NOTES ON STANDARDS OF AUDITING FOR CA-IPCC.

[APPLICABLE FOR MAY 2012 & ONWARDS]

BY A.AMOGH.

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STANDARDS OF AUDITING (SA) ISSUED BY ICAI

SA 200: Basic Principles Governing An Audit.

SA 210: Terms Of Audit Engagement.

SA 220: Quality Control For Audit Work

SA 230: Audit Documentation.

SA 240: The Auditor's Responsibilities Relating To Fraud In An Audit Of Financial Statements.

SA 250: Consideration Of Laws And Regulations In An Audit Of Financial Statements.

SA 260: Communication With Those Charged With Governance.

SA 265: Communication Deficiencies In Internal Control To Those Charged With Governance.

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SA 315: Understanding The Entity And Its Environment And Assessing The Risk Of Material Misstatement.

SA 320: Audit Materiality.

SA 330: The Auditor's Responses To Assessed Risks.

SA 402: Audit Considerations Relating To Entities Using Service Organizations.

SA 450: Evaluation Of Misstatement Identified During The Audit.

SA 500: Audit Evidence.

SA 501: Audit Evidence – Additional Consideration For Specific Items.
Part A: Attendance At Physical Inventory Counting.
Part B: Inquiry Regarding Litigation And Claims.
Part C: Valuation And Disclosure Of Long Term Investments.
Part D: Segment Information.

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SA 510: Initial Audit Engagements – Opening Balances.

SA 520: Analytical Procedures.

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SA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures.

SA 550: Related Parties.

SA 560: Subsequent Events.

SA 570: Going Concern.

SA 580: Written Representations.

SA 600: Using The Work Of Another Auditor.

SA 610: Relying Upon The Work Of An Internal Auditor.

SA 620: Using The Work Of An Expert.

SA 700: The Auditor's Report On Financial Statements.

SA 705: Modifications To The Opinion In The Independent Auditor's Report.

SA 706: Emphasis Of Matter Paragraphs And Other Matter In The Independent Auditor's Report.

SA 710: Comparatives Information.

SA 720: The Auditors Responsibility In Relation To Other Information In Documents Containing Audited Financial Statements.

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SA 200 - overall objectives of independent Auditor and the conduct of an Audit in Accordance with Standards on Auditing

Scope :- overall responsibilities of Independent Auditor when conducting an audit of Financial statements.

Requirements of an Auditor.

- **Ethical Requirements**
  - Integrity
  - Objectivity
  - competence
  - Confidentiality
  - Professional Behaviour.
- **Professional Skepticism**
  - Alert to information
  - critical Assessment of information
  - follow a Cautious Approach.
- **Professional Judgement**
  - use his experience
  - Rational, reasonable
- **Obtain Sufficient Audit Evidence**
  - Appropriate evidence
  - Relevant
  - Reliable
- **Comply with SA**
  - Understand All SA
  - Application of SA
  - Report the Non-compliance of SA

Objectives of Independent Auditor

- Obtain Reasonable Assurance for "FS"
- Report & communicate on "FS" as required by SA's.
- Issue an Audit opinion (or) withdraw engagement

SA-210:-

Agreeing the terms of Audit Engagement

Terms of engagement

Law | ICAI | Client (with Restriction)

Scope of work.

Engagement letter By Auditor to mgt.

- Pre-conditions of Audit
- Common understanding b/w Auditor & mgt
- Same Auditor appointed for subsequent years, then same engagement letter is valid.

New engagement letter.

- Circumstances Require change of terms of engagement.
- Need to remind the entity of existing terms of Audit engagement.

Format of engagement letter.

Title:- Engagement letter for year ended 31/3/xx.

Addressee:- To (proprietor / mgt / BOD / Partner)

Intro Paragraph:-

(a) Introductory lines

(b) Management Responsibility / Pre-conditions

(c) Auditor's Responsibility Paragraph

(d) Scope paragraph:- (5 points):- Define Auditing, SA, Audit Evidence, Professional Judgement, Risk Assessment, Limitations, Applicable law.

Peer Review, Acknowledgement, Signature (Place, date, memb. No, PSF No. etc)

FORMAT OF ENGAGEMENT LETTER

Engagement Letter For The Year Ended 31/3/12.

To, Board Of Directors

Reliance Industries Limited.

We Are Pleased To Conduct The Audit Of Financial Statements Of .... Limited Comprising Of:

1. **Balance Sheet As At 31st March 2012.**
2. **Profit And Loss Account For The Year Ended 2011 - 2012.**
3. **Cash Flow Statement For The Year Ended 2011 - 2012.**

The Management Is Responsible:

1. **To Prepare Financial Statements As Per Financial Reporting Framework**
2. **To Maintaining Books Of Accounts**
3. **To Maintain Internal Control**
4. **To Safe Guard The Assets**
5. **To Provide All Information And Explanation**

Our Responsibility Is For Giving an Opinion on "Financial Statements".

Auditing Is Independent Examination Of Financial Statements, Whether The Firm Is Profit Oriented Or Not, Whether Artificial Or Legal Form, Where In Such Examination Is Conducted To Give An Opinion Thereon.

Audit Is Conducted As Per Standards On Auditing Applicable To The Company.

Auditing Involves Obtaining Sufficient And Appropriate Audit Evidences.

Audit Involves Professional Judgment And Professional Skepticism.

It Also Involves Evaluating Internal Control and Risk Assessment

There Are Inherent Limitation by Auditing Like Complex Internal Control, Undetected Fraud, Judgmental, Evidence Being Persuasive Not Conclusive

The Audit Is As per Companies Act, 1956.

Our Working Papers May Be Subjected To Peer Review By Institute Of Chartered Accountants Of India.

Our Fees Are Chargeable Rs. 5000 Per Hour.

If All The Terms And Conditions Are Acceptable, Please Sign. And Send Copy Back To Us.

Signature:

Membership Number:

Firm Registration Number:

Date:

Place:

Client Signature:

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SA-220. Quality control For Audit of Financial Statements.

Quality control For An Audit

- Firm level Quality control
- Individual Audit level Quality control.

H E A L ME.

H:- Human Resource :- proper staffing, proper training, Right person for Right job during the Audit.

E:- Engagement Performance :- proper direction to Audit team, proper instruction, guidanance, Responsibilities Assigned to them, communicate the Audit plan.

A:- Acceptance & continuation of client :- evaluate the client, Risk associated before Accepting & continuing the Audit.

L:- Leadership :- Lead the Audit team, Resolve any differences B/W Audit team, Delegate the work, Assign according to competencey.

M:- Monitor :- Monitor policies & procedures, Supervise & Review the work, monitor progress of Audit.

E:- Ethical Requirements :- Independent, Integrity, Objectivity, Confidentiality, Professional Behaviour.

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SA-230 Audit Documentation

Documentation of–

Audit working papers which are

Prepared & maintained

By Auditor called as Audit Documentatio

Contents of working papers

- Areas covered under Audit
- Sample selected for verification
- Observations made
- Conclusions reached
- Person who has don

Purpose of working papers.

→ plan & perform the Audit
→ To show that Auditor is not negligent (or) careless
→ To form conclusions.
→ To Guide Audit team
→ conduct Quality control reviews & inspections.

