>a) To obtain written representations from Mgmt. about their responsibility for the preparation of FS and for the completeness of the information provided to the auditor;</p> <p>b) To support other audit evidence, if required by auditor or other SAs; and</p> <p>c) To respond appropriately to written representations are provided or not provided.</p>	<ul style="list-style-type: none"> • Address of the Auditor - The letter should be addressed to the auditor. • Date - The date of the letter should be the same date as the auditor's report or a date prior thereto. • Areas/Points on which representation is to be sought. This would cover representation about: <ul style="list-style-type: none"> a) Management's Responsibilities for Preparation of FS and completeness of the information provided. b) Representation to support other audit evidence, if necessary or required by other SAs • Signature of the competent official - The letter should be signed by responsible officials of the management like Managing Director. 	<p>Representations by management cannot be a substitute for other audit evidence. They are the last way of getting audit evidences when no other evidences are available in the circumstance (Eg: Intention to hold investment for classification of Investment as Long term Investment or Current Investment).</p> <p>Where the representation is obtained on matters which are material to the financial information, the auditor should:</p> <p>a) Seek corroborative evidence (other evidence which confirms the representations given by management);</p> <p>b) Evaluate the reasonableness and consistency of such a representation with other audit evidence; and</p> <p>c) Consider whether person making representation is well informed.</p>	<ul style="list-style-type: none"> • In case management is not willing to give in writing the representations made by it, the auditor should himself prepare a letter in writing and send it to the management with a request to acknowledge and confirm it. If the management refuses to acknowledge or confirm the letter sent by the auditor, this will constitute a limitation on the scope of his examination.

SA 600 – Using the work of Another Auditor

Principal Auditor's Duties	Principal Auditor's Rights	Co-ordination	Division of Responsibility & Reporting
<p>Another Auditor means Branch Auditor</p> <p>Principal Auditor's Duties:</p> <ol style="list-style-type: none"> 1) Communicate with other auditor about use of his work to be made. 2) Communicate significant accounting, auditing & other reporting requirement & obtain compliance about the same. 3) Communicate time table. 4) Ascertain any limitation on scope on his work. 5) Consider his professional competence (if not member of ICAI). 	<ol style="list-style-type: none"> 1) Guide branch auditor. 2) Demand any information. 3) Visit branch & do supplementary or test audit. 	<ol style="list-style-type: none"> 1) Sufficient liaison (efficient two way communication). 2) In writing. 3) Other auditor should co-operate & bring to notice of principal auditor the significant findings at branch immediately. 	<ol style="list-style-type: none"> 1) Principal auditor is NOT responsible for work entrusted to other auditor except in circumstances which aroused suspicion about his work. 2) Clearly state the responsibility in report: Number of branches audited by other auditor's and that he has relied on the report submitted by them.

SA 610 – Relying upon the Work of Internal Auditor

Introduction	Relationship and Responsibility	Using Specific Work of Internal Auditor
<ul style="list-style-type: none"> • The primary responsibility for the prevention & detection of frauds & errors rests with the management of an entity. • For prevention of frauds and errors, management sets up an internal control system. • Even though very good internal control system is set, due to inherent limitation of internal control system, there is no absolute surety that every kind of frauds & errors will be prevented. So they appoint internal auditors to carry out the Internal Audit. • Internal audit is an audit conducted on behalf of the management of an enterprise with the objective of assisting the management to discharge its responsibilities effectively. 	<ul style="list-style-type: none"> • The role of the internal audit function is determined by Mgmt. and prime objective differs from that of the external auditor who is appointed by the shareholders to report independently on FS. Nevertheless, some of the means of achieving the irrespective objectives are often similar and, thus, much of the work of the internal auditor may be useful to the external auditor in determining the NTE of his procedures. • The external auditor has sole responsibility of his report. • The external auditor cannot blindly rely upon the work of an internal auditor. Also, he cannot totally neglect the work of an internal auditor. • To what extent statutory (external) auditor should rely upon the work of an internal auditor depends upon his own professional judgment and following factors: <ol style="list-style-type: none"> a) The objectivity of the internal audit function; b) The technical competence of the internal auditors; c) Whether the work of the internal auditors is carried out with due professional care; and d) Effective communication between the internal auditors and the external auditor. 	<p>To determine the adequacy of specific work performed by the internal auditors for the external auditor's purposes, the external auditor shall evaluate whether:</p> <ol style="list-style-type: none"> a) The work was performed by internal auditors having adequate technical training and proficiency; b) The work was properly supervised, reviewed and documented; c) Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions; d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and e) Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

