STANDARDS OF AUDITING

The following SA are effective for all audits, unless otherwise stated:

SA 200: Basic Principles Governing an Audit

Corresponding International Statement on Auditing (ISA): ISA 200 "**O**BJECTIVES **&** **G**ENERAL **P**RINCIPLES **G**OVERNING AN **A**UDIT OF **F**INANCIAL **S**TATEMENTS"

Auditor, while carrying out independent audit of the financial statements should adhere to the basic principles governing an audit. These principles are INTEGRITY, OBJECTIVITY and INDEPENDENCE, CONFIDENTIALITY, SKILLS and COMPETENCE, WORK PERFORMED BY OTHERS, DOCUMENTATION, PLANNING, AUDIT EVIDENCE, ACCOUNTING SYSTEM and INTERNAL CONTROL, AND, AUDIT CONCLUSIONS and REPORTING

SA 200A: Objective and Scope of the Audit of Financial Statements

Corresponding ISA: ISA 200 "**O**BJECTIVES **&** **G**ENERAL **P**RINCIPLES **G**OVERNING AN **A**UDIT OF **F**INANCIAL **S**TATEMENTS"

Objective of an independent audit is to enable the auditor to express an opinion on the financial statements as to whether they reflect TRUE AND FAIR view of financial position and operating results of the enterprise and the state of affairs of the enterprise.

The primary responsibility for preparation of books of accounts is of management. The scope of audit is determined by audit engagement, pronouncements of the Institute of Chartered Accountants of India (ICAI) and legal and regulatory requirements. Auditor's opinion does not assure of future viability of the enterprise

SA 210: Terms of Audit Engagement's

Corresponding ISA: ISA 210 "**T**ERMS OF **A**UDIT **E**NGAGEMENT"

Auditor and client should agree on terms of engagement. Agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract. This SA is intended to assist the auditor in preparation of engagement letters relating to audits and other related services. The form and content of audit engagement letter may vary for each client, but it would generally include reference to objectives of audit; Management's responsibility for financial statements, selection and application of appropriate accounting policies and accounting standards. Making judgments and estimates, maintenance of adequate accounting records and internal controls; scope of audit: fact that due to inherent limitations of audit there is an unavoidable risk of non detection of some material misstatements. Other matters as per the circumstances should also be included. In case of recurring audits, auditor should consider whether circumstances require the terms of engagement to be revised. Where the terms of engagement are changed, auditor and client should agree on the new terms. If auditor is unable to agree to a change of engagement and is not permitted to continue the original engagement, the auditor should consider withdrawing from the engagement

SA 220: <u>Quality Control for Audit Work</u>

Corresponding ISA: ISA 220 "**Q**UALITY **C**ONTROL FOR **A**UDIT **W**ORK"

Quality control policies and procedures should be implemented at both level – of audit firm and on individual audits.

Audit firm should implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with Standards of Auditing. Objectives of quality control policies to be adopted will incorporate Professional Requirements, Skills and Competence, Assignment, Delegation, Consultation, Acceptance and Retention of Clients, Monitoring. The firm's general quality control policies and procedures should be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented. Auditor should implement those quality control procedures which are, in the context of policies and procedures of the firm, appropriate to individual audit. Auditor should consider professional competence of assistants performing work delegated to them when deciding extent of direction, supervision and review appropriate for each assistant. Assistants to whom work is delegated need appropriate direction, supervision and review of audit work performed by them

SA 230: <u>Documentation</u>

Corresponding ISA: ISA 230 "**D**OCUMENTATION"

Auditor should make suitable documentation during the conduct of audit. Documentation refers to working papers that the auditor obtains in connection with the performance of their audit. Working papers aid in planning, performance, supervision and review of their audit work. It provides evidence of their work performed.

Working papers should be properly designed and organised to meet circumstances of each audit. Using standardised working papers improve efficiency. They should be sufficiently complete and detailed. Working papers may be classified into permanent audit files and current audit files. Permanent audit files contain information of continuing importance to succeeding audits whereas current audit files contain information primarily relating to audit of a single period

SA 240: <u>The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements</u>

Corresponding ISA: ISA 240 "**T**HE **A**UDITOR'S **R**ESPONSIBILITY TO **C**ONSIDER **F**RAUD AND **E**RROR IN AN **A**UDIT OF **F**INANCIAL **S**TATEMENTS"

The Primary responsibility of prevention and detection of frauds and errors is of the management as well as those charged with governance. Auditor has to obtain reasonable assurance that financial information is properly stated in all material aspects. Therefore, when planning and performing audit procedures and evaluating and reporting the results thereof, auditor should consider the risk of material misstatements in financial statements resulting from fraud or error. Auditor plans and performs an audit with an ATTITUDE of PROFESSIONAL SKEPTICISM. Such an attitude is necessary for the auditor to identify and properly evaluate the fact that an audit is carried out may act as a deterrent, but the auditor is not and cannot be held responsible for prevention of fraud and error.

Auditor's opinion on financial statements is based on the concept of obtaining reasonable assurance; hence, in an audit, the auditor does not guarantee that material misstatements, whether from fraud or error, will be detected. Therefore, subsequent discovery of a material misstatement of financial statements resulting from fraud or error does not, in and of itself, indicate:

a. failure to obtain reasonable assurance

b. inadequate planning, performance or judgment

c. absence of professional competence and due care or

d. failure to comply with auditing and assurance standards generally accepted in India

While planning, the auditor should discuss with other members of the audit team, susceptibility of the entity to material misstatements resulting from frauds and errors. Auditor must make appropriate inquiries of the management. Auditor must discuss with those charged with governance as they have oversight responsibility for systems for accounting risk, financial control and compliance with the law.

While assessing INHERENT RISK and CONTROL RISK, auditor should consider how financial statements may be materially misstated as a result of frauds and errors. Based on their assessment of inherent and control risks, auditor should design substantive procedures to reduce DETECTION RISK to an acceptably low level.

When auditor encounters circumstances that may indicate that there is a material misstatement in financial statements resulting from fraud or error, s/he should perform procedures to determine whether financial statements are materially misstated.