Audit File:– Complete working paper Relating of a Specific engagement in electronic (or) Physical for

Characteristics of working papers.

- Owner is Auditor
- Retain For min 7 year [SQC-1]
- Assemble Audit File within 60 days of Audit Report
- To Kept confidentia except to client, any Authorised person (or) when asked by law.

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Types of working Papers.

Permanent Audit File
- → Information of continuing Int. & relevance to succeeding Audits
- → updated for each subsequent Audit
- eg:- partnership deeds, lease agreements, contracts, MoA, AoA, Audited P.Y FS's,

Current Audit File.
- → Information relating & relevant to Audit of current period.
- eg:- minutes of meetings, copies of experts, other Auditors, vouchers of C.Y, Bank Statements, Audit Plan & procedure, Mgt Representation

Experienced Auditor.

- Audit Process
- SA's & its Applicability
- Business environments
- Auditing & Financial Reporting Framework

↓

Knowledge of above & Pratical Audit experience

↓

Such person is called experienced Auditor

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SA-240:- Auditors Responsibility Relating to Fraud in an Audit of Financial Statements.

Fraud → Intentional misstatement which is material to "Fs"

error → Unintentional mistakement, by mistake.

Responsibility of Auditor in relation to Fraud

- Identify the asses the risk of Fraud
- Obtain sufficient evidence about the Fraud (Reasons)
- Communicate the Fraud to mgt (or) TCWG.

Types of Frauds

- By employee → misappropriation of Assets → ex:- theft of Cash, Assets
- By mgt → Manipulation of accounts → ex:- window dressing of a/c's
- By TCWG → Manipulate the accounts → ex:- (Same as mgt)

Auditor's Procedure For Fraud

I. (elee Fraud)

Esculate to mgt → Agree → [B] Rectify → Disclose & error Should be rectified

Esculate to mgt → Disagree → Inform TCWG → Agree → [B]

Inform TCWG → Disagree → (Qualify)

(II) mgt Fraud

Inform TCWG

Agree

Fraud detection Take corrective steps & actions.

Rectify the Fraud & disclose in AR

Disagree (or) TCWG Fraud

3 options

Modified Report

Sough legal opinion

Withdraw engagement.

→ Responsibility to Avoid Fraud & detect lies with mgt, not Auditor

→ If law Requires then Auditor Should report to appropriate Authority – SA 240.

→ Fraud involves Pressure to commit & perceived opportunity to do so.

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SA-250:- Consideration of laws & Regulations in an Audit of Financial Statements

↓

establish Auditors Responsibility Regarding consideration of laws & Regulations.

↓

Management responsibility to comply with Law & regulations.

↓

Auditor acts as deterrent, See that all laws have been complied.

↓

Procedure
- → Obtain understandment of legal & Regulatory Framework
- → effect on "Fs"
- → communicate to mgt.
- → obtain evidence to such laws & Regulation

Voilation of law

↓

Evaluate mgt

- Agree → No issues → Issue Unqulified Report
- Disagree
  - seek legal Advice
  - Insufficient Reason → Issue Disclamer
  - Material effect → Adverse opinion
  - Resign from engagement

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SA-260 - Communication with TCWG

↓

TCWGs = mgt, Audit committee
(who supervise, control, direct an entity)

↓

Communicate matter which are come to notice during Audit & are impt to TCWG.

↓

By Issuing a letter to TCWG

↓

examples:- → Overall scope of Audit
→ Suspected Fraud & error
→ weakness in ICS
→ going concern doubt
→ Impt a/cing Adjustments
→ A/cing policies to be changed.

↓

Not Compulsory required by law
on discretion of Auditor

↓

Early communication should be done when matter is material

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265:- Communicating Deficiencies in IC to TCWG

Deficiency in IC

↓

Unable to check the mistatement

Significant deficiency in IC

↓

New IC System is needed

↓

Communicate to TCWG

DEMISE:-

D → Disclosure of material mistatement due to Fraud (or) error

E → Evidence of ineffective Response

M → mgt Failure to Implement Remedial action

I → Identification of Fraud

S → Significancy of transaction

E - Evidence of ineffective Risk Assessment Procedures

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SA- 299 - Responsibility of Joint Auditor

Audit of "Fs" by more than one Auditor

Joint Auditors.

Division OF work By Auditor.

- Mutual Discussion
  - Specific areas
  - P&L a/c B/S, CFS
  - Time period
- Common coverage areas
  - Impt. Audit Areas (eg:- valuation of Inventory)

Reporting Responsibilities

- All Agree on matters
  - Single Report
- Disagreement to any matter
  - Individual Report
- Work undivided (or) carried out by all of them
  - Jointly Severally Responsible
    - Agree
      - One Report
    - Disagree
      - One Report with different opinions

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SA-300 Planning an Audit OF FS

For an effective manner of Audit Performance

* Benefits of Planning an Audit

- Proper Attention to impt Areas
- Identify Problems
- proper organisation & mgt of Audit programe
- To facilitate direction, supervision, coordination of Audit team

* Procedure to be adopted by Auditor

Identify the characteristics of engagement

↓

Ascertain the objectives

↓

Ascertain Factors Significant for Audit Team

↓

Ascertain Nature, timing & extent of Resources

* Factors For planning

- Size & complexity of entity
- Previous experience of Audit with entity
- Changes in circumstances during Audit engagement

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SA 315:- Identifying & Assessing the risk of material misstatement through understanding & entity & its environment.

↓

Identify And Assess the Risk of Material misstatement by :-

(I) Assesment of Risk of material mistatement at Financial Statement level & at Assertion level
(II) Entity's selection & Application for a/c'ing policies
(III) objectives & strategies & related Business Risk
(IV) Measurement & Review of entity's Financial Performance

↓

IC is plan / policy / procedure of organisation to

(i) To ensure that Business is conducted in effective & efficient manner
(ii) Assets are safeguard
(iii) Laws & Regulations are compiled
(iv) "FS" prepared as per Financial Reporting Frame work

Components of IC [CRIME]

(i) Control Activity :- ethical values, org. Structure, Responsibility & Authority eg:- Transaction properly Authorised
(ii) Risk Assessment :- changes in operating environment, New Personal, New Information systems. eg:- Auditor should identify the Risk.
(iii) Information & communication :- processing of data is proper, Properly Present & disclose.
(iv) Monitoring :- performance reviews, physical control, Segregation of duties etc
(v) Entity & Environment :- understand Business, org. Structure, nature of operations, its environment.

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Techniques of evaluation of Internal control

- Internal control Questionaire → to Answered by mgt → prepared by Auditor
- Narrative Records → detail Records of ICS → Reveal + & -ves Of ICS
- Check list → Prepared by Auditor → To Summary points of ICS → To check with himself
- Flow charts → graphical Representation of Flowcharts → Easy to Understand the ICS → Improvement can be made in ICS.

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SA-330 – The Auditors Responses to Assessed Risk.

[N.E.T]

Nature of Audit procedure.
- Comprises of Inspection, enquiries, Confirmation, Analytical procedure
- if the Risk ↑ → more Audit Procedure
- Risk ↓ → less Audit Procedure

Extent of Audit Procedure
- Quantity Sample size, Size of transactions
- If the Risk is ↑ → More extent of Audit Procedure
- ↓ → less extent of Audit procedure

Timing of Audit procedure
- when should Audit Procedure be Applied
- If the Risk is ↑ → Full year
- ↓ → part (or) ending of year

Types of evaluating transactions.