SA 620 – Using the work of an Expert

Introduction	Determining the need	Qualities of Expert & Evaluating his work	Responsibility & Reference
<p>There can be:</p> <ol style="list-style-type: none">1) Management Expert2) Auditor's Expert <p>This SA applies for Auditor's Expert.</p> <p>Objective:</p> <ol style="list-style-type: none">1) To determine whether to use work of expert or not.2) If using work of expert, whether his work is adequate.	<ol style="list-style-type: none">1) Materiality of item.2) Nature & complexity of item.3) Other audit evidences available.	<p>Qualities of an Expert:</p> <ol style="list-style-type: none">1) Skill & competence.2) Objectivity. <p>Evaluating his work:</p> <ol style="list-style-type: none">1) Source data.2) Methods & assumptions.3) Result of his work in light of overall knowledge of business & other audit procedures.	<p>Responsibility:</p> <ol style="list-style-type: none">1) Auditor continues to be responsible for expert's opinion, responsibility is NOT shifted.2) If auditor feels that, Expert's work:<ol style="list-style-type: none">a) Is inconsistent; orb) Does not give Sufficient Appropriate Audit Evidence;Auditor should express modified opinion. <p>Reference:</p> <ol style="list-style-type: none">1) Clean Report – NO2) Modified Report – YES With prior approval of Expert.

SA 700 - The Auditor's Report on Financial Statements

Introduction & Objective	Forming an Opinion on FS	Auditor's Report (Clean Report)
<p>This SA deals with the form and content of the auditor's report (only clean report).</p> <p>Objectives</p> <p>The objectives of the auditor are to:</p> <ol style="list-style-type: none"> Form an opinion on FS based on an evaluation of the conclusions drawn from the audit evidence obtained; and Express clearly that opinion through a written report and also describes the basis for the opinion. <p>This report is on general purpose financial statements which are prepared in accordance with a general purpose framework. It may be a fair presentation framework or a compliance framework.</p> <p>Under fair presentation framework, the word true and fair is used.</p> <p>Compliance framework just states that FS are prepared as per Laws & Regulations.</p>	<p>The auditor shall form an opinion on whether FS are prepared in accordance with AFRF.</p> <p>For forming an opinion, auditor considers:</p> <ol style="list-style-type: none"> Whether sufficient appropriate audit evidence has been obtained; Whether uncorrected misstatements are material, individually or in aggregate; and The auditor shall evaluate whether: <ul style="list-style-type: none"> The FS adequately disclose the significant accounting policies selected and applied; The accounting policies selected and applied are consistent with AFRF; The accounting estimates made by management are reasonable; The information presented in the FS is relevant, reliable, comparable and understandable; The FS provide adequate disclosures; and The terminology used in FS, including the title of each financial statement, is appropriate. In fair presentation framework, the auditor's evaluation as to whether FS achieve fair presentation. 	<p>Title: Independent Auditor's Report</p> <p>Addressee: Appropriate. For Companies, it is Shareholders.</p> <p>Introductory Paragraph:</p> <ol style="list-style-type: none"> Identify the entity; State that FS; Specify the date or period covered by each FS. Identify the title of each FS; and Refer to the summary of significant accounting policies; <p>Management's Responsibility:</p> <p>Preparation of FS and design, implementation and maintenance of internal control relevant to preparation of FS.</p> <p>Auditor's Responsibility:</p> <ul style="list-style-type: none"> To express an opinion on FS based on the audit. Audit in accordance with SA's issued by ICAI. Describe audit procedure. Also, state that auditor believes that the audit evidence obtained provides a basis for the auditor's opinion. <p>Auditor's Opinion:</p> <p>Other Reporting Responsibilities:</p> <p>Signature of the Auditor:</p> <p>Date of the Auditor's Report:</p> <p>Place of Signature:</p> <p>Auditor's Report Prescribed by Law or Regulation: Use that format</p>

SA 705 – Modifications to the Opinion in Independent Auditor's Report

Introduction and Type of Opinion

This SA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion.