When auditor identifies a misstatement, s/he should consider whether such a misstatement may be indicative of fraud and if there is such an indication, s/he should consider the implications of misstatement in relation to other aspects of the audit, particularly the reliability of management representations.

When the auditor identifies a misstatement resulting from fraud, or a suspected fraud, or error, s/he should consider auditor's responsibility to communicate that information to management, those charged with governance and, in some circumstances, when so required by laws and regulations, to regulatory and enforcement authorities also. Auditor should obtain written representations from management

SA 250: <u>Consideration of Laws and Regulations in an Audit of Financial Statements</u>

Corresponding ISA: ISA 250 "**C**ONSIDERATION OF **L**AWS AND **R**EGULATIONS IN AN **A**UDIT OF **F**INANCIAL **S**TATEMENTS"

Auditor should recognise that non–compliance by the entity with laws and regulations may materially affect financial statements. It is management's responsibility to ensure that the entity's operations are conducted in accordance with laws and regulations. Auditor is not responsible for preventing non–compliance. Auditor should plan and perform the audit recognising that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with laws and regulations. The risk of non detection of material misstatements is higher with regard to material misstatements resulting from non–compliance with laws and regulations due to various factors. Auditor should obtain a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework. After obtaining general understanding, auditor should perform procedures to identify instances of non–compliance with these laws and regulations where non–compliance should be considered when preparing financial statements. Further, auditor should obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognised by Auditor to have an effect on determination of material amounts and disclosures in financial statements. Auditor should obtain written representations that management has disclosed all known actual or possible non–compliance with laws and regulations whose effects should be considered when preparing financial statements

SA 260: <u>Communications of Audit Matters with Those Charged with Governance</u>

Corresponding ISA: ISA 260 "**C**OMMUNICATIONS OF **A**UDIT **M**ATTERS WITH THOSE CHARGED WITH GOVERNANCE"

Auditor should communicate audit matters to those charged with governance of an entity. Such matters include: Overall scope of audit; selection of/ changes in significant accounting policies; potential effect on financial statements of any significant risks and exposures, such as pending litigation; adjustments to financial statements arising out of audit that have a significant effect on entity's financial statements; material uncertainties related to events and conditions that may cast significant doubt on entity's ability to continue as a going concern, disagreements with management about matters that could be significant to entity's financial statements or auditor's report; expected modifications to auditor's report. Auditor should communicate audit matters of governance interest on a timely basis. Auditor's communication may be made orally or in writing. In case of oral communication, auditor should document their oral communications and response thereof

SA 299: <u>Responsibility of Joint Auditors</u>

Corresponding ISA: ISA 299 "**R**ESPONSIBILITY OF **J**OINT **A**UDITORS"

Where joint auditors are appointed, they should, by mutual discussion, divide audit work among themselves. Division of work would usually be in terms of audit of identifiable units or specified areas. In some cases, due to the nature of business of entity under audit, such a division of work may not be possible. In such situations, division of work may be with reference to items of assets or liabilities or income or expenditure or with reference to periods of time. Where, in the course of his work, a joint auditor comes across matters which are relevant to areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or discussion with, or application of judgment by, other joint auditors, he should communicate the same to all other joint auditors in writing prior to finalisation of audit. Certain areas of work, owing to their importance or owing to the nature of work involved, would often not be divided and would have to be covered by all joint auditors. Each joint auditor is responsible only for the work allocated to them, whether or not s/he has prepared a separate report on work performed by them. All joint auditors are jointly and severally responsible in respect of the audit work which is not divided amongst them. For examining that the financial statements of the entity comply with disclosure requirements of relevant statute, for ensuring that audit report complies with the requirements of relevant statute and in respect of matters which are brought to the notice of joint auditors by any one of them and on which there is an agreement among joint auditors. Each joint auditor is entitled to assume that other joint auditors have carried out their part of audit work in accordance with generally accepted audit procedures. Normally, joint auditors are able to arrive at an agreed report. However, where joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express their own opinion through a separate report

SA 300: <u>Audit Planning</u>

Corresponding ISA: ISA 300 "**P**LANNING AN **A**UDIT OF **F**INANCIAL **S**TATEMENTS"

Audit Planning involves developing an overall plan for the expected scope and conduct of the audit and developing an audit program showing nature, timing and extent of audit procedures. In planning the audit, auditor should consider factors such as complexity of audit, environment in which the entity operates, their previous experience with the client and knowledge of client's business. Auditor needs to obtain a level of knowledge of client's business that will enable them to identify events, transactions and practices that, in their judgment, may have a significant effect on financial information.

Auditor should consider various matters in developing the overall plan some of which are: terms of engagement; nature and timing of reports; applicable legal or statutory requirements; accounting policies adopted by the client; identification of significant audit areas; setting of materiality levels, etc. Auditor should prepare a written audit program setting forth procedures that are needed to implement audit plan. The program may also contain audit objectives for each area and should have sufficient details to serve as a set of instructions to the assistants involved in audit and as a means to control proper execution of work. Audit planning ideally commences at the conclusion of previous year's audit, and along with related programme, it should be reconsidered for modification as the audit of their compliance and substantive procedures progress

SA 310: <u>Knowledge of the Business</u>

Corresponding ISA: ISA 310 "**K**NOWLEDGE OF THE **B**USINESS"

Auditor should obtain knowledge of the business in performing an audit of financial statements, sufficient to enable the auditor to identify and understand events, transactions and practices that, in auditor's judgment, may have a significant effect on financial statements or on examination or audit report. Such knowledge is used by the auditor in assessing inherent and control risks and in determining the nature, timing and extent of audit procedures. Obtaining required knowledge of business is a continuous and cumulative process of gathering and assessing information and relating the resulting knowledge to audit evidence and information at all stages of audit. Preliminary knowledge is obtained prior to acceptance of engagement. More detailed knowledge is obtained after acceptance. Auditor can obtain knowledge of the industry and entity from a number of sources. Understanding business and using this information appropriately assists the auditor in assessing risks and identifying problems, planning and performing audit effectively and efficiently and evaluating audit evidence

SA 315: <u>Understanding the Entity and Its Environment and Assessing the Risk of Material Misstatement</u>

Corresponding ISA 315: "**U**NDERSTANDING THE **E**NTITY AND ITS **E**NVIRONMENT AND **A**SSESSING THE **R**ISK OF **M**ATERIAL **M**ISSTATEMENT"

Auditors cannot approach their work with a fixed audit program which they expect will work in all circumstances. They must understand their client, identify and assess audit risk, and plan their work accordingly. SA 315 deals with understanding and assessing risk.

