

NAME: _____

CONTACT NO.: _____

HANDBOOK ON STANDARDS ON AUDITING

FOR CA AND CA STUDENTS

EDITION - 2

CA NITESH KUMAR MORE

Published By:
SHIVAM PUBLICATIONS
11A, Radha Bazar Lane
Kolkata - 700001
shivampublications1@gmail.com
033-32562967

Email Your Suggestions on:
shivampublications1@gmail.com

This Book is dedicated to:

- ✓ MAA; who gave me darshan after SHAKTI PEETH PUJA at PANCHMUKHEE BALAJI DARBAR & PANCHMUKHEE BALAJI.
- ✓ My Gurus Sri Ramesh Chachan and Sri Sanjay Agarwal
- ✓ My Parents and All Family Members

© With the authors
Printing and Publishing right with the Author
Price: ₹ 90
Edition: Second
June, 2013 Edition

Published by:
Nidhi Kumari
Shivam Publications
11A, Radha Bazar Lane
Kolkata – 700001
shivampublications1@gmail.com
033-32562967

Computer Typeset:
Shivam Publications
11A, Radha Bazar Lane
Kolkata - 700001
shivampublications1@gmail.com
033-32562967

Preface to the FIRST Edition

Dear Friends,

The study material of the ICAI is like a bible. This book is not a substitute for study material. This book has been prepared to provide students a tool for systematic revision. The salient features of the book are:

- ✓ Case Studies.
- ✓ Tabular Presentation.
- ✓ Point wise Presentation (For Quick Revision Before Exams)
- ✓ Important Words – Bold (For Quick Revision Before Exams)
- ✓ Questions and Answers from Latest Revision Test Papers (RTP).

My special thanks to Abhishek Bathwal (A CA Final Student), for providing valuable support for the publication.

I look forward for your valuable suggestions and criticism, if any.

Thanks and Warm Regards,

Dated: 29th July 2012

Place: Kolkata

CA Nitesh Kumar More

moreassociate@gmail.com

About The Author:

CA NITESH KUMAR MORE

- ✓ Author of 4 Books: Handbook on Professional Ethics, Handbook on SA, Handbook on Bank Audit, Advanced Auditing And Professional Ethics.
- ✓ Is a Co-opted Member of Company Law Committee of ICAI (EIRC)
- ✓ Has been a Co-opted Member of Permanent Research Committee of ICAI (EIRC).
- ✓ Had been a Co-opted Member of Research Committee of ICAI (EIRC)
- ✓ Has been a Co-opted Member of Internal Audit Committee of ICAI (EIRC)
- ✓ Is a moderator of India's 1st Google Group with Expert Panels On Various Subjects (Member Strength of more than 20,000 Professionals)
- ✓ Is An Editor of Newsletter "Professional Updates"
- ✓ Is a Advisory Board Member of HiRise Business Solutions Private Limited
- ✓ Provided Live Updates of EIRC, ICAI Elections 2012, Railway Budget, Union Budget To Members Jointly with www.shivampublications.webs.com
- ✓ Has Contributed/Written more than 35 Write-ups/ Article in various magazines such as the Management Accountant, Suchitra Times, EIRC Newsletter, EIRC Members Ready Referencer, EIRC Conference, DTPA Conference etc.
- ✓ Executive Committee Member of Panchmukhi Balajee Darbar, Siliguri
- ✓ He is Providing Services to Many Corporate and Other Clients.
- ✓ Presented a Paper on Recent Changes in Direct Tax at CA Student Conference held at Kolkata.
- ✓ Stood 1st in Quiz Contest held at ICAI (Kolkata).
- ✓ Winner of 'Essay Writing Contest' organized by ICAI (EIRC).

LIST OF ABBREVIATIONS USED IN THIS BOOK

AGM	Annual General Meeting	JA	Joint Auditors
AS	Accounting Standard	JV	Joint Ventures
BOD	Board Of Directors	MD	Managing Director
CAAT	Computer Assisted Audit Techniques	MIS	Management Information System
CAG	Comptroller & Auditor General Of India	MRL	Management Representation Letter
CG	Central Government	NPA	Non Performing Assets
CIS	Computer Information System	NTE	Nature Timing And Extent
CLB	Company Law Board	PAC	Public Account Committee
CR	Control Risk	PFI	Prospective Financial Information
DD	Due Diligence	PRB	Peer Review Board
DR	Detection Risk	PSU	Public Sector Unit
DSS	Decision Support System	PU	Practice Unit
DSS	Electronic Data Interchange	QC	Quality Control
EP	Engagement Partner	RAP	Risk Assessment Procedures
ESB	Ethical Standard Board	SA	Standard On Auditing
FRF	Financial Reporting Framework	SG	State Government
FS	Financial Statements	SQC	Standard On Quality Control
FY	Financial Year	SR	Special Resolution
GAAP	Generally Accepted Accounting Principles	TCWG	Those Charged With Governance
GIC	General Insurance Company	W.E.F	With Effect From
GM	General Meeting	W.R.T	With Regard To
IC	Internal Control	WTD	Whole Time Director