Objective

To express clearly an appropriately modified opinion on FS that is necessary **when**:

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

Type of Opinion to be Expressed:

Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on FS	
	Material but Not Pervasive	Material and Pervasive
FS are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Pervasive effects on FS are those that, in auditor's judgment:

- a) Are not confined to specific elements, accounts or items of FS;
- b) If so confined, represent or could represent a substantial proportion of FS; or
- c) In relation to disclosures, are fundamental to users' understanding of FS.

Reporting

Basis for Modification Paragraph - before the opinion paragraph

Auditor Responsibility - Audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion. (for qualified and adverse opinion)

Qualified Opinion:

except for the effects (possible effect, if unable to obtain sufficient appropriate audit evidence) of the matter(s) described in the Basis for Qualified Opinion paragraph, the financial statements.....

Adverse Opinion:

For Fair Presentation Framework:

The financial statements **do not present fairly** (or give a true and fair view) in accordance with AFRF.

For Compliance Framework:

The financial statements **have not been prepared**, in all material respects, in accordance with AFRF

Disclaims an Opinion:

Auditor shall 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 FS based on conducting the audit in accordance with SAs issued by ICAI. 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"**

SA 706 – EoM Para & OM Para in Independent Auditor's Report

Definitions	Objective	Requirements
<p>1) EoM Para: A Para included in auditor's report that refers to matter appropriately presented or disclosed in FS that, in auditor's judgment is of such importance that is fundamental to user's understanding of FS. Eg. Material Uncertainty about Going Concern Issue</p> <p>2) OM Para: A Para included in auditor's report that refers to matter NOT in FS that in auditor's judgment is relevant to user's understanding of Audit, Auditor's Responsibilities or Auditor's Report. Eg. Number of Branches Audited by Other Auditors</p>	<p>To draw user's attention, when in auditor's judgment is necessary to do so, by way of clear additional communication.</p>	<p>1) EoM Para:</p> <ul style="list-style-type: none">a) After Opinion Para.b) Clearly gives reference.c) Indicate that Auditor's opinion is NOT modified for this aspect. <p>2) OM Para: After Opinion & EoM Para.</p> <p>3) Communication with TCWG</p>

SA 710 – Comparatives

Introduction	Audit Procedure	Reporting
<p>1) This SA deals with Auditor's responsibility regarding Comparative Information in audit of FS.</p> <p>2) The nature of Comparative Information that is presented depends on AFRF.</p> <p>3) Two approaches:</p> <p>a) Corresponding Figures: Comparative Information where amounts or other disclosure for prior period are included as an integral part of current period FS. The Auditor's opinion refers to current period only, which included comparative information.</p> <p>b) Comparative FS: Comparative Information where amounts and other disclosure for prior period are included for comparison with FS of current period but if audited are referred to in Auditor's opinion.</p>	<p>1) The auditor shall determine whether the FS include the comparative information as required by AFRF.</p> <p>2) The auditor shall evaluate whether:</p> <p>a) The comparative information agrees with amounts or disclosure in prior period.</p> <p>b) Accounting policies are consistently followed.</p> <p>3) If auditor becomes aware of possible material misstatement in the comparative information, the auditor shall perform such additional procedure as appropriate.</p> <p>4) Auditor shall request written representation for all periods.</p>	<p>Corresponding Figures:</p> <p>1) The auditor shall not refer to corresponding figures.</p> <p>2) If previous audit report modified & matter not resolved:</p> <p>a) CY FS Modified for both, if affecting CY's figures.</p> <p>b) If NOT affecting CY's figures, then also CY's FS Modified with respect to corresponding figures.</p> <p>3) Material misstatement in prior period FS on which unmodified opinion is given, auditor shall verify whether the misstatement has been dealt with & if NOT, CY's FS should be modified w.r.t. corresponding figures.</p> <p>Comparative FS:</p> <p>1) The auditor's opinion shall refer to each period reported.</p> <p>2) When reporting on prior period FS, if the auditor's opinion on such prior period FS differs from the opinion the auditor previously expressed, auditor shall disclose reasons in Other Matter paragraph.</p> <p>Common:</p> <p>Prior period FS audited by predecessor auditor: State in Other Matter Paragraph that they are audited by other auditor, type of opinion expressed and date of that report.</p> <p>Prior period FS NOT audited: State the same in Other Matter Paragraph.</p>

