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SA -200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing (01-04-2010)

1. This Standard on Auditing (SA) establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs.

2. The independent auditor is referred to as "the auditor" hereafter.

3. a) The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statments are prepared, in all material respects, in accordance with an applicable financial reporting framework.
   b) Applicable financial reporting framework - The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.
   c) The auditor's opinion does not assure, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

4. a) An audit in accordance with SAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of those responsibilities.
   b) Au audit in accordance with SAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibility for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework. This includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

5. a) As the basis for the auditor's opinion, SAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error.
   b) Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.
   c) However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

6. a) The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole.
   b) Audit risk - The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.
   c) Audit risk is a function of the risks of material misstatement and detection risk.
   d) Detection risk - The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

e) Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.

f) <u>Detection Risk</u> : For a given level of audit risk, the acceptable level of detection risk bears an iniverse relationship to the assessed risks of material misstatement at the assertion level. For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.

7. The SAs require that the auditor exercise professional judgement and maintain professional skepticism throughout the planning and performance of the audit and, among other things:-

a) Identity and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.
b) Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
c) Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.

8. a) The form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable laws or regulations.
b) For example, in the case of audit of general purpose financial statements, the opinion required by the SAs is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view.

9. The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in relation to matters arsing from the audit. These may be established by the SAs or by applicable laws or regulations.

10. In conducting an audit of financial statements, the overall objectives of the auditor are :

a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statement are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

11. a) The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.

b) The following are the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements and provides a conceptual framework for applying those principles:
(i) Integrity ,
(ii) Objectivity,
(iii) Professional competence and due care,
(iv) Confidentiality, and
(v) Professional behaviour.

12. a) The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.

b) Professional skepticism includes being alert to, for example :
(i) Audit evidence that contradicts other audit evidence obtained.
(ii) Information that brings into question the reliability of documents and responses to inquiries to be used as audit eividence.
(iii) Conditions that may indicate possible fraud.
(iv) Circumstances that suggest the need for audit procedures in addition to those required by the SAs.

c) Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example to reduce the risks of :
(i) Overlooking unusual circumstances,
(ii) Overgeneralising when drawing conclusions from audit observations, and
(iii) Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.

d) Professional skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances.

e) The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.

13. a) The auditor shall exercise professional judgement in planning and performing an audit of financial statements.

b) Prefessional judgement is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the SAs and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances.

14. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.

15. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is becasue there are inherent limitations of an audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from :
(i) The nature of financial reporting ,
(ii) The nature of audit procedures, and
(iii) The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

16. The SAs, taken together, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor. The SAs deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics.

SA-210 Agreeing the Terms of Audit Engagements (01-04-2010)

1. This Standard on Auditing deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate with those charged with governance.

2. The objective of the auditor is to **accept** or **continue** an audit engagement only when the basis upon which it is to be performed has been agreed, through:

   a) Establishing whether the preconditions for an audit are present ; and
   b) Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.

3. Preconditions for an audit - The use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the **premise** on which an audit is conducted.

4. **Preconditions for an Audit** :
   In order to establish whether the preconditions for an audit are present, the auditor shall ensure the following aspects :

   a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable.
   b) Obtain the agreement of management that it acknowledges and understands its responsibility :-
      (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation ; and
      (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error ;
   c) The management must agree to provide the auditor with :-
      (i) Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
      (ii) Additional information that the auditor may request from management for the purpose of the audit;
      (iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

5. If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

6. If the preconditions for an audit are not present, the auditor **shall not accept** the proposed audit engagement.

7. The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.

8. The agreed terms of the audit engagement shall be recorded in an audit engagement letter (or) other suitable form of written agreement and shall include :-

   a) The objective and scope of the audit of the financial statements ;
   b) The responsibilities of the auditor ;
   c) The responsibilities of management ;
   d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
   e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

9. If law or regulation prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement **except** for the fact that such law or regulation applies and that management **acknowledges** and **understands** its responsibilities.

10. On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.

11. The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.

12. a) Prior to completing the audit engagement, if the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is a reasonable justification for doing so.

    b) If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

    c) If the auditor is **unable is agree to** a change of the terms of the audit engagement and is **not permitted** by management to continue the original audit engagement, the auditor shall :-

       i) **Withdraw** from the audit engagement where possible under applicable law or regulation, and
       ii) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

SA -220 Quality Control for an Audit of Financial Statements (01-04-2010)

1. The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that :-

   a) The audit complies with professional standards and regulatory and legal requirements; and
   b) The auditor's report issued is appropriate in the circumstances.

2. For purposes of the SAs, the following terms have the meanings attributed below :

   a) Engagement partner - The partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
   b) Engagement quality control review - A process designed to provide an objective evaluation, before the report is issued, of the significant judgements the engagement team made and the conclusions they reached in formulating the report.
   c) Engagement quality control reviewer - A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgements the engagement team made and the conclusions they reached in formulating the report. However, in case the review is done by a team of individuals, such team should be headed by a member of the Institute.
   d) Engagement team - All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
   e) Firm - A sole practitioner/proprietor, partnership, or any such entity of professional accountants, as may be permitted by law.
   f) Partner - Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
   i) Personnel - Partners and staff.
   j) Staff - Professionals, other than partners, including any experts which the firm employs.
   k) Suitably qualified external person - An individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

3. **Leadership Responsibilities for Quality on Audits**
   The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.
   The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasise:

   a) The importance to audit quality of :
      (i) Performing work that complies with professional standards and regulatory and legal requirements:
      (ii) Complying with the firm's quality control policies and procedures as applicable;
      (iii) Issuing auditor's reports that are appropriate in the circumstances; and
      (iv) The engagement team's ability to raise concerns without fear of reprisals ; and

   b) The fact that quality is essential in performing audit engagements.

4. The engagement partner shall take responsiblity for :

   a) The direction, supervison and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements; and

   b) The auditor’s report being appropriate in the circumstances.