To provide a basis for identification and assessing of risks of material misstatement, the auditor shall perform risk assessment procedures. Thus procedures shall include: Inquires with management; Analytical Procedures; Observation and Inspection.

Where Auditor has performed other engagements with the entity, auditor shall consider whether information obtained is relevant for identifying the risk of material misstatement.

Also, if Auditor intends to use his previous experiences with the entity, he shall determine whether changes have occurred since previous audit that may effect its relevance on current audit.

Auditor shall obtain an understanding of the following: Industry, regulatory and other external factors; Nature of entity; Objectives and strategies and related business risks; Measurement and review of entity's financial performance; Internal control.

SA 315 sets out five components of Internal control: Control environment; Entity's risk assessment process; the information system, including related business processes, relevant to financial reporting and communication; Control activities; Monitoring controls.

Usually, those controls which pertain to entity's objective of preparing financial statements are subject to risk assessment procedures.

Obtaining an understanding of entity and its environment including entity's internal control is a continuous, dynamic process of gathering, updating and analyzing information through out the audit.

Auditor should identify and assess risks of material misstatement at financial statement level, and at assertion level for classes of transactions, account balances and disclosures

Auditors are required to: Relate identified risks to what can go wrong at assertion level; Consider potential magnitude of risks in the context of financial statements; Consider the likelihood that risks could result in a material misstatement of financial statements.

Documentation should cover: Discussion among engagement team; Key elements of understanding obtained; Sources of information; Risk assessment process; the identified and assessed risks; Significant risks evaluated; Risks evaluated for which substantive procedures done.

Auditor uses professional judgment to determine the extent of understanding required. Auditors primary consideration is whether the understanding that has been obtained is sufficient to meet the objective stated in the SA

SA 320: Audit Materiality

Corresponding ISA: ISA 320 "**A**UDIT **M**ATERIALITY"

Information is material if its misstatement (i.e. omission or erroneous statement) could influence economic decisions of users taken on the basis of financial information. Materiality depends on size and nature of item, judged in particular circumstances of its misstatement. Concept of materiality recognises that some matters, either individually or in aggregate, are relatively important for true and fair presentation of financial information in conformity with recognised accounting policies and practices. Auditor considers materiality at both, overall financial information level and in relation to individual account balances and classes of transactions. Materiality may also be influenced by other considerations, such as legal and regulatory requirements, non–compliance with which may have a significant bearing on financial information, and considerations relating to individual account balances and relationships. Materiality should be considered by the auditor when determining the nature, timing and extent of audit procedures and while evaluating the effect of misstatements. There is an inverse relation between materiality and audit risk. Auditor takes this relationship into account when determining nature, timing and extent of audit procedures. Auditor's assessment of materiality and audit risk may be different at the time of initially planning the engagement from that at the time of evaluating results of their audit procedures. Auditor may, in planning audit work, intentionally set acceptable cut off level for verifying individual transactions at a lower level than is intended to be used to evaluate results of the audit. In forming his/ her opinion on financial information, auditor should consider whether effect of aggregate uncorrected misstatements on financial information is material. If the aggregate of uncorrected misstatements that the auditor has identified approaches materiality level, or if auditor determines that aggregate of uncorrected misstatements causes financial information to be materially misstated, s/he should consider requesting management to adjust financial information or extending their audit procedures

SA 330: **<u>The Auditor's Responses to Assessed</u>**

Corresponding ISA 330: "**T**HE **A**UDITOR'S **R**ESPONSES TO **A**SSESSED"

This Standard deals with auditor's responsibility to design and implement responses to risks of material misstatement identified and assessed by the auditor in accordance with SA 315, in a financial statement audit. The objective is to obtain sufficient appropriate audit evidence about assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Auditor shall design and implement overall responses to address assessed risks of material misstatement at financial statement level.

Auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to assessed risks of material misstatement at assertion level.

In designing further audit procedures to be performed, the auditor shall:

a. Consider reasons for the assessment given to risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure

b. Obtain more persuasive audit evidence the higher the auditor's assessment of risk

When the auditor obtains audit evidence about operating effectiveness of controls during an interim period, the auditor shall:

a. Obtain audit evidence about significant changes to those controls subsequent to the interim period; and

b. Determine additional audit evidence to be obtained for the remaining period

Based on the audit procedures performed and audit evidence obtained, auditor shall evaluate before conclusion of audit whether assessments of risks of material misstatement at assertion level remain appropriate.

Auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or contradict assertions in financial statements.

If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, auditor shall express a qualified opinion or a disclaimer of opinion.

If Auditor plans to use audit evidence about operating effectiveness of controls obtained in previous audits, auditor shall document conclusion reached about relying on such controls that were tested in a previous audit.

SA 400: Risk Assessments and Internal Control

Corresponding ISA: ISA 400 "**R**ISKS **A**SSESSMENTS AND **I**NTERNAL **C**ONTROLS"

Auditor should use professional judgment to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level. Audit risk means the risk that the auditor gives an inappropriate audit opinion when financial statements are materially misstated. Audit risk has three components: **I**NHERENT **R**ISK, **C**ONTROL **R**ISK AND **D**ETECTION **R**ISK. **I**NHERENT **R**ISK is the susceptibility of an account balance or class of transactions to misstatement assuming that there were no related internal controls. **C**ONTROL **R**ISK is the risk that a misstatement will not be prevented or detected and corrected on a timely basis by the accounting and internal control systems. **D**ETECTION **R**ISK is the risk that an auditor's substantive procedures will not detect a misstatement.