Substantive Procedure
- to detect misstatement at Assertion level.
  - **Test of details** → Vouching, Verification
  - **Substantive Procedure Analytical** → Risk Assessment, Obtain Audit evidence, enquiry, investigate

Test of control
- to evaluate the operating effectiveness of I.C in preventing, detecting, correcting misstatement in FS

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SA-402 – Audit consideration Relating to Entity using a Service organisation

↓

Check the Service level Agreement B/W Client & SP

↓

Leasing officer Appointed

↓

Check for infrastructure of "SP"

↓

Report

Type I	Type II
→ Accuracy of description	→ Accuracy of description
→ System control have been placed in operations	→ System control in operation
→ Design is suited to achieve the stated objectives	→ Systems are operating effectively based on Results from test of controls.

Client → LO → SO/SP

→ Check for nature of Services
→ degree of interaction of client & SO.
→ Relationship B/W client & SO
→ evaluate IC
→ understand Services provided by "SO".

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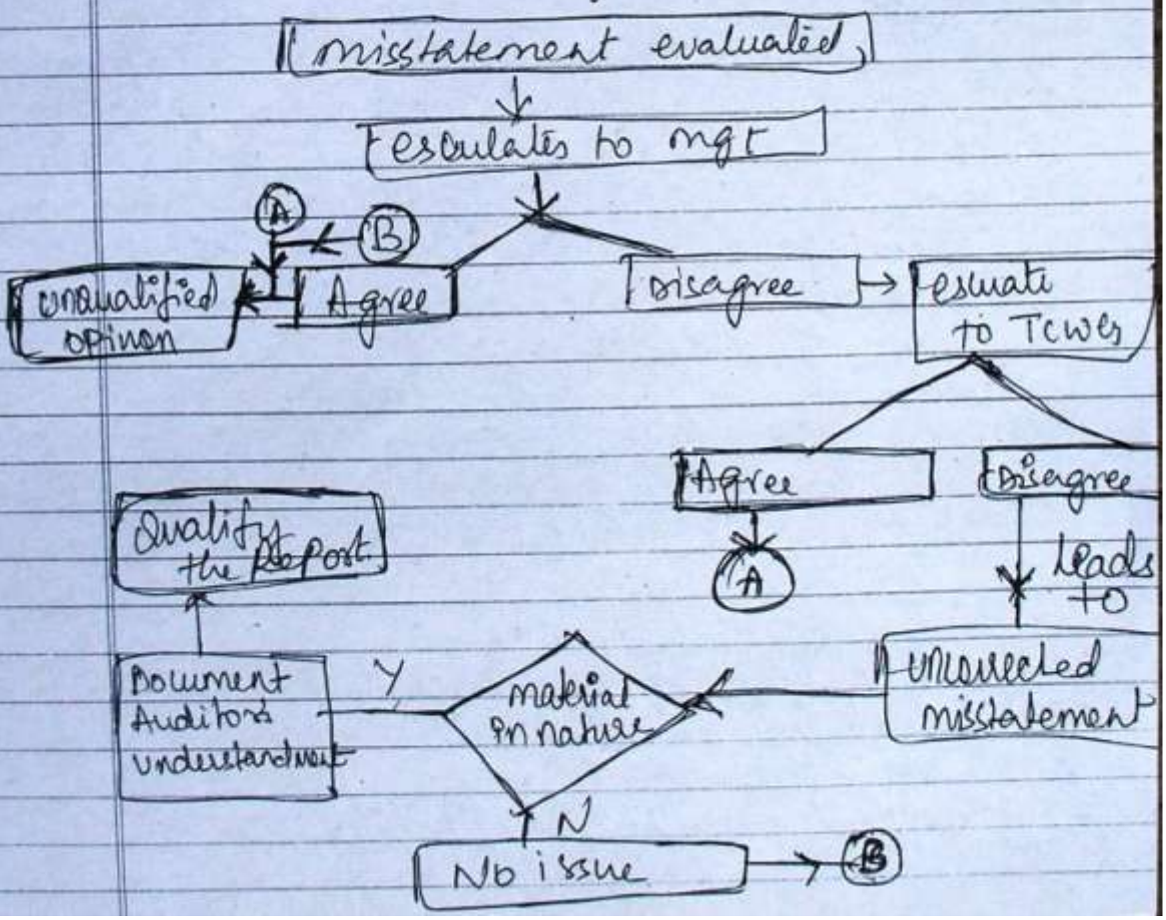
SA - 450.

Evaluation of misstatement Identified during An Audit.

misstatement
↓
wrong → classification
→ disclosure
→ presentation & valuation
↓
In "Fs"

Types :- Fraud, error.

Auditor Procedure for misstatement



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SA- 500 - Audit Evidence

Audit Evidence:- Information used by the Auditor in arriving at conclusions on which opinion is based.

Audit Evidence:-
- Financial Evidence
- Non-Financial Evidence

Objective of Auditor:- to design & perform Audit procedures in a such a way as to enable the auditor to obtain sufficient appropriate audit Evidence to able to draw reasonable conclusions on which to base Auditor's Opinion

Significance of Audit Evidence (Purpose)

- fundamental constituent of Audit Process
- Substantiate any assertion made in "Fs"
- facilitate Audit Procedure
- Helps in Forming an opinion

Techniques of Audit Evidence

- Inspection
- Observation
- external confirmation
- Recalculation
- Reperformance
- Analytical procedures
- Inquiry (or) Investigated

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Paper XVI

Financial Statement Assertions

Assets & liabilities.

→ R: Rights
→ O: Ownership
→ C: completeness
→ E: existence
→ V: Valuation
→ D: Disclosures

[ROCEVD]

For Profit and loss a/c

→ O: occurance
→ O: ownership
→ V: valuation
→ D: Disclosure
→ C: completeness
→ A: Accuracy
→ M: measurement

Others:-
→ obligations
→ Presentation

Reliability of Audit Evidence

→ external source is more reliable than Internal source.
→ reliability of Internal Evidence Increases, in existence of effective I.C.S.
→ Audit Evidence obtained directly by Auditor is more reliable than Audit Evidence Obtained by indirectly or by inference
→ written evidence more reliable than oral.

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SA-501 Audit evidence -

Specific considerations for Selected Items

Auditor to obtain sufficient Audit Evidence regarding :-

(a) Inventory
(b) litigation & claim.
(c) Segment information
(d) long term | Investment.

Inventory	litigation & claims	Segment Reporting
→ mgt does the physical Inventory verification → Check for non-moving item → Check costing records → Auditor is an observer of mgt count procedures inspect the inventory perform test control.	→ Inquiry the mgt, TCWG, lawyers → Review minutes → Review legal exp ale → W/R should be obtained from TCWG/mgt → Proper disclosures must be made	→ Based on (i) Product wise (ii) Location wise (iii) Geographical segment. → Auditor should (i) obtain evidence about segment Asset Revenue, P&L ale → Perform Analytical Procedure

Long term Investments valuation

→ Investment upto maturity (or) more than 1 year] They are Long term Investment

→ Valued at cost

Quoted / listed — Method market price.

