Super Summary

This is a summary of "AUDITING AND ASSURANCE STANDARDS" especially for the C.A. Final Auditing paper.

Mostly students ignore this important portion while preparing for the examination.
While, some of the students who prepare this portion initially, are unable to revise it just before the examination due to it's volume correlating it with the time constraint.

This is just an attempt to reduce the volume to enable quick revision during those crucial hours.

However, these can be customized according to the personal choice, as this summary is not a substitute to the detailed content provided by ICAI

If these notes prove to be helpful (even minutely in any context), then the basic purpose would become successful.

AUDITING AND ASSURANCE STANDARDS

AAS-1
Basic Principles Governing An Audit
(DISCOPAIR)

1) *I*ntegrity, Objectivity & Independence

2) *C*onfidentiality
Must not disclose any information Except any Legal or Professional duty

3) ***S*kills & Competence**
acquire skills etc. through constant touch with developments

4) ***D*ocumentation**
matters providing evidence should be carefully documented

5) ***P*lanning**
Keep in mind factors like Audit Programme, availability of audit staff, time etc.

6) **Work Performed By *O*thers**
MAY RELY, provided due care and skills are exercised

7) ***A*udit Evidence**

Obtained by means of

A)Compliance Procedures	B) Substantive Procedures
Tests to obtain assurance of proper Internal Controls	Tests to obtain evidence as to ***C***ompleteness, ***A***ccuracy & ***V***alidity of data produced by EDP system ***(C A V)***

8) Accounting System and *I*nternal Control
MANAGEMENT is RESPONSIBLE

9) Audit Conclusions & *R*eporting
a) Compliance of relevant regulations, legal requirements, accounting policies
b) Disclosure of material Matters

Very Imp: Form and Content of the Audit Report should be as per
LAW/REGULATION / AGREEMENT.

AAS-2
Objective and Scope of The Audit of Financial Statements

1) Objective
To express an Opinion

2) Responsibility of Financial Statements (F/S)
Audit of F/S, does not relieve the Management of it's responsibility for maintaining proper records.
Duty of the Management to devise A/c Policies, Internal Control measures.

3) Scope
As per the terms of Engagement / Relevant Law / Pronouncements of ICAI etc.
However, in no case the scope of the audit can override any statutory provision.

4) Organizing an Audit

5) Inherent Limitations of Audit
Extend the audit procedures, if any indication of fraud / error, which is likely to result misstatement. If any constraints, give Qualified / Disclaimer of opinion.

AAS-3
Documentation

1) **Form and Content**

2) **Preparation of Working Papers**
Should be proper and as per the catering needs.
In Case of Recurring Audits: Prepare Permanent and Current Working Papers.

3) **Ownership & Custody of Working Papers**
Property of the auditor, so keep in safe custody & maintain confidentiality.
MAY make available relevant extracts to the client on demand.
(as decided in case of "Chantery Martin & Co. Vs. Martin")

AAS-4
The Auditor's Responsibility to Consider Fraud & Error In An Audit of Financial Statements

1) **Fraud**

Intentional misrepresentation : ***F***raud, ***C***ollusion, ***W***illful misstatement, ***S***upression of Facts, Contravention of ***P***rovisions etc. ***(i.e. FCWSP)***

2) **Error**

Unintentional Mistake

3) **Responsibility of Detection of Fraud / Error**

Lies with MANAGEMENT

4) **Inherent Limitations of Audit**

5) **Audit Risk** (As per AAS-6)

6) **Procedures when circumstances indicate a possible misstatement**

Consider it's impact in relation to other aspects of audit,
Otherwise, disclose the matter in audit report if material enough.