Internal control system extends beyond those matters which relate directly to the functions of accounting system and comprises of the control environment and control procedures. The internal control systems are subject to some inherent limitations. In developing the audit program, auditor should relate their assessment of inherent risk to material account balances and classes of transactions at the level of assertions made in financial statements. Auditor should obtain an understanding of control environment sufficient to assess management's attitudes, awareness and actions regarding internal controls and their importance in the entity and should obtain an understanding of control procedures sufficient to develop the audit plan. After obtaining an understanding of accounting system and internal control system, auditor should make a preliminary assessment of control risk.

Auditor should consider whether internal controls were in use throughout the period. If substantially different controls were used at different times during the period, auditor would consider each separately. Auditor should obtain audit evidence through tests of control to support any assessment of control risk. Before the conclusion of audit, based on the results of substantive procedures, auditor should consider whether assessment of control risk is confirmed. In case of deviations from prescribed accounting and internal control systems, auditor would make specific inquiries to consider their implications. Regardless of assessed levels of inherent and control risks, auditor should perform some substantive procedures for material account balances and classes of transactions.

Auditor should consider the assessed levels of inherent and control risks in determining the nature, timing and extent of substantive procedures required to reduce audit risk to an acceptably low level. When Auditor determines that detection risk regarding a financial statement assertion for a material account balance or class of transactions cannot be reduced to an acceptable level, the auditor should express a qualified opinion or a disclaimer of opinion as may be appropriate

SA 401: Auditing in a Computer Information Systems Environment

Corresponding ISA: ISA 401 "**A**UDITING IN A **C**OMPUTER **I**NFORMATION **S**YSTEMS

ENVIRONMENT"

The overall objective and scope of an audit does not change in a Computer Information Systems (CIS) environment. However, use of a computer changes the processing, storage, retrieval and communication of financial information and may affect accounting and internal control systems employed by the entity. Auditor should consider the effect of a CIS environment on the audit. Auditor should have sufficient knowledge of computer information systems to plan, direct, supervise, control and review the work performed. If the use of a professional is planned, auditor should apply procedures as per SA 620. In planning the portions of audit which may be affected by CIS environment, auditor should obtain an understanding of significance and complexity of CIS activities and availability of the data for use in audit. Auditor should obtain an understanding of CIS environment and whether it may influence the assessment of inherent risks and control risks. The nature of risks and internal controls have various characteristics in CIS environments. Auditor should consider the CIS environment in designing audit procedures to reduce audit risk to an acceptably low level. In an audit in CIS environment, some of the audit evidence may be in electronic form. Auditor should satisfy themselves that such evidence is adequately and safely stored and is retrievable in its entirety as and when required

SA 402: <u>Audit Considerations relating to Entities using Service Organisations</u>

Corresponding ISA: ISA 402 "**A**UDITING **C**ONSIDERATION **R**ELATING TO **E**NTITIES USING **S**ERVICE **O**RGANISATION"

Auditor should consider how a service organisation affects client’s accounting and internal control systems so as to plan the audit and develop an effective audit approach. The policies and procedures established and executed by service organisations are physically and operationally separate from client’s organisation. When service organisation executes client’s transactions and maintains accountability, the client may deem it necessary to rely on policies and procedures of the service organisation. If the auditor concludes that activities of service organisation are significant to the entity and relevant to audit, auditor should obtain sufficient information to understand accounting and internal control systems of service organisation and to assess control risk. When using a service organisation auditor’s report, auditor should consider the nature and content of that report. The report of the service organisations auditor will ordinarily be one of two types: Type A – **R**EPORT ON **S**UITABILITY OF **D**ESIGN – giving an understanding of accounting and internal control systems installed by service organisation; Type B – **R**EPORT ON **S**UITABILITY OF **D**ESIGN AND **O**PERATING **E**FFECTIVENESS – giving an understanding of accounting and internal control systems installed by service organisation and effectiveness of such system

SA 500: <u>Audit Evidence</u>

Corresponding ISA: ISA 500 "**A**UDIT **E**VIDENCE"

Auditor is required to obtain sufficient appropriate audit evidence to enable them to draw reasonable conclusions therefrom on which to base their opinion on financial information. Auditor normally relies on evidence that is persuasive rather than conclusive in nature. Auditor may obtain evidence on a selective basis by way of either judgmental or statistical sampling procedures. Evidence is obtained through performance of compliance and substantive procedures. Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. Substantive procedures are designed to obtain evidence as to completeness, accuracy and validity of data produced by accounting system. Obtaining audit evidence from compliance procedures is intended to reasonably assure the auditor in respect of assertions of existence, effectiveness and continuity. Obtaining audit evidence from substantive procedures is intended to reasonably assure the auditor in respect of assertions of existence, rights and obligations, occurrence, completeness, valuation, measurement, presentation and disclosure. To test the reliability, few generalisations are useful such as external evidence is more reliable than internal evidence, written evidence is more reliable than oral evidence and self obtained evidence is more reliable than obtained through the entity. Auditor gains increased assurance when audit evidence obtained from different sources is consistent. Various methods for obtaining audit evidence include inspection, observation, inquiry and confirmation, computation and analytical review

SA 501: <u>Audit Evidence – Additional Consideration for Specific Items</u>

Corresponding ISA: ISA 501 "**A**UDIT **E**VIDENCE – **A**DDITIONAL **C**ONSIDERATIONS FOR **S**PECIFIC **I**TEMS"

The objective of this standard is to establish standards on auditor's responsibilities, audit procedures and provide guidance, in addition to that provided in SA 500, "Audit Evidence", with respect to certain specific financial statement amounts and other disclosures. It provides guidance with respect to definition, procedures, management representations and audit conclusions and reporting for each of following parts. This standard assists the auditor to obtain audit evidence with respect to following aspects:

Part A: Attendance at Physical Inventory Counting

Management ordinarily establishes procedures under which inventory is physically counted at least once in a year to serve as a basis for preparation of financial statements or to ascertain reliability of perpetual inventory system. When inventory is material to financial statements, auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable. If unable to attend physical inventory count on the date planned due to unforeseen circumstances, auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether changes in inventory between date of physical count and period end date are correctly recorded

Part B: Inquiry regarding Litigation and claims

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. The letter seeking direct communication with entity's lawyers and such other professionals to whom the entity engages for litigation and claims should be prepared by management. If management refuses to give the auditor permission to communicate with entity's lawyers, this would constitute a limitation on the scope of auditor’s work

Part C: Valuation and Disclosure of Long Term Investments

Audit procedures regarding long–term investments ordinarily include obtaining audit evidence with respect to their ownership and existence as to whether the entity has the ability to continue to hold investments on a long term basis and discussing with management whether the entity will continue to hold investments as long–term investments and obtaining written representations to that effect

Part D: Segment Information

Auditor considers segment information in relation to financial statements taken as a whole, and is not required to apply auditing procedures that would be necessary to express an opinion on segment information standing alone. Audit procedures regarding segment information ordinarily consist of analytical procedures and other audit tests appropriate in the circumstances

SA 505: <u>External Confirmations</u>

Corresponding ISA: ISA 505 "**E**XTERNAL **C**ONFIRMATIONS"

External confirmation 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. Before making use of external confirmations, auditor should consider materiality, the assessed level of inherent and control risk, and how the evidence from other planned audit procedures will reduce audit risk to an acceptably low level. Auditor should employ external confirmation procedures in consultation with the management. External confirmations are mostly sought for account balances and their components but they are not to be restricted to these items only. The use of confirmation procedures may be effective in providing sufficient appropriate audit evidence when auditor determines higher level of assessed inherent and control risk. The request for confirmations is to be made either at the date of financial statements or at a date close to it. Requests are to be designed to specific audit objectives. Auditor’s understanding of client’s arrangements and transactions with third parties is important in determining the information to be confirmed. Auditor may use positive or negative external confirmation requests or a combination of both. The former request asks the respondent to reply to Auditor in all cases either by indicating respondent’s agreement with the given information, or by asking the respondent to fill in information. Latter asks the respondent to reply only in the event of disagreement with information provided in the request. Auditor should perform alternative procedures where no response is received to a positive external confirmation request. Auditor should consider whether there is any indication that external confirmations received may not be reliable. Auditor should evaluate the conformity between results of external confirmation process together with results from any other procedures performed. If Auditor seeks for an external confirmation and management requests the auditor not to do so, auditor should consider whether there are valid grounds for such a request and obtain evidence to support validity of management’s requests

SA 510: <u>Initial Engagements – Opening Balances</u>

Corresponding ISA: ISA 510 "**I**NITIAL **E**NGAGEMENTS – **O**PENING **B**ALANCES"

For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence that closing balances of preceding period have been correctly brought forward to current period, the opening balances do not contain misstatements that materially affect financial statements for the current period and appropriate accounting policies are consistently applied. Auditor should consider whether accounting policies followed in preceding period, as per which the opening balances have been arrived at, were appropriate and that those policies are consistently applied. Ordinarily, current auditor can place reliance on closing balances contained in financial statements for preceding period, except when during performance of audit procedures for current period the possibility of misstatements in opening balances is indicated. When financial statements of preceding period were not audited, auditor must adopt other procedures such as for current assets and liabilities. Some audit evidence can ordinarily be obtained as part of audit procedures performed during the current period and for non–current assets and liabilities such as fixed assets, investments and long–term debt, the auditor could ordinarily examine records underlying the opening balances

SA 520: <u>Analytical Procedures</u>

Corresponding ISA: ISA 520 "**A**NALYTICAL **P**ROCEDURES"

Auditor should apply analytical procedures at the planning and overall review stages of audit. Analytical procedures are analysis of significant ratios and trends including resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts. Auditor should apply analytical procedures at planning and overall review stages of audit as well as while applying substantive procedures. Analytical procedures in planning the audit use both financial and non–financial information. Application of analytical procedures is based on the expectation that relationships among data exist and continue in absence of known conditions to the contrary. Presence of these relationships provides audit evidence as to completeness, accuracy and validity of data produced by the accounting system. However, reliance on results of analytical procedures will depend on auditor's assessment of the risk that analytical procedures may identify relationships as expected when, in fact, a material misstatement exists. When analytical procedures identify significant fluctuations or relationships that are inconsistent with other relevant information or that deviate from predicted amounts, the auditor should investigate and obtain adequate explanations and appropriate corroborative evidence

SA 530: <u>Audit Sampling</u>

Corresponding ISA: ISA 530 "**A**UDIT **S**AMPLING AND **O**THER **S**ELECTIVE **T**ESTING **P**ROCEDURES"

When using either statistical or non–statistical sampling methods, auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence. When designing an audit sample, auditor should consider specific audit objectives, population from which the auditor wishes to sample and sample size. To assist in the efficient and effective design of sample, stratification may be appropriate. Stratification is the process of dividing a population into sub–populations. When determining sample size, auditor should consider sampling risk, tolerable error, and expected error. Tolerable error is the maximum error in the population that the auditor would be willing to accept and still conclude that the result from the sample has achieved audit objective. If Auditor expects error to be present in the population, a larger sample needs to be examined to conclude that actual error in the population is not greater than planned tolerable error. Auditor should select sample items in such a way that the sample can be expected to be representative of the population. This requires that all items in the population have an opportunity of being selected. After having carried out those audit procedures on each sample item that are appropriate to particular audit objective, auditor should analyse any errors detected in the sample, project the errors found in the sample to the population and reassess sampling risk

SA 540: <u>Audit of Accounting Estimates</u>

Corresponding ISA: ISA 540 "**A**UDIT OF **A**CCOUNTING **E**STIMATES"