INDEX OF STANDARDS ON AUDITING (SA)

100-199 Introductory Matters		
200-299 General Principles and Responsibilities		
SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	1-2
SA 210	Agreeing the Terms of Audit Engagements	2-5
SA 220	Quality Control for an Audit of Financial Statements	5-6
SA 230	Audit Documentation	6-7
SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of FS	8-11
SA 250	Consideration of Laws and Regulations in an Audit of FS	11-12
SA 260	Communication with Those Charged with Governance	13-14
SA 265	Communicating Deficiencies in IC to TCWG and Management	14-15
SA 299	Responsibility of Joint Auditors	15-16
300-499 Risk Assessment and Response to Assessed Risks		
SA 300	Planning an Audit of Financial Statements	16-18
SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	18-20
SA 320	Materiality in Planning and Performing an Audit	20-21
SA 330	The Auditor's Responses to Assessed Risks	22-23
SA 402	Audit Considerations Relating to an Entity Using Service Organisation	23-25
SA 450	Evaluation of Misstatements Identified During the Audit	26-27
500-599 Audit Evidence		
SA 500	Audit Evidence	27-28
SA 501	Audit Evidence—Specific Considerations for Selected Items	28-29
SA 505	External Confirmations	29-30
SA 510	Initial Audit Engagements – Opening Balances	31-32
SA 520	Analytical Procedures	32-33
SA 530	Audit Sampling	33-35
SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	35-36
SA 550	Related Parties	36-39
SA 560	Subsequent Events	39-41
SA 570	Going Concern	41-44
SA 580	Written Representations	44-45
600-699 Using Work of Others		
SA 600	Using the Work of Another Auditor	45-46
SA 610	Using The Work of Internal Auditors	47-48
SA 620	Using the Work of an Auditor's Expert	48-49
700-799 Audit Conclusions and Reporting		
SA 700	Forming an Opinion and Reporting on Financial Statements	50-51
SA 705	Modifications to the Opinion in the Independent Auditor's Report	51-54
SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	54
SA 710	Comparative Information - Corresponding Figures and Comparative Financial Statements	54-56

SA 720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements	57-58
800-899 Specialized Areas		
SA 800	Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	58-59
SA 805	Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	59-60
SA 810	Engagements to Report on Summary Financial Statements	61-64
2000-2699 Standards on Review Engagements (SREs)		
SRE 2400	Engagements to Review Financial Statements	65-66
SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	67-68
Engagements Other Than Audits or Reviews of Historical Financial Information		
SAE 3400	The Examination of Prospective Financial Information	68-69
SAE 3402	Assurance Reports on Controls At a Service Organisation	70-75
4000-4699 Standards on Related Services (SRSs)		
SRS 4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information	75-76
SRS 4410	Engagements to Compile Financial Information	76-78
Standards on Quality Control (SQC)		
SQC 1	QC for Firms that Perform Audit and Reviews of Historical Financial Information, & other Assurance & Related Services Engagements	78-80
Case Studies		81-84
Questions		84-85

STANDARDS ON AUDITING

SA 200 - OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR & THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING

A. Objectives - In conducting an audit of Financial Statement (FS), the **overall objectives** of the auditor are:

i) To obtain reasonable assurance about whether the FS 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 FS are prepared, in all material respects, **in accordance with** an applicable financial reporting framework (FRF); and

ii) To report on the FS, and communicate as required by the SAs, in accordance with the auditor's findings.

In all cases when reasonable assurance cannot be obtained and a **qualified opinion** in the auditor's report is **insufficient** in the circumstances for purposes of reporting to the intended users of the FS, the SAs require that the auditor **disclaim an opinion** or **withdraw from the engagement**, where withdrawal is legally permitted.

B. Definitions -

i) Professional Judgment - The application of relevant training, knowledge and experience in making appropriate decisions during audit engagement.

ii) Professional Skepticism - An attitude that includes a **questioning mind being alert** to conditions indicating possible misstatement due to error or fraud and a critical assessment of audit evidence.

C. Requirements -

i) Ethical requirements - He shall **comply** with ethical requirements including independence. He is required to comply with code of ethics (issued by ICAI) which establishes the following as **fundamental principles** of professional ethics to the auditor when conducting an audit: • Integrity • Objectivity • Professional competence • due care • Confidentiality and • Professional behavior.
He shall be independent. Thus he can form an opinion without being affected by influences.

ii) Professional Skepticism - He shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause FS to be materially misstated. It includes **being alert to**, for **example**: • Contradictory evidences • Conditions indicating possible frauds • Conditions questioning reliability.
Moreover, it is necessary for critical assessment of audit evidences gathered. The auditor may accept documents and records as genuine unless the auditor has the reason to believe the contrary. In case of doubt, the SA requires that he should investigate further. By maintaining professional skepticism, overall risk can be reduced.

iii) Professional Judgment -

a. The auditor shall **exercise professional judgment** in planning and performing an audit.

b. It is necessary to **make proper decisions** during audit, particularly for taking decisions about: • Materiality • Audit Risk • Nature, Timing & Extent of Audit Procedure • Sufficiency & appropriateness of evidence etc.