SA 720 – Auditor’s Responsibility in relation to Other Information in Document Containing FS

Introduction	Requirements
<p>1) Document containing Audited FS refers to Annual Report containing Audited FS & Other Information (OI).</p> <p>2) In absence of any separate requirement of engagement, the auditor’s opinion does not cover other information & he has no responsibility for the same. However, the auditor reads the other information because the credibility of Audited FS may be undermined by material inconsistencies between audited FS & OI.</p> <p>3) Objective: Respond appropriately when document containing audited FS & the auditor’s report includes OI that could undermine the credibility of FS & Auditor’s Report.</p>	<p>1) Reading other information: To identify material inconsistencies.</p> <p>2) If material inconsistency found: Whether FS or OI need revision.</p> <p>3) Material inconsistency identified prior to date of auditor’s report:</p> <ul style="list-style-type: none">a) FS needs revision & Mgmt. refuses: Modify Report.b) OI needs revision & Mgmt. refuses: Include in other matter para. <p>4) Material inconsistency identified after date of auditor’s report:</p> <ul style="list-style-type: none">a) FS needs revision: Follow requirements of SA 560.b) OI needs revision:<ul style="list-style-type: none">• Mgmt. agrees: Carry out procedures necessary.• Mgmt. refuses: Notify TCWG & take appropriate action. <p>5) Material misstatement of fact: Material misstatement is a misstatement in OI that is NOT a part of FS. Discuss with mgmt., if they don’t agree tell them to consult qualified third party & notify TCWG.</p>

SA 800 – Audit of FS prepared in accordance with Special Purpose Framework

Introduction	Requirements
<p>1) This SA deals with audit of FS prepared in accordance with Special Purpose Framework.</p> <p>2) Special Purpose Framework is a Financial Reporting Framework designed to meet information needs of SPECIFIC USERS. E.g.:</p> <ul style="list-style-type: none">a) Cash basis of accounting for cash information than an entity prepares for creditor, lenders, etc.b) The Financial Reporting provisions of a contract such as loan agreement, project grant, etc. <p>3) This SA does not override other SA; nor does it cover all special consideration that may be relevant for circumstances of engagement.</p> <p>4) Objective: To address appropriately the special circumstances that are relevant to:</p> <ul style="list-style-type: none">a) Acceptance of an Engagement;b) Planning & Performance of Engagement;c) Forming an opinion & reporting on FS.	<p>1) Acceptance of an Engagement:</p> <ul style="list-style-type: none">a) For accepting an engagement, the auditor has to consider whether the Financial Reporting Framework used by management for preparation of FS is acceptable. (Key factor to decide is whether it fulfills the information needs of intended users)b) The auditor shall obtain understanding of:<ul style="list-style-type: none">• Purpose;• Intended Users;• Steps taken by management that FRF is acceptable. <p>2) Planning & Performing the Audit:</p> <ul style="list-style-type: none">a) The auditor should obtain an understanding of the provisions of contract, so as to understand whether FS prepared by management is proper. Also understand significant interpretation made by management for preparation of FS.b) Follow SAs.c) If management has choice of FRF in preparing the FS, the Management Responsibility shall include that management is responsible for determining FRF that is acceptable in circumstances.d) Include an EoM Para altering users that FS are prepared in accordance with Special Purpose Framework & may not be suitable for another purpose. Also, auditor may indicate that auditor report is intended solely for intended users.e) If FS as per General Purpose Framework is also audited by auditor then, it should be mentioned in Other Matter Paragraph. <p>3) Forming an Opinion & Reporting:</p> <ul style="list-style-type: none">a) For forming an opinion the auditor should see the requirements of SA 700.b) The auditor's report shall describe the purpose for which the FS are prepared & if necessary, the intended users or refer to note in FS that describe this information.