7) **Management Representation** (As per AAS-11)

8) **Communication**

To the Appropriate Management Authority / Level

9) **Auditor Unable to complete an Engagement**

As per this AAS: WITHDRAW & disclose such facts to the Incoming auditor

AAS-5
Audit Evidence

1) **Sufficient Appropriate Audit Evidence**
2) **Obtaining Audit Evidence**
   a) Compliance Procedures
   b) Substantive Procedures
3) **Reliability of the Audit Evidence**
4) **Consistency of the Audit Evidence**
5) **Methods of Collection of Audit Evidence** ***(I O I C A)***
   a) ***I***nspection
   b) ***O***bservation
   c) ***I***nquiry and Confirmation
   d) ***C***omputation
   e) ***A***nalytical Review – Study of significant Ratios & Trends & Investigations

AAS – 6
Risk Assessment and Internal Controls

1) Aim

In order to acquaint for a better audit plan Accounting System (A/C/S) and Internal Control System **(I / C / S)**

A/C/S	**I/C/S**
→ Transactions details – nature, type etc.	→ conduct business properly
→ A/c Records, supporting documents	→ Adherence to Mgt. Policies
→ A/c & financial reporting process	→ Safeguarding of assets
	→ Timely detection of Fraud & Error etc.

where,

I/C/S = [**Control environment** overall Framework & working Environment including Working] + [**Control procedures** i.e. specific procedures for specific purposes eg. Periodic reports]

2) Audit Risks

It is the risk that the auditor may give an inappropriate opinion when the F/S are misstated. Its components are Inherent Risks, Control Risks, and Detection Risks

A) Inherent Risk

It is the susceptibility of the account balance or class of transaction to a material misstatement either individually or when aggregated with misstatements of other balances or classes, assuming there were no internal controls

Inherent Limitations In Internal Controls

- Management's concern about the operating system
- Transactions of the unusual nature may be misused by most controls
- Collusion (FCWSP etc.)
- Abuse of control by the person who himself is responsible for it's exercise
- Manipulations by the management

B) Control Risks

It is the risk that a misstatements could occur in an account balance or classes 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 controls.

C) Detection Risk

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

S.No.	Relationship between	Type of Relationship
a)	Inherent & Control Risk	DIRECT (Generally)
b)	Detection Risk &	INVERSE

	Combined level of Inherent & Control Risk	

3) Other Items

a) Internal controls in a small business

It may not be practicable due the less involvement of the number of people.
But when according to the auditor, when effective supervision is lacking, perform rely on the substantive procedures

b)Communication of the weakness in internal control

- Any material weakness in the internal control noticed by the auditor during the course of his evaluation or the audit procedures it should be timely communicated in writing to the proper level of management
- 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 the work of an Internal Auditor can be useful to the Statutory Auditor:-

- ✓ The Statutory Auditor *alone will be responsible* for his report and in no way will reduce his responsibility.
- ✓ The Statutory Auditor's *conclusions* as to the review of the specific work should be *properly documented*, after undertaking the Test Checking the work of Internal Auditor.
- ✓ The nature, timing and extent of his tests will depend on the evaluation of the Internal Audit function, which is affected by Organisational Status, Scope of Coverage, Technical Competence, and Due Professional Care

AAS-8
Audit Planning

1) Introduction
In case of Recurring Audits
2) Factors to be considered
Complexity of audit, Business Environment, Previous experience, Knowledge of client's business.
3) Knowledge of Client's Business (Sources of knowledge as per AAS – 20)
4) Development of Overall Plan
5) Developing Audit Programme

AAS-9 (Using 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

1) Determining the need to use the work of an expert

Materiality or Complexity of an item.

2) Skills of an expert - required professional qualification

3) Objectivity of an expert - Honesty of an expert

4) Evaluation of work of an expert

In case of any inconsistency / conflicting or unrealistic assumptions:-

- try to resolve by discussions with the client and that expert, or
- apply additional procedures, or
- engage other expert

5) Reference to Expert in an Audit Report

In case of Qualified Opinion, the work of that expert may be referred to / described

AAS-10 (Using The Work Of Another Auditor)

1) Introduction

Where Applicable:- Where the F/S of a component of a business are material as a whole eg. Branch, Sales Depots etc.

How Applicable :- The audit report should expressly state the fact of the use of such work after exercising adequate care and diligence.

