AUDITING AND ASSURANCE STANDARD

AAS – 1

http://www.tubefilms.net/watch?v=08arJsR8aoM

BASIC PRINCIPLES GOVERNING AN AUDIT

Documentation : The auditor should maintain documentation of the important matters.

Integrity, Objectivity and Independence :

- Auditor should be interest free. He must possess qualities such as honesty, sincereness, fairness, objectivity, etc.

Skills and Competence : Auditor must have adequate training, competence and experience.

Confidentiality : Auditor must not disclose any confidential information regarding his client to any third party. However, he may disclose, if –

(i) There is a specific permission of client or

(ii) Required by law.

Work performed by others : Auditor may rely on work done by others i.e. other auditors or experts or his assistants provided he exercised due skill and care and there is nothing to doubt.

Planning : For proper conduct of work in efficient and timely manner.

Audit Evidence : Sufficient and appropriate evidence should be obtained by performing compliance and substantive procedures.

Accounting Systems and Internal Controls : Management is responsible for maintaining the same. The auditor has to check their adequacy.

Conclusion and Reporting : Auditor is required to express opinion on financial information on the basis of conclusions drawn from evidences. He is required to conclude whether -

(a) Financial information is prepared using consistent and acceptable accounting policies.

(b) Financial statements comply with relevant regulations.

(c) There is adequate disclosure of all material matters.

There should be clear expression of opinion in report. If the report is other than unqualified, auditor should state the reason for the same.

AAS- 2

OBJECTIVE AND SCOPE OF THE AUDIT OF FINANCIAL STATEMENTS

The term 'General. Purpose Financial Statements' include Balance Sheet, Profit and Loss Account and other statements and explanatory notes which from part thereof.

1. **Objective of an Audit** - The audit of financial statements is undertaken with the objective to 'enable the auditor to express an opinion on such financial statements. For this, it is essential that financial statements are prepared as per the recognized accounting policies and practices and relevant statutory requirements.

   The auditor's opinion does not constitute an assurance as to future viability of the enterprise, or the efficiency or effectiveness with which its management has conducted the affairs of the enterprise.

2. **Responsibility for the financial statements** - The management is responsible for maintaining an up to date and proper accounting of various transactions entered into during the course of the year. The auditor is responsible for forming and expressing an opinion on the financial statements. The audit of the financial statements, does not relieve the management of its responsibility.

3. **Scope of an Audit** - The auditor decides the scope of his audit having regard to
   a. The terms of the engagement
   b. The requirements of the relevant legislation
   c. The pronouncements of the Institute (ICAI)
   d. The judgments of various courts of law

   However, the terms of engagement can not supercede the pronouncements of the Institute or the provisions of relevant legislation.

4. **Organising an Audit** - The audit should adequately cover all aspects of the enterprise which are relevant to the financial statements under audit. The auditor should be reasonably satisfied that the information contained in the accounting records, etc. is reliable and sufficient.The auditor should compare the financial statements with accounting records and other source data to satisfy himself that there is no variation between the two. He should assess the basis of selection of accounting policies and their consistent application. He should satisfy himself about the compliance with the various relevant laws and rulings of various courts of law.

5. **Inherent limitations of Audit** - The auditor, with a view to forming his opinion on the financial statements follows certain audit procedures. He recognizes that because of the limitations inherent in the test checks, audit and any system of internal control, some material misstatement may remain undiscovered. It is true that in many situation a material misstatement by management may be discovered in the course of an audit, but such discovery is not the main objective of the audit. However, the auditor should extend his procedures, if he has any indication that some fraud or error, which is likely to result in material misstatement, may have taken place.

   The auditor is primarily concerned with, the items, which, whether individually or as a group, are material in relation to the affairs of an enterprise. However, in the absence of any definite standard to judge materiality, the auditor should make a decision about it on the basis. of his professional experience and judgment.

The auditor is not expected to perform duties, which are outside the scope of his competence, e.g. determining physical condition of certain assets.

If there are any constraints as regards the scope of audit, he should set them out in his report and render a qualified opinion or a disclaimer of opinion, as deemed appropriate.

AAS- 3

DOCUMENTATION

"Documentation" refers to the working papers prepared or obtained by the auditor and retained by him in connection with the performance of his audit.

1. Form and Content of working papers - These are affected by matters such as **–**

a. The nature of the 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, and

e. The need in particular circumstances for direction, supervision and review of work performed by assistants.

2. Preparation of working papers - Following care should taken while preparing for working papers -

a. Working papers should be designed and properly organized

b. They should be standardized

c. They should be adequately complete and detailed

d. All significant matters, which require the exercise of judgment and the auditor's conclusion as regards them, should be included in working papers.

e. The auditor should ensure that the schedules, analysis and other working papers prepared by the client and utilized in the course of the audit have been properly prepared.

f. In case of recurring audits, some working paper files may be classified as permanent audit files and current audit files.

3. Contents of permanent Audit file –

a. Information concerning the legal organizational structure of the entity, such as Memorandum and Articles of Association in case of a company, and relevant regulations in the case of a statutory corporation.

b. Extracts or copies of important legal documents, agreements and minutes relevant to the audit.

c. A record of the study and evaluation of internal controls related to the accounting system.

d. Copies of audited financial statements of previous years.

e. Analysis of significant ratios and trends.

f. Copies of management letter, issued by auditor, if any:

g. Record of communication with the retiring auditor, if any, before the acceptance of the appointment as auditor.

h. Notes regarding significant accounting policies.

i. Significant audit observations of earlier years.

j. List of officers, their financial powers and authorities.

k. List of offices, factories, godowns, depots etc.

4. Contents of current audit file

a. Correspondence relating to acceptance of annual reappointment.

b. Extracts of important matters in the minutes of Board meetings and general meetings, as are relevant to audit.

c. Evidence of the planning process of the audit and audit programme.

d. Analysis of transactions and balances.

e. A record of nature, timing and extent of auditing procedures performed, and the results of such procedures.

f. Evidence that the work performed by assistants was supervised and reviewed.

g. Copies of communication with other auditors, experts and other third parties.

h. Letters or representation or confirmation received from the client.

i. Copies of letters or notes concerning audit matters communicated to or discussed with the client, including the terms of the engagement and material weakness in relevant internal controls.

j. Conclusions reached by the auditor concerning significant aspects of the audit.

k. Copies of the financial information being reported on, and the related audit reports. .

I. Reports of branch auditors, internal. auditors and stock auditors etc.

5. Ownership and Custody of Working Papers

Working papers are the property of the auditor. He may, at his discretion, make any portions or extracts from his working papers available to the client. The auditor should adopt reasonable procedures for custody and confidentiality of his working papers and should retain them for a time sufficient to meet the needs of his practice and satisfy any pertinent legal or professional requirements of records retention.

W.e.f 01/04/2005 Onwards

- It is to be considered in auditing of financial information.
- Sufficient & appropriate documentation to provide a record of basis for auditors report and to demonstrate that audit was performed in accordance with AAS and applicable legal and regulatory requirements.
- Documentation (working papers) is the record of audit procedures performed, relevant audit evidence obtained & conclusions the auditor reached.
- It may be recorded on paper or electronic or other media.
- Audit documentation for a specific audit engagement is assembled in an audit file.
- ***Purpose of A.D:-***

(i) Assisting Audit team to plan & perform the audit

(ii) Assisting members of audit team to direct / supervise the work etc as per AAS-17.

(iii) Demonstrating the accountability of Audit team for its work.

(iv) Retaining a record of matters of continuing significance to future audits of the entity.

(v) Enabling an experienced auditor to conduct reviews as per statement on Peer Review.

(vi) Enabling an experienced auditor to conduct external reviews as per applicable legal or other requirement.

- ***Form, Content and Extent of Audit Documentation:-***

  Auditor should prepare documentation that enables an experienced auditor, having no previous connection with the audit, to understand.

  (vii) Nature, timing, extent (NTE) and results of Audit procedures

  (viii) Audit Evidence obtained

  (ix) The conclusions reached on significant matters.

  (x) In relation to audit procedures designed to address identified risk of material misstatements, conclusions that are not otherwise readily determinable from the documentation of procedures or evidences.

- Auditor to document (a) Oral discussion and (b) Management response.

- If auditor has identified audit evidence that contradicts / is inconsistent with auditor's final conclusion regarding a significant matter, he (auditor) should document how he addressed the contradiction.

- Audit to record

  (i) Who performed the audit work & date of such work

  (ii) Who reviewed specific audit documentation & date of such review.

- Auditor should record the identifying characteristics of the specific items tested.

- If in exceptional circumstances, auditor departs from basic principle or procedure in an AAS, he should document the reasons for the same.

- ✷ After date of audit report, if (in exceptional situations) auditor performs new procedures etc. he should document the changes necessary including:

  (i) When & by whom such charges were made & reviewed (if applicable)

  (ii) Specific reasons for the changes, &

  (iii) The effect (if any) of changes on auditors conclusion.

- ✷ After completing Audit file, auditor shouldn't delete any documentation. However he may make addition he should take care of above, same is the case with documentation of new information received after A.R's date.

- Auditor, should (regarding documentation)

  (i) Maintain its confidentiality & sale custody.

  (ii) Protect its integrity

  (iii) Enable its accessibility & retrievability, &

  (iv) Enable its retention for a period sufficient to meet the needs of the firm & legal and professional requirements (subject to legal requirements but not shorter than 10 years from date of audit report).

- He should adopt proper control procedures to maintain integrity, accessibility and retrievability of data whether documentation is in paper, electronic or other media.

AAS- 4

THE AUDITOR'S RESPONSIBILITY TO CONSIDER FRAUD AND ERROR IN AN AUDIT OF

FINANCIAL STATEMENTS

1. **Fraud -** fraud refers to intentional misrepresentation of financial information by one or more individuals among employees, management, those charged with governance, or third parties. A fraud may involve
   a. Manipulation or falsification of accounting records
   b. Misappropriation of assets
   c. Suppression or omission *of* effects of transactions from records or documents
   d. Wrong accounting procedures
   e. Misapplication of accounting policies

2. **Error** - It refers to unintentional mistakes in financial statements. For e.g.
   a. Mathematical or clerical mistake
   b. Oversight or misrepresentation of facts
   c. Misapplication of accounting policies

3. **Responsibility for detection of fraud and error** - Prevention and detection of fraud and error is the responsibility of the management, and for this purpose it should implement and continuously operate an adequate system of internal control.

   The audit should be planned in such a way that there is reasonable expectation of detecting material misstatement in the financial information resulting from fraud and error

4. **Inherent Limitations of an Audit**
   a. The test nature of an audit will involve judgement as to the areas to be tested and the number of transactions to be examined.
   b. Audit evidence in many cases is persuasive, and not conclusive
   c. Material misstatements resulting from frauds are more difficult to detect than those resulting from errors because frauds will usually involve acts with a view to conceal frauds.
   d. Audit programme is drafted only to help the auditor -to achieve the objective of framing and expressing an opinion on financial statements.

      If the auditor adheres to basic principles governing an audit, e.g. Performance of audit work with requisite skill and competence, he will not be responsible for any subsequent discovery of material misstatement in financial information resulting from fraud or error.

5. **Discussion and inquiries** - In planning the audit, the auditor should discuss with other members of the audit team, the susceptibility of the entity to material misstatements in the financial statements resulting from fraud or error. In addition the auditor should make inquiries of the management regarding the accounting and internal control system in place to prevent and detect error. In order to obtain insights regarding the susceptibility of the entity to management fraud, the auditor should seek the views of those who are charged with governance on the adequacy of accounting and internal control systems in place to prevent and detect frauds and error, the risk of frauds and error and the competence and integrity of management.

6. **Audit Risk** - When assessing inherent risk and control risk in accordance with AAS-6, the auditor should consider how the financial statements might be materially

misstated as a result of fraud or error. Based on his assessment of inherent and control risk, the auditor should design substantive procedures to reduce to an acceptably low level the risk that misstatements resulting from fraud and error that are material to the financial statements taken as whole will not be detected.

7. **Procedures when circumstances indicate a possible misstatement –** When the auditor encounters circumstances that indicate presence of material misstatements resulting from fraud and error, the auditor should perform procedures to determine whether the financial statements are materially misstated. When the auditor identifies a misstatement, he should consider whether such a misstatement might be indicative of a fraud and if there is such an indication, he should consider the implication of the misstatement in relation to other aspects of the audit, particularly the reliability of management representation.