5. If difference of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm’s policies and procedures for dealing with and resolving differences of opinion.

6. The auditor shall document :

   a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
   b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
   c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
   d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.

7. The engagement quality control reviewer shall document, for audit engagement reviewed, that :

   a) The procedures required by the firm’s policies on engagement quality control review have been performed;
   b) The engagement quality control review has been completed on or before the date of the auditor’s report; and
   c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the engagement team made and the conclusions they reached were not appropriate.

SA - 230 Audit Documentation (01-04-2009)

1. Audit documentation provides :

   a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objective of the auditor ; and
   b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

2. Audit documentation serves a number of additional purposes, including the following :

   a) Assisting the engagement team to plan and perform the audit.
   b) Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA-220.
   c) Enabling the engagement team to be accountable for its work.
   d) Retaining a record of matters of continuing significance to future audits.
   e) Enabling the conduct of qualify control reviews and inspections in accordance with SQC 1.
   f) Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

3. For purposes of the SAs, the following terms have the meanings attributed below:

   a) <u>Audit documentation</u> - The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).
   b) <u>Audit file</u> - One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
   c) <u>Experienced auditor</u> - An indivudual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of :
      (i) Audit processes ;
      (ii) SAs and applicable legal and regulatory requirements;
      (iii) The business environment in which the entity operates; and
      (iv) Auditing and financial reporting issues relevant to the entity's industry.

4. The auditor shall prepare audit documentation on a timely basis.

5. **<u>Form, Content and Extent of Audit Documentation</u>**
   The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand :

   a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
   b) The results of the audit procedures performed, and the audit evidence obtained; and
   c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

6. In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

   a) The identifying characteristics of the specific items or matters tested;
   b) Who performed the audit work and the date such work was completed; and
   c) Who reviewed the audit work performed and the date and extent of such review.

7. If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

8. **<u>Matters Arising after the Date of the Auditor's Report</u>**
In exceptional circumstances, if the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document :

   a) The circumstances encountered ;
   b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
   c) When and by whom the resulting changes to audit documentation were made and reviewed.

9. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

10. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
The retention period for audit engagements ordinarily is no shorter than ten years from the date of the auditor's report, or, if later, the date of the group auditor's report.

SA-240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (01-04-2009)

1) **Characteristics of Fraud :**

a) Mistatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatment of the financial statements is intentional or unintentional.

b) Although fraud is a broad legal concept for the purposes of the SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor - misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.

2) **Responsibility for the prevention and detection of fraud** - The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. This involves a commitment to creating a culture of honesty and ethical behavior which can be reinforced by an active oversight by those charged with governance.

3) **Responsibilities of the Auditor :**

a) Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.

b) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery deliberate failure to record transactions, or intentional misrepresenatations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false.

c) The auditor's ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequencey and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

d) The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees.

e) The auditor is responsible for maintaining an attitude of professional skepticism throughout the audit.
Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence.

4) For purposes of the SAs, the following terms have the meanings attibuted below :

a) Fraud - An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

b) Fraud risk factors - Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

5) Unless, the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine.

6) During the audit if there are conditions that cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.

7) Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.

8) The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.

9) For those entities that have an internal audit function, the auditor shall make inquiries of internal audit to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

10) **Auditor Unable to Continue the Engagement :**

As a result of a misstatement resulting from fraud or suspected fraud, if the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor's shall :

a) Determine the professional and legal responsbilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;

b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted;

11) If the auditor withdraws from the engagement, then he should :-

a) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal ; and

b) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

12) The auditor shall obtain written representations from management that, it acknowledges its responsibility for the design, implementation an maintenance of internal control to prevent and detect fraud.

13) If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

14) If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentially in some circumstances.

15) The auditor shall document communications about fraud made to management, those charged with governance, regulators and others.

16) In exceptional circumstances where the auditor has doubts about the integrity or honesty of management or those charged with governance, the auditor may consider it appropriate to obtain legal advice to assist in determining the appropriate course of action.

17) The auditor's professional duty to maintain the confidentiality of client information may preclude reporting fraud to a party outside the client entity.

18) In case of audit of banks, the auditor has a statutory duty to report the occurrence of fraud to the supervisory authorities, ie, the Reserve Bank of India.

SA-250 The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements (01-04-2009)

1) This standard on auditing (SA) deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements.

2) Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements.

3) It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.

4) The auditor is not responsible for preventing non - compliance and he cannot be expected to detect non-compliance with all laws and regulations.

5) Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor. whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law.

6) **Non - compliance :**

a) Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees.

b) Non - compliance doesnot include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

7) The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.

8) During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention.

9) The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor.

10) If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain :

a) An understanding of the nature of the act and the circumstances in which it has occurred; and

b) Further information to evaluate the possible effect on the financial statements.

11) If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appripriate, those charged with governance. If the management, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgement, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.

12) If the auditor suspects that management or those charged with governance are involved in non - compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

13) If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, express a qualified or adverse opinion on the financial statements.

14) If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non - compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit.

15) If the auditor is unable to determine whether non - compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion.

16) If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

17) The auditor shall document identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

SA-260 Communication with Those Charged with Governance (01-04-2009)

1. This Staandard on Auditing deals with the auditor's responsibility to communicate with those charged with governance in relation to an audit of financial statements.

2. The objectives of the auditor are to :

   a) Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
   b) Obtain from those charged with governance information relevant to the audit;
   c) Provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
   d) Promote effective two-way communication between the auditor and those charged with governance.

3. For purposes of the SAs, the following terms have the meanings attributed below:

   a) **Those charged with governance** - The person or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector undertakings or an owner-manager. In some cases, those charged with governance are responsible for approving the entity's financial statements (in other cases management has this responsibility).
   b) **Management** - The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manger. Management is responsible for the preparation of the financial statements, overseen by those charged with governance, and in some cases management is also responsible for approving the entity's financial statements (in other cases those charged with governance have this responsibility)

4. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate.