2) Acceptance as a Principal Auditor

Check whether own participation is sufficient to be able to act as a principal auditor

3) Principal Auditor's Procedures

- areas requiring special consideration and timetable for the completion of the audit
- significant accounting, auditing and reporting requirements
- consider the significant findings of the other auditor
- If necessary, then perform supplementary tests
- In case of foreign branch, the principal auditor should consider the qualification, experience and expertise of the foreign branch auditor

4) Documentation

5) Coordination between the auditors

6) Consideration of Report of Other Auditor

The principal auditor should consider the qualification of the branch auditor's report in relation to the F/S of the entity as a whole.

7) Division of Responsibility : The principal auditor's report should :-

- clearly express the division of responsibility

- extent of use of the of the work of branch auditor's work in the F/S of whole entity

AAS-11
Management Representation

1) Acknowledgement of the management of it's responsibility for the Financial Information

2) Representations by management as Audit Evidence

a) obtain supportive evidences from sources whether within or outside the entity
b) evaluate representations by management in comparison with other evidences
c) consider the authority of the person issuing such representation

3) Contradictory view with the management

- In such cases the auditor should himself prepare the letter and forward it to the management to acknowledge the same.
- Upon it's refusal the auditor should RECONSIDER the earlier representation
- Mention the facts in the audit report

AAS-12
Joint Auditors

1) Introduction

COLLECTIVE RESPONSIBILITY

2) Division of Work

a) On the basis of geographical locations, functional areas & activities etc.
b) It should be adequately documented & communicated to the entity

3) Coordination among the Joint Auditors

4) Relationship among the Joint Auditors

Each joint auditor is <u>SOLELY RESPONSIBLE</u> for the work allotted to him ***except***, in the following cases where they are <u>Jointly & Severally</u> responsible :-
a) Compliance and Disclosure requirements as per **Statute**
b) undivided work
c) collective decisions on any task

5) Reliance upon work performed by other Joint Auditors

One Joint Auditor can rely upon the work of the other Joint Auditor
No further Checking / Test Checking is required to be done

6) Reporting Responsibilities

Any Disagreement ⟶ Each One Joint Auditor ⟶ Express own opinion thru a separate report

Imp. Note: A Joint Auditor is <u>Not Bound</u> by the views of MAJORITY of OTHER AUDITORS.

AAS-13
Audit Materiality

1) Meaning

Any F/S is said to be material if it influences the mind of the reader of those F/S.

2) Concept

a) items individually immaterial may become collectively material
b) materiality may be Qualitative or Quantitative
c) this concepts not judged by one point but it is a result of interacting forces

3) Relationship between Materiality and Audit Risk

<u>*INVERSE*</u> Relationship

4) Materiality and Audit Risk in evaluating Audit Evidence

After commencement of audit, the materiality level may change due to
a) change in circumstances
b) Audit progress
c) when actual results of operations are different from desired results

If the aggregate of the uncorrected misstatements is material he may consider it's
Impact in the F/S either himself or thru management,
otherwise, furnish a qualified / adverse opinion

AAS – 14
Analytical Procedures

1) Introduction

The term refers to the analysis of significant ratios & trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant Information or which deviates from the predicted results.

2) Nature & Purpose

It includes both <u>"Inter-Firm"</u> and <u>"Intra-Firm"</u> comparisons for the purpose of :-
a) Comparable information of prior periods
b) Predictive estimates prepared by the auditor
c) Similar industry information

3) Stages of Application of Analytical Review Procedures

<u>STAGE – I</u> : Planning The Audit:-
→ Assists in understanding the business
→ Identifies the areas of potential risk

<u>STAGE – II</u> : Useful As Substantive Procedures :-
Factors that need to be considered while applying as substantive procedures are
→ Nature & Complexity of business
→ Reliability & Relevance of the information available
→ Sources from which information is available

<u>STAGE – III</u> : Overall Review at the end of Audit

→ The conclusion drawn at the end is intended to support the evidences found in course of audit of the F/S
→ Based on above conclusions it depends whether additional procedures are to be applied or not

4) Extent of Reliance On Analytical Procedures

It depends on factors like:-
a) Materiality of the items involved
b) Additional / Collateral audit procedures directed for the same objectives
c) Accuracy with which the expected results can be predicted