   When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated due to fraud or error, he should consider a necessity for a disclosure in the financial statements and if adequate disclosures are not made, the necessity for a suitable disclosure in audit report.

8. **Documentation -** The auditor should document fraud risk factors identified and his response to such factors.

9. **Management representation -** The auditor should obtain a management representation that

   a. It is responsible for the implementation and operation of accounting and internal control systems that are designed to prevent and detect fraud and error;
   b. It believes that the effect of uncorrected misstatements, both individually and in aggregate, is immaterial;
   c. It has disclosed to the auditor all facts relating to frauds or suspected frauds known to the them; and
   d. It has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud or error.

10. **Communication -** When the auditor identifies a misstatement resulting from fraud or error, ,he should communicate that information to the appropriate level of management on a timely basis, and consider the need to report such matters to those charged with governance and if required to regulatory and enforcement authorities. The auditor should communicate to the management any material weakness in internal control related to the prevention or detection of fraud and error, which has come to his attention as a result of the performance of the audit.

11. **Auditor unable to complete the engagement -** If the auditor concludes that it is not possible to continue performing the audit due to material misstatements, he should consider the professional and legal responsibilities applicable in the circumstances including responsibilities to persons who made the audit appointment or regulatory authorities. The AAS specifies that in such circumstances the auditor should consider the possibility of withdrawal from the engagement .The AAS also specifies that if fraud or suspected fraud was a factor in the existing auditor's withdrawal from the engagement, the existing auditor should estate the facts relating to these matters to the incoming auditor.

AAS – 5 AUDIT EVIDENCE

Sufficient and Appropriate : Sufficiency refer to quantum of evidences, whereas appropriateness refer to quality. Evidences should be seen in totality.

Obtaining the Evidences **Procedures**

Compliance	**Substantive**
Whether internal control have been designed and these are operating effectively throughout the period.	Regarding completeness, accuracy and validity of transactions and balances.

Reliability of Evidences :

- ⇒ External Evidences more reliable.
- ⇒ Internal Evidences reliable if internal controls are effective.
- ⇒ Written are more reliable than oral.

Consistency : If evidences from one source are inconsistent with those obtained from other sources, auditor is required to perform extended procedures.

Methods :

- **a. Inspection –** It involves examination of records, documents or assets, etc.
- **b. Computation –** i.e. to check the arithmetical accuracy of data and records.
- **c. Analytical Review Procedures –** Examination of significant ratios and trends.
- **d. Inquiry and confirmation –** obtaining appropriate informations from persons orally or In written form.
- **e. Observation –** witnessing a process being performed by others.

AAS- 6
RISK ASSESSMENT AND INTERNAL CONTROLS

According to this standard, it is the responsibility of the management to develop and operate. an adequate. system of accounting and internal control. The auditor should acquaint himself with the accounting system and internal control system in order to develop an effective audit plan. The auditor should use his professional judgment to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level.

1. **Accounting System** - Accounting system refers to the series of tasks and records of an entity by which transactions are processed as a means of maintaining final records. The auditor should obtain an understanding of the accounting system sufficient to identify and understand
   a. Major classes of transactions;
   b. Manner of initiation of transaction;
   c. Significant accounting records, supporting documents and specific accounts in the financial statements; and
   d. The accounting and financial reporting process.

2. **Internal Control System** - It refers to all the policies and procedures adopted by the management of the entity to assist in achieving management's objective of:
   a. Conducting the business in an orderly and effective manner;
   b. Adherence to management policies.
   c. Safeguarding of assets; and
   d. Defection of fraud and error in a timely manner

   "The Internal Control System comprises of

   i. The Control Environment - It refers to the overall attitude, awareness and actions of the directors. and management regarding the internal control system and its importance in the entity.

   II. Control Procedures - Control procedures are additional policies and procedures established by the management to achieve entity's specific objectives. These procedures include preparation of periodic reports, approving and controlling access to documents and records etc.

3. **Audit Risks -** Auditors risk is the risk that the auditor may give an inappropriate opinion when the financial statements are materially misstated. Audit risk has three components viz.; inherent risk, control risk and detection risk.-

4. **Inherent Risk -** Inherent risk is the susceptibility of an account balance or class of transaction to a material misstatement either individually or when aggregated with misstatements of other balances or classes, assuming that there were no internal controls. The auditor should study and evaluate the degree of inherent risk in order to determine the audit plan. He should also consider other factors, which might compensate for an otherwise high degree of inherent risk.

Inherent Limitations of Internal Controls

The objectives of internal control can only be reasonably, and not absolutely, achieved due to the following limitations inherent in the system:

a. Management's concern about the operating system;
b. Transactions of unusual nature may be missed by most controls;
c. Potential of human error;
d. Circumvention of controls through collusion;
e. Abuse of control by the person who is himself responsible for exercising it; f. Inadequacy of procedures due to changes in conditions; and
g. Manipulations by management.

5. Control Risk.- Control risk is the risk that a misstatements could occur in an account balance or class of transaction and that could be material, either individually or when aggregated with other misstatements, will not be prevented or detected and corrected on a timely basis by the accounting and internal control system.

I. Preliminary Assessment of Control Risk

In order to make a preliminary assessment of the control risk, the auditor should obtain an understanding of the accounting system and related internal controls.

The preliminary assessment of control risk 'is the process of evaluating the likely effectiveness of an entity's accounting on internal control system in preventing or detecting and correcting material misstatements. Thus the auditor should assess the control risk as high when

a. The entity's accounting and/or internal control system are/is not effective; or
b. It would be inefficient to evaluate the effectiveness of the accounting and internal control system.

II. Test of Controls

Tests of controls are performed by an auditor to obtain audit evidence about the effectiveness of the

a. Whether the accounting and internal control systems are suitably designed to prevent or detect and control material misstatements; and
b. Operation of internal controls throughout the period. '

Test of control may include the following procedures:

- Inspection of the documents and records;
- Inquiries about and observation of internal controls that leave no audit trail;
- Re-doing on a test basis, activities performed automatically by the system; and
- Testing of internal controls operating on computerized applications.

III. Final assessment of control risk

On the basis of the results of the test of control the auditor should evaluate whether the preliminary assessment of control risk was correct or do they need to be revised. He should accordingly determine any modification in the nature, timing and extent of audit procedures.

6. **Relationship between assessment of Internal and Control Risks -** The auditor should make a combined ,assessment of the inherent and control risks. This is because the management often reacts to inherent risk situations by designing suitable accounting and internal control system to prevent or detect and correct material misstatement.

7. **Detection Risk -** Detection risk is the risk that an auditor's substantive procedures will not detect a misstatement that exists in an account balance or class of transactions that could be material, either individually or when aggregated with misstatements in other balances or classes.

   There is an inverse relationship between detection risk and the combined level of inherent and control risks. Thus when inherent and control risks are high, acceptable detection risk should be low to reduce the audit risk to an acceptably low level. It should, however, be noted that the assessed levels of inherent and control risk cannot be sufficiently low to eliminate the need to perform substantive procedures.

   When the auditor determines that the detection risk regarding material assertion in the financial statements cannot be reduced to an acceptably low level, the auditor should express a qualified opinion or a disclaimer of opinion as may be appropriate.

8. **Internal Controls In a Small Business** - There may be inadequate segregation of functions among a small number of persons who perform accounting procedures.. However through an effective supervision by the owner or manager of the business who has direct personal knowledge of the business and its transactions, this limitation can be neutralized. But where effective supervision is lacking, the auditor should largely depend upon subtractive procedures to form his opinion as regards financial information.

9. **Communication of Weaknesses in Internal Control** - Any material weakness in the internal control noticed by the auditor during the course of his evaluation or audit procedures should be communicated in writing to the management in a timely manner. However, such communication should make it clear that the audit examination has not been designed to determine the adequacy of internal controls.

AAS- 7

RELYING UPON THE WORK OF AN INTERNAL AUDITOR

Though work of internal auditor can be useful to the statutory auditor, the statutory auditor alone will be responsible for his report and for determination of the nature, timing and extent of the auditing procedures.

Scope and Objective of Internal audit function:

It depends on the size and structure of the enterprise and the requirements of its management. The internal audit broadly covers following areas:

a. Review of accounting system and internal controls

b. Examination for management of financial and operating information.

c. Examination of the economy, efficiency and effectiveness of the operations.

d. Physical examination and verification.

Relationship between internal and external auditors:

a. Although the internal and external audit functions are different as regard their role and objectives, the external auditor can usefully draw on the work of internal auditor to determine the nature, timing and extent of the auditing procedures.

b. However, the external auditor should carefully subject the relevance of the internal control system to his own examination.

c. The external auditor will alone be responsible for his report and the reliance on the internal auditor's work will in no way reduce his responsibility.

General evaluation of Internal audit function:

The external auditor's evaluation and conclusions as to the internal audit function should take into account the following:

a. Organlsational status : Whether the internal auditor reports directly to top management and is free of any other operating responsibility, whether there are any restrictions as regards the work of the internal auditor should be evaluated by external auditor.

b. Scope of coverage: The nature and depth of coverage of the internal auditor's assignment vis-a-vis the management should be ascertained and how the management acts upon his recommendations.

c. Technical competence: Whether the internal audit is under the charge of persons with appropriate professional training and proficiency should be considered.

d. Due Professional care: Whether the internal audit function is property planned, supervised" reviewed and documented should be ascertained.

Coordination: When the internal auditor's work is to be relied upon. The external auditor should ascertain the internal audit plan and discuss with him at an early stage to determine the areas where reliance may be placed. The internal. and external auditors should meet at regular intervals to ensure effective coordination. They should share the information, which may help each other.

Evaluating specific internal audit work:

He should review the internal auditor's work taking into account the following factors

a. The scope of work and related audit programme are adequate for the external auditor's purpose.
b. The work was properly planned and the work of .assistants was properly supervised, reviewed and documented.
c. Sufficient appropriate evidence was obtained.
d. Conclusions reached are appropriate in circumstances and any report_ prepared are consistent with the results of the work performed.
e. Any exceptions disclosed by the internal auditor's procedures are properly resolved.

The external auditor's conclusions as to the review of the specific work should be documented. He should also test the work of the internal auditor on which he intends to rely. The nature, timing and extent of his tests will depend on his evaluation of internal audit function.

AAS- 8
AUDIT PLANNING

The first step in audit process is planning. Every audit should be carefully planned to ensure highest technical standards make best use of audit personnel and achieve utmost efficiency. Audit plan helps to:

a. Ensure that appropriate attention is devoted to important areas of audit.
b. See that potential problems are promptly identified.
c. Ensure that work is completed on time.
d. Coordinate the work done by other auditors and experts.
e. Utilize the assistants properly.

Factors to be considered while planning the audit are:

a. Complexity of the audit.
b. Environment in which the entity operates.
c. Previous experience with the client.
d. Knowledge of client's business.

Knowledge of the client's business: It will enable the auditor to identify the events, transactions and practices, that in his judgment, may have a significant effect on the financial information. The auditor can obtain such knowledge from:

a. the client's annual report to its shareholders;
b. minutes of meetings of shareholders, Board of Directors etc;
c. internal financial management reports;
d. previous year's audit working papers;
e. discussion with client;
f. the client's policy and procedures manual;
g. consideration to the state of economy and its affect on client's business; and h. visit of the client's premises and plant facilities.

Development of an overall plan: The overall plan should cover the following:

a. Terms of audit engagement and statutory responsibilities.
b. Nature and timing of reports or other communication.
c. Relevant legal and statutory requirements.
d. Accounting policies of client and changes therein.
e. Effect of new accounting or auditing pronouncements on the audit.
f. Identification of critical audit areas.
g. Conditions requiring special attention.
h. Degree of reliance as regards accounting system and internal control.
i. Possible rotation of emphasis on specific audit areas.
j. Nature, timing and extent of audit evidence to be obtained.
k. Work of internal auditors and reliance to be placed on them.
l. Consideration to branch auditor's report.
m. Allocation of work between joint auditors and the procedures for its control and review.
n. Establishing and coordinating the staff requirements.

Developing the audit programme :

The auditor should prepare a written audit programme setting forth the procedures that are needed to be implemented while carrying out the audit plan. He may take into account the reliance to be placed on internal controls.

The auditor has some flexibility in deciding when to perform audit procedures. But, sometimes he may have no discretion as to timing, such as, observing the stock taking by the client's personnel. The audit programme should consider previous year's audit programmes and should be modified, if necessary.