c. Facts and circumstances that were known to the auditors **up to the date of auditor's report** can be used.

d. Consultation on difficult or contentious matters as required by revised SA 220 on "Quality control for an audit of FS" assist the auditor in making judgments.

e. It also needs to be appropriately **documented**.

iv) Sufficient & appropriate Audit Evidence and Audit Risk –

- a.** The auditor should obtain sufficient appropriate audit evidence **to reduce audit risk** to an acceptably low level and to draw reasonable conclusion.
- b.** '**Sufficiency**' refers to quantum of evidence, '**appropriateness**' refers to its quality.
- c.** '**Audit risk**' is a function of risk of material misstatements and detection risk. The assessment of audit risk is based on audit procedure to obtain information and evidence obtained throughout audit.
- d.** It is required to reduce audit risk to an acceptable low level. However, due to **inherent limitations** of audit, audit risk cannot be reduced to **Zero**.
- e.** The **quantity** of audit evidence needed is **affected by** the auditors' **assessment of risk**. The higher the assessed risk, the more audit evidence is likely to be required. And higher the quality, less audit evidence shall be required.
- f.** Whether sufficient appropriate audit evidence has been obtained is a matter of **professional judgment**. He should consider **SA 500** on "Audit Evidence".

v) Conduct of Audit in accordance with SAs

a. Complying with SAs Relevant to the audit - An SA is relevant if it is effective and **circumstances** stated in that SA **exist**. The auditor shall understand entire SA to apply it properly. He shall represent compliance with SAs in auditor's report only if he has complied with requirements of all relevant SAs.

b. Objectives stated in individual SAs - He shall determine whether any **additional audit procedure** is required to fulfill the objectives stated in SA and **evaluate** whether sufficient appropriate audit evidence has been obtained keeping in view the objectives stated in SA.

c. Complying with relevant requirement - He shall comply with **each requirement** of a SA **unless** • entire SA is not relevant or • requirement is not relevant because it is conditional & the condition is not present. However, in **exceptional circumstances**, he may depart from relevant requirement in SA. In such case, He shall perform **alternative procedures**. SA 230 on "Audit Documentation" establishes **documentation** requirement in such case.

d. Failure to achieve an objective in relevant SAs - In that case, he shall consider the need to **modify** the audit report, or **withdraw** from the engagement. It is a significant matter requiring **documentation** as well. SA 230 on "Audit Documentation" establishes documentation requirement in such case.

SA 210 - AGREEING THE TERMS OF AUDIT ENGAGEMENTS (REVISED)

A. Objective - 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:

- i)** Establishing whether the **preconditions** for an audit are **present**; and
- ii)** 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.

B. Requirements –

i) a. Preconditions for an Audit - In order to establish whether the preconditions for an audit are present, the auditor shall:

- Determine whether the **financial reporting framework to be applied** in the preparation of the FS is acceptable; and
- Obtain the **agreement of management** that it acknowledges and understands its responsibility:

~ For the **preparation of the FS** in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

~ For such **internal control** as management determines is necessary to enable the preparation of FS that are free from material misstatement, whether due to fraud or error;

~ To **provide the auditor** with:

→ **Access to all information** of which management is aware that is relevant to the preparation of the FS such as records, documentation and other matters;

→ **Additional information** that auditor may request management for purpose of audit;

→ **Unrestricted access** to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

b. Limitation on Scope Prior to Audit Engagement Acceptance - 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 FS, the auditor **shall not accept** such a limited an audit engagement, **unless** required by **law** or regulation to do so.

c. Other Factors Affecting Audit Engagement Acceptance - If the preconditions for an audit are not present, auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor **shall not accept** the proposed audit engagement:

- If the auditor has determined that the financial reporting framework to be applied in the preparation of the FS is **unacceptable**; or
- If the **agreement** has **not been obtained**.

ii) Agreement Audit Engagement Terms (Principal Contents Of Audit Engagement Letter) - The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. 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 FS;

b. The **responsibilities** of the **auditor**;

c. The responsibilities of **management**;

d. Identification of the **financial reporting framework** for the preparation of FS;

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.

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 as above.

iii) Recurring Audits - 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. The auditor may **decide not to send** a new audit engagement letter or other written agreement each period. However, the **following factors** may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

a. Any indication that the entity **misunderstands** the objective and scope of the audit.

b. Any revised or **special terms** of the audit engagement

c. A recent **change** of senior **management**.

d. A significant change in **ownership**.

e. A significant change in nature or **size** of the **entity's** business.

f. A **change** in **legal** or regulatory requirements.

g. A **change** in the financial **reporting framework** adopted in the preparation of the FS.

h. A change in other **reporting requirements**.

iv) Acceptance of a Change in the Terms of the Audit Engagement

- a. The auditor shall **not agree** to a change in the terms of the audit engagement where there is **no reasonable justification** for doing so.
- b. If, prior to completing the audit engagement, 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 **reasonable justification** for doing so.
- c. 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**.
- d. If the auditor is **unable to agree** to a change of the terms of the audit engagement & is **not permitted by** management to continue the original audit engagement, auditor shall:
- **Withdraw** from the audit engagement where possible under applicable law or regulation;
 - 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.

v) Additional Considerations in Engagement Acceptance

a) Financial Reporting Standards Supplemented by Law or Regulation - If financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation, the auditor shall determine whether there are any **conflicts** between the financial reporting standards and the additional requirements. If such conflicts **exist**, the auditor shall discuss with management the nature of the additional requirements and shall agree whether:

- The additional requirements can be met through **additional disclosures** in the FS;
- The **description** of the applicable financial reporting framework in the FS can be **amended** accordingly.