AAS – 15
Audit Sampling

1) Meaning of Some Terms for this AAS

a) Audit Sampling :-

Audit procedures carried out on less than 100 % of the items within an account balance or a class of transactions amount to audit sampling. In view of increasing complexities and number of transactions, the auditor may not be able to examine 100 % of the information fully. Hence, he has to use this technique.

b) Population :-

The auditor should determine that the population from which the sample is drawn is appropriate for that specific audit objective

c) Stratification :-

It means the sub classification of population, each of which have similar characteristics

d) Sampling Units :-

The individual items constituting the population are called sampling units. The auditor selects these units after considering materiality levels, homogeneity of the units and audit objective

e) Sample Size :-

In order to decide sample size, the auditor should consider the overall population, sampling risk, the tolerable and the expected error.

2)

a) Sampling Risk

Sampling Risk arises from the possibility that the auditor's conclusion based on a sample may be different from the conclusion that would have been reached if the entire population were subjected to the audit procedure.

Sample size is affected by the amount of risk the auditor is willing to accept and has an INVERSE relationship between them

b) Tolerable Error

The maximum errors the auditor can bear and able to frame an opinion. Tolerance level helps in determining the sample size

c) Expected Error

If the auditor expects the presence of error in the sample then he should consider a large sample and vice – versa.

3) Methods Commonly Used For Sample Selection

a) Random Sampling – each item has an equal chance of being selected
b) Systematic Sampling – definite interval is maintained between two samples
c) Haphazard Sampling – an alternative to the random sampling provided the auditor attempts to draw a representative sample from the entire Population with no intention to either includes or exclude Specific units

4) Evaluation of the Sample Results

a) Analysis of error in sample : Determine its cause and overall impact
b) Projection of Errors
c) Reassessing the Sampling Risk

AAS –16
Going Concern

1) Meaning

An entity is said to be a going concern if it is likely to continue in existence for a foreseeable future time, generally extending beyond a period of one year.

2) Negative Indicators of Going Concern

A) Financial Indicators

Negative Working Capital or Negative Net Worth, Excessive reliance on the short term borrowings to finance long term assets, Adverse key financial ratios, Substantial operating loses, Arrears or discontinuance of dividends, Inability to pay creditors on the due dates.

B) Operating Indicators

Shortage of important supplies, Loss of Key Management Personnel without replacement, Loss of major market etc.

C) Other Indicators

Non-compliance of statutory requirements, Pending Legal proceedings, Changes in Government policy

3) Audit Evidence

Discuss with management about their Future plans, say, Liquidating of assets, Capital Structure Planning etc.

4) Audit Conclusion and Reporting

Conclude whether Going Concern assumption is valid or not.
If not, then the F/S would be a misleading; the auditor should express an ADVERSE OPINION

AAS –17 (Quality Control For Audit Work)

1) Meaning of certain terms (For this AAS)

a) Auditor : - The person with the final responsibility of audit
b) Audit Firm: - A proprietorship or partnership firm providing audit service
c) Personnel: - All partner and professional staff engaged in the audit practiced of the firm
d) Assistants: - Personnel involved in an audit other than the auditor

2) Factors to be incorporated for quality control in audit work

a) Professional requirements
b) Skills & competence
c) Assignment
d) Delegation
e) Consultation
f) Acceptance and retention of clients
g) Monitoring

3) Quality Control for Individual Audits

- The quality control policies applicable to firm should be implemented for individual audits to the extent available.
- Initially guide the audit assistants, then delegate the work to them accordingly
- Undertake due Supervision and Proper Review

AAS-18
Audit Of Accounting Estimates

1) Meaning

It means the approximation of an item in the absence of a precise means of measurement. For eg. Provision for taxation, Provision for warranty claims, Provision for a loss from a Law Suit, Accrued Revenue etc.

2) Responsibility for Accounting Estimate

MANAGEMENT

3) Audit Procedures

a) test the process used by the management
b) use of an independent estimate with that prepared with the management
c) review subsequent events, which the estimate made
e) obtain external evidence, wherever possible to support internal evidence

4) Evaluation of the Results of Audit Procedures

In case of significant difference between the estimate prepared by the auditor & management, then management should be requested to revise the same.