SA 805 – Special Considerations – Audit of Single FS & Specific Elements, Accounts of Items of FS

Introduction	Requirements
<p>1) A Single FS say Cash Flow Statement, or Specific Item say Cash & Bank balance, includes the related notes.</p> <p>2) This SA does not apply to Component Auditor i.e. Branch Auditor.</p> <p>3) This SA does not override other SAs, nor does it cover all special considerations of an engagement.</p> <p>4) Objective: To address appropriately the special considerations that are relevant to:</p> <ul style="list-style-type: none">a) Acceptance of Engagement;b) Planning & Performance of Engagement;c) Forming an Opinion & Reporting.	<p>1) Acceptance of Engagement:</p> <ul style="list-style-type: none">a) Check whether application of SA would be practicable; if he is not engaged to audit complete set of FS.b) The auditor is required to determine the acceptability of FRF provides adequate disclosures to intended user to understand the information conveyed and the effect of material transactions & events.c) The auditor shall also consider whether the expected form of opinion is appropriate. <p>2) Planning & Performance of an Audit: The auditor shall adapt all SAs relevant to audit.</p> <p>3) Forming an Opinion & Reporting:</p> <ul style="list-style-type: none">a) For forming an opinion auditor has to apply the requirements of SA 700.b) If auditor is reporting on Single FS or Specific Item together with complete set of FS, then he shall express separate opinion for both engagements.c) If auditor's report on complete set of FS is modified or contains EoM / OM Para, the auditor shall determine the effect this may have on single FS or specific element of FS. If NOT affecting, then also auditor may include EoM / OM Para.d) If auditor has expressed an Adverse Opinion or Disclaimer of Opinion on complete set of FS then:<ul style="list-style-type: none">• Law does not prohibit the same;• It is NOT published together with opinion containing Audit Report containing Adverse Opinion or Disclaimer of Opinion.• Specific element does not constitute major portion of complete set of FS.

SA 810 - Engagement to Report on Summary FS

Introduction	Requirements
<p>1) Section 136 of Co. Act 2013 allows listed companies to send to its shareholders Abridged FS instead of complete set of FS.</p> <p>2) Rule 10 of Company (Accounts) Rules, 2014 gives the content of Abridged FS.</p> <p>3) This SA deals with auditor's responsibility when undertaking engagement to Report on summary FS derived from FS audited by SAME Auditor.</p> <p>4) Summary FS means historical financial information that is derived from FS but contains less detail than FS.</p> <p>5) Objective:</p> <ul style="list-style-type: none">a) Determine whether it is appropriate to accept the engagement.b) Form an opinion on Summary FS.c) Express clearly that opinion.	<p>1) Engagement Acceptance:</p> <ul style="list-style-type: none">a) The auditor shall accept an engagement to report on summary FS, only when the auditor has been engaged to audit FS from which summary FS are derived.b) Before accepting, the auditor shall:<ul style="list-style-type: none">• Whether criteria applied by management for preparation of summary FS are applicable.• Obtain agreement of management that it acknowledges & understands its responsibility:<ul style="list-style-type: none">(i) For preparation;(ii) For making available audited FS to intended users;(iii) To include audit report on summary FS together with summary FS.• Agree with management the form on opinion. <p>2) Nature of Procedure:</p> <ul style="list-style-type: none">a) Evaluate whether summary FS adequately disclose their summary nature & identify the audited FS.b) If summary FS are not accompanied by audited FS, whether they describe:<ul style="list-style-type: none">• From whom & where audited FS are available; or• The law requires that audited FS need not be made available and establishes criteria for preparation of summary FS.c) Whether SFS agrees with AFS.d) Evaluate whether SFS adequately disclose the applied criteria & are prepared in accordance with the same. <p>3) Form an opinion: Requirements of SA 700</p> <p>4) Date of Audit Report on SFS:</p> <ul style="list-style-type: none">a) Not earlier than date of Auditor's Report on AFS.b) If dated afterwards, the auditor shall state that SFS & AFS does not reflect events occurred after the date of auditor's report on AFS. <p>5) Modification or EoM / OM Para in Auditor's Report on AFS: State the same in audit report on SFS & describe the effect thereof in SFS.</p> <p>6) Auditor's report on AFS contains Adverse Opinion or Disclaimer of Opinion: State the same in audit report on SFS & state that as a result it is inappropriate to express opinion on SFS.</p> <p>7) Modified Opinion on SFS: If NOT consistent with AFS or do NOT give Fair Summary of AFS.</p> <p>8) Restriction on distribution or alerting readers on basis of accounting in OM Para.</p>