If neither of the above actions is possible, the auditor shall determine whether it will be necessary to **modify** the auditor's opinion in accordance with SA 705

b. Financial Reporting Framework Prescribed by Law or Regulation - Other Matters Affecting Acceptance - If the auditor has determined that the financial reporting framework prescribed by law or regulation would be **unacceptable** but for the fact that it is prescribed by law or regulation, the auditor shall **accept** the audit engagement only if the **following conditions** are present:

- **Management agrees** to provide **additional disclosures** in the FS required to avoid the FS being misleading; and
- It is **recognized** in the **terms** of the audit engagement that:
 - ~ The auditor's report on the FS will incorporate **an Emphasis of Matter paragraph**, drawing users' attention to the additional disclosures, in accordance with SA 706 (Revised);
 - ~ Unless the auditor is required by law or regulation to express the auditor's opinion on the FS by using the phrases "**present fairly**, in all material respects" or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion on the FS will **not include such phrases**.

General Clarification (GC) – AASB/2/2004 ON SA 210, "Terms of Audit Engagement"

Question: A question that arises is whether it is necessary that the engagement letter issued by the auditor should be acknowledged by addressee and returned to the auditor?

Ans: When the objective and scope of the engagement and the auditor's obligations are laid down in the applicable statute or Regulations: It shall be sufficient compliance with the requirements related to sending the audit engagement letter, if an engagement letter is **appropriately delivered** to the client and **the auditor retains the evidence** for such delivery. In such cases, the audit engagement letters would be

informative for the clients. If, however, the client seeks any **further explanations or clarification**, he should take necessary steps to resolve the issues.

When the objective and scope of the engagement and the auditor's obligations are not laid down in the applicable statute or regulations: In such situations, the auditor should request the client that a copy of the engagement letter be acknowledged by the addressee and returned to the auditor

SA 220 - QUALITY CONTROL FOR AN AUDIT OF FS

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

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

B. Basic Definitions

i) Engagement partner (EP) - partners / other person in firm (must be CA in full time practice) is responsible for engagement and report thereon.

ii) Engagement Quality Control Review - is a process to evaluate the judgment and conclusions of engagement team before report is issued.

iii) Network Firm - Entity under common control ownership or management with firm (nationally/internationally)

iv) Staff - Professionals other than partners.

C. Requirements -

i) Leadership responsibilities for quality on audits - The Engagement Partner (EP) shall take **overall responsibility** for the overall quality on each audit engagement to which that partner's is assigned.

ii) Relevant Ethical Requirements

a. Throughout the audit engagement, EP shall remain **alert for non compliance** with relevant ethical requirement by members of the engagement team

b. If members of audit team do **not comply**, the EP, in consultation with others in the firm, shall determine the appropriate **action**.

iii) Independence -

a. EP shall obtain relevant information to **identify circumstances** and relationship that create **threats to independence**.

b. EP shall evaluate information on identified **breaches** & take appropriate **action to eliminate** such threats or **reduce them** to an acceptable level. If consider appropriate, **withdraw** from the audit engagement, when permitted by law or regulation.

iv) Acceptance & continuance of client relationships & audit engagements -

a. The engagement partner shall be satisfied that appropriate **procedures** regarding the acceptance & continuance of client relationship & audit engagements have been **followed**.

b. If the EP obtains the **information** that would have caused the **firm to decline the audit engagement** had the information been available earlier, the EP shall **communicate** information promptly to the firm, so that the firm and EP can take necessary action.

v) Assignment of Engagement Teams - The EP shall be satisfied that the engagement team, collectively have the appropriate competence & capabilities:

a. Perform the audit engagement in accordance with **professional standard** and regulatory and legal requirements and

b. Enable an auditor's report that is appropriate in the **circumstances** to be issued

vi) Engagement Performance

a. Direction, Supervision and Performance - The engagement partner shall take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements, and the auditor's report being appropriate in the circumstances.

b. Reviews - The engagement partner shall take responsibility for reviews being performed in accordance with the **firm's review policies** and procedures. On or before the date of the auditor's report, the engagement partner shall, be satisfied that sufficient appropriate **audit evidence has been obtained** to support the conclusions and the auditor's report.

c. Consultation - The engagement partner shall take responsibility for the engagement team undertaking appropriate consultation of **difficult matters**. He shall be satisfied that engagement team has undertaken consultation both within the engagement team and between the engagement team & others and such **consultation** have been **implemented**.

d. Engagement Quality Control Review - For audits of FS of **listed entities** and those **other audit engagement** for which the engagement quality control reviews is required, the **EP** shall **determine** that an engagement quality control **reviewer** has been **appointed**. The engagement quality control reviewer shall **evaluate** the significant judgment and the conclusion reached. He shall evaluate the following:

- Discussion of **significant matters** with the EP
- Review of the **FS** and the proposed **auditor's report**
- Review of **selected audit documents**.
- Evaluation of **conclusions** reached.