If the management refuses, it would be a deemed misstatement & the auditor will have to consider it’s impact on the F/S

AAS – 19 (Subsequent Events)

1) Concept

'Subsequent Events' refers to those significant events occurring between the balance sheet date & the date of the audit report, whose consequential effects should be taken into consideration for the preparation of the F/S. For eg:-

a) any development in the risk areas & contingencies existing on the B/S date
b) any unusual a/c adjustment entries being made after the B/S date
c) any event occurred / likely to occur which affects the a/c policies, say, validity of the going concern assumption

2) Audit Conclusion and Reporting

Auditor should consider it's impact on the F/S.
In case of any disagreement with management he may express qualified opinion

AAS – 20 (Knowledge Of The Business)

1) Concept

Knowledge of the business helps in assessing the inherent and control risks & in determining the nature, timing and extent of the audit procedures, which might have a significant effect on the F/S and / or Audit Report.

2) Obtaining the Knowledge

The auditor's level of knowledge would include:-
a) General Knowledge :- about economy & the industry
b) Particular Knowledge :- about the operations & working of the entity
Imp:- Re-evaluate and Update such knowledge in case of recurring audits

3) Sources of obtaining knowledge

a) Discussion with the people within the entity i.e. Management
b) Discussion with the people outside the entity i.e. Persons related to that Industry
c) Discussion with other auditors and advisors
d) Personal visit to the entity premises & plant locations etc.
e) Previous experience with the entity & it's industry

4) Using the Knowledge (Same as concept)

AAS – 21
Consideration Of Laws & Regulations In An Audit Of Financial statements

1) Introduction

An auditor might not be aware about the various applicable laws on the entity.
But, he should recognize that any non-compliance might materially affect the F/S.

2) Responsibility of compliance of such laws and regulations

Responsibility of compliance rests with the MANAGEMENT
It should monitor the various legal requirements & ensure that operating procedures are designed to meet the requirements.

3) Auditor's Consideration

After obtaining a general understanding of the applicable legal framework, he should obtain evidence regarding compliance / non-compliance & financial impact thereof.

4) Management Representation

In case of actual / possible non-compliance a WRITTEN Representation should be obtained.

5) Communication / Reporting of non-compliance

To the Appropriate Level of Management

Material non-compliances can be expressed by way of qualified / adverse opinion

6) Withdrawal From The Engagement

Any Remedial Steps, deemed necessary → Not Considered by Management → Auditor MUST WITHDRAW

<u>Very Imp.</u> :- <u>MATERIALITY</u> of non-compliance being <u>IRRELEVANT</u>

<u>AAS – 22 (Initial Engagements – Opening Balances)</u>

1) Introduction

Audit of the Opening Balances in case of initial audit engagements

2) Audit Procedures

a) A/c Policies being consistently followed
b) Correct balances of various a/c's have been correctly b/f
c) Nature of Op. Bal. & risk of their misstatement in the current period
d) The Op. Bal. do not contain misstatements that materially affect the financial statements of the current period

3) Audit Reporting and Conclusions

S.No.	Type of problem with Opening Balances	Opinion to be framed in Audit Report
a)	Unable to obtain sufficient audit evidence	Qualified / Disclaimer of opinion
b)	Material misstatements that affect the current period financial statements	Qualified / Adverse opinion

<u>AAS – 23 (Related Parties)</u>

1) Existence of Related Parties (to be checked)

2) Transactions with the Related Parties (to be identified)

3) Examine the identified Related Party transactions

4) Management Representation (to be scrutinized)

5) Audit Conclusion and Reporting

In case he is unable to obtain sufficient audit evidence either about the Related Parties or about any Transactions thereof, then he may frame Qualified / Disclaimer of opinion

AAS – 24
Audit Considerations Relating To Entities Using Service Organizations

1) Introduction

When the client of the auditor uses a service organization for eg. Information processing, maintenance of a/c records, maintenance of safe custody of assets like Investments etc.