5. When the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body.

6. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit.

7. The auditor shall communicate with those charged with governance the following matters :-

   a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity.
   b) Significant difficulties, if any, encountered during the audit.

c) Material weaknesses, if any, in the design, implementation or operating effectiveness of internal control that have come to the auditor's attention and have been communicated to management.

d) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management.

e) Written representations the auditor is requesting, and

f) Other matters, if any, arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

8. Where matters required by this SA to be communicated are communicated orally, the auditor shall document them, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.

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SA-265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management (01-04-2010)

1. This Standard on Auditing (SA) deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.

2. The auditor is required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of meterial misstatement.

3. The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has indentified during the audit and that, in the auditor's professional judgement, are of suffcient importance to merit their respective attentions.

4. For purposes of the SAs, the following terms have the meanings attributed below:

(a) Deficiency in internal control - this exists when:

(i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or

(ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

(b) Significant deficiency in internal control - A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of those charged with governance.

5. The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control.

6. If auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work perforemed, whether, individually or in combination, they constitute significant deficiencies.

7. The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. The auditor shall also communicate to managemant at an appropriate level of responsibility on a timely basis.

8. The auditor shall include in the written communication of simgificant deficiencies in internal control:

(a) A description of the deficiencies and an explanation of their potential effects; and

(b) Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:

(i) The purpose of the audit was for the auditor to express an opinion on the financial statements;

(ii) The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of internal control; and

(iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

SA-299 Responsibility of Joint Auditors (01-04-1996)

1. The practice of appointing more than one auditor to conduct the audit of large entities is in vogue these days. Such auditors, known as joint auditors, conduct the audit jointly and report on the financial statements of the entity. This Standard deals with the professional responsibilities which the auditors undertake in accepting such appointments as joint auditors.

2. Where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of work would usually be in terms of audit of identifiable units or specified areas. In some cases, due to the nature of the business of the entity under audit, such a division of work may not be possible. In such situations, the division of work may be with refernce to items of assets or liabilities or income or expenditure of with reference to periods of time.

3. Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors.

4. The division of work among joint auditors as well as the areas of work to be covered be all of them should be adequately documented and preferably communicated to the entity.

5. Where, in the course of his work, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, he should communicate the same to all the other joint auditors in writing. This should be done by the submission of a report or note prior to the finalisation of the audit.

6. Each joint auditor is responsible only for the work allocated to him. It is the responsibility of each joint auditor to determine the nature, timing and extent of audit procedures to be applied in relation to the area of work allocated to him.

7. All the joint auditors are jointly and severally responsible-
   (a) in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
   (b) in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors.

8. Each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work in accordance with the generally accepted audit procedures. It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actuallly been performed in such a manner.

9. Each joint auditor is entitled to rely upon the other joint auditors for bringing to his notice any departure from generally accepted accounting principles or any material error noticed in the course of the audit.

10. Normally, the joint auditors are able to arrive at an agreed report.

11. Where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report.

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SA- 300 Planning an Audit of Financial Statements 01-04-2008

1) This Standard on Auditing (SA) deals with the auditor's responsibility to plan an audit of financial statements. This SA is framed in the context of recurring audits. Additional considerations in intial audit engagements are separately identified.

2) The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

3) The engagement partner and other key members of the enegagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members.

4) The auditor shall undertake the following activities at the beginning of the **current** audit engagements :

a) Performing procedures required by SA 220, Quality Control for Audit work regarding the continuance of the client relationship and the specific audit engagement

b) Evaluating compliance with ethical requirements, including independence.

c) Establishing an understanding of the terms of the engagement.

5) The auditor shall establish an overall audit strategy that sets the scope,timing and direction of the audit, and that guides development of the audit plan.

6) In establishing the overall audit strategy, the auditor shall :

a) Identify the characteristics of the engagement that define its scope;

b) Ascertain the reporting objectives of engagement to plan the timing of the audit and the nature of the communication required;

c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts;

d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and

e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

7) The auditor shall develop an audit plan that shall include a description of :

a) The nature, timing and extent of planned risk assessment procedures.

b) The nature, timing and extent of planned further audit procedures at the assertion level.

c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

8) The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit.

9) The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.

10) The auditor shall document :

a) The overall audit strategy;

b) The audit plan ; and

c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

11) The auditor shall undertake the following activities prior to starting an **initial** audit :-

a) Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement; and

b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

12) Planning an audit involves establishing the over all audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following :

a) Helping the auditor to devote appropriate attention to important areas of the audit.

b) Helping the auditor to identify and resolve potential problems on a timely basis.

c) Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.

d) Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.

e) Facilitating the direction and supervision of engagement team members and the review of their work.

f) Assisting, where applicable in coordination of work done by auditors of components and experts.

13) Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after(or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement.

14) The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members.

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SA - 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment (01-04-2008)

1. This Standard on Auditing (SA) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through understanding the entity and its environment, including the entity's internal control.

2. The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, both at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. This will help the auditor to reduce the risk of material misstatement to an acceptably low level.

3. For purpose of the SAs, the following terms have the meanings attributed below :

    a) Assertions - Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

    b) Business risk - A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies

    c) Internal control - The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

    d) Risk assessment procedures - The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, both at the financial statement and assertion levels.

    e) Significant risk - An identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.

    f) Material Weakness - A weakness in internal control that could have a material effect on the financial statements.

4. The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.

5. The risk assessment procedures shall include the following :
    a) Inquiries of management, and of others within the entity who in the auditor's judgement may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.
    b) Analytical procedures.
    c) Observation and inspection.

6. The auditor shall consider whether information obtained from the auditor's client acceptance or continuance process is relevant to identifying risks of material misstatement.