For audits of FS of **listed entities**, the engagement quality control reviewer shall also consider the following:

- The engagement **team's evaluation** of the firms **independence**
- Whether appropriate **consultations** has taken place and the conclusions arising from those **consultations**

e. Differences of Opinion - If differences of opinion arise within the engagement team with those consulted or 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.

vii) Monitoring - A monitoring process is designed to provide the firm with reasonable assurance that its policies and procedures relating to quality control are relevant adequate and operating effectively. The engagement partner shall consider the **result** of the firms monitoring process.

viii) Documentation - The **auditors shall document** • Issues identified with respect to compliance with relevant ethical requirement and how they were resolved. • Conclusions on compliance with independence requirements. • Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements. • The consultations undertaken during the course of the audit engagement.

The engagement quality control reviewer shall document for the audit engagement reviewed that • The procedures for engagement quality control review have been performed. • The engagement quality control review has been completed on or before the date of the auditors reports and • The reviewer is not aware of any unresolved matters.

SA 230 - AUDIT DOCUMENTATION

A. Objective - The objective of the auditor is to prepare documentation that provides:

- i) A sufficient and appropriate **record** of the basis for the auditor's report; and
- ii) **Evidence** that the audit was planned and performed in accordance with **SAs** and applicable **legal** and regulatory requirements.

B. Requirements -

i) Timely Preparation of Audit Documentation – The auditor should prepare audit documentation on timely basis to enhance the quality of audit and for effective review and evaluation of audit evidence obtained and conclusion reached.

ii) Documentation of the Audit Procedures Performed & Audit Evidence Obtained –

a. Form, Content And Extent Of Audit Documentation - The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor to understand:

- The nature, timing, and extent of the **audit procedures**;
- The results of the audit procedures performed, and the **audit evidence** obtained; and
- **Significant matters** arising during the audit and the **conclusions** reached thereon.

Auditor shall also record:

- The identifying **characteristics** of the specific items or matters tested,
- **Who performed the** audit work and the date such work was completed; and
- **Who reviewed** the audit work performed and the date and extent of such review?
- He shall also **document discussion** of significant matters with management, those charged with governance & others.

If the auditor identified inconsistent information, the auditor shall **document** how he **addressed the inconsistency**.

b. Departure From A Relevant Requirement - If, in exceptional circumstances, he departs from SA, the auditor shall document the **reasons** for the departure and **alternative audit procedures** performed.

c. Matters Arising After The Date Of The Auditor's Report - If, in exceptional circumstances, the auditor performs new or **additional audit procedures** or draws new conclusions after the date of the auditor's report, the auditor shall document:

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

iii) Assembly Of Final Audit File - The auditor shall assemble the audit documentation in an audit file & complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. After the assembly, the auditor shall **not delete** audit documentation before the end of its **retention period**.

SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files which is ordinarily more than **60 days** after the date of auditor's report.

SQC 1 requires firms to establish policies and procedures for **retention** of engagement documentation. The retention period for audit engagements ordinarily is no shorter than **10 years** (However minimum retention period is **5 years**) from the date of the auditor's report or, if later the date of the group auditor's report.

However **changes** may be made to the audit documentation during the final assembly process if they are administrative in nature. **Examples** of such changes are:

- a. Sorting, collating and cross referencing working papers
- b. deleting or discarding superseded documentation
- c. signing off on completion checklists relating to file assembly process

C. Ownership of Audit Documentation - SQC 1 provides that, **unless** otherwise specified by **law or regulation**, audit documentation is the property of auditor. He may at his **discretion**, make portions or extracts from, audit documentation **available to clients**, **provided** such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

SA 240 - THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

A. Objective - The objectives of the auditor are as follows:

- i)** To identify and assess the risks of material misstatement in the FS due to fraud;
- ii)** To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud; and
- iii)** To respond appropriately to identified or suspected fraud.

B. Definitions -

i) 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.

ii) Fraud Risk Factors - Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

C. 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 (TCWG) of the entity and management**. Management and those charged with governance should place a strong emphasis in fraud prevention. This involves a commitment to creating a culture of honesty and ethical behavior.

D. Responsibilities Of The Auditor -

i) Auditors are responsible for **obtaining reasonable assurance** that the FS taken as a whole are **free from material misstatement**.

ii) As described in **SA 200**, due to the **inherent limitations** of an audit, there is an unavoidable risk that some material misstatements of the FS will not be detected, even though the audit is properly planned and performed in accordance with the SAs.

iii) The **risk of not detecting** a material misstatement resulting from **fraud is higher** than the risk of not detecting one resulting from error.

iv) This is because fraud involves **carefully organized schemes** designed to conceal it.

v) It is **difficult** for the auditor to determine whether misstatements in judgment areas such as **accounting estimates** are caused by fraud or error.

vi) The risk of the auditor not detecting a material misstatement resulting from **management fraud** is greater than for employee fraud as management can manipulate accounting records.

vii) The auditor is responsible for maintaining an attitude of **professional skepticism** throughout the audit.