AAS- 9

USING THE WORK OF AN EXPERT

An auditor during the course of an audit may have to place reliance on the work of an expert. An expert is a person who possesses special skill, knowledge: and experience in a particular field, other than accounting and auditing.

Determining the Need to use the Work of an Expert:
During the audit, an auditor may seek to obtain, either independently or from the client, audit evidence by way of reports, opinions, valuations and statements of experts, such as value of certain types of assets, actuarial valuation etc. In determining whether to use the work of an expert, the auditor should consider the materiality of an item, the nature and complexity of item etc.

Skills and Competence of Expert :
The auditor should satisfy himself regarding the expert's skill and competence by considering his professional qualifications, experience and reputation in the field in which the auditor is seeking evidence.

Objectivity of the Expert :
The auditor should consider the objectivity of the expert. Such objectivity may be affected if the expert is an employee of the client or is otherwise related to the client.

Evaluation of the Work of an Expert: ,
The auditor should seek reasonable assurance that the expert's work constitutes appropriate audit evidence in support of the financial information. He should see whether the expert has used the source data, which are appropriate in the given circumstances. He should also obtain an understanding of various assumptions and methods used by expert to determine their reasonableness. In case the work of the expert does not support the related representation in the financial statement, the auditor should attempt to resolve the inconsistency by discussions with the client' and the expert. He may apply additional procedures, including engaging another expert.

Even after performing necessary audit procedures, the auditor concludes, that the work of the expert is inconsistent with the information in the financial statement or the work of expert does not constitute appropriate audit evidence, he should express a qualified opinion, a disclaimer of opinion or an adverse opinion, as appropriate.

Reference to Expert in Audit Report :
In case of an unqualified report, the auditor should not refer to the work of an expert. In case of qualified opinion, he may refer to or describe the work of the expert to explain the nature of his reservation. He, may refer the name of the expert subject to prior consent of the report.

AAS-10

USING THE WORK OF ANOTHER AUDITOR

AAS-10 is applicable only to components audits and it excludes joint audit form its purview.

The procedures laid down in AAS-10 are applicable where the financial statement of a component of business, For Example, branch, sales depot etc. are material. Where several components, immaterial in themselves, are together material in relation to the financial statement as a whole, this AAS is applicable.

COMPONENT Any branch, division, subsidiary, J.V., or associates etc. whose financial information is used in the financial statements of client.

Principal Auditor's Procedures:

The following procedures are recommended on the part of principal auditor:

1. Advise the other auditor of the use that is to be made of his work and report.
2. The principal auditor should also inform the areas requiring special consideration and the timetable for completion of audit.
3. Advise the other auditor of the significant accounting auditing and reporting requirements.
4. Ascertain from other auditors any limitation on the scope of his work by the terms of engagement.
5. Consider the significant findings of the other auditor.
6. The principle auditor is not required to evaluate the professional competence or independence of other auditor except in doubtful situation,
7. He may require the other auditor to submit responses to a questionnaire regarding the audit work performed.
8. He may discuss with the other auditor and concerned branch official the audit findings affecting the financial statements of the branches.
9. If necessary, he may require that supplementary tests be performed or he may himself perform such tests.
10. In case of foreign branch, the principal auditor should consider the qualification, experience and expertise of the foreign branch auditor.

Documentation:

1. The principal auditor should maintain in his working paper / files the financial statement of the branches, which are audited by other auditor. He should also document the manner in which he has applied the audit procedures and conclusions thereof.
2. When the other auditor has qualified his audit report, the principal auditor should refer in his working paper the manner in which he dealt with the same.

Coordination between Auditors:

1. There should be coordination between the principal auditor and branch auditor so what they can discharge their responsibility effectively.
2. The other auditor should bring to the notice of principal auditor any of his significant findings, adhering to the time scales, ensuring compliance with legal requirements, etc.
3. If the principal auditor requires a specific audit procedure to be carried out or to answer a detailed questionnaire, the other auditor should comply with the same.

Consideration of Report of Other Auditor

1. The principal auditor should qualify or disclaim his opinion when he concludes that he cannot use the work of the other auditor and has not been able to perform sufficient additional procedures with respect to the financial statements submitted by the branch auditor.
2. The principal auditor should consider the qualification of the branch auditor's report in relation to the financial statement of the entity as a whole.

Division of Responsibility:

1. The principal auditor is not responsible for work carried out by the other auditor unless there are doubtful . circumstances
2. The principal auditor's report should clearly state the division of responsibility by indicating the extent to which the financial statement of branches audited by other auditors have been included in the financial statement of the entity e.g. the number of branches / divisions audited by other auditors.

AAS – 11 Management Representation

Management Representation – written / oral confirmation by them w.r.t. items included in financial statement.

Example :

(i) For Financial Statement as a whole.
(ii) For Accounting Policies.
(iii) Investments.
(iv) Provision for claims, etc.

Types of MRL :

(i) Letter issued by management.
(ii) Letter from auditor outlining his understanding, duly acknowledged and confirmed by management.

Elements :

– Addressed to Auditor.
– Dated and signed by proper authority.
– MRL date ≤ AR date.
– For specific transfer there may be separate MRLs.

Management Representation as Audit Evidence :

– He should use his professional judgement to decide the areas in which MRL is required.
– Management Representation should be in writing.
– Auditor should seek corroborative evidences.
– Evaluate its reasonableness and consistency.
– Person rendering Management Representation should be well informed.
– Management Representation Letter can't be substitute for other audit evidences.
– Sometimes it may be only evidence.

Documentation : of both types of Management Representation Letters.

Refusal by Management : Auditor asks for MRL

Management provides
↓
OK

Management Refuses
↓
Auditor should himself prepare it with a request to acknowledge the same.

Management Acknowledges
↓
OK

Management refuses
↓
Limitation on Scope of work of auditor

AAS-12

JOINT AUDITORS

Division of Work :

The joint auditors should divide the audit work in anyone of the following basis:

1. Components of financial statements
2. Geographical location
3. Functional areas and activities
4. Period basis

The division of work among joint auditors should be adequately documented and communicated to the entity.

Coordination among Joint Auditors:

Where a company auditor comes across matters, which are relevant to the areas of responsibility of their joint auditors, he should communicate it immediately to the other joint auditors to discharge himself of the responsibility.

Relationship among Joint Auditors:

Each joint auditor is responsible for the work allocated to him. However, in respect of following areas, all the joint auditors are jointly and severally responsible.

1. Audit work not divided among joint auditors and carried out by all of them.
2. Matters, which are brought to the knowledge of joint auditors by one of them and on which there is an agreement among the joint auditors.
3. Collective decisions taken by joint auditors such as the decision regarding the nature, extent and timing of the audit procedures to be carried out.
4. Compliance and disclosure requirements as per statute.

In case the information is brought to the other joint auditors by an auditor after submission of the audit report, the other joint auditors would not be responsible for such matter.

Each joint auditor is responsible for drafting his own audit programme and determine nature, extent of checking etc.

Each joint auditor should keep appropriate working papers, which enables him to come to a conclusion regarding the financial statements.

In the case of audit of a large entity with several branches. In such a case, it is the separate responsibility of each joint auditor to review the reports of the branches allotted to him and to ensure that they are properly incorporated into the accounts of the entity.

In respect of branches, which do not fall under any division or zone, which were separately assigned to different joint auditors, they may agree among themselves regarding the division of work relating to such branch returns.

Each joint auditor is entitled to rely upon the work carried by other joint auditors. It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests to ascertain whether the work has actually been performed in accordance with generally accepted audit procedures.

If one of joint auditors also carries out the audit of branches or other division of the entity, the joint auditors. are entitled to rely upon the work carried out by him, unless the other joint auditor specifically brings out any material discrepancy.

Reporting Responsibilities:

Where the joint auditors are in disagreement with regard to any matter, each one of them should express his own opinion through a separate report. The joint auditor is not bound by the views of the majority of joint auditors regarding matters to be covered in the report.

AAS – 13 AUDIT MATERIALITY

Materiality :

→ Material items are those which may influence the judgement of users of statement.

→ It may be quantitative / qualitative.

→ It depends upon **–**
(i) Size of item (ii) Nature of item, (iii) Statutory provisions, etc.

→ Materiality to be considered from both point of views **–**
(i) Individual A/c.; and
(ii) Overall financial statement.

→ Auditor to consider materiality while **–**
   (i) Determining NTE of audit procedure; and
   (ii) Evaluating effect of misstatement.

Relationship between Materiality and Audit risk

→ Degree of audit Risk and Materiality Level.

Reason – Generally management / employees don't commit fraud in high value items. Moreover, as a general practice, auditor checks high value items in detail. Thus it is less risky that high value F & E may not be detected. Thus high materiality level leaves audit risk at lower degree. Thus inverse relation.

Procedure and considerations by Auditor –

→ Auditor decides upon mat level during planning stage which may be *changed* during progress of audit. May be increased/decreased for specific A/c.

→ If ARP indicates misstatements, auditor should adopt other procedures to estimate it.

→ Aggregate uncorrected misstatement =
   (i) Specific misstatement identified by Auditor +
   (ii) Aggregate uncorrected misstatements (not identified) +
   (iii) Net effect of uncorrected misstatement identified during previous year's audit.

→ Auditor concludes aggregate uncorrected misstatement are material
↓
Ask management to adjust f. st.

Mgt. does
↓
OK

Mgt. refuses
↓
qualify / adverse

AAS-14
ANALYTICAL PROCEDURES

"Analytical review procedure" refers to analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviates from predicted amounts. The auditor should apply analytical review procedures at the planning and the overall stages of audit.

Nature and purpose of Analytical Procedures:
Analytical review procedures includes both inter-firm and intra firm comparisons. The latter is vis-a-vis:

a. Comparable information for prior periods.
b. Predictive estimates prepared by auditor e.g. estimation of depreciation change.
c. Anticipated results of the entity such as budgets or forecasts.
d. Similar industry information - entity's ratio of sales to debtors with industry averages.

It depends on the auditor's judgment as to the nature of procedures, methods arid level 6f applications.

Purposes / stages of application of Analytical Review Procedures:
The analytical review procedures can be used by the auditor for the following purposes / at following stages:

i. While planning the nature, timing and extent of other audit procedures.
ii. As a means of substantiating the financial assertion relating to business transactions.
iii. Overall review of the financial statements in the final review stage of the audit.

Stage I - Planning the audit:
Analytical review procedures assist in understanding the business and in identifying areas of potential risk. It may indicate aspects of the business of which the auditor was not aware,

Stage II - Analytical review tasks as useful substantive procedures:
The following are the factors that need to be considered while applying analytical procedures as substantive tests:

1. Extent of reliance that can be placed on analytical procedures and results derived thereof.
2. Nature and complexity of the business.
3. Reliability of information available
4. Relevance of information available.
5. Sources from which information is available i.e. internal/external sources.
6. Comparability of the information available.
7. Knowledge gained by the auditor in the previous year's audit.
8. Auditor's understanding of the effectiveness of the accounting and internal control systems and types of problems that in prior periods have given rise to accounting adjustments.

Extent of reliance that can be placed on Analytical Procedures:

The extent of reliance that the auditor places on the results of analytical procedures depends on the following factors:

1. Materiality of the items involved..
2. Other audit procedures directed towards the same audit objectives e.g. other procedures performed by the auditor in reviewing the collectability of accounts receivable.
3. Accuracy with which the expected results of analytical procedures can be predicted.
4. The auditor should also test the control over the preparation of information used in applying analytical procedures.

State III - Overall review at the end of the audit:

The auditor should apply analytical procedures at the end of the audit when of in overall conclusion as to the consistency financial statement with that of auditor's knowledge of the business. The drawn thereof is intended to corroborate the evidences found during the audit of individual element or components, of the financial statement. Where, based on analytical pr ocedures, the auditor concludes that he has to apply further procedures before forming conclusions, then he has to apply such procedures which he considers deemed fit.

Investigation of unusual items:

When analytical procedures identify major fluctuations or relationships that are inconsistent with other relevant information, the auditor should investigate and seek explanation from management and other corroborative evidences.

AAS – 15

AUDIT SAMPLING

Sample DUS METER

Audit Sampling – *Meaning* – Application of audit procedure on *Less than 100%* of items within a class of tr./A/c. Balance

- → It may be *statistical* or *non-statistical*.
- → It requires *skill and competence* on part of auditor.
- → Auditor should try his level best to choose sample which should be *true representative* of population.
- → Choosing all items above certain amount is not sampling.