7. When the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit.

8. The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion.

9. The auditor shall obtain an understanding of the following:

   a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.

   b) The nature of the entity, including, its operations, its ownership and governance structures, the types of investments that the entity is making and plans to make, and the way that the entity is structured and how it is financed, -
   to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.

   c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

   d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.

   e) The measurement and review of the entity's financial performance.

10. The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgement whether a control, individually or in combination with others, is relevant to the audit.

11. The audit shall obtain an understanding of whether the entity has a process for:

    a) Identifying business risks relevant to financial reporting objectives;

    b) Estimating the significance of the risks;

    c) Assessing the likelihood of their occurrence; and

    d) Deciding about actions to address those risks.

12. In exercising judgement as to which risks are significant risks, the auditor shall consider at least the following :-

    a) Whether the risk is a risk of fraud.

    b) Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment etc., and , therefore, requires specific attention.

    c) The complexity of transactions.

    d) Whether the risk involves significant transactions with related parties.

    e) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty.

    f) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

13. When the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk.

14. The audit shall evaluate whether, on the basis of the audit work performed, the auditor has identified a material weakness in the design, implementation or maintenance of internal control.

15. The auditor shall communicate material weaknesses in internal control identified during the audit on a timely basis to management at an appropriarte level of responsibllity, and, those charged with governance.

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SA-320 Materiality in Planning and Performing an Audit (01-04-2010)

1. The Standard on Audit deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

2. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

3. Judgements about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

4. The auditor's determination of materiality is a matter of professional judgement, and is affected by the auditor's perception of the financial information needs of users of the financial statements.

5. The concept of materiality is applied by the auditor in the following aspects :

   a) In planning and performing the audit.
   b) In evaluating the effect of identified misstatements on the audit.
   c) In evaluating the effect of uncorrected misstatements, if any, on the financial statements.
   d) In forming the opinion in the auditor's report.

6. In planning the audit, the auditor makes judgements about the size of misstatements that will be considered material.

7. The objective of the auditor is to apply the concept of materiality appropriately in planning and perfoming the audit.

8. **Performance Materiality** : -

   a) Performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
   b) Performance materiality also refers to the amount or amounts set by the auditor at less than materiality level or levels for particular classes of transactions, account balances or disclosures.
   c) The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement.

9. a) When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole.
   b) The auditor shall also determine the materiality level or levels to be applied specifically to particular classes of transactions, account balances or disclosures.

10. The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

11. a) During the audit the auditor shall revise materiality for the financial statements as a whole.

    b) The auditor shall determine whether it is necessary to revise performance materiality.

12. Materiality and audit risk are considered throughout the audit. The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Audit risk is the risk that the auditor expresses an inappropriate audit opinin when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk

13. Determining materiality, involves the exercise of professional judgement. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.
    Examples of benchmarks that may be appropriate, depending on the circumstances of the entity include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value.

14. In the case of certain entities, such as, Central/State governments and related government entities (for example, agencies, boards, commissions), legislators and regulators are often the primary users of its financial statements. Furthermore the financial statements may be used to make decisions other than economic decisions. The determination of materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) in an audit of the fnancial statements or those entities may therefore be influenced by legislative and regulatory requirements, and by the financial information needs of legislators and the public in relation to public utility programs/projects, such as, Accelerated Irrigation Benefit Programme (AIBP). Pradhan Mantri Gram Sadak Yojana (PMGSY), undertaken by the Central / State governments or related government entities.

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SA-330 The Auditor's Responses to Assessed Risks (01-04-2008)

1. This Standard on Auditing deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor.

2. The objective of the auditor is to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

3. For purposes of the SAs, the following terms have the meanings attributed below:

   a) Substantive procedure - An audit procedures designed to detect material misstatements at the assertion level. Substantive procedures comprise:
      (i) Tests of details (of classes of transactions, account balances, and disclosures), and
      (ii) Substantive analytical procedures.
   b) Test of controls - An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

4. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.

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

6. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

7. The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process :

   a) Agreeing or reconciling the financial statements with the underlying accounting records; and
   b) Examining material journal entries and other adjustments made during the course of preparing the financial statemeents.

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

9. 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, the auditor shall express a qualified or a disclaimer of opinion.

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SA- 402 Audit Considerations Relating to an Entity Using a Service Organisation (01-04-2010)

1. This Standard on Audit deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations.

2. Many entities outsource aspects of their business to organisations that provide services ranging from performing a specific task under the direction of an entity to replacing an entity's entire business units or functions, such as the tax compliance function. Many of the services provided by such organisations are integral to the entity's business operations.

3. The objectives of the user auditor, when the user entity uses the services of a service organisation, are :

   a) To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement ; and
   b) To design and perform audit procedures responsive to those risks.

4. For purposes of the SAs, the following terms have the meanings attributed below:

   a) <u>User entity</u> - An entity that uses a service organisation and whose financial statements are being audited.
   b) <u>Complementary user entity controls</u> - Controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.
   c) <u>User auditor</u> - An auditor who audits and reports on the financial statements of a user entity.
   d) <u>Service organisation</u> - A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting.
   e) <u>Service organisation's system</u> - The policies and procedures designed, implemented and maintained by the service organisation to provide user entities with the services covered by the service auditor's report.
   f) <u>Service auditor</u> - An auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation.
   g) <u>Subservice organisation</u> - A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting.

5. When obtaining an understanding of the user entity the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including:

   a) The nature of the services provided by the service organisation and the significance of those service to the user entity, including the effect thereof on the user entity's internal control;
   b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;
   c) The degree of interaction between the activities of the service organisation and those of the user entity; and
   d) The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation.

6. The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstament.

7. If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following about the service organisation :-

   a) Contacting the service organisation through the user entity, to obtain specific information;
   b) Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation; or
   c) Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

8. In determining the sufficiency and appropriateness of the audit evidence the user auditor shall be satisfied as to the service auditor's professional competence (except where the service auditor is a member of the Institue of Chartered Accountants of India) and independence from the service organisation.