Unquoted / unlisted — Method:- yeild, Networth method

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SA-505-External confirmations

Objective is to design & perform Procedure to Obtain relevant & reliable Audit Evidence

Process I: Auditor $\xrightarrow{1}$ Client $\xrightarrow{2}$ TP (3rd Parties) (Debtors, Creditor, Bank)

Client $\xrightarrow{3}$ ... ; Auditor $\xleftarrow{4}$ Client

Process II: Auditor $\xrightarrow{1}$ client — Ask For Authorisation letter

Client $\xrightarrow{2}$ Auditor — Gives Authorisation letter

Auditor $\xrightarrow{3}$ Third party $\xrightarrow{4}$ Auditor

If the Auditor requires confirmation (Process – II)

- Client Agrees
  - Matches → (A) → No issue
  - Do not match
    - Reconcile → (A)
    - Does not Reconcile → (B), (C) → Qualify Report
- Client disagrees for authorisation letter
  - Sensitive matter
    - Evidence Available → No Issue
    - No Evidence Available → (B)
  - Not sensitive matter → (C)

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P - prior experience in Audit

L - Layout & presentation of confirmation

A → Assertion to be Addressed

S → Specified identification of risk of material misstatement

T → The method of communication.

I → Information on which confirmation is required

C - class of transaction which will covered.

Method of communication

+ve Confirmation
↓
Ask TP to confirm if Bal. match

-ve Negative Confirmation
↓
Ask TP to confirm if Bal. do not match.

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SA-510-Initial engagement opening Balances.

Auditor Should check for

- closing Bal. of P.Y & its disclosures
- Opening Bal Brought forward properly.

Financial Statements of P.Y

- Audited
  - Un Qualified opinion of P.Y → Check for P.Y Bal C/F properly → No issue
  - Qualified opinion of P.Y
    - Resolved → No issue
    - UnResolved → Qualify in C.Y
- Not Audited.
  - → Auditor should check for
    - ⓐ Confirmation for debtor
    - ⓑ Confirmation for debtors, Bank
    - ⓒ Ageing policy for deb, Inventory
    - ⓓ payments / Realisation of cash.

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SA- 520 Analytical Procedures

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Analysis of Financial & Non-financial information

↓

To ascertain deviation & reasons.

Types of Analytical Procedures :-

I. Trend Analysis :- compare "Fs" of prior period
II. Comparative data Analysis :- compare "Fs" with anticipated results (Budgets / forecast).
III. Predictive estimate Analysis :- compare "Fs" with estimates of Auditor eg: depreciation etc...
IV. Inter-firm Analysis :- compare Financial ratio's with other firms of similar nature.
V. Key Financial ratio : compare Ratio & Relationship
VI. Key Non-Financial Ratio :- eg: sale per e/ee etc...

Purpose of Analytical Procedures

→ Helps to determine Audit plan
→ Indicates aspects of Business that are important
→ directs attention to potential risk areas
→ Accumulate evidences for Audit.
→ Help to identify possible oversights in an Audit & unusual transactions.
→ Helps to corroborate conclusions
→ Helps in determining sufficiency & reliability of evidence
→ Helps to reduce risk

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SA-530 - Audit Sampling.

↓

where less 100% of Audit population are examined by Audit Procedures. Stratification etc.

* Process of Selecting Sample

↓ Based on Nature
- Radom Sample technique ↓ every Item has possibility of selecting
- Syomatic S.T ↓ Selection on Rule
- Haphazard S.T ↓ Divide Population into 2 ↓ Apply Radom S.T

↓ Based on Statistics
- Statistical S.T ↓ use of Regression line etc
- Non-statica S.T ↓ use of Probability

→ greater the sample size, less the Audit risk.

* Procedure for Audit Sampling

Design and Select Audit Sample → Perform Audit procedures → Investigate nature & cause of deviation & misstatement → Projecting misstatement ↓ Evaluate the Results

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SA – Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

SA – 540.

Accounting Estimate:- An approximation of a monetary amount in the absence of a precise means of measurement

Fair value accounting estimate:- means where the Measurement objective is expressed in terms of the value of a current transaction or FS" item based on conditions prevalent at the measurement date, Such as estimated market price for a particular type of asset or liability.

ex:- FMV of Inventory, Share-based payments.

Every accounting estimate other than FVAE is a other estimate.

ex:- P.B.D., Depreciation etc..

* Auditor's Procedure

[TREAT MICRO]

T:- To understand the method

R:- Review & Test followed by mgt

E:- Environment under which estimates are made

A:- Assumptions taken

paper VII

T :- Testing the calculations

M :- make or obtain Independent estimate

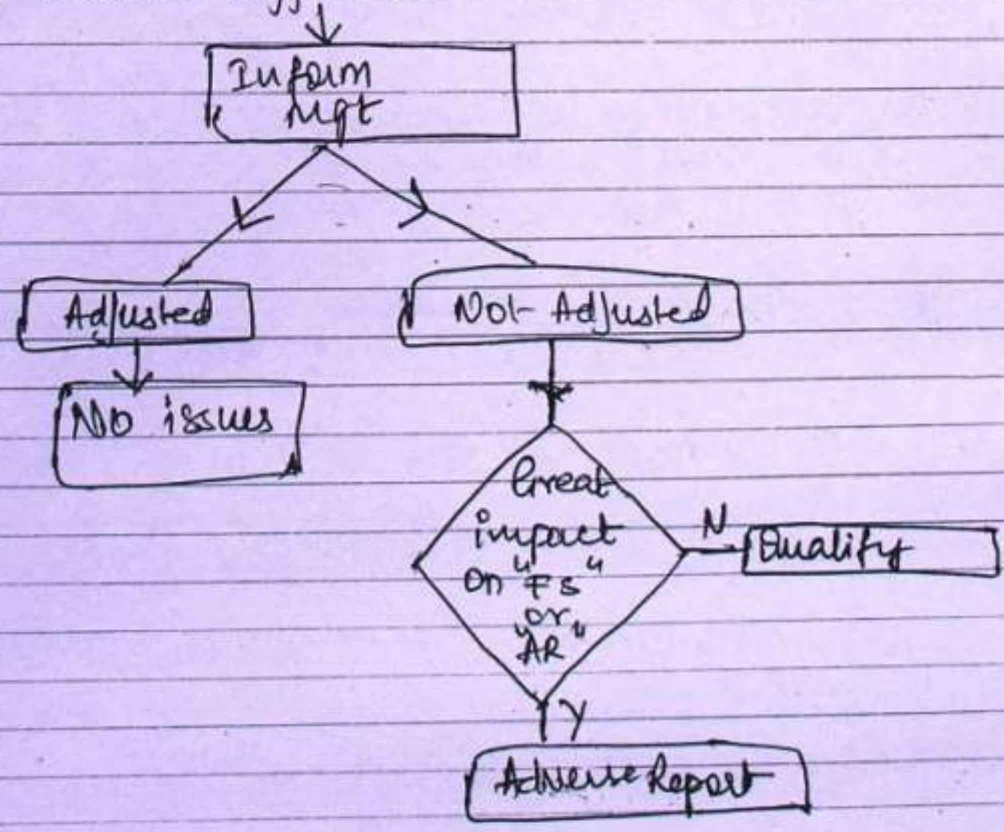
I → In case of complexity, expert helps

C.- Consider Data for estimate

R :- Review & consider EABSD.