2) Auditor's Considerations

a) The auditor should consider how a service organization affects the client's accounting & internal control systems

b) **When Service Org'n Performs**

Recording & Processing of transactions of client → ***Follow*** the Policies & Procedures of → ***Whoever*** maintains ***accountability*** (Whether of client or of service Org'n)

c)

Where activities of service org'n are Significant → Auditor should

Either → Understanding should be Developed of the Service Org'n Accounting and Internal Control system

Or → If required the request the auditor of that Service Org' furnish the required information

3) Service Organization's Audit Report

The auditor of the Service Organization issues his report to the auditor of client in any of the following modes:-

TYPE –A : Report of Suitability Of Design

TYPE – B : Report of Suitability Of Design and Operating Effectiveness

The client's auditor should consider whether he controls tested by the auditor of the service organization are relevant and provide proper evidence for lowering the risk assessed by the auditor or not. The client's auditor may also request the auditor of the service organization to perform substantive tests in some areas.

Most Imp: The audit report of the client should not should nor make any reference to report received from the service organization's auditor.

AAS – 25 (Comparatives)

1) Introduction

This AAS specifies that the auditor should determine whether the comparatives comply in all material respects, with the financial reporting framework* relevant to the F/S being audited.

2) Auditor's Responsibilities

a) For obtaining the sufficient audit evidence, involves assessing whether the a/c policies and the corresponding figures agree with the A/c policies of the current period or requires adjustments, if any

b) In case the F/S of the prior period have been audited by another auditor or are unaudited, the Incoming Auditor should comply with the requirements of relevant Financial Reporting Framework

3) Reporting

When the auditor's report on the prior period, as previously issued included a qualified opinion / disclaimer of opinion / adverse opinion and the matter, which gave rise to the modification in, the audit report is still: -

a) Unresolved, and results in a modification of the auditor's report regarding the current period figures, the auditor's report should be modified regarding the corresponding figures ; or
b) Unresolved, but does not result in a modification of the auditor's report regarding the current period figures, the auditor's report should be modified regarding the corresponding figures
c) In case the prior period F/S are unaudited, the incoming auditor should state such fact in the auditor's report

→ financial reporting framework* means:

Financial Statements are ordinarily prepared & presented to provide information to a wide range of users for whom it is the only source of information for their own decision making. Thus Financial Statements need to be prepared according to :-

a) Relevant Statutory Requirements eg: Companies Act,1956
b) Accounting Standards issued by ICAI
c) Other recognized accounting and auditing principles eg : Guidance Notes issued by ICAI

AAS – 26 (Terms Of Audit Engagement)

1) Concept

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

2) Contents of the Engagement Letter – An Illustrative List Only

a) Management's responsibility for the F/S
b) Management's responsibility for the selection and consistent application of the various a/c policies and accounting standards
c) Mgt's responsibility for the maintenance of adequate records & internal controls
d) Scope of audit, with reference to applicable Statutes
e) Some fraud and error may remain undetected due to the test nature of audit

f) Unrestricted access to any information, being available in any mode
g) Fees and billing arrangements
h) Involvements of other auditors and experts

3) Acceptance of a change in engagement

a) Whenever an auditor is requested to change to an engagement with lower level of assurance, if reasonable, should agree on new terms
b) Before agreeing to change, the auditor should consider, any legal or contractual implications of the change
c) The auditor would not agree to change of engagement, unless justified in doing so.

AAS – 27
Communications Of Audit Matters With Those Charged With Governance

1) Governance

It means the role of persons entrusted with supervision, control & direction of an entity

2) Audit Matters of Governance Interest

Those matters that arise from the audit of F/S and are in opinion of the auditor, both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process

3) Audit Matters of Governance Interest to be Communicated

A) General Matters:

→ The general approach and overall scope of the audit
→ Any expected limitation or any additional requirements

B) Special Matters:

→ Audit adjustments that could have a significant effect on the entity's financials
→ Material uncertainties that may cast a doubt on the going concern assumption
→ Material weaknesses in the internal control system

4) Communication Of Such Matters

a) on Timely Basis
b) in Oral or Written form depending upon :-
- size & operating structure of the entity
- nature, sensitivity & significance of the audit matters

5) ***Laws and Regulations***

CASE – I :-

Sometimes professional pronouncements, legislations or regulations etc. ***restrict*** the ***auditor's communication*** . Then the auditor may consult legal counsel.