9. When the user auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively, the user auditor shall obtain audit evidence about the operating effectiveness of those controls.

10. The user auditor shall modify the opinion in the user auditor's report if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements.

11. The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion.

12. If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion.

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SA-450 Evaluation of Misstatements Identified during the Audit (01-04-2010)

1. This Standard on Auditing (SA) deals with the auditor's responsibility to evlauate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

2. The objective of the auditor is to evaluate:
   (a) The effect of identified misstatements on the audit; and
   (b) The effect of uncorrected misstatements, if any, on the financial statements.

3. For purposes of the SAs, the following terms have the meanings attributed below:
   (a) Misstatement - A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. When the auditor expresses an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects, misstatements also include those adjustments of amounts, classification, presentation, or disclosure that, in the auditor's judgment, are necessary for the financial statements to give a true and fair view or present fairly, in all material respects.
   (b) Uncorrected misstatements - Misstatements that the auditor has accumulated during the audit and that have not been corrected.

4. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trival.

5. The auditor shall determine whether the overall audit strategy and audit plan need to be revised if :-
   (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or
   (b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320.

6. At the auditor's request, if management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to detemine whether misstatements remain.

7. The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor shall request management to correct those misstatements.

8. If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.

9. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determinatjion, the auditor shall consider :-
   (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and
   (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

10. The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.

11. The auditor shall request a written representation from management and,where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.

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SA - 500 Audit Evidence
(01-04-2009)

1 This standard on Auditing (SA) explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

2. The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw conclusions on which to base the auditor's opinion.

3. **Audit evidence** - Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.

4. a) The sufficiency and appropriateness of audit evidence are interrelated.

b) Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required).Obtaining more audit evidence, however, may not compensate for its poor quality.

c) Appropriateness is the measure of the quality of audit evidence, that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. Relevance deals with the logical connection. The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained.

5) The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

6) When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.

7) a) When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, have regard to the significance of that expert's work for the auditor's purposes.

b) Management's expert - An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

c) The auditor should :-

i) Evaluate the competence, capabilities and objectivity of that expert ;

ii) Obtain an understanding of the work of that expert; and

iii) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

8) When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances :-

a) Obtaining audit evidence about the accuracy and completeness of the information; and
b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.

9) If audit evidence obtained from one source is inconsistent with that obtained from another, or the auditor has doubts over the reliability of information to be used as audit evidence, the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.

10) More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a management representation.

11) **Methods to obtain Audit evidence (Seven methods) :**

Inspection:

a) Inspection involves examining records or documents, whether internal or external, in paper from, electronic form, or other media, or a physical examination of an asset.
b) Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond.
c) Inspection of such documents may not necessarily provide audit evidence about ownership or value.
d) Inspection of tangile assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valution of the assets.
e) Inspection of individual inventory items may accompany the observation of inventory counting.

Observation:

a) Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities.

b) Observation provides audit evidence about the performance of a process or procedure but is limited to the point in time at which the observation takes place.

External Confirmation :

An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

Recalculation :

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

Reperformance:

Reperformance involves the auditor's independent execution of procedures or controls that were orginally performed as part of the entity's internal control.

Analytical Procedures :

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.

Inquiry :

a) Inquiry consists of seeking information both financial and non-financial, from knowledgeable persons either within the entity or outside the entity.

b) Inquiries may range from formal written inquires to informal inquires.

c) Responses to inquires may provide the auditor with information not previously possessed or with corroborative audit evidence.

12) Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgement.

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SA-501 Audit Evidence - Specific Considerations for Selected Items (01-04-2010)

1. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:-

   a) Existence and condition of inventory ;
   b) Completeness of litigation and claims involving the entity ; and
   c) Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

2. **Inventory** :

   a) When inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by attendance at physical inventory counting, unless impracticable.
   b) If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.

   c) When inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory by requesting confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.

3. **Litigation and Claims** :

   a) The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.
   b) The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and appropriatelly accounted for and disclosed in accordance with the applicable financial reporting framework.

4. **Segment Information** :

   The auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

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SA- 505 External Confirmations (01-04-2010)

1. The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.

2. External confirmation - Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

3. When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including :-

   a) Determing the information to be confirmed or requested;
   b) Selecting the appropriate confirming party;
   c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
   d) Sending the request, including follow -up requests when applicable, to the confirming party.

4. If management refuses to allow the auditor to send a confirmation request, the auditor shall :

   a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness:
   b) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

5. The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing further audit procedures is necessary.

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SA-510 Initial Audit Engagements—Opening Balances (01-04-2010)

1) This Standard on Auditing (SA) deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

2) In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether :-

a) Opening balances contain misstatements that materially affect the current period's financial statements; and

b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately disclosed in accordance with the applicable financial reporting framework.

3) For the purposes of the SAs, the following terms have the meanings attributed below :-

a) Initial audit engagement - An engagement in which either, the financial statements for the period were not audited or the financial statements for the prior period were audited by a predecessor auditor.

b) Opening balances-Those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

c) Predecessor auditor - The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor.

4) The auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures.

5) The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by :

a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current items in the current year's statement of profit and loss; and

b) Determinning whether the opening balances reflect the application of appropriate accounting policies.

6) If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements.

7) If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate.

8) If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate.

9) If the auditor concludes that :-

a) The current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework; or

b) A change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework,

the auditor shall express a qualified opinion or an adverse opinion as appropriate.

10) If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains relevant and material to the current period's financial statements, the auditor shall modify the auditor's opinion on the current period's financial statements.

* * *

SA-520 Analytical Procedures (01-04-2010)

1. The objectives of the auditor are : -

   a) To obtain relevant and reliable audit evidence when using substantive analytical procedures ; and
   b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

2. Analytical procedures means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. The auditor's choice of procedures, methods and level of application is a matter of professional judgment.