Design of Audit Sample – It depends on following :

(i) *Audit Objective* – Specific objective and procedures.

(ii) *Population* – It should be appropriate.

(iii) *Stratification* – Dividing *heterogeneous* (different characteristics) population in more *homogeneous* (similar characteristics) sub-population. For getting same level of assurance, it results in smaller sample size.

Sampling Units – Individual units constituting the population.

Size of Sample – Auditor should consider overall population, tolerable error, expected error and sampling risk.

Method of Sampling – Each item in population should have equal chances of being chosen. Thus –

(1) *Random Sample* – use of random no table. Each sampling unit has equal probability of being selection.

(2) *Systematic Sample* – Having fixed interval, between any consecutive units selected. However, it can be adopted only when population is not structured in a way that it corresponds to a particular trend.

(3) *Haphazard Selection* – No intention to include/exclude a particular item. Equivalent to (1).

Expected Error - If auditor *expects error* in sample – *larger* sample size, otherwise smaller sample size.

Tolerable Error – *Maximum Error* in population that auditor is ready to accept for a given sample size.

Evaluation of Sample Results – *Steps* are as follows :

I^{st,} Step – Analysis of Error in Sample –

- – Judge whether an item is error or not.
- – If sufficient and appropriate evidence can't be obtained regarding a specific item, it could be an error.
- – Auditor to check < cause of error and its impact on other phases of audit.
- – Common trend in error → extended procedures.

IInd Step – Projection of Error –

- – Project it to entire population by appropriate method.

– Consider both quantitative and qualitative aspects of error found while projecting.

IIIrd Step – Reassessing Sampling Risk –

– If error in population > tolerable error;
– Either revise sampling risk or extend audit procedure.

Sampling Risk - It arises from possibility that auditor's conclusion based upon sample may be different from conclusion that would have been reached if complete population were subjected to same audit procedure.

– If auditor willing to accept less risk → large size of sample to be chosen.
– It is always there in sampling..

Sampling Risk

In Compliance Procedure	Risk of under reliance	Risk of over reliance
In Substantive Procedure	Risk of incorrect rejection	Risk of incorrect acceptance

→ Less risky → More risky

→ Leads to more work to be performed by auditor → May lead to erroneous opinion by auditor.

AAS – 16

Going Concern

Going Concern : an entity is said to be going concern if it is likely to continue in existence for foreseeable future.

⇒ It is a fundamental accounting assumption (AS-1).

Auditor's Consideration : whether going concern assumption adopted by management holds goods.

⇒ There may be indicators when auditor should adopt extended procedures.

Indicators :

Financial	Operating	Other
1. Negative net worth/working cap. proceedings	1. Loss of key management .without replacement.	1. Pending legal
2. Arrears / discontinuance of Govt. Policy Dividends entity	2. Loss of major market or or supplier.	2. Change in affecting the adversely.
3. Adverse financial ratio compliance with requirements	3. Labour unrest strikes etc.	3. Non- Statutory
4. Substantial losses (operating).	4. Loss of major licence, franchise, etc.	
5. Borrowings approaching maturity but no prospects of renewal / repayment		
6. Short term borrowing for long term asset financing.		
7. No payment to creditors on due date.		
8. No compliance with terms in loan agreement.		
9. Negative cash flow from operation.		
10. Rearrangement with creditors for reduction liability.		
11. Change from creditors to cash on delivery transaction with supplier.		

⇒ Such indications may be mitigated (compensating) by some positive factors. For example – labour difficulties may be solved by negotiations and compromises, or loss of some major supplier may be compensated by availability of some alternate source of supply.

⇒ But in case of question regarding going concern, auditor should obtain sufficient and appropriate evidence *e.g.*

1) Discussion with management.

2) Reviewing events after Balance sheet date.
3) Taking legal advice.
4) Analyse future plans of management.

Audit procedures – Conclusion and Reporting

If doubt regarding Going Concern Assumption
↓
Obtain Audit Evidence
↓
Evaluate those Evidences & Conclude whether
↓

Going Concern is concern Appropriate is not

Due to financial Mitigatory Factors
↓
auditor considers whether it needs to be disclosed in financial statements by the management report

If

Yes
↓
Ask mgt. to disclose the same

If mgt. do not disclose
↓
qualify the report

If mgt. discloses
↓
clean report/ modified (disclosure)

No
↓
clean report

Otherwise
↓
statements disclose clean *report*

Going concern is inappropriate

The effect is material pervasive
↓
Adverse report

Going question resolved

Whether and such fact

Yes
↓
Normally clean report

(But he may provide disclosure in his audit report as well)

No
↓
Modified report

(qualify

21. On 30th September, 2000 a company's issued and paid up capital was Rs.25 crores comprising of fully paid equity shares of Rs.10 each. This included Rs.50,00,000 capital issued for cash; Rs.4,50,00,000 capital issued for purchase of business; Rs.20 crores on issue of bonus shares from time to time by capitalizing various reserves including Rs.5 crores by capitalizing capital redemption reserve. The company had fixed assets costing Rs.2 crores on which depreciable provision was Rs.1.95 crores, which was equal to the full cost of depreciable assets. The balance Rs.5 lakhs represented the cost of land. It has discontinued its operations for last many years. The company had made investments in various companies to the tune of Rs.30 crores. Unfortunately, all the investee companies have turned out to be BIFR cases. Nothing is expected to be realized on such investments. The company has dues from customers totaling to Rs.4.95 crores of which Rs.4.90 crores are due from businesses, which have become defunct. The balance Rs.5 lakhs are due for over 3 years. The accumulated losses are Rs.10 crores. The amounts due to suppliers are Rs.3 crores and they are overdue. The balancing figure in the Balance Sheet refers to loan from Financial Institutions. Workers who had put in long years of service have lodged claims for termination benefits of Rs.10 crores, which have been decreed in their favour. No accounting entry has been passed for the same since the decree on 1-1-1997. In the light of AAS-16, relating to Going Concern, you are asked to write appropriate paragraph of audit report. Give reason for supporting your report. *(C.A. Final, Nov., 2000)*

Ans.: Considering these indicators and as per the facts of the case, the company is not a going concern as on September 30,2000 on account of following reasons :

(i) The company has discontinued its operations for last many years. Its productive fixed assets are fully depreciated. The only productive asset left is land worth Rs.5 lakhs.

(ii) The claim of workers for termination benefits amounting to Rs.10 crores though decreed on January 1, 1997 has not been provided for in the books of account. The accumulated loss of the enterprise would be much higher if these losses were provided for.

(iii) The amounts recoverable from customers totaling Rs.4.95 crores of which Rs.4.90 crores are due from business which are totally defunct are doubtful of recovery in its entirety. Even the balance amount is due for more than 3 years.

(iv) The company has not been able to pay to its suppliers amounting to Rs.3 crores which are overdue.

(v) The company's investment to the tune of Rs.30 crores are not realizable and are worthless in view of the fact that all investor companies have turned sick. The accumulated loss of the enterprise would be much higher if the loss on account of diminution in value of investment was provide for.

(vi) The balance figure for term loan from financial institutions works out to be Rs.17 crores as per records which the company is unable to pay.

(vii) The net worth of the company is completely eroded and there are no mitigation factors or any support from the group company or financial institution that would prevent its ultimate collapse.

Thus, in view of the aforesaid financial operating and other indicators, the assumption of going concern is not appropriate. Since the qualification is very material and all pervasive an adverse opinion rather than a 'subject' to qualification would be required.

Paragraph in the Audit Report. “The Company has discontinued its operations for last many years and has not been able to honour its obligation t creditors and financial institutions for quite some time. Thus total accumulated losses are Rs.54.5 crores (and not as…………. Reported).

After taking into account the above factors we are of the opinion that the company is not a going concern as on September 30, 2000 and, thus the using of going concern assumption in the preparation of financial statements is inappropriate.

In our opinion, considering the information given in preceding paragraph, the financial statements do not give a true and fair view of the financial position of the company at September 2002 and the results of its operations for the year that ended”.

AAS- 17
QUALITY CONTROL FOR AUDIT WORK

Objective - To establish standards on quality control:

a. Policies and procedures of an audit firm for audit work generally, and
b. Procedures regarding the work delegated to assistants on an individual audit.

Meaning of certain terms

a. Auditor -' The person with final responsibility for the audit.
b. Audit firm - A proprietary or a partnership firm providing audit service.
c. Personnel - All partners and professional staff engaged in the audit practiced of the firm.
d. Assistants - Personnel involved in an audit other than auditor.

Implementation of Quality Control - The audit firm should implement quality control policies to ensure that all audits are conducted in accordance with Auditing and Assurance Standard (AASs).

Essential factors for incorporating quality control in audit work - .

a. Professional Requirements - Adherence to basic principles such as independence, integrity, objectivity, confidentiality, etc.
b. Skills and competence - Audit personnel should have required degree of skill and competence.
c. Assignment - Audit work should be assigned only to competent personnel.
d. Delegation - There is to be sufficient direction, supervision and review of work at all levels.
e. Consultation - Consultancy within and outside the firm with experts.
f. Acceptance and Retention of clients - Evaluation of prospective client and review of existing client should be done.
g. Monitoring - Continued adequacy and effectiveness of quality control policies should be monitored.

   The firm's quality control policy should be effectively communicated to its personnel.

Quality control for Individual Audits - The quality control policies applicable to firm should be implemented for individual audits to the extent applicable. The audit work should be delegated to assistants with professional competence and should be appropriately directed and supervised. Audit assistants should be informed of the nature of business, accounting policies, possible accounting or auditing problems. They should be explained of what is expected of them and how to achieve it. They should be informed about the importance of audit programme, time budgets and overall audit plan.

Supervision - Persons with supervisory responsibilities should

a. Monitor the progress of audit;
b. Become informed of and address significant accounting and auditing questions raised during the audit;
c. Resolve the differences of professional judgment and consider the level of consultation as appropriate.

Review - Review of work of audit staff should be carried out to ensure that the:

a. Work has been performed as per the audit programme.
b. Work performed has been adequately documented.
c. All significant matters have been resolved or are reflected in audit conclusions.
d. Objectives of the audit procedures have been achieved, and
e. Conclusions expressed are consistent with the work performed.

Matters to be reviewed On a timely basis

a. Overall audit plan and the audit programme.
b. Assessment of inherent and control risks.
c. Changes to be made to audit plan and programme.
d. Documentation of the audit evidence obtained from substantive procedures and the conclusions drawn there from.
e. Any amendment to the financial statement arising out -of the auditor's examination, and the auditor's proposed observations / report.

Persons not connected with audit may be requested to perform additional procedures before issuing the auditor's report.

AAS-18

AUDIT OF ACCOUNTING ESTIMATES

Accounting Estimate -An approximation of an item in the absence of a precise means of measurement. For example, provision for taxation, provision for warranty claims, provision for a loss from a law suit, accrued revenue etc.

Responsibility for Accounting Estimates - Management is responsible for making accounting estimates included in financial statement.

Nature of Accounting Estimates - The determination of accounting estimates may be simple or complex, depending upon the nature of the item. Accounting estimates may be determined as part of the routine accounting system operating on a continuous basis, or may be non-routine only at the end of the period. The uncertainly associated with an item, or lack of. objective data may make it incapable of reasonable estimation.

Audit Procedures - The auditor should ensure that an accounting estimate is reasonable in circumstance, and when required, is appropriately disclosed in the financial statements. Following approaches should be used in the audit of an accounting estimate

a. Review and test the process used by management to develop the estimate.
b. Use an independent estimate for comparison with that prepared by management, or
c. Review subsequent events, which confirm the estimate made.
d. Obtain external evidence, where possible, to corroborate internal evidence.
e. Evaluate the data and assumptions on which the estimate is based and ensure reasonableness and consistency of assumptions.
f. Use of experts in case of complex estimating process
g. Review the counting appropriateness of formula used by management.
h. Test the calculation procedures used by management.
i. Where possible, compare accounting estimates made for prior periods with actual results of those periods.

Evaluation of Results of Audit Procedures - The final assessment of an accounting estimate would be based on the auditor's knowledge of the client's business and its consistency with other audit evidence obtained during the audit. If he of the opinion that the accounting estimates prepared by the management is significantly different from that assesses the auditor, he should request the management to revise the same, If the management refuses to revise the estimate, it would be considered a misstatement and the auditor would need to consider its effect on the financial statements.