Auditor should obtain sufficient appropriate audit evidence regarding reasonableness of accounting estimates. Accounting estimate means an approximation of amount of an item in absence of a precise means of measurement. Determination of an accounting estimate may be simple or complex, depending upon the nature of item. Auditor should adopt one or a combination of following approaches in the audit of an accounting estimate:

a. review and test 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

Auditor should make a final assessment of reasonableness of estimate based on auditor’s knowledge of the business and whether the estimate is consistent with other audit evidence obtained during audit. When there is a difference between auditor’s estimate of the amount best supported by available audit evidence and the estimated amount included in financial statements, auditor should consider whether the amount requires adjustment and report accordingly

SA 550: <u>Related Parties</u>

Corresponding ISA: ISA 550 "**R**ELATED **P**ARTIES"

Auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence regarding identification and disclosure by management of related parties and the related party transactions that are material to financial statements. Definitions regarding related parties are given in Accounting Standard 18 and are adopted for the purposes of this SA. Management is responsible for identification and disclosure of related parties and transactions with such parties. This responsibility requires management to implement adequate accounting and internal control systems to ensure that transactions with related parties are appropriately identified in accounting records and disclosed in financial statements. Auditor should review information provided by directors and management identifying names of all known related parties and should perform other procedures in respect of completeness of this information. S/he should consider adequacy of control procedures over authorisation and recording of related party transactions. In examining identified related party transactions, auditor should obtain sufficient appropriate audit evidence as to whether these transactions have been properly recorded and disclosed. Auditor should obtain a written representation from management concerning completeness of information provided regarding identification of related parties and adequacy of related party disclosures in financial statements. If auditor is unable to obtain sufficient appropriate audit evidence concerning related parties and transactions with such parties or s/he concludes that their disclosure in financial statements is not adequate, s/he should express a qualified opinion or a disclaimer of opinion in the audit report

SA 560: Subsequent Events

Corresponding ISA: ISA 560 "**S**UBSEQUENT **E**VENTS"

Subsequent events are significant events occurring between balance sheet date and the date of auditor's report. Auditor should consider effect of subsequent events on financial statements and on auditor's report. Auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of auditor's report that may require adjustment of, or disclosure in financial statements have been identified. Procedures to identify events that may require adjustment of, or disclosure in financial statements would be performed as near as practicable to the date of auditor's report. When Auditor becomes aware of events which materially affect financial statements, the auditor should consider whether such events are properly accounted for in financial statements. When the management does not account for such events that auditor believes should be accounted for, auditor should express a qualified opinion or an adverse opinion, as appropriate

SA 570: Going Concern

Corresponding ISA: ISA 570 "**G**OING **C**ONCERN"

When planning and performing audit procedures and in evaluating the results thereof, auditor should consider appropriateness of going concern assumption underlying the preparation of financial statements. An entity's continuance as a going concern for foreseeable future, generally a period not to exceed one year after balance sheet date, is assumed in preparation of financial statements in absence of information to the contrary. Auditor should consider the risk that going concern assumption may no longer be appropriate. Indications of risk that continuance as a going concern may be questionable could come from financial statements, operational activities or from other sources.

These may be financial indicators, operating indicators or other indicators. If, on the presence of such indication, a question arises regarding appropriateness of going concern assumption, auditor should gather sufficient appropriate audit evidence to attempt to resolve, to the auditor's satisfaction, the question regarding entity's ability to continue in operation for foreseeable future. After procedures considered necessary have been carried out, all information required has been obtained, and effect of any plans of management and other mitigating factors have been considered, auditor should decide whether the question raised regarding going concern assumption has been satisfactorily resolved. Auditor, on the basis of his/ her judgment and audit evidence will report, as deemed appropriate. If adequate disclosure is made in financial statements, auditor should ordinarily express an unqualified opinion. If adequate disclosure is not made in financial statements, auditor should express a qualified or adverse opinion, as appropriate

SA 580: Representations by Management

Corresponding ISA: ISA 580 "**M**ANAGEMENT **R**EPRESENTATIONS"

During the course of an audit, management makes many representations to auditor, either unsolicited or in response to specific enquiries. Management representations both oral and written constitute an important form of audit evidence. Representations should be obtained from management in writing on matters material to financial information, when other sufficient appropriate audit evidence cannot reasonably be expected to exist. Representations by management cannot be a substitute for other audit evidence that the auditor could reasonably expect to be available. Where the matter is principally one of intention, a representation by management may be the only audit evidence which can reasonably be expected to be available. If a representation by management is contradicted by other evidence, the auditor should examine the circumstances. Auditor should document in their working papers evidence of management's representations. A management representation letter should be addressed to the auditor containing relevant information and be appropriately dated and signed. A management representation letter should ordinarily be signed by members of management who have primary responsibility for the entity and its financial aspects, e.g., Managing Director, Finance Director

SA 600: Using the work of another auditor

Corresponding ISA: ISA 600 "**U**SING THE WORK OF ANOTHER AUDITOR"

When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of other auditor will affect the audit. Auditor should consider professional competence of other auditor in the context of specific assignment if the other auditor is not a Chartered Accountant. Auditor should inform other auditor of matters such as areas requiring special consideration, procedures for identification of inter–component transactions and significant accounting, auditing and reporting requirements. Auditor should consider significant findings of other auditor. There should be proper co–ordination and communication between the two auditors. When the principal auditor concludes that work of other auditor cannot be used and s/he has not been able to perform sufficient additional procedures regarding financial information of the component audited by other auditor, s/he should express a qualified opinion or disclaimer of opinion. The principal auditor would not be responsible in respect of the work entrusted to other auditors

SA 610: Relying Upon the Work of an Internal Auditor

Corresponding ISA: ISA 610 "**C**ONSIDERING THE **W**ORK OF **I**NTERNAL **A**UDITING"