3. The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

4. If analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such difference by : -

   a) Inquiring of management and obtaining appropriate audit evidence relevant to mangement's responses; and
   b) Performing other audit procedures as necessary in the circumstances.

5. **<u>Examples of Analytical Procedures</u>** :

   a <u>Trends</u> :
   Analysing account fluctuations by comparing current year to prior year information and, also, to information derived over several years.

   b) <u>Reasonableness</u> :
   Test are made by reviewing the relationship of certain account balances to other balances for reasonableness of amounts.

   c) <u>Ratios</u> :
   Analysis by computation of ratios includes the study of relationships between financial statement amounts.

   d) <u>Sources of information</u> :
   (i) Interim financial information.
   (ii) Budgets
   (iii) Management accounts
   (iv) Non-financial information
   (v) Bank and cash records
   (vi) VAT returns
   (vii) Board minutes
   (viii) Discussion or correspondence with the client at they year-end.

SA-530 Audit Sampling (01-04-2009)

1. This Standard on Auditing applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when :-

   a) Designing and selecting the audit sample.
   b) Performing tests of controls and test of details; and
   c) Evaluating the results from the sample.

2. The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

3. For purposes of the SAs, the following terms have the meanings attibuted below :-

   a) Audit sampling (sampling) - The application of audit procedures to less than 100% of itmes within a population.
   b) Population - The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
   c) Sampling risk - The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure.
   d) Non-sampling risk - The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.
      Examples of non -sampling risk include use of inappropriate audit procedures, or misinterpretation of audit evidence and failure to recognise a misstatement or deviation.
   e) Anomaly - A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.
   f) Sampling unit - The individual items constituting a population.
      The sampling units might be physical items (for example, cheques listed on deposit slips, credit entries on bank statements, sales invoices or debtors' balances) or monetary units.
   g) Statistical sampling - An approach to sampling that has the following charcteristics :-
      (i) Random selection of the sample items ; and
      (ii) The use of probability theory to evaluate sample results, including measurement of sampling risk.

      Note: A sampling approach that does not have characteristics (i) and (ii) above is considered non-statistical sampling.
   h) Stratification - The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).

   i) Tolerable misstatement - A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor isi not exceeded by the actual misstatement in the population.
      Tolerable misstatement may be the same amount or an amount lower than performance materiality.
   j) Tolerable rate of deviation - A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

4. When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

5. The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.

6. The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

7. The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.

8. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.

9. The auditor shall project misstaments found in the sample to the population.

10. The auditor shall evaluate:

    a) The results of the sample; and
    b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

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SA-540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures (01-04-2009)

1. This Standard on Auditing deals with the auditor's responsibilities regarding accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements.

2. Some financial statement items cannot be measured precisely, but can only be estimated. Such financial statement items are referred to as accouting estimates.

3. The objective of the auditor is to obtain sufficient appropriate audit evidence whether in the context of the applicable financial reporting framework :-

   a) Accounting estimates, including fair value accounting estimates, in the financial statements, whether recognised or disclosed, are reasonable ; and
   b) Related disclosures in the financial statements are adequate.

4. For purposes of the SAs, the following terms have the meanings attributed below :-

   a) Accounting estimate - An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where this SA addresses only accounting estimates involving measurement at fair value. the term 'fair value accounting estimate' is used.
   b) Estimation uncertainly - The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.
   c) Management bias - A lack of neutrality by management in the preparation and presentation of information.

5. The auditor shall review the outcome of accounting estimates including in the prior period financial statements, or, where applicable, their subsequent re-estimation for the purpose of the current period.

6. The auditor shall evaluate, based on the audit evidence, whether the accounting estimates in the financial statements are either reasonable in the context of the applicable financial reporting framework, or are misstated.

7. The auditor shall obtain sufficient appropriate audit evidence about whether the disclosures in the financial statements related to accounting estimates are in accordance with the requirements of the applicable financial reporting framework.

8. The auditor shall review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias. Indicators of possible management bias do not themselves constitute misstatements for the purpose of drawing conclusion on the reasonableness of individual accounting estimates.

9. The auditor shall obtain written representations from management whether management believes significant assumptions used by it in making accounting estimates are reasonable.

10. The audit documentation shall include :-

    a) The basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosuree that give rise to significant risks; and
    b) Indicators of possible management bias, if any.

SA-550 Related Parties
(01-04-2010)

1) This standard on Auditing (SA) deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements.

2) Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.
Eg **:** Related party transactions may not be conducted under normal market terms and conditions and some related party transactions may be conducted with no exchange of consideration.

3) The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatment arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

4) Related party - A party that is, a person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity.

or

Another entity over which the reporting entity has control of significant influence, directly or indirectly through one or more intermediaries;

or

Another entity that is under common control with the reporting entity through having, common controlling ownership.

or

Owners who are close family members or common key management.
Note : However, entities that are under common control by a state (ie, a national, regional or local government) are not considered related unless thay engage in significant transactions or share resources to a significant extent with one another.

5) During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.

6) The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.

7) In forming an opinion on the financial statements, the auditor shall evaluate :-

a) Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and

b) Whether the effects of the related party relationships and transactions, prevent the financial statements from achieving true and fair presentation; or

c) Cause the financial statements to be misleading.

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SA - 560 Subsequent Events (01-04-2009)

1) This standard on Auditing (SA) deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements.

2) Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events :

a) Those that provide evidence of conditions that existed at the date of the financial statements; and

b) Those that provide evidence of conditions that arose after the date of the financial statements.

3) The objectives of the auditor are to :-

a) Obtain sufficient audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, disclosure in, the financial statements are appropriately reflected in those financial statements; and

b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

4) Subsequent events - Events occuring between the date of the financial statement and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

5) The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occuring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.

6) The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation that all events occuring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

7) The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall :-

a) Discuss the matter with managment and, where appropriate those charged with governance.
b) Determine whether the financial statements need amendment and, if so,
c) Inquire how managment intends to address the matter in the financial statements.