O - Obtain the understanding of the Applicable FRF

If material difference



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SA-550 Related Parties

Related parties
- Associates
- JV, BOD, Key mgt
- Control
- Significant
- Substantial Interest
- Subsidiary Company

Mgt should identified the [redacted] /Related party

Auditor Procedures

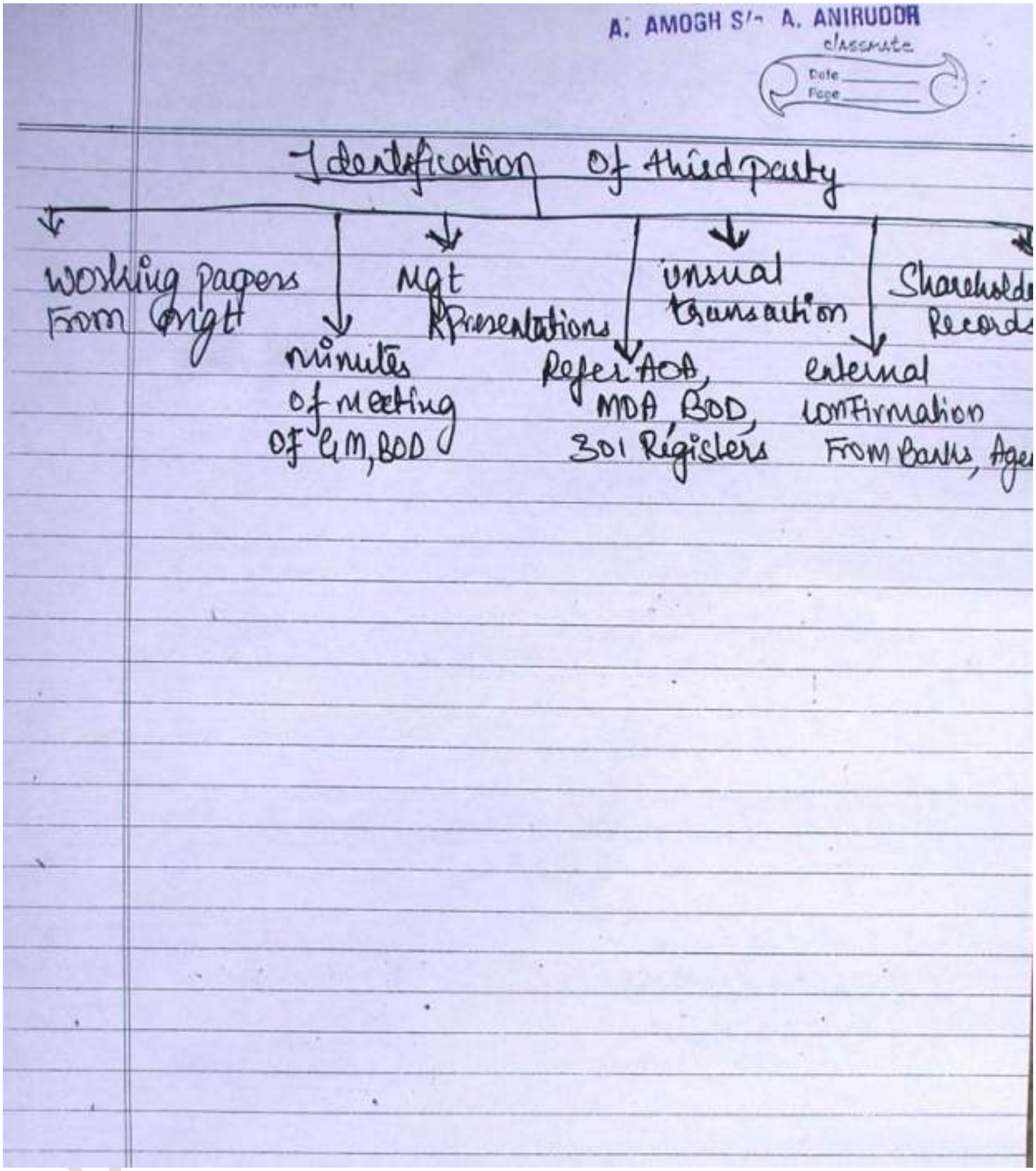
Identifies the Related Party

Check for disclosure as per AS-18

Effect of Related Parties on "Fs"

Inferences Drawn by Auditor

- Adquate disclosure
  - No Issue
- No Adquate disclosure
  - Inform mgt
    - Obtain Evidence
      - Sufficient
        - No Issues
      - Not Sufficient
        - Disclaimer
    - Disagree
      - Qualify the Report



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Identification Of third party
working papers From mgt
minutes of meeting of GM, BOD
Mgt Representations
Refer AOA, MOA, BOD, 301 Registers
unsual transaction
external confirmation From Banks,
Shareholde
Records

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SA - 560 Subsequent Events

[Subsequent Events]

Events from B/s date to "AR"

Facts Known to Auditor after date of "AR"

→ mgt has to identify the "SE".

Auditing Procedure [ROAR]

R:- Read the minutes of meeting of BoD, GM's After B/s date

O - obtain an understanding of procedures that mgt has undertaken to identify "SE".

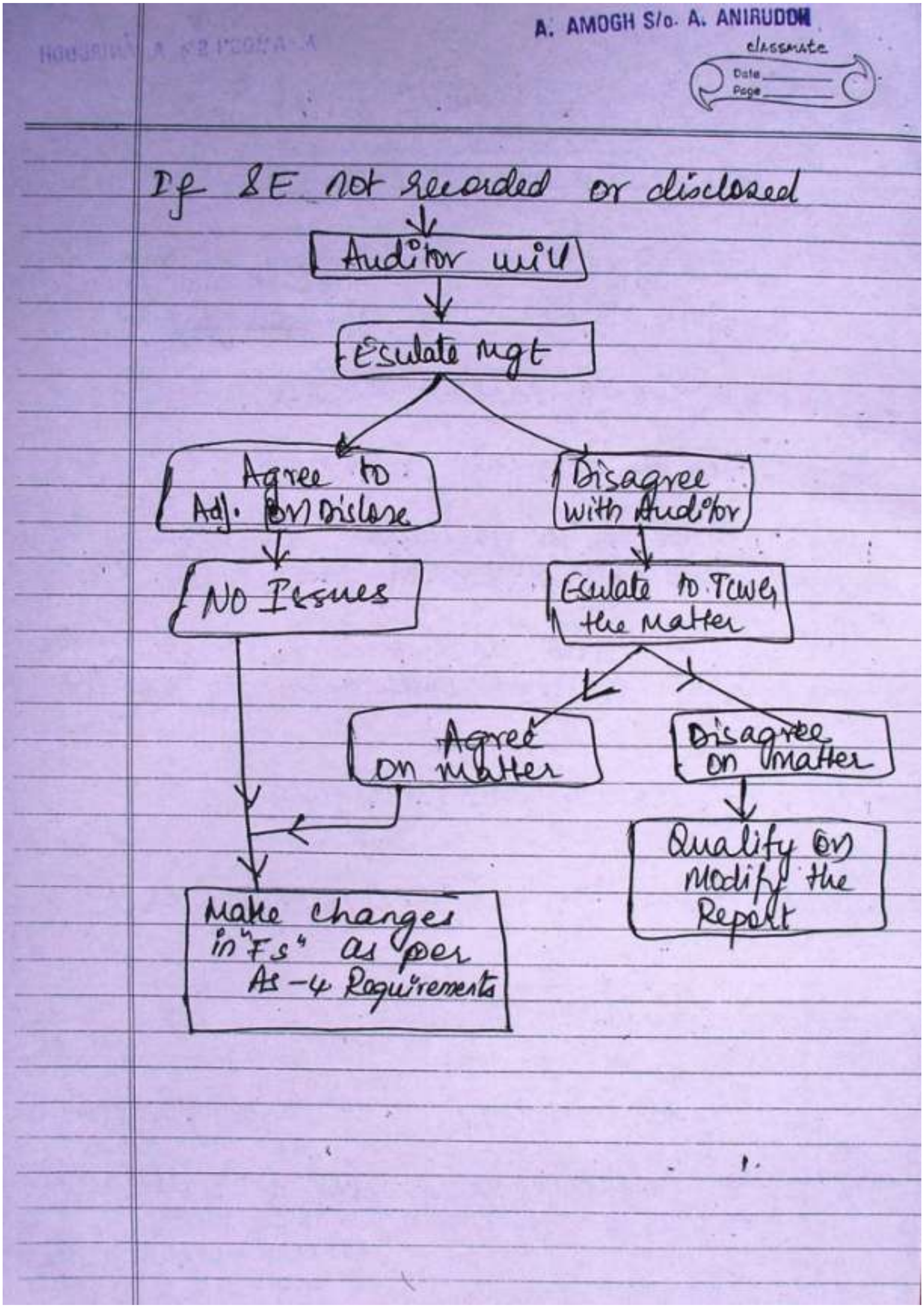
A - Ask mgt & TCWG (Inquire)