AAS – 19Subsequent Events

Subsequent Event : Significant events occurring between Balance sheet date and Auditor Report's date.

Auditors duty and Audit procedures :

- ⇒ Ensure that all events upto AR date requiring adjustment/disclosure (as per AS-4) in f. statement have been identified and incorporated.
- ⇒ Review management's procedure for identification of sub events.
- ⇒ Inquiring entity's lawyer regarding litigation.
- ⇒ Reading entity's latest interim f.st., budgets. Cash flow statements/forecasts, etc.
- ⇒ Reading minutes of meetings of shareholders, B.O.D. and other executive committees.
- ⇒ Inquiring management about significance of sub events.
- ⇒ If another auditor audits the component of entity, principal auditor should make similar enquiries and procedures w.r.t component regarding events between another auditors report and principal auditor's report.

Reporting : If management doesn't agree for such events which as per auditors opinion should be incorporated then qualify / adverse report.

(31 / 3 – 4 / 6) AS – 4 Events occurring after B/S Date

Events Confirming	*Events confirming*	*Events*
		affecting
Conditions existed	conditions which arise	going
		concern
At B/S date	after B/S date	
↓	↓	↓
Adjustment in f. st.	No adjustment. If material,	Adjusted
		in
	Then only disclosure.	*f. st.*

AAS 20 - KNOWLEDGE OF THE BUSINESS

Obtaining the knowledge -

⇒ Auditor should obtain knowledge of the business to identify/understand the events transactions and practices that may have a significant effect on financial statements or audit report.

⇒ General knowledge of economy and industry (level of auditor's knowledge is less than that of management).

⇒ Knowledge at the start of the engagement updation during audit.

⇒ Continuous need for knowledge (knowledge is refined and added in later stages of Audit).

⇒ In continuous engagement, he'll update information to identify significant changes since last audit.

Sources : For *E.g.*:

(i) Previous Experience.

(ii) Discussion with people with entity.

(iii) Discussion with internal auditor.

(iv) Discussion with other auditor (Advisor).

(v) Discussion with knowledgeable people outside entity.

(vi) Publication.

(vii) Legislation and Regulation.

(viii) Visits to entity/plant.

(ix) Documents produced by entity (minutes, manuals, plans), etc.

Knowledge assist him in following :

i) Assess risk and problems

ii) Plan and perform audit effectively.

iii) Evaluating audit evidence.

Better service to clients.

AAS – 21

Consideration of Law and Regulation in an audit of f.st.

Non-Compliance : Act of *commission / omission* by entity (intentional / unintentional), which are *contrary* to prevailing laws or regulation.

→ Management's responsibility to ensure that entity's operations are *conducted as per laws and regulations.*

→ Management's responsibility for *prevention and detection* of non-compliance.

→ Management should –

(i) Monitor legal requirements.
(ii) Design and operate proper I.C.
(iii) Develop publicise and follow code of conduct.
(iv) Training to employees.
(v) Monitor compliance with code of conduct.
(vi) Establish legal department.
(vii) Maintain register of significant laws.
(viii) In larger entity, to ensure these responsibilities may be assigned to Internal auditor or Audit committee.

Auditor's Consideration :

→ Auditor is/can *not* be held *responsible* for preventing non-compliance.

→ The *risk* of non-detention of non-compliance is *higher.*

→ But audit may reveal condition/events compliance.

→ Thus he should accordingly plan and perform audit. For this, he should perform :

1. He should obtain *general understanding* of (A) Legal and regulatory *framework* applicable to entity and (B) How entity comply with it.
2. Perform procedures to *identity non-compliance* to be considered when *preparing f.st. specifically.*

   Inquire mgt. as to compliance

   Inspect correspondence with relevant authorities
3. Sufficient and appropriate evidence for compliance with those laws and regulation having effect on material amounts and disclosures in financial statement. (*such laws are known and considered w.r.t. f. st.)*

→ Except 1, 2, 3, auditor need not test compliance.

→ However, there may be instances of possible non-compliance came to auditors notice (*fine penalty, etc.)*

→ Written MRL → that management has disclosed to auditor all known / possible non-compliance effecting preparation of f. st.

Procedures : When *non-compliance is discovered :*

→ Understanding nature/circumstances etc. to evaluate possible effect on f.st.

→ Documentation and discuss with management.

→ May consult entity's lawyer.

→ Consider implication of non-compliance w.r.t. other phases of audit (*Reliability of MRL*).

→ If unable to obtain information about suspected non-compliance – consider its effect on A.R.

Communication / Reporting of non-compliance :

To Management	**To Users of A.R.** **If he**	**To Regulatory Authorities**
→ Communicate it to ------- BOD and Senior mgt.	Concludes that Is unable to determine Non-compliance has non-compliance due to Mat. Effect on f.st. limitations imposed by ↓ or qualify/adverse Mgt./Entity Circumstances ↓ ↓ Qualify / disclaim Consider its Effect on AR	Only if required by statute etc.

Withdrawal from Engagement :

→ He may withdraw if management doesn't take remedial steps considered necessary by auditor, even if non-compliance is not material to f.st.

→ He may seek legal advice (*e.g.* Management involvement in non-compliance)

→ When incoming auditor communicates, tell him *reasons* of such withdrawal (not of its affairs)

AAS – 22 [Initial Engagements – Opening Balance

Initial Engagements :

(i) When financial statements are audited for 1st time or
(ii) Some other auditor audited the financial statement for preceding period.

Opening Balance :

A/c. Balances existing at beginning of the period *i.e.* closing balance of preceding period b/f to current period.

⇒ It reflects the effect of :
(i) Transaction / Events of preceding period, and
(ii) A/c. policies applied in preceding period.

Evidence :

Obtain sufficient app. evidence that :
(a) *Correctly b/f.*
(b) Opening Balance *don't* contain *misstatements* affecting current pd. f.st. and
(c) *Consistent* application of appropriate *A/c. policy*.

Audit Procedure :

He should consider :
(i) A/c. policy followed by entity.
(ii) Type of preceding period's. A.R. – clean / modified
(iii) Nature of opening Balance – risk of misstatement.
(iv) Materiality of opening balance for current pd's f.s.t.

⇒ **Financial Statement for preceding period**

Audited by some other Auditor

Sufficient App. evidence (for Op. bal.)
by having audited financial statement

or

Procedure
Evidence as
procedure during
check records
balance or

Generally reliance
on them

During C.Y. audit,
indication of
misstatement in
opening balance
↓
Extended procedures

Not Audited

Extended

(i) **CA & CL:** Audit part of audit current year.
(ii) **Others :** may underlying op. seek external confirmations.

Audit Conclusion & Reporting :

- ⇒ If unable to obtain sufficient app. evidence regarding opening balance – qualified / disclaimer.
- ⇒ If opening balance contain misstatement affecting C.Y. financial statement and which is not properly incorporated disclosed in financial statement – qualified / adverse.

AAS-23
RELATED PARTIES

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding the identification and disclosure by management of related parties and the related party transactions that are material to the financial statements.

Existence and Disclosure of Related Parties :

1. He should -
   a. Review the entity's procedures for identification of related parties.
   b. Review his working papers for the prior year for names of known related parties.
   c. Review shareholders records to determine the names of principal shareholders or appropriate, obtain a list of principal shareholders form the share register,
   d. Review the joint venture and other relevant agreements entered into by the entity.
   e. Review statutory records like memorandum and articles of association, minutes of board and shareholders' meetings and other relevant records such as register of director's interest.
2. Where the financial reporting framework requires disclosure of related party relationships, the auditor should satisfy himself that the disclosure is adequate.

Transactions with Related Parties :

1. The auditor should review information provided by directors and key management personnel of the entity identifying related party transactions. During the course of the audit, the auditor should carry out detailed procedures, which may identify the existence of transactions with related parties.
2. The auditor needs to be alert for transactions, which appear unusual in the circumstances and may indicate the existence of previously unidentified related parties.

Examine Identified related party transactions:

1. 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.
2. Given the nature of related party relationships, evidence of related party transactions may be limited. Because of such transactions, the auditor would consider performing procedures such as:
   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.

Management Representations:

The auditor should obtain a written representation from management regarding:

a. The completeness, accuracy and validity of information provided regarding the identification of related parties; and

b. The adequacy of related party disclosure in the financial statements.

Audit conclusion and Reporting:

If he is unable to obtain sufficient appropriate audit evidence concerning related parties and transactions with such parties or concludes that their disclosure in the financial statements in not adequate, he should express a qualified opinion or a disclaimer of opinion in his audit report, as may be appropriate.

AAS-24

AUDIT CONSIDERATIONS RELATING TO ENTITES USING SERVICE ORGANISATIONS

The Auditor should consider how a service organisation affects the client's accounting and internal control systems so as to plan and develop an effective audit approach.

Considerations for The Auditor of the Client
When the services provided by service organisations are limited to recording and processing of transactions of the client and the client retains authorization and maintenance of accountability, the client might be able to implement effective policies and procedures within its organisations. However, the client may have to rely upon the policies and procedures of the service organisation where the latter executes the transactions and maintains accountability on behalf of the client.

While planning his audit, the auditor should determine the significance of activities performed by the service organisation and their relevance to the audit. In doing so the auditor should consider:

- Nature of the services provided.
- Terms of contract.
- Material financial statement assertions that are affected by the use of the service organisation.
- Inherent risks associated with those assertions.
- Extent to which the client's systems interact with those of the service organisation.
- Client's internal controls that are applied to the transactions processed by the service organisation.
- The capability and financial strength of the service organisation.
- Documentation of systems manual of the service organisation.
- Information available on general controls and computer systems controls relevant to the client's application.
- Reports of the auditor or internal auditor of the service organisation.

When the auditor of the client concludes that the activities of the service organisation are significant to the entity and to his audit, he should obtain sufficient understanding of the service organisation's accounting and internal control system. If the information he is able to gather is insufficient, he should consider the need to request the auditor of the service organisation to furnish him information on specified areas.

Service Organisation's Auditor's Report
When the auditor of the client uses the report of the auditor of service organisation, he should consider:

a) The professional competence of the reporting auditor; and
b) Nature and content of the report.

The report submitted to the client's auditor would ordinarily be one of the two types as follow:

Type A - Report of Suitability of Design

The contents of this report are

a. A description of the service organisation's accounting and internal control System; and

b. An opinion by the service organisation's auditor that

   i. The above description is accurate;

   ii. The systems controls have been placed in operation; and

   iii. The accounting and internal control systems are suitably designed to achieve their stated objectives.

Such reports help the auditor of the client in obtaining an understanding of the accounting and internal control systems installed and operated by the service organisation.

Type B -Report on Suitability of Design and Operating Effectiveness

The contents of the report are

a. A description of the service organisation's accounting and internal control systems;

b. An opinion by the service organisation's auditor that:

   i. The above description is accurate;

   ii. The systems controls have been placed in operation;

   iii. The accounting and internal control systems are, suitably designed to achieve the stated objectives; and

   iv. The accounting and internal control systems are operating effectively based on the results of the tests of control.

In addition to the report on operating effectiveness, the service organisation's auditor should identify the tests of controls performed and their results.

The client's auditor should consider whether the controls tested by the other auditor are relevant to the client's transactions. The client's auditor can also use such reports as an evidence of lower control risk assessment. Based on the control risk assessment, the client's auditor determines the nature, timing and extent of substantive procedures. He may also request the auditor of the service organisation to perform substantive tests in certain areas. However the audit report of the client should not contain reference to the report received from the service organisation's auditor.

AAS – 25 COMPARATIVES

COMPARATIVES FINANCIAL REPORTING – FRAMEWORK

Comparatives :

<u>Corresponding figures</u>

Amount and other disclosures for preceding disclosures for
Period are included as part of Current year included for
Financial Statement (Applicable in India part of
and thus covered by AAS – 25) statement

<u>Comparative f. st.</u>

Amount and other
preceding period are
comparison but not form
Current year financial
(Not applicable in India)
(Not covered by AAS – 25)

Auditor's responsibility :

⇒ Sufficient & Appropriate evidence that corresponding figures meet requirement of relevant financial reporting framework.

⇒ Extent of audit procedure is less for corresponding figures as compared to current period figure.

⇒ He should assess whether –
(ii) *A/c. policies* used for corresponding figures are *consistent* with those of C.Y. figures. (or whether appropriate adj./ disclosure made)
(iii) Corresponding figure *agree* with amount and disclosure in prior period (or whether appropriate adj./ disclosure made) Also take care of AAS – 22.