8) If management amends the financial statements, the auditor shall : -

a) Carry out the audit procedures necessary in the circumstances on the amendment.
b) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

9) After the financial statements have been issued, the auditor has no obligation to perfrom any audit procedures regarding such financial statements. However, when, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall :-

a) Discuss the matter with management and, where appropriate those charged with governance.

b) Determine whether the financial statements need amendment.

c) Inquire how management intends to address the matter in the financial statements.

10) If the management amends the financial statements, the auditor shall :-

a) Carry out the audit procedures necessary in the circmstances on the amendment.

b) Provide a new auditor's report on the amended financial statements.

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SA-570 Going Concern(01-04-2009)

1) This Standard on Auditing (SA) deals with the auditor's responsibility in the audit of financial statements with respecct to managment's use of the going concern assumption in the preparation and presentation of the financial statements.

2) Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

3) The auditor's responsibility is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern.

4) The objectives of the auditor are :-

a) To obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the prepartion and presentation of the financial statements.

b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

c) To determine the implications for the auditor's report.

5) The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

6) The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.

7) When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors.

8) When the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements :-

a) Adequately describe the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions ; and

b) If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion.

c) If adequate disclosure is not made in the financial statements, the auditor shall express a qualified or adverse opinion.

9) If the financial statements have been prepared on a going concern basis but, in the auditor's judgement, management's use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an adverse opinion.

10) The following are examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption :-

a) **Financial :**

i) Net liability or net current liability position.
ii) Fixed - term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short - term borrowings to finance long - term assets.
iii) Indications of withdrawal of financial support by creditors.
iv) Negative operating cash flows indicated by historical or prospective financial statements.
v) Adverse key financial ratios.
vi) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
vii) Arrears or discontinuance of dividends.
viii) Liability to pay creditors on due dates.
ix) Liability to comply with the terms of loan agreements.
x) Change from credit to cash - on delivery transactions with suppliers.
xi) Liability to obtain financing for essential new product development or other essential investments.

b) **Operating :**

i) Management intentions to liquidate the entity or to cease operations.
ii) Loss of key management without replacement.
iii) Loss of a major market, key customer(s), franchise, licence, or principal supplier(s).
iv) Labour difficulties.
v) Shortages of important supplies.
vi) Emergence of a highly successful competitor.

c) **Other :**

i) Non - compliance with capital or other requriements.
ii) Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
iii) Changes in law or regulation or government policy expected to adversely affect the entity.
iv) Uninsured or underinsured catastrophes when they occur.

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SA - 580 Written Representations (01-04-2009)

1) Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence.

2) Although written repesentations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

3) The objectives of the auditor are : -

a) To obtain written representations from management that management believes that it has fulfilled the fundamental responsibilities that constitute the premise on which an audit is conducted;

b) To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations, if determined necessary by the auditor or required by other SAs; and

c) To respond appropriately to written repensentations provided by management or if management does not provide the written representations requested by the auditor.

4) Written Representations **:** A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

5) The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.

6) The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation and presentation of the financial statements as set out in the terms of the audit engagement and, in particular whether the financial statements are prepared and presented in accordance with the applicable financial reporting framework.

7) The auditor shall request management to provide a written representation that it has provided the auditor with all relevant information agreed in the terms of the audit engagement, and that all transactions have been recorded and are reflected in the financial statements.

8) The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements.

9) The written representations shall be in the form of a representation letter addressed to the auditor.

10) If written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general.

11) **Disclaimer of Opinion -**

a) If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor's report, and the auditor shall disclaim an opinion on the financial statements.

b) If management does not provide one or more of the requested written representation, the auditor shall :-

i) Discuss the matter with management;

ii) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general ;

iii) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report, and

iv) The auditor shall disclaim an opinion on the financial statements.

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SA- 600 Using the Work of Another Auditor (01-04-2002)

1. The purpose of this Standard on Auditing is to establish standards to be applied in situations where an auditor (referred to herein as the 'principal auditor'), reporting on the financial information of an entity, uses the work of another auditor (referred to herein as the 'other auditor') with respect to the financial information of one or more components included in the financial information of the entity. This Standard also discusses the principal auditor's responsibility in relation to his use of the work of the other auditor.

2. When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the auditor will affect the audit.

3. For purposes of the SAs, the following terms have the meanings attributed below :-

    a) Principal auditor means the auditor with responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor.
    b) Other auditor means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.
    c) Component means a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by the principal auditor.

4. The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor.

5. When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the Institute of Chartered Accountants of India.

6. The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.

7. The principal auditor should consider the significant findings of the other auditor.

8. There should be sufficient liaison between the principal auditor and the other auditor.

9. The other auditor, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor.

10. When the principal auditor concludes, based on his procedures, that the work of the auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.

11. When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors.

SA - 610 Using the Work of Internal Auditors (01-04-2010)

1) The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are to determine :

a) Whether, and to what extent, to use specific work of the internal auditors; and
b) If so, whether such work is adequate for the purposes of the audit.

2) For purposes of the SAs, the following terms have the meanings attributed below :-

a) Internal audit function -An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.
b) Internal auditors - Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

3) The external auditor shall determine :-

a) Whether the work of the internal auditors is likely to be adequate for purposes of the audit; and
b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures.

4) In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate :-

a) The objectivity of the internal audit function;
b) The technical competence of the internal auditors;
c) Whether the work of the internal auditors is likely to be carried out with due professional care;
d) Whether there is likely to be effective communication between the internal auditors and the external auditor.
e) The nature and scope of specific work performed, or to be performed, by the internal auditors.
f) The assessed risks of material misstatement at the assertion level for particular classes of transactions, account balances, and disclosures;
g) The degree of subjectivity involved in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions.
h) The work performed by internal auditors having adequate technical training and proficiency;
i) The work properly supervised, reviewed and documented;
j) Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions:
k) Conclusions reached appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
j) Any exceptions or unusal matters disclosed by the internal auditors are properly resolved.