CASE – II :-

Sometimes professional pronouncements, legislations or regulations etc***. impose the obligation of auditor's communication.***

Imp. Note:- In certain when a modification of the auditor's report on the F/S is required as per AAS – 28 , a qualified, adverse or disclaimer of opinion can't be a substitute

AAS – 28
The Auditor's Report On Financial Statements

1) Introduction

The auditor should review & assess the conclusions drawn from the audit evidence obtained on the basis for the expression of an opinion in the F/S.

2) Basic Elements of an Audit Report

a) Title
b) Addressee
c) Opening / Introductory Paragraph
d) Scope Paragraph
e) Opinion Paragraph
f) Date of Report
g) Place of Signature
h) Auditor's Signature

3) Matters that Do Affect Auditor's Opinion

Factors* that may result in other than an Unqualified Opinion:-
a) Limitation of scope
b) Disagreement with Management
c) Uncertainty eg. Litigation involving legal claims of the company

S.No.	Type of Opinion to be Framed	Factors* affecting Auditor's Opinion	Whether ***"True & Fair"*** View is ***Affected?***
a)	Qualified Opinion	Not having Material Effect	***NOT***, Affected
b)	Disclaimer of Opinion	Having a Significant Effect	Can't Conclude
c)	Adverse Opinion	Having a Very Material Effect	***YES***, Affected

AAS – 29
Information Systems Environment

1) Introduction

Procedures to be followed when an audit is conducted in a Computer Information systems (CIS) environment

2) Computer Information Systems (CIS)

CIS environment is one where one or more computers of any type or size is involved in the processing in the processing if the financial information of significance to the audit

3) Factors Involved in Planning of a CIS Audit

a) Extent of recording, compilation and analyses of the accounting information
b) Internal Controls with regard to the flow complete and correct data to the processing center and the various reporting tasks undertaken
c) The impact of computer based accounting system on the Audit Trail that would otherwise be available in a manual system

d) Significance of complexities of the CIS activities
e) Degree of Access / Availability of data for use in audit

4) Skills and Competence Requirements

Auditor's Basic Knowledge of the CIS to conduct audit	+	In case of complex situations Using the Work of an Expert As per AAS - 9

5) Auditor's Considerations

a) The CIS infrastructure and the application software used by the entity
b) Potential for Computer Assisted Audit Techniques – CAAT's
c) Internal Controls with regard to the authorization and access to the information
d) Lack of Transaction Trials
e) Dependence of controls over computer processing

6) Evaluating the Reliability of the Accounting and Internal Control Systems

a) Completeness of data available for processing
b) Provide for timely detection of errors
c) Adequate data security & back-up as Disaster Recovery Plans

7) Documentation – a Special Consideration

In a CIS environment, some of the audit trail may be in electronic form. He should satisfy himself that such evidence is safely stored & can be retrieved in entirety as and when required

<u>AAS – 30 (External Confirmations)</u>

1) Meaning

It is the process of obtaining and evaluating audit evidence thru a direct communication from a third party in the response to a request for information about a particular item affecting the assertions of the management

2) Situations where External Confirmations may be Used

a) Bank Balances and other information from the bankers
b) Stock held by third parties
c) Property title deeds held by the third parties
d) Investments purchased but not taken

3) Process of External Confirmations - *<u>SDCOE</u>*

a) ***<u>S</u>***election of items
b) ***<u>D</u>***esigning the **<u>Form of Communication Request *</u>**
c) ***<u>C</u>***ommunicating the confirmation request to the appropriate party
d) ***<u>O</u>***btaining the response from that third party
e) ***<u>E</u>***valuation of the information or absence thereof

Form of Communication Request *

a) Positive Confirmation Request :- It asks the respondent to answer the auditor in all cases in any mode

b) Negative Confirmation Request :- It asks the respondent to answer the auditor only in the event of disagreement with the information provide in the request

AAS – 34
Audit Evidence – Additional Considerations For Specific Items

→ This AAS is a Specific Extension of AAS – 5 i.e. Audit Evidence
→ It is sub-divided into 4 parts