Reporting :

Auditor Report (opinion) is on current period financial statements as a whole, including corresponding figures.

Auditor's Report on Previous Period

Modified
Unqualified/clear

Auditor to check whether matter giving comes across
rise to such modification is affecting prior

disclosed by mgt.
Resolved by mgt. unresolved
↓ ↓
Clear report Modify regarding corres-
(If material, then ponding figure.

But during audit procedures
a material misstatement,
years financial statement.
⇓
Audit or examine whether

Yes No
↓ ↓

may highlight in ↓ (Clear, may modify regarding
his AR) whether affects C.Y. figures highlight in corresponding
in his A.R.) figure.

Yes **No**
Modify regarding C.Y. figures also X

⇒ If prior pd[s] f.st. not audited, state in AR that corresponding figures are un-audited.

AAS-26

TERMS OF AUDIT ENGAGEMENT

The auditor and the client should - agree on the terms of the engagement. The agreement should be in writing.

Audit Engagement Letters: The auditor should send an engagement letter, preferably before the commencement of the engagement, to help avoid any misunderstanding.

Principal contents of audit engagement letter

a. Objective of Audit of financial statements.
b. Management's responsibility for the financial statements.
c. Management's responsibility for selection and consistent application of accounting policies and accounting standards.
d. Management's responsibility for preparing the financial statements on a going concern basis.
e. Management's responsibility for making judgements and estimates that are reasonable and prudent.
f. Management's responsibility for the maintenance of adequate records and internal controls.
g. The scope of audit, including reference to applicable legislation, regulations, etc.
h. The fact that having regard to test nature of an audit, persuasive rather than conclusive nature of audit evidence together with inherent limitations of internal control system, there is an unavoidable risk that some fraud and error may remain undetected.
i. Unrestricted access to whatever records, documentation and other information requested in connection with audit.

Additional matters in the engagement letter

a. Planning of the audit
b. Written confirmation from management in connection with audit
c. Request for the client to confirm the terms of engagement by acknowledging the receipt of the engagement letter.
d. Any other reports or letters the auditor expects to issue.
e. Fees and billing arrangements.
f. Involvement of other auditors and experts
g. involvement of internal auditors and other staff of the client.
h. Arrangement with predecessor auditor.
i. Any restrictions of the auditors liability, where such possibility exists.

Audit of Components (e.g. Subsidiary, Branch, Division, etc)
When the auditor of parent company is also the auditor of its subsidiary, branch or division, he should consider certain factors like legal requirements, independence of management, degree of ownership by parent, extent of work performed by other auditors etc in deciding whether to issue separate engagement letters.

Recurring Audits
The auditor should consider whether the circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the

existing terms of the engagement.

Acceptance of a change in engagement

- In case an auditor. is requested to change the engagement to one that provides a lower level of assurance before completion of the engagement, he should consider the appropriateness of doing so and should agree on the new terms.
- A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting change in engagement.
- Before agreeing to change, the auditor should consider, any legal or contractual implications of the change.
- Where the terms of engagement are changed, the auditor and client would agree on new terms.
- The auditor would not agree to change of engagement if there is no reasonable justification for doing so.
- If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, he should withdraw from the engagement and consider any obligation to report the circumstances necessitating the withdrawal to other parties, viz. Board of directors or shareholders.

AAS-27

COMMUNICATIONS OF AUDIT MATTERS WITH THOSE CHARGED WITH GOVERNANCE

Governance: The term "governance" is used to describe the role of persons entrusted with supervision, control and direction of an entity.

Audit Matters of Governance interest: Those matters that arise form the audit of financial statements and are in the opinion of the auditor, both important and relevant to those charged with governance in overseeing the financial reporting and disclosures process.

Relevant Persons:

a. The auditor should determine relevant persons who are charged with governance and with whom the audit matters of governance interest and to be communicated.
b. The auditor uses his judgment to determine the relevant persons.
c. He considers the governance structure of the entity the circumstances of engagement, relevant legislations, etc.
d. He also considers the importance and sensitivity of the audit matters.
e. Where it is not possible to identify the relevant persons, the auditor comes to an agreement with the entity with whom the audit matters of governance are to be communicated.
f. Communications of governance matters may be included in the audit engagement latter.
g. The engagement letter may include the form of communications and the relevant persons with whom such communications shall be made.

Audit matters *of* governance interest to be communicated.

a. The general approach and overall scope of audit
b. Any expected limitation or any additional requirements
c. The selection of or changes in, significant accounting policies and practices, that have or could have a material effect on the entity's financial statements.
d. Audit adjustments that could have a significant effect on the entity's financial statements or auditor's report.
e. Material uncertainties that may cast a doubt on the going concern assumption.
f. Disagreement with management that could be significant to entity's financial statement or auditors report.
g. Expected modifications to the auditor's report.
h. Material weakness in the internal control system.
i. Questions regarding management's integrity and fraud involving management.

Timely communications: The auditor should communicate the audit matters of governance interest on a timely basis. This enables those charged with governance to take appropriate action.

Forms *of* communications: The communications can be made orally or in writing. The form is affected by factors such as:-

a. The size, operating structure, legal structure and communications process of the entity.
b. The nature, sensitivity and significance of the audit matters to be communicated.

c. The arrangement made with respect" to periodic meetings or reporting of audit matters of governance interest.

Oral Communications of audit matters: In this case, the auditor should document in the working paper the matters communicated and any responses to those matters.

Other matters: Communications between the auditor and those charged with governance cannot be regarded as a substitute for such qualified, adverse or disclaimer of opinion.

Confidentiality: The requirements of professional pronouncements, legislations or regulations may impose obligations of confidentiality that restrict the auditor's communications of audit matters of governance interest. In such cases the auditor may wish to consult a legal counsel.

Laws and regulations: The requirements of professional pronouncements, legislations or regulations may impose obligations on the auditor to make communications on governance related matters. These additional communications requirements may affect the form, content and timing of communications with those charged with governance.

AAS-28

The Auditor's Report on Financial Statements

Basic elements of an Auditor's Report

a. **Title:** It may be appropriate to use the term "Auditor" to distinguish the auditor's report from report issued by others.

b. **Addressee:** The auditor's report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations.

c. **Opening or Introductory paragraph:** The report should identify the financial statements that have been audited including the date and period covered by the financial statements. The report should include a statement of responsibility of the entity's management and of the auditor.

d. **Scope paragraph:** The report should describe the scope of the audit by stating that the audit was conducted in accordance with the auditing standards generally accepted in India. The report should include a statement that the audit provides a reasonable basis for opinion.

e. **Opinion paragraph:** The report should clearly indicate the financial reporting framework used to prepare the financial statements and express an opinion on the true and fair view in accordance with that financial reporting framework and where appropriate the compliance with the statutory and /*or* regulatory requirements.

f. **Date of the report:** The report should be dated as of the completion date of the audit, which should not be earlier than the date on which the financial statements are signed or approved by the management.

g. **Place of signature:** The report should name the specific location which is ordinarily the city where the audit report is signed.

h. **Auditor's signature:** The report should be signed in the name of the firm, the personal name of the both as appropriate.

Auditor's Report

The auditor should incorporate in his report, the matters specified by a statute or regulator and/or report in the form prescribed by them in addition to the requirements prescribed above.

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for preparation and presentation of the financial statements.

Under following situations auditor's report may have to be modified:

- Matters that do not affect the auditor's opinion.
- Matters that do affect the auditor's opinion including qualified opinion, disclaimer of opinion or adverse opinion.

In respect of matters that do not affect the auditor's opinion, the auditor should modify the report by adding a paragraph to highlight a matter for example some uncertainty regarding a going concern problem which is unresolved ,or a significant uncertainty the resolution of which is dependent on future events and which may significantly affect the financial statements and the same has already been incorporated by management in financial statement. In such matters, the opinion paragraph would refer to the fact that the auditor's opinion is not qualified in this respect.

Matters that do affect the auditor's opinion: The AAS specifies that in respect of matters that do affect the auditor's opinion

a. A 'qualified opinion' should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with the management is not so material and pervasive as to require a adverse opinion, or limitation on scope is not material and pervasive as to require a disclaimer of opinion.
b. A 'disclaimer' of opinion' should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor is unable to obtain sufficient appropriate audit evidence and is hence unable to express an opinion on the financial statements.
c. An 'adverse opinion' should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is inadequate to disclose the misleading or incomplete nature of the financial statements.

Opinion other than an unqualified opinion: Whenever the auditor requires an opinion other than unqualified, a description of all the substantive reasons should be included in the report and quantification of the possible effect(s), individually and in aggregate, on the financial statements should be mentioned in the report.

Limitation on Scope: The AAS also requires that in case there is a limitation on scope that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments that might have been necessary had the limitations not existed.

AAS- 29

INFORMATION SYSTEMS ENVIRONMENT

Computer Information Systems (CIS): CIS environment. is one where one or more computers of any type or size is involved in the processing of financial information of significance to the audit, where those computers are operated by the entity or by a third party.

Factors to determine the effect of CIS' environment on the audit

a. The extent to which CIS environment is used to record, compile and analyse accounting information.

b. The system of internal control in existence in the entity with regard to flow of complete and correct data to the processing centre and the processing, analysis and reporting tasks undertaken in the installation.

c. The impact of computer based accounting system on the audit trail that would otherwise exist in a manual system.

Skills and competence needed in CIS environment: The auditor should have sufficient knowledge of the CIS to plan, direct, supervise, control and review the work performed. He should consider whether any specialized skills are needed in the conduct of the audit.

If the use of professional possessing specialized skill is planned, the auditor should in accordance with AAS- 9 "Using the work of an expert" obtain sufficient, appropriate audit evidence that the work performed by the expert is adequate for the purpose of the audit.

Planning an audit in CIS environment'

a. The auditor should obtain an understanding of the accounting and internal control systems, sufficient to plan the audit and to determine the nature, timing and the extent of audit procedures.

b. In planning the portions of the audit, which may be affected by the environment, the auditor should obtain an understanding of the significance and complexity of the CIS activities and the availability of data for use in the. audit.

Matters to be considered while planning

a. The CIS infrastructure (hardware, operating systems) and application software used by the entity.

b. Significance and complexity of computerized processing in each significant accounting application.

c. Determination of the organizational structure of the client's CIS activities and extent of concentration or distribution of computer processing throughout the entity.

d. Determination of availability of data.

e. Potential for Computer Assisted Audit Techniques.

Nature of risks and the internal control characteristics in CIS environments

(a) ***Lack of transactions trails*** – Some CIS may provide complete transaction trail, however some may not provide it (OLRT). If there is absence of trail, the risk will be high (IR + CR).

(b) ***Uniform processing of transactions*** **–** Uniform processing of transaction can eliminate clerical errors which are there with manual processing. However, programming errors may occur.

(c) ***lack of segregation of functions*** **–** The extent of segregation of functions present in manual systems may not be there in CIS environment. Thus, an individual performing many computer related works may be in a position to perform incompatible function.

(d) ***Potential for errors and irregularities in the development, maintenance and execution of Computer Information System*** **–** The potential for human error in development, maintenance & execution of CIS may be greater than in manual system (due to technical incompetence).

(e) ***Initiation or execution of transaction automatically may not be authorized or documented*** **–** CIS may initiate certain transactions automatically. The authorization of these transactions may not be documented (for Ex. – ERP)

(f) ***Dependence of other controls over computer processing*** **–** Manual control procedure may also be used while implementing CIS.

(g) ***Potential for increased management supervision may serve to enhance the entire internal control structure*** **–** If management uses all the technologies & tools to review & supervise the CIS department of entity, the risk will be reduced.

(h) ***Potential for use of computer-assisted audit techniques*** **–** Due to peculiarities of some transaction and systems, auditor may be required to apply CAAT.

Evaluating the reliability of the Accounting and Internal Control Systems These systems should

a. Ensure that authorized, correct and complete data is made available for processing.
b. Provide for timely detection of errors.
c. Ensure that in case of interruption in the working of the CIS environment due to power, mechanical or processing failures, the system restarts without distorting the completion of entries or records.
d. Ensure the accuracy and completeness of the output.
e. Provide adequate data security against fire and other calamities, wrong processing, fraud, etc.
f. Prevent unauthorized amendments to the programs.
g. Provide for safe custody of the source code of the application software and the data files.