5) When the external auditor uses specific work of the internal auditors, the external auditor shall document conclusions regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work.

SA - 620 Using the Work of an Auditor's Expert (01-04-2010)

1. The objectives of the auditor are :-

   a) To determine whether to use the work of an auditor's expert; and
   b) If using the work of an auditor's expert, to determine whether that work is adequate for the auditor's purposes.

2. For purposes of the SAs, the following terms have the meanings attributed below :-

a) Auditor's expert - An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an audtor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.
b) Expertise - Skills, knowledge and experience in a particular field.
c) Management's expert - An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

3. a) If experitse in a field other than accounting or auditing is neessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert.
   b) Expertise in a field other than accounting or auditing may include expertise in relationship to such matters as :-

      (i) The valuation of complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
      (ii) The actual calculation of liabilities associated with insurance contracts or em ployee benefit plans.
      (iii) The estimation of oil and gas reserves.
      (iv) The valuation of environmental liabilities, and site clean-up costs.
      (v) The interpretation of contracts, laws and regulations.
      (vi) The analysis of complex or unusual tax compliance issues.

   c) The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evalution of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity.

4. The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

5. If the auditor makes reference to the work of an auditor's expert in the auditor's report because such referencee is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicatee in the auditor's report that such reference does not reduce the auditor's responsibility for the opinion.

SA - 700 Forming an Opinion and Reporting on Financial Statements (01-04-2011)

1) The objectives of the auditor are to :-

a) From an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
b) Express clearly that opinion through a written report that also describes the basis for the opinion.

2) For purposes of the SAs, the following terms have the meanings attributed below :-

a) General purpose financial statements - Financial statements prepared in accordance with a general pupose framework.
b) General pupose framework- A financial reporting framework designed to meet the common financial information needs of a wide range of users.

3) The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

4) In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

5) The auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework :-

a) The financial statements adequately disclose the significant accounting policies selected and applied;
b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
c) The accounting estimates made by management are reasonable;
d) The information presented in the financial statements is relevant, reliable, comparable and understandable;
e) The financial statements provide adeqate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

6) The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respectss, in accordance with the applicable financial reporting framework.

7) If the auditor :-

a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatment; or
b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statments as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report.

Basic elements of Audit Report :-

1) Title
2) Addressee
3) Introductory Paragraph
4) Management's Responsibility for the Financial Statements
5) Auditor's Responsibility
6) Auditor's Opinion
7) Signature of the Auditor
8) Place
9) Date.

Specimen Audit Report : -

Independent Auditor's Report

To
The Members of ABC Company Limited

Report on the Financial statements

We have audited the accompanying financial statements of ABC Company Ltd, which comprise the Balance Sheet as at March 31,20XX, and the statement of Profit and Loss and Cash Flow Statement for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparatin of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards requrie that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatment of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :-

a) In the case of the Balance sheet, of the state of affairs of the company as at March,31 20XX ;
b) In the case of Profit and Loss Account, of the profit/loss for the year ended on that date;and
c) In the case of the cash flow statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements :

1) As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the order.

2) As required by section227(3) of the Act, we report that :

a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from branches not visited by us].
c) The balance sheet, statement of profit and loss, and cash flow statement dealt with by this report are in agreement with the books of account [and with the returns received from branches not visited by us]
d) In our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow statement comply with the Accounting Standards referred to in sub-section(3C) of section 211 of the Companies Act,1956;
e) On the basis of written representation received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of clause (g) of sub-section(1) of section 274 of the Companies Act, 1956.
f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the company.

For XYZ and Company.
Chartered Accountants

Signature
(Name of the member signing the Audit Report)
(Designation)
Membership Number.

Place of Signature
Date :

SA-710 Comparative Information - Corresponding Figures and Comparative Financial Statements (01-04-2010)

1. This standard on Auding deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA-510 regarding opening balances also apply.

2. There are two different broad approaches to the auditor's reporting responsibilities in respect of comparative information, i.e., corresponding figures and comparative financial statements.

3. The objectives of the auditor are :-

   a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and
   b) To report in accordance with the auditor's reporting responsibilities.

4. For purposes of the SAs, the following terms have the meanings attributed below :-

   a) Comparative information - The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.
   b) Corresponding figures - Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). The level of details presented in the corresponding amounts and disclosures. is dictated primarily by its relevance to the current period figures.
   c) Comparative financial statements - Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.

5. The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.

6. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists.

7. If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.

8. If the financial statements of the prior period were audited by a predecessor auditor, the auditor shall state in the auditor's report :-

   a) That the financial statements of the prior period were audited by the predecessor auditor.
   b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor ; and
   c) The date of that report.

9. If the prior period financial statements were not audited, the auditor shall state in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

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SA - 720 The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (01-04-2010)

1) This standard on Auditing (SA) deals with the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon.

2) The objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report.

3) For purposes of the SAs the following terms have the meanings attributed below :

a) Other information - Financial and non - financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon.

b) Inconsistency - Other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.

c) Misstatement of fact - Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.

4) The auditor shall read other information to identify material inconsistencies, if any, with the audited financial statements.

5) On reading the other information, if the auditor identifies a material inconsistency, the auditor shall determine whether the audited financial statements or the other information needs to be revised.

6) When revision of the audited financial statements is necessary and management refuses to make the revision, the auditor shall modify the opinion.

7) On reading the other information for the purpose of identifying material inconsistencies, if the auditor becomes aware of an apparent material misstatement of fact, the auditor shall discuss the matter with management.

8) Following such discussions, when the auditor still considers that there is an apparent material misstatment of fact, the auditor shall request management to consult with a qualified third party, such as the entity's legal counsel, and the auditor shall consider the advice received.

9) When the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall notify those charged with governance of the auditor's concern regarding the other information and take any further appropriate action.

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