SRE 2400 – Engagement to Review Financial Statements

Introduction	General Principles	Procedure & Evidence
<ol style="list-style-type: none">1) This SRE provides PRACTITIONER's professional responsibilities, when practitioner, who is NOT auditor of an entity, undertakes engagement to review FS.2) A practitioner who is the auditor of an entity, engaged to perform review of Interim Financial Information shall perform such a review as per SRE 2410.3) Objective:<ol style="list-style-type: none">a) To enable the practitioner to state whether on the basis of procedures which do not provide all evidence as audit.b) Anything has come to practitioner's attention.c) That causes the practitioner to believe the FS are not prepared as per AFRF (Negative Assurance)	<ol style="list-style-type: none">1) Comply with Code of Ethics including independence.2) Maintain professional skepticism.3) Obtaining sufficient appropriate audit evidence primarily through inquiry & analytical procedures.4) Scope of review based on:<ol style="list-style-type: none">a) SRE;b) Requirement of Statute;c) Terms of Engagement.5) Review provides a moderate level of assurance.6) Agreeing the term of engagement. (additionally, it should be written that an audit is not performed & so audit opinion is not expressed).7) Plan the work.8) When using work performed by others, he should be satisfied that such work is adequate for purpose.9) Document important matters.	<ol style="list-style-type: none">1) Practitioner should apply judgment in determining NTE of review procedure.2) The auditor sufficient appropriate audit evidence primarily through inquiry & analytical procedures. This includes:<ol style="list-style-type: none">a) Obtaining understanding of entity's business & industry.b) Inquiry about entity's accounting principles, policies, procedure for accounting & preparation of FS.c) Analytical procedures comparison with prior periods, budgets & industry standards.3) Inquire about subsequent events.4) Additional or more extensive procedures when auditor believes that information is materially misstated. Conclusion & Reporting: <ol style="list-style-type: none">1) Negative assurance;2) Describe the scope of engagement & make it clear that audit was not performed and so audit opinion is NOT expressed.3) Introductory Para to have responsibility of management & practitioner.4) Scope Paragraph separately.

SRE 2410 – Review of Interim Financial Information performed by Independent Auditor.

Introduction	General Principles & Procedure for Review	Conclusion & Reporting
<p>1) This SRE provides guidance on AUDITOR's professional responsibility when auditor undertaken an engagement to Review Interim FI.</p> <p>2) Interim FI is FI that is prepared for a period that is shorter than entity's F.Y.</p> <p>3) AS – 25 deals with preparation & presentation of Interim FI.</p> <p>4) As per Clause 41 of Listing Agreement, the listing company shall submit quarterly unaudited reviewed financial result to Stock Exchange & also shall publish the same in newspaper.</p> <p>5) Objective:</p> <p>a) To provide Negative Assurance.</p>	<p>1) Same as SRE 2400</p>	<p>1) Title: Review Report.</p> <p>2) Addressee: For Company's BOD.</p> <p>3) Introductory Para: Identify the Interim FI reviewed & responsibility of management & auditor.</p> <p>4) Scope Para:</p> <p>a) Review conducted as per SRE</p> <p>b) Limited to inquiry & analytical procedures.</p> <p>c) Audit has NOT been performed & so audit opinion is not expressed.</p> <p>5) Opinion: By Negative Assurance.</p> <p>6) Signature.</p> <p>7) Place.</p> <p>8) Date.</p>