External auditor should, as part of their audit, evaluate the internal audit function to the extent they consider that it will be relevant in determining the nature, timing and extent of their compliance and substantive procedures. Depending upon such evaluation, external auditor may be able to adopt less extensive procedures than would otherwise be required. External auditor's general evaluation of internal audit function will assist them in determining the extent to which s/he can place reliance upon the work of internal auditor. Important aspects to be considered in this context are organisational status of the entity; nature and depth of internal audit assignment; technical competence of internal audit staff and the degree of due professional care taken by internal audit staff. External auditor must ascertain internal auditor's tentative plan for the year and discuss it with them at an early stage to determine areas where they could consider relying upon the work of internal auditor. Coordination with internal auditor is usually more effective when meetings are held at appropriate intervals during the year. Where, following the general evaluation, external auditor intends to rely upon specific internal audit work, s/he should review internal auditor's work, considering the scope of work and related audit programmes; whether the work was properly planned and work of assistants was properly supervised, reviewed and documented; whether sufficient appropriate evidence was obtained to afford a reasonable basis for the conclusions reached; whether conclusions reached are appropriate in the circumstances and whether any exceptions or unusual matters disclosed by internal auditor's procedures have been properly resolved

SA 620: Using the work of an Expert

Corresponding ISA: ISA 620 "**U**SING THE WORK OF AN EXPERT"

When auditor uses work of an expert employed by them, s/he is using that work in employee's capacity as an expert rather than delegating the work to an assistant on the audit. Accordingly, in such circumstances, s/he should apply relevant procedures. Before asking for an expert's opinion, auditor should satisfy themselves about the skills and competence of that expert. Auditor should also consider objectivity of the expert. Auditor should seek reasonable assurance that the expert's work constitutes appropriate audit evidence in support of the financial information. Auditor should consider whether the expert has used source data which are appropriate in the circumstances. The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the expert. Auditor does not have the same expertise and, therefore, cannot always challenge expert's assumptions and methods. If auditor concludes that the work of expert is inconsistent with information in financial statements or that the work of expert does not constitute sufficient appropriate audit evidence (e.g. where the work of expert involves highly technical matters or where, on grounds of confidentiality, the expert refuses to make available to Auditor the source data used by them) s/he should express a qualified opinion, a disclaimer of opinion or an adverse opinion, as may be appropriate. When expressing an unqualified opinion, auditor should not refer to the work of an expert in his/ her report. If auditor decides to express other than an unqualified opinion, it may be beneficial to reader of the report if the auditor, in explaining the nature of their reservation, refers to or describes the work of expert

SA 700: <u>The Auditor's Report on Financial Statements</u>

Corresponding ISA: ISA 700 "**T**HE **A**UDITOR'S **R**EPORT ON **F**INANCIAL STATEMENTS"

Auditor should review and assess conclusions drawn from audit evidence obtained as the basis for clearly written expression of an opinion on financial statements. Auditor's report includes basic elements such as Title, Addressee, Opening or introductory paragraph, Scope paragraph (describing the nature of an audit), Opinion paragraph, Date of the report, Place of signature, and Auditor's signature. Auditor should incorporate in the audit report, matters specified by statute or regulator and report in the form prescribed by them in addition to requirements of this SA. Unqualified opinion should be expressed when auditor concludes that the financial statements give a true and fair view. Auditor's report is considered to be modified when it includes emphasis of matter when it does not affect auditor's opinion. Auditor's report is considered to be qualified, disclaimer or adverse when it contains matters which affect their opinion. Auditor should modify auditor's report by adding a paragraph to highlight a material matter regarding a going concern problem where the going concern question is not resolved and adequate disclosures have been made in financial statements. A qualified opinion should be expressed when Auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management is not so material and pervasive as to require an adverse opinion. A disclaimer of opinion should be expressed when the limitation on scope is so material that the auditor has not been able to obtain sufficient appropriate audit evidence and is unable to express an opinion on financial statements. An adverse opinion should be expressed when the effect of a disagreement is so material that auditor concludes that a qualification of the report is not adequate

SA 710: <u>Comparatives</u>

Corresponding ISA: ISA 710 "**C**OMPARATIVES"

Existence of differences in financial reporting frameworks results in comparative financial information being presented differently in each framework. The frameworks and methods of presentation that are referred to in this SA are corresponding figures where amounts and other disclosures for preceding period are included as part of current period financial statements and Comparative Financial Statements where amounts and other disclosures for preceding period are included for comparison with financial statements of current period. Auditor should obtain sufficient appropriate audit evidence that the corresponding figures meet the requirements of relevant financial reporting framework. This involves verifying whether accounting policies used for corresponding figures are consistent with those of current period and whether corresponding figures agree with amounts and other disclosures presented in prior period. When previous year's audit was done by another auditor, the incoming auditor too must comply with these conditions along with the procedures set out by SA 510 "Initial Engagements–Opening Balances". When auditor's report on prior period, as previously issued, included a qualified opinion and concerned matter is not resolved, auditor's report should also be modified regarding corresponding figures. When prior period financial statements are not audited, incoming auditor should state the fact in auditor's report

Standards on Related Services (SRS) 4400: <u>Engagements to Perform Agreed</u>

upon Procedures regarding Financial Information

Corresponding International Standards on Related Services (ISRS) 4400: "**E**NGAGEMENTS TO **P**ERFORM **A**GREED–UPON **P**ROCEDURES REGARDING **F**INANCIAL **I**NFORMATION"

In an engagement to perform agreed–upon procedures, auditor is engaged by client to issue a report of factual findings, based on specified procedures performed on specified matters of a financial statement. As the auditor simply provides a report of factual findings of agreed–upon procedures, no assurance is expressed by them in the report. Report is restricted to those parties that have agreed to procedures to be performed since others, unaware of reasons for the procedures, may misinterpret results. Auditor should comply with *Code of Ethics,* issued by ICAI. Where Auditor is not independent, a statement to that effect should be made in the report of factual findings. Terms of engagement should be well defined so as to avoid any misunderstandings. Auditor should plan the work so that an effective engagement will be performed and documentation of important matters to be done which provides evidence to support the report of factual findings. The report describes the purpose and agreed–upon procedures of engagement in sufficient detail to enable the reader to understand the nature and extent of work performed. The report should also clearly mention that no audit or review has been performed

SRS 4410: Engagements to Compile Financial Information

Corresponding ISRS 4410: "**E**NGAGEMENTS TO COMPILE **F**INANCIAL **I**NFORMATION"