Assessment of Risk: Based on an understanding of the CIS environment, the auditor should make an assessment of inherent and control risks for material financial statements in accordance with AAS- 6 "Risk Assessments and Internal Control".

Audit Procedures: The auditor should consider the CIS environment in designing audit procedures to reduce audit risk to an acceptably low level. He should ensure that adequate procedures exist to ensure that the data transmitted is correct and complete.
.

Documentation:

a. He should document the audit plan, the nature, timing and the extent of audit procedures performed and the conclusions drawn from the evidence obtained.
b. In CIS environment, some of the audit trail may be in the electronic form. He should satisfy himself that such evidence is adequately and safely stored and is retrievable in its entirety as and when required.

AAS-30

EXTERNAL CONFIRMATIONS

1. **Objective:** To establish standards on the auditor's use of external confirmations as a means of obtaining audit evidence.
2. **External Confirmation** :- It is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by the management.

   The auditor should determine whether the use of external confirmations is necessary.
3. **Process of External Confirmations:**
   a. Selecting the items for which confirmations are needed.
   b. Designing the form of the confirmation request.
   c. Communicating the confirmation request to the appropriate third party.
   d. Obtaining response from third party.
   e. Evaluating the information or absence thereof.
4. **Situations where External Confirmations may be used:**
   a. Accounts balances and their components
   b. Terms of agreement or transactions with third parties.
   c. Bank Balance and other information from bankers.
   d. Stock held by third parties.
   e. Property title deeds held by third parties.
   f. Investments purchased but delivery not taken.
   g. Loans from lenders
   h. Long outstanding share application money.
5. **Reliability of evidence obtained by External Confirmations:**

It depends on -
   a. The application of appropriate procedures by the auditor in designing the external confirmation.
   b. Performing external confirmation procedure and evaluating the request of the external confirmation procedures.
   c. The control which the auditor exercises over confirmation request and responses.
   d. The characteristics of respondents
   e. Any restrictions included in the response or imposed by management.

6. **Relationship of, External Confirmation Procedures to the Auditor's Assessment of Inherent Risk and Control Risk.**
   The auditor should assess whether the evidence provided by the confirmations reduces audit risks for the related assertions to an acceptably low level. If the auditor is satisfied that the evidence provided by the confirmations alone is not sufficient, he should perform additional procedures.
7. **Assertions Addressed by External Confirmations -** The ability of an external confirmation to provide evidence relevant to a particular financial statement assertion varies.

The external confirmation of an account receivable provides strong evidence regarding' the existence of the account as at a certain date. Confirmations also provides evidence regarding the operation of cut-off procedures. However, such confirmation does not provide all the necessary audit evidence relating to the assertion regarding valuation.

When obtaining evidence for assertions not adequately addressed by confirmations, the auditor considers other audit procedures to complement confirmation procedures or to be used instead of confirmation procedures.

8. **Timing of External Confirmations -** External confirmation may be requested either at the date of financial statements or as at any other selected dates close to the date of financial statements. The date may be settled in consultation with the management. When the level of inherent and control risk is high, the auditor may decide to confirm balances at a date other than the period end.

9. **Design of the External Confirmation Request–**The auditor should design external confirmation requests to the specific audit objective.

10. **Nature of Information being confirmed -** In designing the request, the auditor consider the type of information respondents will be able to confirm readily since this may affect the response rate and the nature of evidence obtained. Respondents will be more willing to a confirmation request containing management authorisation.

11. **Prior Experience -** The auditor should consider the information from audits of earlier years while designing external confirmation requests.

12. **Form of confirmation request–** Use of Positive and Negative Confirmations:

***Positive confirmation request* -** It asks the respondent to reply to the auditor in all cases either by indicating the respondent's agreement with the given information, or by asking the respondent to fill in information.

***Negative confirmation request* -** It asks the respondent to reply only. in the event of disagreement with the information provided in the request. Negative confirmation request should be used when:

a. the assessed level of inherent and control risk is low;
b. a large number of small balances is involved;
c. a substantial number of errors is not expected; and
d. the auditor has no reasons to believe that respondents will disregard these requests.

A combination of positive and negative combinations may be used.

13. **Characteristics of Respondents**

The reliability of evidence is affected by the respondent's competence, independence, authority to respond, knowledge of the matter being confirmed, and objectivity. Therefore, the confirmation request should be directed to appropriate individual.

The auditor also assesses whether certain parties may not provide an objective or unbiased .response to a confirmation request. The auditor considers the effect of such information on designing the confirmation request and evaluating the results, including determining whether additional procedures are necessary.

14. **The external confirmation process -**

- The auditor should maintain control over the process of selecting those to whom a request will be sent, the preparation and sending of confirmation requests, and the responses to those requests.

- He should ensure that it is he (the auditor) who sends out the confirmation requests, the requests are properly addressed, and that it is requested that all replies and the undelivered confirmations are delivered directly to the audit.
- He should perform alternative procedures when no response is received to a positive external confirmation requests.
- The auditor should consider whether there is any indication that external confirmations received may not be reliable.
- The auditor should also consider the authenticity of the response and perform appropriate procedures to dispel any doubts. Oral confirmations should be documented in work papers.
- If the confirmation process and alternative procedures have not provided sufficient appropriate audit evidence regarding an assertion, the auditor should undertake additional procedures to obtain sufficient appropriate audit evidence.
- Any discrepancy revealed by the external confirmations received or by additional procedures carried out by the auditor might have a bearing on the assertions and the accounts within the given assertion not selected for external confirmation. The auditor in such a case, should request the management to verify and reconcile the discrepancies.
- He should also consider the causes and frequency of exceptions reported by respondents. If the responses received indicate a pattern of misstatements, the auditor should reconsider his assessment of inherent and control risk and also consider the effect on his audit procedures.

Management Requests

When the auditor seeks to confirm certain balances or other information, and management requests the auditor not to do so, the auditor should consider whether there are valid grounds for such a request and obtain evidence to support the validity of management's requests. The auditor should also seek the management to submit its request in a written form, detailing therein the reasons for such request.

If the auditor agrees to managements requests not to seek external confirmation regarding a particular matter, the auditor should –

a. document the reasons for acceding to the management's request; and
b. apply alternative procedures to obtain sufficient appropriate evidence.

If the auditor does not accept the validity of management's request and is prevented from carrying out the confirmations, there has been a limitation on the scope of the auditor's work and the auditor should consider the possible impact on the auditor's report. The auditor should, however. in this case also, document the request made by the management along with the reasons given by the management as well as his own reasons for acceding to the management's request.

AAS – 31
ENGAGEMENTS TO COMPILE FINANCIAL INFORMATION

1. **OBJECTIVE –** To establish standards on professional responsibilities of an accountant when an engagement to compile financial statements or other financial information is undertaken and form and content of the report to issued in connection with such a compilation so that the association of name of the accountant with such financials is not misconstrued by a user of those statements or information as having been audited by him.

2. **OBJECTIVES OF A COMPILATION ENGAGEMENT –** The objective of a compilation engagement is an accountant to use accounting expertise, as opposed to auditing expertise, to collect, classify summarize financial information. This requires reducing detailed data to manageable and understandable form without the requirement to test the assertions underlying that information.

3. **GENERAL PRINCIPLES OF A COMPILATION ENGAGEMENT –** The accountant should comply with the "Core of Ethic" issued by ICAI. The ethical principles are –
   (a) Integrity;
   (b) Objectivity;
   (c) Professional Competence and due care;
   (d) Confidentiality;
   (e) Professional conduct; and
   (f) Technical Standards

   If the accountant is not independent, a statement to that fact should be made in the accountant's report. When an accountant's name is associated with financial information compiled by him, the accountant should issue a report.

4. **RESPONSIBILITY OF MANAGEMENT –** It includes –
   (a) Ensuring that the financial information generated in the entity is correct, complete and reliable.
   (b) Maintaining adequate accounting and other records and internal controls.
   (c) Selecting and applying appropriate accounting policies.
   (d) Establishing controls designed to safeguard the assets of the entity.
   (e) To deter fraudulent or other dishonest conduct and to detect any fraud that occurs.
   (f) Assuring that the entity complies with laws and regulation applicable to its activities.

   A compilation engagement carried out by the accountant does not relieve the management of these responsibilities. The accountant should obtain an acknowledgement from the management of its responsibility for the appropriate preparation and presentation of financial statements or other information.

5. **DEFINING THE TERMS OF THE ENGAGEMENT –** The accountant should ensure that there is a clear understanding the terms of the engagement by means of an engagement letter helps avoid misunderstanding regarding matters such as the objective and scope of the engagement and the extent of the auditor's responsibilities. The engagement letter would include –
   (a) Nature of the engagement
   (b) Fact that the engagement can't be relied upon the disclose frauds or defalcations
   (c) Nature of the information to be supplied by the client.

(d) Fact that the management is responsible for –

i. Accuracy and completeness of the information supplied including maintenance of adequate accounting records and internal control.
ii. Preparation and presentation of financial statements in accordance with applicable laws.
iii. Safeguarding the assets of the entity and preventing and detecting fraud and other irregulations.
iv. Ensuring that activities of the entity are carried in accordance with applicable laws and regulations.
v. Ensuring complete disclose of all material and relevant information to the accountant.

(e) Intended use and distribution of the information, once compiled.
(f) Basic of accounting on which financial information is to be compiled.
(g) The fact that the management is responsible to the users for the information to be compiled by the accountant.
(h) Basis on which fees would be computed and any billing arrangements.
(i) Request for the client to confirm the forms of engagement by acknowledging the receipt of the engagement letter.

6. PLANNING AND DOCUMENTATION – The accountant should plan the work so that an effective engagement will be performed. He should document matters which care important in providing evidence that the engagement was carried out in accordance with this Auditing and Assurance Standard and the terms of the engagement.

7. PROCEDURES –

(a) The accountant should obtain a general knowledge of the business and operation of the entity and should be familiar with the accounting and practice of the industry in which the entity operates.
(b) He should be familiar with the form and the content of financial statements / other financial information which is appropriate in the circumstances.
(c) He should request management representation letter covering significant information or explanations given orally on which he considers representations are required.
(d) If he becomes aware that the information supplied by management is incorrect, incomplete or unsatisfactory, he should consider performing additional procedures, e.g. making inquiries, assessing internal controls, etc. If the management refuses to provide additional information, he should withdraw from the engagement.
(e) He should read the compiled information and consider whether it appears to be appropriate in form and free from obvious material misstatements.

8. SPECIAL CONSIDERAIONS –

(a) Clients having an Identified Reporting Framework – in this case, the accountant should ensure that the financial statements or other financial information compiled comply with the requirements of the identified financial reporting framework. If case o any material departure, the fact should be stated in the notes to the Accounts or other compiled financial information as well as in the accountant's report.

(b) Clients having not Identified Financial Reporting Framework – since accounts are normally assumed to be compliant with the generally accepted accounting practices, including the accounting standards issued by ICAI, the different basis of compilation should be set out in the Notes to the Accounts or other compiled financial information as well as the report issued by the accountant on compilation

(c) Non-Compliance with the Accounting Standards – if the accountant becomes aware of material non-compliance with the relevant Accounting Standards, the same should be brought to the attention of the management. If the same is not rectified by the management, it should be included in the notes to the accounts and the compilation report of the accountant.

(d) Accounting Estimates made by Clients - if it appears that certain estimates made by the client are unreasonable, the accountant should draw these to the attention of the management for consideration.

9. REPORTING ON COMPILATION ENGAGEMENT – The financial statement or other financial information compiled should be approved by the client before the compilation report is signed by the accountant. It is essential that the accountant clearly brings out the nature of work with the financial statements and the nature of work performed by him. The report on compilation should be in following lay out –

(a) Title – The title should be "Accountant's Report on compilation of unaudited Financial Statements" (and not "Auditor's Report").

(b) Address – The report should be addressed to the appointing authority.

(c) Identification of the financial information.

(d) When relevant, a statement that the accountant is not independent of the entity.

(e) A statement that management is responsible for –

(i) Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information.

(ii) Maintaining adequate accounting and other records and internal control.

(iii) Selecting and applying appropriate accounting policies.

(iv) Preparation of financial statements and other information in accordance with applicable laws and regulations, if any.

(v) Establishing controls to safeguard the assets of the entity and preventing and detecting fraud or other irregularities.

(vi) Establishing controls for ensuring that activities of the enterprise and carried out in accordance with applicable laws and regulations.