R:- Read the entity's late Subsequent "Interim Fs"

[Types of SE]

SE Requires Adjustment
↓
Passing entries, change in A/c's

SE requiring disclosure
↓
Just make disclosures as notes, Note, Other information etc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If SE not recorded or disclosed
Auditor will
Esculate mgt
Agree to Adj. or Disclose
Disagree with Auditor
No Issues
Esulate to TCWG the matter
Agree on matter
Disagree on matter
Qualify or Modify the Report
Make changes in "Fs" as per As-4 Requirements

SA – 570 – Going Concern.

Goingconcern :- An entity will continue to exist in foreseeable future.

→ Fundamental assumptions as per AS – 1

→ mgt is Responsible for going concern

Factors affecting Going cocern

↓

Should be Checked by Auditor (For 1year before B/s date)

- events or condition create doubt on existence of entity
- check for "CFS"
- legal cases
- minutes of meeting
- Mgt plan For Future

↓

Assess the Going concern of Entity

- **Appropriate**
  - ↓ Unqualified
- **InAppropriate**
  - ↓ Inform mgt
    - Resolved
      - ↓ Disclosure & Emphasis of Matter
      - ↓ NO Issues
    - Doubt remains / Disagree
      - ↓ Quality (Or) Adverse Report

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Indicators OF Potential Going concern problems

(A) Financial Indicators :-

- → Current liability position
- → Arrears of dividend
- → Defaults of loan, Interest
- → Adverse Key Financial Ratios
- → Negative CFS
- → Sale of Assets for cash generation
- → Inability to pay creditors

(B) Operating Indicators :-

- → lack of RM, supplies
- → loss of market, customers, licenses
- → to stop (or) reduce operations
- → Labour difficulties
- → competitors
- → Strike, lock outs of labour
- → Loss of key mgt without replacement

(C) Other Indicators :-

- → Illegal Activities, Non-compliance of law
- → pending legal cases
- → Change in law & Regulations to effect entity
- → Natural disasters, catastrophes
- → Enquiries by govt, Statutory authorities

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SA-580 written Representation

A "WR" is a Statement by mgt provided by mgt to Auditor to confirm certain matters or to support other Audit evidence.

→ Does not include "Fs" & not a Substitute for Audit Evidence.

→ Mgt Responsibility to prepare & Present "Fs" as per "FRF".

"why WR" — No Audit Evidence
— Insufficient Audit Evidence

→ WR issued by Authorised person (M.D, BOD, WTD etc)

Procedure:-

No Audit Evidence
↓
WR From client
→ Agree ↓ No issue
→ Disagree ↓ Document the Auditors Understandments
↓
Send to client
→ Accept ↓ Disclosure & Emphasis of matter
→ Rejects ↓ modified Report

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SA - 600 : Using work of Another Auditor