E. Requirements -

i) Professional Skepticism -

a. The auditor shall maintain an attitude of professional skepticism throughout the audit.

b. He should **recognize the possibility that a material misstatement** due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.

c. Unless **doubtful situations** are present, the auditor may accept records and documents as genuine.

d. If **conditions cause** the auditor to believe that document may not be authentic or that terms in a document have been modified, the auditor shall **investigate further**.

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

ii) Discussion Among The Engagement Team - They should discuss **how and where** the entity's FS may be **susceptible** to material misstatement due to fraud, including how fraud might occur. The discussion shall occur notwithstanding the engagement team members' beliefs that management and those charged with governance are honest and have integrity.

iii) Risk Assessment Procedures And Related Activities - When performing risk assessment procedures, he shall perform the **following procedures**:

a. Enquiring Management and Others within the Entity - The auditor shall make inquiries of management regarding:

- Management's **assessment of the risk** of material misstatement due to fraud;
- Management's **process for identifying & responding** to the risks of fraud in the entity, including any specific risks of fraud;
- Management's **communication**, if any, to those charged with governance; and
- Management's **communication**, if any, to **employees** regarding its views on business practices and ethical behavior.
- For those entities that have an internal audit function, the auditor shall make **inquiries of internal auditor**.

b. Enquiring Those Charged with Governance (TCWG) - He shall obtain an understanding of how TCWG supervise management's processes. The auditor shall ask TCWG whether they have **knowledge** of any fraud affecting the entity.

c. Unusual or Unexpected Relationships Identified - The auditor shall **evaluate** whether unusual or unexpected relationships identified in performing **analytical procedures**, may indicate risks of material misstatement due to fraud.

d. Other Information - The auditor shall consider whether other information obtained by the auditor indicates risks of material misstatement due to fraud.

e. Evaluation of Fraud Risk Factors - The auditor shall evaluate whether the information obtained, indicates that one or more fraud risk factors are present. However, fraud risk factors may not necessarily indicate the existence of fraud.

iv) Identification and Assessment of the Risks of Material Misstatement Due to Fraud - In accordance with SA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level **for classes of transactions, account balances** and disclosures. The auditor shall, based on a **presumption** that there are **risks of fraud in revenue recognition**, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. The auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

v) Responses to the Assessed Risks of Material Misstatement Due to Fraud - In accordance with SA 330, the auditor shall **determine overall responses** to address the assessed risks of material misstatement due to fraud at the financial statement level.

a. Overall Responses - The auditor shall:

- Assign and supervise personnel as per their capability;
- Evaluate whether accounting policies adopted by the entity indicate fraudulent financial reporting resulting from management's effort to manage earnings; and
- Incorporate surprise element in the selection of the Nature Time Extent of audit procedures.

b. Response to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level - The auditor shall **design and perform further audit procedures** whose nature, timing and extent re responsive to the assessed risks of material misstatement due to fraud at the assertion level.

c. Responses to Risks Related to Management Override of Controls - Management is

in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent FS by overriding controls. It is a risk of material misstatement due to fraud and thus a significant risk. The auditor shall determine whether the auditor needs to perform **extra audit procedures**.

vi) Evaluation of Audit Evidence –

- a.** The auditor shall evaluate whether **analytical procedures** are **consistent** with the auditor's understanding of the entity and its environment.
- b.** When the auditor **identifies a misstatement**, the auditor shall evaluate whether such a misstatement is **indicative of fraud**. If there is such an indication, the auditor shall **evaluate** the implications of the misstatement in relation to **other aspects** of the audit, particularly the reliability of management representations.
- c.** If auditor identifies a misstatement; the auditor shall **re-evaluate** the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures.
- d.** When the auditor **confirms** that, or is **unable to conclude** whether, the FS are materially misstated as a result of fraud the auditor shall **evaluate the implications for the audit**.

vii) Auditor Unable to Continue the Engagement - The auditor shall:

- a.** Determine the **professional and legal responsibilities** 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; and
- c.** If the auditor withdraws:
 - **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
 - **Determine** whether there is a **professional or legal requirement** to report to 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.

viii) Management Representations - Auditor should obtain written representations from management that:

- a.** Its **responsibility** for the design, implementation and maintenance of **internal control** to prevent and detect fraud;
- b.** It has **disclosed** to the auditor the **results** of its **assessment of the risk of fraud**;
- c.** It has **disclosed** to the auditor its **knowledge of fraud** or suspected fraud affecting the entity involving:
 - Management;
 - Employees who have significant roles in internal control;
 - or • Others;
- d.** It has **disclosed** to the auditor its knowledge of any allegations of **fraud**, or suspected fraud, affecting the entity's FS.

ix) Communications to Management and TCWG - If the auditor has **identified a fraud** or has indication of fraud; the auditor shall communicate these matters on a timely basis to the appropriate level of management. The auditor shall communicate with those charged with governance other matters related to fraud that are **relevant** to their responsibilities.

x) Communications to Regulatory Authorities - The auditor's **legal responsibilities** may **override the duty of confidentiality** in some circumstances.

xi) Documentation - He shall maintain documentation as per SA 315 and SA 330. The auditor shall document, **communications** about fraud made to **management**, those charged with governance, regulators and others. When the auditor has concluded that

presumption that there is a risk of material misstatement due to **fraud related to revenue recognition** is not applicable in the circumstances of the engagement, the auditor shall document the **reasons** for that conclusion.