SRE 3400 – The Examination of Prospective Financial Information

Introduction	Responsibility	Audit Procedures	Reporting
<ol style="list-style-type: none"> 1) PFI means FI based on assumptions about the events that may occur in future & possible action by management. 2) They may be of 2 types: <ol style="list-style-type: none"> a) Forecast: Based upon assumptions that management expects to take place i.e. Best Estimate Assumptions. b) Projection: Based on hypothetical assumptions which are not necessarily expected to take place or mix of BE & Hyp. Assumptions. 3) PFI may be prepared for: <ol style="list-style-type: none"> a) Internal Mgmt. Tool like Capital Budgeting Decision. b) Distribution to third party: <ul style="list-style-type: none"> • Prospectus • Annual Report • Bank, etc. 	<ol style="list-style-type: none"> 1) Mgmt. is preparation of PFI including: <ol style="list-style-type: none"> a) Identification & Disclosure of PFI. b) Basis of Forecasts. c) Underlying assumptions. 2) Auditor may be asked to examine & report on PFI to enhance its credibility. 3) PFI relates to events & actions that have yet not occurred & might not occur. 4) Auditor is therefore, not in a position to express opinion as to whether the results shown in PFI will be achieved. 5) Auditor reports on reasonableness of mgmt. assumptions & that too gives only moderate assurance. 	<ol style="list-style-type: none"> 1) The auditor should obtain sufficient appropriate audit evidence whether: <ol style="list-style-type: none"> a) Mgmt. best estimate assumptions are NOT unreasonable & hypothetical assumptions are NOT unrealistic. b) PFI is properly prepared based on assumptions. c) Properly presented including disclosure of assumptions. d) Prepared on consistent basis with Historical FS. 2) The auditor should NOT accept or withdraw: If assumptions are unrealistic or when he believes that PFI is inappropriate for intended use. 3) The auditor shall consider the period of time covered by PFI, since assumption becomes more speculative as length of period increases. 4) Obtain representations from mgmt. & document important matters. 	<ol style="list-style-type: none"> 1) By way of Negative Assurance on assumptions. 2) Whether PFI is properly prepared based on assumptions. 3) Include a caution statement, that actual figures are likely to be different. 4) If presentation & disclosure NOT adequate – Qualified or Adverse or Resign. 5) If significant assumption do NOT provide reasonable basis – Adverse or Resign. 6) NOT allowed to perform procedures – Disclaimer of Opinion or Resign.

SAE 3402 – Assurance Report on Controls at a Service Organisation (SO)

Introduction and Objective	Definitions	Requirements	Requirements
<p>This SAE deals with assurance engagements undertaken by a SO's Auditor to provide a report for use by user entities and their auditors on the controls at a SO.</p> <p>It complements SA 402.</p> <p>Objectives</p> <p>a) To obtain reasonable assurance about whether:</p> <p>i) The SO's description of its system fairly presents the system as designed and implemented;</p> <p>ii) The controls related to the control objectives stated in the SO's description of its system were suitably designed;</p> <p>iii) Where included in the scope, the controls operated effectively throughout the specified period.</p> <p>b) To report on the matters in (a) above in accordance with the service auditor's findings.</p>	<p>Carve-out method: Whereby SO's description of its system includes nature of services provided by a Sub-SO, but Sub-SO's relevant control objectives and related controls are excluded from the SO's description.</p> <p>Inclusive method: Whereby SO's description of its system includes the nature of the services provided by a Sub-SO, and that Sub-SO's relevant control objectives and related controls are also included in SO's description.</p> <p>Complimentary User Entity Controls: Controls that SO assumes, in design of its service, will be implemented by User Entity.</p> <p>Type A – Report on Description and Design of Controls at a SO (this report is for specified date)</p> <p>Type B – Report on Description, Design, and Operating Effectiveness of Controls at a SO (this report is for throughout the specified period)</p>	<p>Comply with relevant ethical requirements.</p> <p>Determine the appropriate person(s) within SO's Mgmt. with whom to interact.</p> <p>Assess the suitability of the criteria</p> <p>Obtaining Evidence Regarding:</p> <p>1) Description Obtain and read SO's description and evaluate whether:</p> <p>a) Control objectives stated are reasonable;</p> <p>b) Controls identified in that description were implemented;</p> <p>c) Services performed by a Sub-SO are adequately described including the method used.</p> <p>d) Complimentary User Entity Controls are adequately described.</p> <p>2) Design of Controls Service auditor shall determine which controls at SO are necessary to achieve the control objectives and shall assess whether those controls were suitably designed.</p>	<p>3) OE of Controls For Type 2 report, the service auditor shall test those controls. For this SO's Auditor shall:</p> <p>a) Perform other procedures in combination with inquiry to obtain evidence about:</p> <p>(i) How the control was applied;</p> <p>(ii) The consistency with which the control was applied; and</p> <p>(iii) By whom or by what means the control was applied;</p> <p>b) Determine whether controls to be tested depend upon other controls (indirect controls); and</p> <p>c) Determine means of selecting items for testing that are effective in meeting the objectives of the procedure.</p> <p>SO's Auditor shall Obtain an Understanding of the Internal Audit Function</p>