Other Auditor

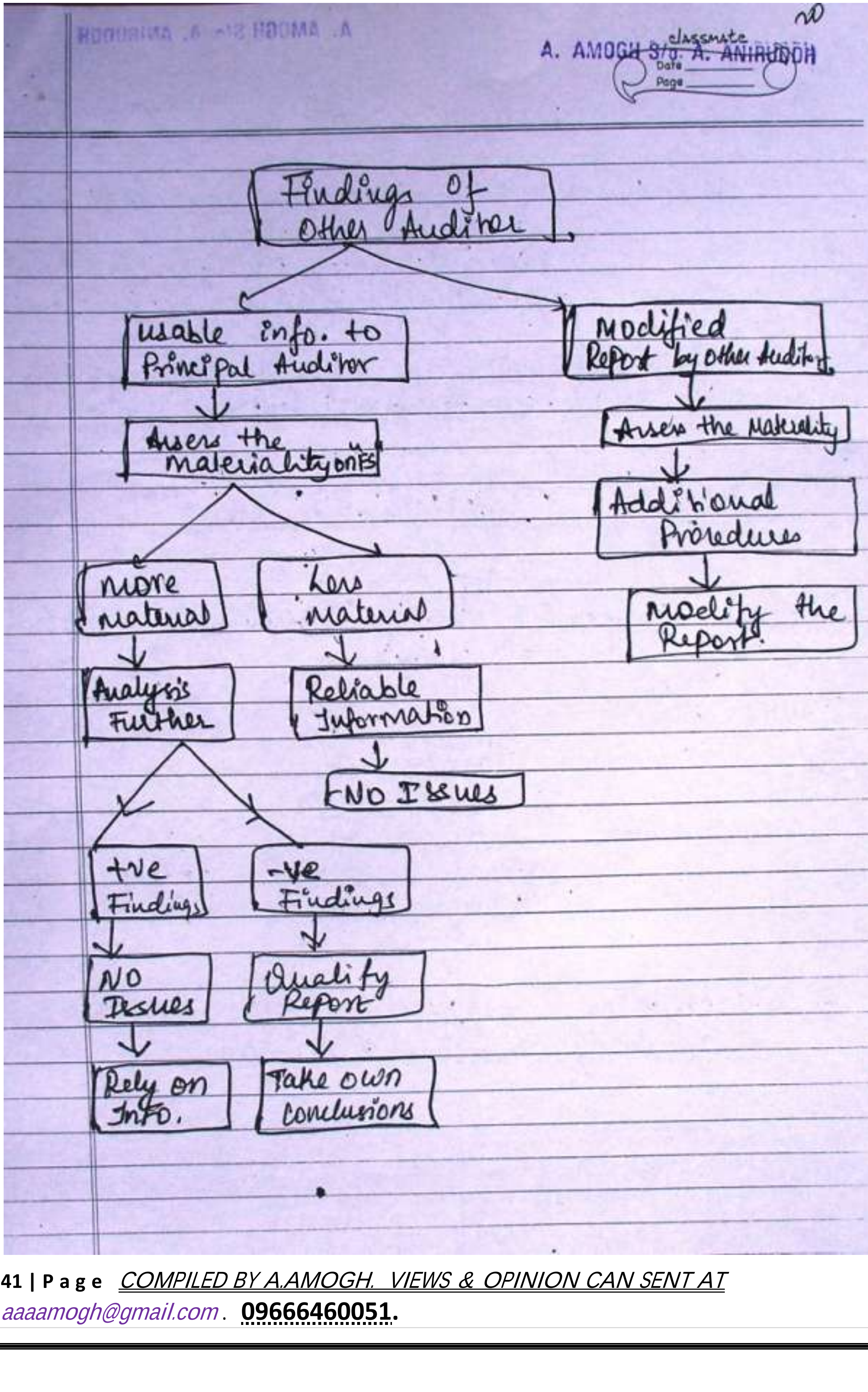
↓

Auditor of — Branch / Joint venture / Subsidiary.

→ Reporting :- Principal Auditor → His area
Other Auditor → His area.

Procedure

1. → Advise the other Auditor about the use to be made of his work
2. → Intimate the other Auditor about impt areas of Auditing, spl. considerations
3. → Co-ordination B/w Both
4. → Advise the other Auditor about significant Auditing, Report, accounting requirements
5. → Ascertain Difficulties of other Auditors
6. → Consider the significant Findings of other Auditor & Assess it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Findings of Other Auditor
usable info. to Principal Auditor
Modified Report by other Auditor.
Asses the materiality on FS
Asses the Materiality
Additional Procedures
more material
Less material
modify the Report.
Analysis Further
Reliable Information
NO Issues
+ve Findings
-ve Findings
NO Issues
Qualify Report
Rely on Info.
Take own conclusions

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SA-610 using work of Internal Auditor

Internal Auditor – Appointed by BOD mgt to monitor ICS effectives, examination of financial and operating information, Risk Assessment etc.

→ External Auditor is responsible for opinion on "FS" not Internal Auditor

Factor for relying work of Internal Auditor

- Level of Reporting
  - more → Reliable
  - less → Less Reliable
- Scope of Internal Audit
  - larger scope → High Relivance
  - lesser Scope → Low Relivance
- Skill, experience Qualifications
  - Good → more reliable
  - lesser → less reliable

→ Auditor may/may not use the work of Internal Auditor.

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SA-620 :- using the work of expert.

experts :- Specialists in a field (persons, group) (firm, company etc)
- engaged by client or Auditor
- employed by client or Auditor

The name of expert Should be disclosed with his consent.

Areas of experts info. required
- Valuation Of Assets ex: L&B, P&M
- Measurement Of work on Long-term contract
- Legal Cases, disputes
- Actuarial Advises [pension Plans, gratuity etc]

Qualities of expert
- Skilful
- competence & Focused attitude
- professional Qualification
- unbaised Objectivity
- experienced.

Audit Procedure
↓
work of expert
- Reliable
  - Consistent → NO issues
  - Inconsistent → Quality / disclaimer
- Not Reliable → GO For Supplementary test. → A

A → Reliable

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SA-700 Forming opinion and Reporting on "Fs"

Slope of SA:- To give an opinion & report on "Fs"

Objectivity of SA:- To ensure that the "Fs" are prepared & presented as per FRF.

Considerations for Forming an opinion on Financial Statements

(a) check whether "Fs" are prepared in accordance with FRF

- i. Adquate disclosures of A/c Policy
- ii. consistency in A/c policy
- iii. Reasonableness of estimates by mgt
- iv. Info. in "Fs" is relevant, reliable, understable.

(b) obtain Assurance about whether "Fs" as whole are free from material misstatement

(c) Form an opinion

- Unmodified or Unqualified → SA 700
- Modified opinion SA-705
  - Adverse opinion
  - Disclaimer opinion

SA-705 - modifications to opinion in Independent Auditor Report

This SA establishes 3 types of modified opinons.

A Qualified opinon

→ Limitation to Scope
→ Disagree with mgt for
(i) Disclosures,
(ii) A/cing policy,
(iii) Law compliance
→ uncertainity
→ Not a true & fair view

An Adverse opinon

→ Scope of Audit is restricted
→ NO Access to Books Of A/c's
→ Sized by IT Authority
→ Far off distant places.

An disclaimer Opinon.

→ Insufficient Audit Evidence
→ Inappropriate Audit Evidence
→ No Audit Evidence

[Form & content of Auditors Report]

1. → Include paragraph for opinon
2. → Quantify & indicate the effect on "FS"
3. → Reasons for such opinon
4. → Indicate opinon without any confusion to users.

Format Of Independent Auditors Report

To Members Of The Company,

We Have Examined The Financial Statements Comprising Of

- **Balance Sheet As At 31st March 2009**
- **Profit And Loss Account For The Year Ended 31st March 2012**
- **Cash Flow Statement For The Year Ended 31st March 2012**

Of The ……………………. .Ltd.

MANAGEMENT RESPONSIBILITY TO FINANCIAL STATEMENTS

The Management Is Responsible For

1. **Preparation Of Financial Statements**
2. **Maintenance Of Books Of Accounts**
3. **Maintenance Of Internal Control**
4. **Safeguard Of Assets**
5. **To Provide All Information And Explanation**

AUDITOR'S RESPONSIBILITY

1. **Our Responsibility Is To Give An Opinion On Financial Statements.**
2. **We Have Conducted An Official Financial Examination Of The Organization's Accounts And Conducted A Systematic Review Of Financial Statements.**
3. **We Have Obtained Sufficient And Appropriate Audit Evidence.**
4. **With Professional Skepticism And Professional Judgment.**
5. **We Have Evaluated Of Internal Control.**
6. **We Have Checked The Risk Of Misstatement.**
7. **With Reference To Companies Act, 1956 The Audit Has Been Done.**

OPINION PARAGRAPH

Based Upon Our Examination And Also Explanation Of The Financial Statements Given To Us Comprising Of

- **Balance Sheet.**
- **Profit And Loss Account.**
- **Cash Flow Statement.**

The Above Presented A True And Fair View.

LAWS AND REGUALTIONS APPLICABLE

a) **Report Under CARO 2003 Is As Attached**
b) **Report Under Section 227(3) Is As Follows:**
   1. **All Explanation And Information Has Been Obtained**
   2. **Financial Statements Is Prepared As Per Accounting Standards.**
   3. **As Per Books Of Accounts**
   4. **Balance Sheet Show True And Fair View**
   5. **Profit And Loss Account Shows True And Fair View**
   6. **Director Is Not Disqualified U/S 274(1)(G).**

EMPAHISES OF MATTER PARAGRAPH

Without Qualifying, We Would Have To Bring To Your Attention That While Auditing Current Year's Financial Statements, There Was A Need To Refer 2005-2006 Books Of Accounts As Per The Instruction Of MD They Are Already Destroyed.