SA 250 - CONSIDERATIONS OF LAW AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

A. Objectives - The objectives of the auditor are:

- i)** To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws & regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the FS;
- ii)** To perform specified audit procedures to help identify instances of noncompliance with other laws & regulations that may have a material effect on the FS; and
- iii)** To respond appropriately to non-compliance or suspected non-compliance with laws & regulations identified during the audit.

B. Responsibility Of Management For Compliance With Laws & Regulations - 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 & regulations that determine the reported amounts and disclosures in an entity's FS.

C. Responsibility of Auditor - The requirements in this SA are designed to assist the auditor in identifying material misstatement of the FS due to non-compliance with laws and regulations. However, the auditor is **not responsible for preventing** non compliance and cannot be expected to detect non-compliance with all laws and regulations. In the context of laws and regulations, the potential effects of **inherent limitations** on the auditor's ability to detect material misstatements are greater. This SA distinguishes the auditor's responsibilities in relation to compliance with **two different categories** of laws and regulations as follows:

- i)** The provisions of those laws and regulations having a **direct effect** on the determination of material amounts and disclosures in the FS such as tax and labour laws;
- ii)** Other laws and regulations that do **not have a direct effect** on the determination of the amounts and disclosures in the FS, but compliance with which may be fundamental to the operating aspects of the business.

In this SA, different requirements are specified for each of the above categories of laws and regulations. For the category referred to in **C (i)** above, the auditor's responsibility is to **obtain sufficient appropriate audit evidence** about compliance with the provisions of those laws and regulations. For the category referred to in **C (ii)** the auditor's responsibility is **limited to undertaking specified audit procedures** to help **identify** non-compliance with those Laws and regulations that may have a material effect on the FS.

D. Requirements -

i) The Auditor's Consideration Of Compliance With Laws & Regulations - The auditor shall obtain a **general understanding** of:

- a.** The **legal and regulatory framework** applicable to the entity and the industry or sector in which the entity operates; and
- b.** **How the entity is complying** with that framework.

The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a **direct effect** on the determination of material amounts and **disclosures** in the FS. The auditor shall perform the

following audit procedures to identify instances of non-compliance with other laws and regulations that may have a material effect on the F.S.:

- **Inquiring** of management; and
- **Inspecting** correspondence, if any, with the relevant licensing or regulatory authorities.

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. **Obtain written representation** that all known instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to the auditor.

ii) Audit Procedures When Non- Compliance is Identified or Suspected - 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;

b. Further information to evaluate the **possible effect** on the FS.

If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and those charged with governance. If management or those charged with governance **do not provide sufficient information** the auditor shall consider the need to obtain **legal advice**. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall **evaluate the effect** of the lack of sufficient appropriate audit evidence on the auditor's opinion.

iii) Reporting of identified or Suspected Non- Compliance

a. Reporting Non- Compliance to Those Charged with Governance - Unless all of those charged with governance are involved in management of the entity, the auditor shall **communicate** with those charged with governance matters involving non compliance with laws and regulations that come to the auditor's attention. If in the auditor's judgment, the non-compliance is believed to be **intentional and material**; the auditor shall communicate the matter to those charged with governance as soon as practicable. 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, the auditor shall consider the need to obtain **legal advice**.

b. Reporting Non- Compliance in the Auditor's Report on the FS - If the auditor concludes that the non-compliance has a **material effect** on the FS, and has **not been adequately reflected** in the F.S., the auditor shall, express a **qualified or adverse opinion** on the FS. If the auditor is **precluded by management** or those charged with governance from obtaining sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion, 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.

c. Reporting Non- Compliance to Regulatory and Enforcement Authorities - If the auditor has identified or suspect's 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**.

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

SA 260 - COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

A. Objective - The objectives of the auditor are to:

- i) 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;
- ii) Obtain from those charged with governance information relevant to the audit;
- iii) 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
- iv) Promote effective two-way communication between auditor and those charged with governance.

B. Definition - Those charged with governance - The person(s) or organization(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.

C. When All of those Charged with Governance are Involved in Managing the Entity

- In some cases, all of those charged with governance are involved in managing the entity, for example, a **small business** where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this SA are communicated with person(s) with management responsibilities, and those person(s) also have governance Responsibilities, the matters **need not be communicated" again** with those same person(s) in their governance role.