(f) A statement that the engagement was performed in accordance with his Auditing and Assurance Standard.

(g) A statement that neither an audit nor a review has been carried out and that according no assurance is expressed on the financial information

(h) Date of report

(i) Place of signature, and

(j) Accountant's signature – the report should be signed by the accountant in his personal name. Where a firm is appointed, the report should be signed in the personal name of the accountant and in the name of the firm. The membership number assigned by ICAI should be mentioned.

AAS – 32

ENGAGEMENTS TO PERFORM AGREED UPON PROCEDURES REGARDING FINANCIAL INFORMATION

1. **INTRODUCTION –** In an engagement to perform agreed upon procedures, the auditor is engaged by the client issue a report of factual findings, based on specified subject matter of specified elements, accounts or items of a financial statement. For example, an engagement to perform agreed upon procedures may require auditor to perform certain procedures concerning, say, accounts payable, accounts receivable, purchases from related parties, etc.
   This AAS may also provide useful guidance for engagement to perform agreed upon procedures regarding non-financial information, provided he has adequate knowledge of the subject matter and reasonable criteria exist on which to base his findings.

2. **OBJECTIVE –** To establish standard and provide guidance3 on the auditor's professional responsibilities when an agreed upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement.

3. **OBJECTIVE OF AN AGREED UPON PROCEDURES ENGAGEMENT –** The objective on an engagement is for the auditor to carry upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.

   The auditor simply provides a report of the factual findings of agreed upon procedures, no assurance is expressed by him in his report. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the result.

4. **GENERAL PRINCIPLES OF AN AGREED UPON PROCEDURES ENGAGEMENT –** The auditor should comply with the Code of Ethics, issued by ICAI. The ethical principles are –
   (a) Integrity
   (b) Objectivity;
   (c) Professional competence and the care;
   (d) Confidentiality
   (e) Professional conduct; and
   (f) Technical Standards.

   When the auditor is not independent, a statement to that effect should be made in the report of factual findings.

   The auditor should conduct an agreed upon procedure engagement in accordance with this AAS and the terms of the engagement.

5. **DEFINING THE TERMS OF THE ENGAGEMENT –** There should be a clear understanding among the auditor, the client and other specified parties, who will receive copies of the report of factual findings regarding the agreed procedures

and the conditions of the engagement. The nature to be agreed include the following:
(a) Nature of the engagement
(b) Stated purpose for the engagement
(c) Identification of the financial information to which he agreed upon procedures will be applied.
(d) Nature, timing and extent of the specific procedures to be applied.
(e) Limitations on distribution of the report of factual findings. When such limitation would be in conflict with legal requirements, the auditor, would not accept the engagement.

The auditor should send an engagement letter documenting the key terms of the appointment. An engagement letter helps avoid misunderstanding regarding such matters as the objectives and scope of engagement, the extend of auditor's responsibilities and the form of report to be issued.

6. **PLANNING AND DOCUMENTATION –** The auditor should plant the work so that an effective engagement will be performed in providing evidence to support the report of factual findings, and evidence that the engagement was carried out in accordance with this AAS and the term of the engagement.

7. **PROCEDURES AND EVIDENCE –** The auditor carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings. The procedures may includes –

(a) Inquiry and analysis.
(b) Recompilation, comparison and other clerical accuracy checks.
(c) Observation
(d) Inspection
(e) Obtaining confirmations.

8. **REPORTING –** The report needs to describe the purpose and agree upon procedures in details to extent of work performed. The report should also clearly mention that no audit ore review work has been performed. The report should certain –

(a) Title
(b) Addressee (ordinarily the appointing authority);
(c) Identification of specific financial or non-financial information
(d) A statement that the procedure performed were those agreed upon with the recipient;
(e) A statement that the engagement was performed in accordance with this AAS.
(f) Identification of the purpose for which the agreed upon procedures were performed;
(g) A listing of the specific procedures performed.
(h) A description of the auditor's factual findings.
(i) A statement that procedures performed do not constitute either an audit or a review, and, as such, no assurance in expressed.
(j) A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;

(k) A statement that the report is restricted to those parties that have agreed to the procedures to be performed.

(l) A statement (when applicable) that the report relates only to the elements, accounts, items or financial or non-financial information specified and that it does not extent to the entity's financial statement taken as a whole;

(m) Date of the report;

(n) Place of signature;

(o) Auditor signature – The report should be signed by the auditor in his personal name. When a firm is appointed the report signed in the personal name of the auditor and the firm. The membership number assigned by ICAI should also be mentioned.

AAS 33
Engagements to Review Financial Statements

General Principles of a Review Engagement

1. The auditor should comply with the Code of Ethics issued by the Institute of Chartered Accountant of India.
2. The auditor should conduct a review in accordance with the AAS.
3. For the purpose of expressing negative assurance in the review report, the auditor should obtain sufficient appropriate evidence primarily through inquiry and analytical procedures to be able to draw conclusions**.**

Scope of a Review

The procedures required to conduct a review of financial statements should be determined by the auditor having regard to the requirements of this AAS, relevant legislation, regulation and, where appropriate, the terms of the review engagement and reporting requirements.

Terms of Engagement

The auditor and the client should agree on the terms of the engagement.

Planning

1. The auditor should plan the work so that an effective engagement will be performed.
2. In planning a review of financial statements, the auditor should obtain or update the knowledge of the business including consideration of the entity's organization, accounting systems, operating characteristics and the nature of its assets, liabilities, revenues and expenses.

Work Performed by Others

When using work performed by another auditor or an expert, the auditor should be satisfied that such work is adequate for the purposes of the review.

Documentation

The auditor should document matters which are important in providing evidence to support to review, and evidence that the review was carried out in accordance with this AAS.

Procedures and Evidence

1. The auditor should apply judgment in determining the specific nature, timing and extend of review procedures.
2. The auditor should apply the same materiality considerations as would be applied if an audit opinion on the financial statements were being given.
3. The auditor should inquire about events subsequent to the date of the financial statements that may require adjustment of or disclosure in the financial statements.
4. If the auditor has reason to believe that the information subject to review may be materially mis-stated, the auditor should carry out additional or more extensive procedures as are necessary to be able to express negative assurance or to confirm that a modified report is required.

Conclusion and Reporting

1. The review report should contain a clear written expression of negative assurance. The auditor should review and assess the conclusions drawn from the evidence obtained as the basis for the expression of negative assurance.
2. Based on the work performed, the auditor should assess whether any information obtained during the review indicates that the financial statements do not give a true and fair view (or 'are not presented fairly, in all material respects,') in accordance the framework used for the preparation and presentation of financial statements and relevant statutory requirements, if any.
3. The report on a review of financial statements should contain the following basic elements, ordinarily in the following layout:
   - **(a)** Title[5];
   - **(b)** Addressee;
   - **(c)** Opening or introductory paragraph including;
     - **(i)** Identification of the financial statements on which the review has been performed; and
     - **(ii)** A statement of the responsibility of the entity's management and the responsibility of the auditor;
   - **(d)** Scope paragraph, describing the nature of a review, including:
     - **(i)** A reference to this AAS applicable to review engagements, or to relevant laws or regulations;
     - **(ii)** A statement that an audit has not been performed, that the procedures undertaken provide less assurance than an audit and that an audit opinion is not expressed;
   - **(e)** Statement of negative assurance;
   - **(f)** Date of the report;
   - **(g)** Place of Signature; and
   - **(h)** Auditor's signature and membership number assigned by the Institute of Chartered Accountants of India.
4. The review report should:
   - **(a)** State that nothing has come to the auditor's attention based on the review that causes the auditor to believe the financial statements do not give a true and fair view (or 'are not presented fairly, in all material respects') in accordance with the framework used for the preparation and presentation of financial statements (negative assurance)[6]; or
   - **(b)** If matters have come to the auditor's attention, describe those matters that impair a true and fair view (or a fair presentation, in all material respects) in accordance with the framework used for the preparation and presentation of financial statements including, unless impracticable, a quantification of the possible effect(s) on the financial statements, and either:
     - **(i)** Express a qualification of the negative assurance provided; or
     - **(ii)** When the effect of the matter is so material and pervasive to the financial statements that the auditor concludes that a qualification is no adequate to disclose the misleading or incomplete nature of the financial statements, give an adverse statement that the financial statements do not give a true and fair view (or 'are not presented fairly,

in all material respects') in accordance with the framework used for the preparation and presentation of financial statements; or

(c) If there has been a material scope limitation, describe the limitation and either:

(i) Express a qualification of the negative assurance provided regarding the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed; or

(ii) When the possible effect of the limitation is so significant and pervasive that the auditor concludes that no level of assurance can be provided, not provide any assurance.

5. The auditor should date the review report as the date the review is completed, which includes performing procedures relating to events occurring up to the date of the report. However, since the auditor's responsibility is to report on the financial statements as prepared and presented by management, the auditor should not date the review report earlier than the date on which the financial statements were approved by management.

AAS 34
Audit Evidence-Additional Considerations for Specific Items

PART A : ATTENDANCE AT PHYSICAL INVENTORY COUNTING

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence during his attendance at physical inventory counting.

Definitions

1. Physical verification of inventories is the responsibility of the management of the entity.

2. When inventory is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable, due to factors such as the nature and location of the inventory.

3. If unable to attend the physical inventory count on the date planed due to unforeseen circumstances, the auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether the changes in inventory between the date of physical count and the period end date are correctly recorded.

4. Where attendance at the physical inventory counting is impracticable, the auditor should consider whether alternative procedures provide sufficient appropriate audit evidence of existence and condition of inventory to conclude that the auditor need not make reference to a scope limitation.

Management Representations

The auditor should obtain a written representation from management concerning:

(a) The completeness of information provided regarding the inventory; and

(b) Assurance with regard to adherence to laid down procedures for physical inventory count.

Audit Conclusions and Reporting

If the auditor is unable to obtain sufficient appropriate audit evidence concerning the existence of inventory or adequacy of procedures adopted by the management in respect of physical inventory count or concludes that the disclosure of inventory in the financial statements is inappropriate, he should consider its effect in his audit report.

PART B : INQUIRY REGARDING LITIGATION AND CLAIMS

Definitions

1. The auditor should carry out audit procedures in order to become aware of any litigation and claims involving the entity which may have a material effect on the financial statements.

2. When litigation or claims have been identified by the management or when the auditor believes hey may exist, and are likely to be material, the auditor should seek direct communication with the entity’s lawyer.

3. The letter, which should be prepared by management and sent by the auditor, should request the entity’s lawyer to communicate directly with the auditor.

4. If management refuses to give the auditor permission to communicate with the entity's lawyers, this would be a scope limitation and should ordinarily lead to a qualified opinion or a disclaimer of opinion.

Management Representations

The auditor should obtain a written representation from management concerning:

(a) The completeness of information provided regarding the identification of litigation and claims; and

(b) The adequacy of litigations and claims disclosures in the financial statements.

PART C : VALUATION AND DISCLOSURE OF LONG TERM INVESTMENTS

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence for valuation and disclosure of long term investments.

Definitions

When long-term investments are material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding their valuation and disclosure.

Management Representations

The auditor should obtain a written representation from management concerning:

(a) The completeness of information provided regarding valuation and disclosure off long term investments.

(b) The valuation of long term investments in the financial statements including adequacy of provision for diminution in such values, wherever required.

Audit Conclusions and Reporting

If the auditor is unable to obtain sufficient appropriate audit evidence concerning the existence, valuation of long term investments or concludes that their disclosure in the financial statements is not adequate, he should consider its effect in his audit report.

PART D: SEGMENT INFORMATION

The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence for appropriate disclosure of segment information.

Definitions

When segment information is material to the financial statements, the auditor should obtain sufficient appropriate audit evidence regarding its disclosure in accordance with the applicable identified financial reporting framework.

Management Representations

The auditor should obtain a written representation from management concerning:

(a) The completeness of information regarding segments and disclosure thereof; and

(b) Appropriateness of the selected segments based on risks and returns; and

(c) The organizational structure of an enterprise and its internal financial reporting system and deviation therefrom.

Audit Conclusions and Reporting

If the auditor is unable to obtain sufficient appropriate audit evidence concerning segment information or concludes that their disclosure in the financial statements is not adequate, he should consider its effect in his audit report.

Effective Date

This Auditing and Assurance Standard becomes operative for all audits related to accounting periods beginning on or after 1st April, 2005.