OTHER MATTER PARAGRAPH

……..
……..
……..

SIGNATURE: ________
MEMBERSHIP NO.:
FIRM NO.:
DATE: 31ST May-2012
PLACE: Hyderabad

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SA-706: Emphasis of matter paragraph & other matter paragraphs in Independent Auditor's Report

Emphasis of matter :- Impt. matter that Auditor feels the users must know about it.

Other matter :- relevant to users Understand the matter of Audit.

Format

↓

Include it immediately after opinon para.

↓

Heading :- Emphasis of matter

↓

Indicate clear reference to paragraph in "Fs"

↓

Indicate the Auditors opinon

→ Other matters paragraph should be included after matter of emphasis paragraph.

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SA 710:- Comparative Information – corresponding figures & Comparative "Fs"

Prior period information,

Corresponding Figures
↓
Prior year amounts & other disclosures, Auditor opinon is based on CY "Fs".

Comparative Financial statements
↓
Prior period "Fs", Not a part of "Fs"

Auditor Responsibility

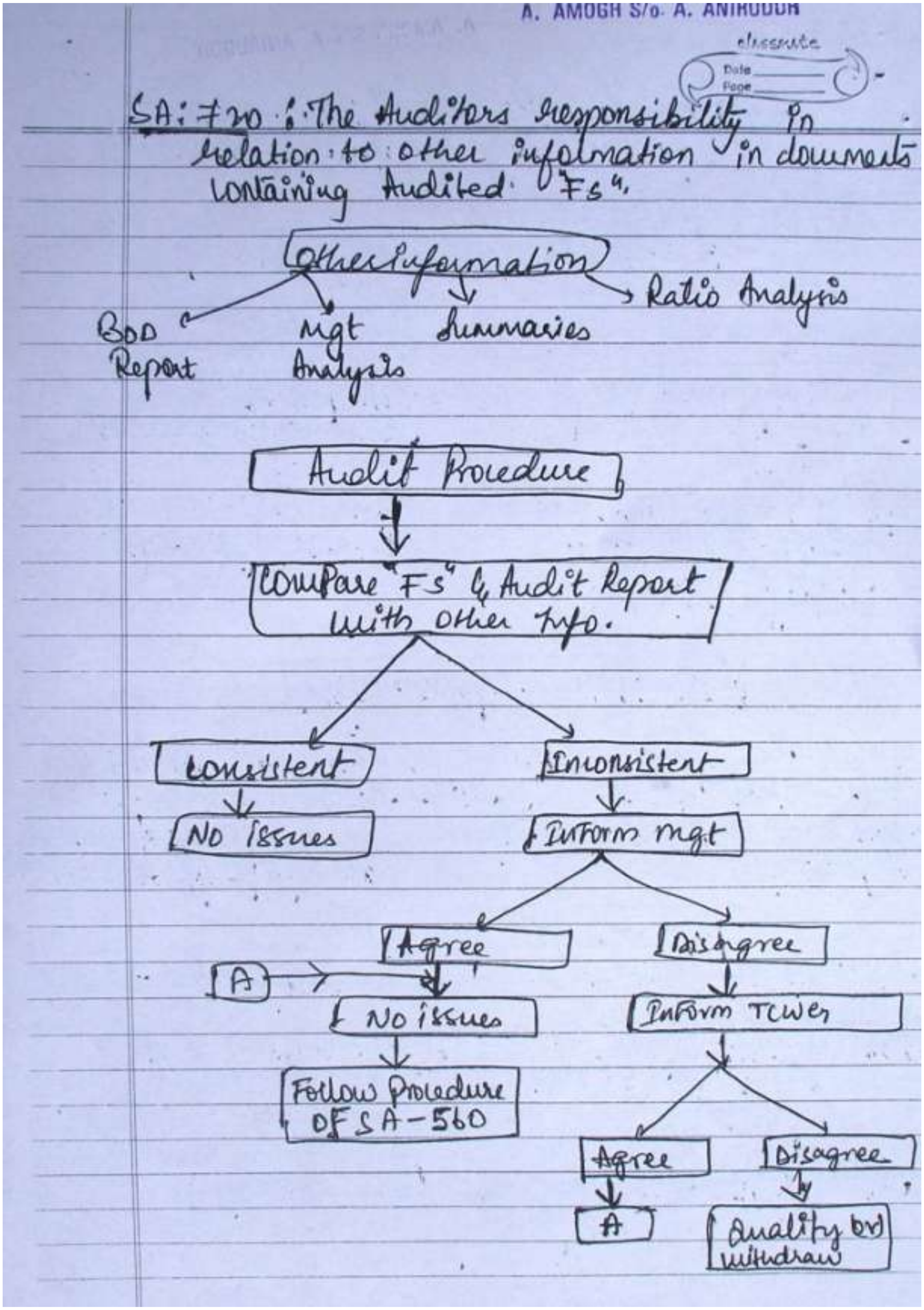
compare Info. agrees with Amts & other disclosures in prior period

A/c-ing policy are consistent with period

A/c policy are changed then properly Accounted and properly disclosed

Audit Procedure

Opinon	Comparative Fs	Corresponding Figures
clean	Shall refer to the basis of clean opinon	Refer to corresponding Figures for Audit Evidence
modified	Check critical through "Fs" for such opinon	[Same as left]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SA: 720 : The Auditors responsibility in relation to other information in documents containing Audited "Fs".
Other Information
BOD Report
Mgt Analysis
Summaries
Ratio Analysis
Audit Procedure
Compare "Fs" & Audit Report with other info.
Consistent
No Issues
Inconsistent
Inform mgt
Agree
A
No issues
Follow Procedure of SA-560
Disagree
Inform TCWG
Agree
A
Disagree
Qualify or Withdraw

A. How to Answer A Practical Question?

(Ans):- THE ANSWER SHOULD HAVE 4 FOLLOWING SUBHEADINGS:-

I. ***FACTS OF THE CASE: -*** *[write in 2-3 lines the information given in the content.]*
II. ***PROVISION OF LAW: -*** *[write the applicable law to the Above CASE like companies Act, banking ACT, IRDA Rules ETC…]*
III. ***COMMENTS: -*** *[write about the Observations made in the answer like the Violation or non-compliance of Any **SA** (or) ANY SECTION of **COMPANIES ACT** (or) OF ANY **AS** ….]*
IV. ***CONCLUSION: -*** *[conclude your answer by giving suitable solution or how to rectify the problems identify in the comments paragraph above.]*

B. *How To Answer A SA Related Question?*

(ANS):- THE ANSWER SHOULD HAVE 5 FOLLOWING SUBHEADINGS:-

I. ***SA NAME:-*** *[write the **SA** name completely without any omissions (or) wrong heading of **SA**]*
II. ***SCOPE &OBJECTIVE OF SA:-*** *[write the scope and the objective of the Above mentioned **SA** in 5-6 lines (or) as required]*
III. ***AUDIT PROCEDURES :*** *[write the **AUDIT PROCEDURES** as given in this SA]*
IV. ***REPORTING ON FINANCIAL STATEMENTS :-*** *[write about how the auditor will report on **"FS"** from above procedures and findings]*
V. ***OTHER INFORMATION: -*** *[write about any other information which is present in that **SA**]*