PART – A : Attendance at Physical Inventory Counting

1) It lays due emphasis on the attendance of the auditor at Physical Inventory Counting
2) Physical Verification is the responsibility of the management
3) When the inventory is material to the F/S, he should get the proper evidence regarding it's existence and proper condition
4) Unless impracticable, due to the nature / location of inventory or unforeseen situations he should devise some alternative sufficient evidence for framing an opinion in the F/S
5) The auditor can opt for a direct confirmation as well, for eg. In case of Consignment Stock, Stock in Transit, Branch Stock Transfers etc.
6) Management's instructions relating to the stage of completion of WIP, items of slow moving nature, obsolete / damaged / rejected stock items

PART – B : Inquiry Regarding Litigation & Claims

→ "Litigation" means a lawful suit or legal action including all proceedings therein
→ "Claims" means right to an equitable breach of performance
→ When any material litigation or claims have been identified by the management the auditor may seek direct confirmation from the lawyer's and other professionals. Such correspondence letters should be prepared by the management, under the control of of the auditor.

PART – C : Valuation & Disclosure of Long Term Investments

1) Proper evidence should be obtained for the valuation, disclosure & ownership of the investments
2) Discussions with the management about as to whether the entity has the ability to continue to hold the investments on a long term basis or not.

PART – D : Segment Information

1) The auditor should obtain the sufficient audit evidence as to the proper disclosure in accordance with the identified reporting framework
2) The auditor should consider the segment information in relation to the F/S as a whole. He is not required to apply the auditing procedures on the single segment alone. However, the auditing procedures normally consist of analytical procedures & other tests as appropriate in the given circumstances

→ Common Points for the Parts – A / B / C / D

I) - Management Representation

1) The information asked for should be complete & accurate as per the requirements
2) Proper Valuation / Quantification should be complete
3) The change in the related Accounting policy, if any should be brought to the notice of the auditor

II) – Audit Conclusions & Reporting

→ In case, the auditor is unable to obtain sufficient audit evidence he may frame a Qualified Opinion or Disclaimer of Opinion, as the case may be.

AAS – 31: Engagements To Compile Financial Information
AAS – 32: Engagements To Perform Agreed Upon Procedures Regarding The Financial Information
AAS – 33: Engagements To Review Financial Statements

→ Similar Points :-

1) General Principles

To comply with the "Code of Ethics" issued by ICAI. The Ethical principles are **T**echnical Standards, **O**bjectivity, **P**rofessional Competence, **I**ntegrity, **C**onfidentiality,(**TOPIC**) and Due Care, Professional Conduct,

2) Terms of Engagement

As per AAS – 26 & it should be specifically mentioned in the terms of engagement the engagement has been specifically made under this AAS.

3) Planning & Documentation

The auditor should plan the work an effective engagement can be performed in providing evidence to support the report & evidence that the report was carried out in accordance under this AAS.

4) Procedure & Evidence

→ ***I O I C A*** as per AAS – 5
→ Management Representation wherever required as appropriate

→ Additional Points for AAS - 31:-

S.No.	Special Considerations for Clients	Disagreements thereof
a)	Having an Identified Reporting Framework	In case of any material Disagreements the auditor will mention in the Report as well as In Notes to Accounts
b)	Not Having an Identified Reporting Framework	

→ **Difference Points :-**

S.No.	Basis of Difference	AAS – 31	AAS – 32	AAS – 33
a)	*Nature*	*Specific*	*General*	*Specific*
b)	Objective	To use Accounting expertise to collect, classify & summarize the financial info.	To provide a report on the actual fact findings	To state whether the F/S are not prepared in all material respects according to Financial Reporting framework
c)	Example	Compilation of F/S for an intended purpose, say, for documentation to a financial institution	Perform agreed upon procedures related to Accounts Payable, Receivable etc.	Review Interim Financial Reports
d)	Level of Assurance	- -NIL - -	- -NIL - -	Moderate (in –ve form)
e)	Work performed by others, can be used	- - N.A. - -	- - N.A. - -	- -YES- -

ALL THE BEST…………………………………

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