In such types of engagements, accountant uses accounting expertise as against auditing expertise to collect, classify and summarise financial information. The accountant should comply with the "Code of Ethics", issued by ICAI. However, where accountant is not independent, a statement to that effect should be made in the accountant's report. It should be ensured that there is a clear understanding between the client and accountant regarding terms of engagement by means of an engagement letter or such other suitable form of contract. Accountant should obtain an acknowledgement from management of its responsibility for appropriate preparation and presentation of financial statements or other information and of its approval of such information to be compiled. Accountant should also obtain an acknowledgement from management of its responsibility for accuracy and completeness of underlying accounting data and complete disclosure of all material and relevant information. Accountant should plan the work so that an effective engagement will be performed. Accountant should obtain a general knowledge of business and operations of the entity and should be familiar with accounting principles. Accountant should request management representation letter covering significant information or explanations given orally on which they consider representations are required. There are few special considerations which the accountant has to take care of i.e. s/he should ensure that financial statements or other financial information compiled, comply with requirements of identified financial reporting framework & where there is no specific financial reporting framework, client may specify that accounts should be compiled on, for example, based on requirements of Income-tax Act. If any accounting standard is not complied with, the fact should be disclosed in the notes to accounts. If accountant becomes aware of any material misstatement, s/he must report this to management or must withdraw from engagement if management doesn't act. Financial information compiled should be approved by client before compilation report is signed by accountant

Standard on Review Engagements (SRE) 2400: <u>Engagements to Review Financial Statements</u>

Corresponding International Standard on Review Engagements (ISREs) 2400: "**E**NGAGEMENTS TO **R**EVIEW **F**INANCIAL **S**TATEMENTS"

This standard provides extensive guidance on procedures and enquiries to be employed by auditors on quarterly unaudited financial results of companies listed on stock exchanges in India which are subject to limited review by Chartered Accountants. Unlike an audit, a review engagement is based mainly on analytical procedures and inquiries conducted by the auditor. This standard establishes standards and provides guidance on auditor's professional responsibilities and on the form and content of report that the auditor issues in connection with a review. This standard deals with issues such as scope of review engagement, level of assurance, terms of engagement, planning, documentation, review procedures, conclusions and reporting requirements in review engagements. This standard also illustrates format of engagement letter to be issued, review procedures to be applied and format of Review reports to be issued for qualified as well as unqualified opinion. Auditor should plan and perform the review with an attitude of professional skepticism recognising that circumstances may exist which cause financial statements to be materially misstated. For the purpose of expressing negative assurance in review report, auditor should obtain sufficient appropriate evidence primarily through inquiry and analytical procedures to be able to draw conclusions. The scope of a review is substantially narrower as compared to an audit in accordance with the generally accepted auditing standards for expression of an opinion on financial statements. A review engagement provides a moderate level of assurance. In planning a review of financial statements, auditor should obtain or update knowledge of business including consideration of entity's organisation, accounting systems, operating characteristics and nature of its assets, liabilities, revenues and expenses. Auditor should apply judgment in determining the specific nature, timing and extent of review procedures. Auditor should apply the same materiality considerations as would be applied if an audit opinion on financial statements were being given. If Auditor has reason to believe that the information subject to review may be materially misstated, s/he 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. The review report should contain a clear written expression of negative assurance. If Auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, s/he should withdraw and consider whether there is any obligation, either contractual or otherwise, to report the circumstances necessitating withdrawal to other parties, such as board of directors or shareholders

Standard on Assurance Engagements (SAE) 3400: <u>The Examination of Prospective Financial Information</u>

Corresponding International Standard on Assurance Engagements: ISAE 3400 "**T**HE **E**XAMINATION OF **P**ROSPECTIVE **F**INANCIAL **I**NFORMATION"

In an engagement to examine prospective financial information, auditor should obtain sufficient appropriate evidence as to whether:

a. management’s best–estimate assumptions are not unreasonable and, in he case of hypothetical assumptions, such assumptions are consistent with the purpose of information

b. prospective financial information is properly prepared on the basis of assumptions

c. prospective financial information is properly presented and all material assumptions are adequately disclosed, including whether they are best–estimate assumptions or hypothetical assumptions and

d. prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles

While evidence may be available to support assumptions on which prospective financial information is based, such evidence is itself generally future–oriented and, therefore, speculative in nature, as distinct from evidence ordinarily available in examination of historical financial information. Auditor is, therefore, not in a position to express an opinion as to whether the results shown in prospective financial information will be achieved

Auditor should:

- not accept, or should withdraw from, an engagement when assumptions are clearly unrealistic or when s/he believes that prospective financial information will be inappropriate for its intended use

- obtain a sufficient level of knowledge of business and become familiar with entity’s process to be able to evaluate whether all significant assumptions required for preparation of prospective financial information have been identified

- consider extent to which reliance on entity’s historical financial information is justified. Auditor should consider period of time covered by prospective financial information. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources

- would consider whether, when hypothetical assumptions are used, all significant implications of such assumptions have been taken into consideration

- should obtain written representations from management regarding intended use of prospective financial information, completeness of significant management assumptions and management’s acceptance of its responsibility for prospective financial information

- should assess the presentation and disclosures in prospective financial statement are adequate

- should document matters, which are important in providing evidence to support his report on examination of prospective financial information, and evidence that such examination was carried out in accordance with this SA

When auditor believes that presentation and disclosure of prospective financial information is not adequate, the auditor should express a qualified or adverse opinion in the report on prospective financial information, or withdraw from engagement as appropriate. When auditor believes that one or more significant assumptions do not provide a reasonable basis for prospective financial information prepared on basis of best–estimate assumptions or that one or more significant assumptions do not provide a reasonable basis for prospective financial information given the hypothetical assumptions, the auditor should either express an adverse opinion setting out reasons in the report on prospective financial information, or withdraw from engagement. When examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, auditor should either withdraw from engagement or disclaim the opinion and describe the scope limitation in the report on prospective financial information.