SRS 4400 – Engagement to perform Agreed upon Procedures (AUP)

Introduction	General Principles	Reporting
<ol style="list-style-type: none">1) Because of extensive knowledge auditor is able to perform various agreed upon procedures in addition to statutory audit.2) Under agreed upon procedure the auditor is engaged to issue a report on factual findings, so no assurance is given. E.g.: Bank may ask the auditor to just verify and give the monthly stock figures.3) Objective:<ol style="list-style-type: none">a) For Auditor:<ul style="list-style-type: none">• To carry out procedures of an Audit Nature to which the Auditor, Entity & any third party has agreed, and• To report on Factual Findingsb) No assurance is provided.c) Report is restricted.	<ol style="list-style-type: none">1) Ethical requirements, but independence is optional. If NOT independent, state in report.2) Terms of engagement.3) Plan the work.4) Document important matter.5) Auditor should carry out AUP & use the evidence as basis for fact finding report. This procedures include:<ol style="list-style-type: none">a) Inquiry;b) Observation;c) Inspection;d) Confirmation;e) Computation.	<ol style="list-style-type: none">1) Report should describe the purpose and AUP performed to enable the reader to understand the nature & extent of work performed.2) Clearly mention NO audit or review has been performed.3) Identify Financial or Non-Financial Information to which AUP have been applied.4) Performed as per SRE 4400.5) Purpose & Listing of Procedures performed.6) Description of factual findings.7) Statement regarding restriction on use.

SRS 4410 – Engagement to Compile Financial Information

Introduction	General Procedures	Evidences	Reporting
<ol style="list-style-type: none">1) This SRS deals with professional responsibility of accountant, when engagement to compile FS or other FI is undertaken.2) Accountant means CA, who may or may not be in practice.3) This SRS deals with preparation of compiled FI & NOT audit of it.4) Objective:<ol style="list-style-type: none">a) For an accountant to use accounting expertise, to collect, classify & summarise FI.b) The procedures employed are not designed & do not enable the accountant to express any assurance.	<ol style="list-style-type: none">1) Ethical requirements, but independence is optional. If NOT independent then mention the same in report.2) Terms of engagement: Specifically mention that engagement can't be relied upon to disclose frauds but if accountant comes across any such matter, he will inform mgmt. about the same.3) Plan the work.4) Document important matters.5) Obtain general business & entity, its accounting policies, form & content of FS etc.6) Request Management Representation Letter.	<ol style="list-style-type: none">1) If accountant becomes aware of material non-compliance with AS or any material misstatement, tell to mgmt. If mgmt. do not rectify, it should be included the same in Notes to Accounts & Compilation Report of accountant.2) If information provided by mgmt. is incomplete, incorrect or unsatisfactory, tell mgmt. to provide additional information. If mgmt. refuses, withdraw from engagement.3) The accountant should ensure that FS or other FI should comply with AFRF. If not complied then include it in Notes to Accounts & Accountant's Report.4) If NO AFRF, then basis for compilation to be stated in Notes to Accounts & Accountant's Report.	<ol style="list-style-type: none">1) Accountant's Report on unaudited FS.2) As per SRE 4410.3) Statement when accountant is NOT independent.4) Neither Audit nor review is done, so no assurance.5) Para, when necessary, stating departure from AFRF.