D. Requirements -

i) Those charged with Governance - The auditor shall **determine the appropriate person** within the entity's governance structure with whom to **communicate**.

ii) Matters to be Communicated -

a. The Auditor's Responsibilities in Relation to the Financial Statement Audit - The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:

- The auditor is responsible for **forming and expressing an opinion** on the F.S.
- The audit of the F.S. does **not relieve management** or those charged With governance of their responsibilities.

b. Planned Scope and Timing of the Audit - The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit.

c. Significant Findings from the Audit - The auditor shall communicate with those charged with governance:

- The auditor's **views** about **significant qualitative aspects** of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- **Significant difficulties**, if any, encountered during the audit;
- Unless all of those charged with governance are involved in managing the entity:
 - ~ **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;
 - ~ **Significant matters**, if any, arising from the audit that were discussed, or subject to correspondence with management; and
 - ~ **Written representations** the auditor is requesting; and Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

d. Auditor Independence - In the case of **listed entities**, the auditor shall communicate with those charged with governance:

a. A **statement** that the engagement team and others in the firm as appropriate, have complied with relevant **ethical requirements** regarding independence; and

b. All **relationships** and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence.

c. The **related safeguards** that have been applied to **eliminate identified threats** to independence or reduce them to an acceptable level.

iii) The Communication Process

a. Establishing the Communication Process - The auditor shall communicate with those charged with governance the form, timing and expected general content of communications.

b. Forms of Communication - The auditor shall communicate in **writing** with those charged with governance regarding **significant matters**. The auditor shall communicate in writing with those charged with governance regarding auditor independence.

c. Timing of Communications - The auditor shall communicate with those charged with governance on a **timely basis**.

d. Adequacy of the Communication Process - The auditor shall **evaluate** whether the **two-way communication** between the auditor and those charged with governance has been **adequate** for the purpose of the audit. **If it has not**, the auditor shall evaluate the **effect** on the auditor's assessment of the risks of material misstatement,

iv) Documentation - 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.

SA 265 - COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE (TCWG) & MANAGEMENT

A. Objective - Objective of the auditor is to communicate to TCWG & management deficiencies in IC that auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.

B. Definitions -

i) Deficiency In Internal Control - This exists when:

a. A control is designed, implemented or operated in such a way that it is **unable to prevent** or detect and correct, **misstatements** in the FS on a timely basis; or

b. A **control necessary to prevent**, or detect and correct, misstatements in the FS on a timely basis **is missing**.

ii) Significant Deficiency In Internal Control (IC) - A deficiency or combination of deficiencies in IC that, in the auditor's professional judgment, is of **sufficient importance to merit the attention of TCWG**.

Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in IC constitutes a significant deficiency

a. The **likelihood of the deficiencies** leading to material misstatements in F.S. **in future**

b. The **susceptibility to loss or fraud** of the related asset or liability

c. The FS **amounts** exposed to the deficiencies

d. The **subjectivity & complexity** of determining estimated amounts, such as fair value accounting estimates

e. The **importance of the controls** to the financial reporting process, for example:

- General monitoring controls
- Controls over the prevention & detection of fraud
- Control over the selection and application of significant accounting policies.
- Control over significant transactions with related parties.
- The cause & frequency of the exceptions detected etc.

ii) Absence of a **risk assessment process**

iii) Evidence of **ineffective response** to identified risks

iv) Disclosure of material misstatement due to error or fraud as prior period items in the current year's statement of profit & loss.

C. Requirements –

i) The auditor shall **determine** whether, on the basis of the audit work performed, the auditor has **identified one or more deficiencies** in IC.

ii) If the auditor has identified one or more deficiencies in IC, the auditor shall determine they constitute **significant deficiencies**.

iii) The auditor shall **communicate in writing** significant deficiencies in IC identified during the audit to TCWG on a timely basis.

iv) The auditor shall also communicate **to management** at an appropriate level of responsibility on a timely basis:

a. In writing, **significant deficiencies** in IC that the auditor has communicated to TCWG.

b. **Other deficiencies** in IC identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.

v) The auditor shall include in the **written communication** of significant deficiencies in IC:

a. A **description** of the deficiencies and an explanation of their potential effects; and

b. **Sufficient information** to enable TCWG and management to understand the context of the communication. In particular, the auditor shall **explain** that:

- The **purpose** of the audit was for the auditor to express an opinion on the F.S.;
- The audit included consideration of IC relevant to the preparation of the F.S. in order to design audit procedures that are appropriate in the circumstances, but **not for** the purpose of expressing an **opinion on the effectiveness of IC**; and
- 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

SA 299 - RESPONSIBILITY OF JOINT AUDITORS (JA)

A. **Joint Auditors** - when two or more practicing units are appointed to conduct audit of an entity.

B. Division Of Work -

i) Where Joint Auditors (JA) are appointed, they should, **by mutual discussion, divide** the audit works among them. The division of work would **usually** be in **terms of audit** of identifiable Units or specified areas. In some cases, due to nature of the business of entity under audits such a division of work may **not be possible**. In such situations, division of work may be with reference to items of **assets or liabilities or income or expenditure** or with reference to periods of **time**.

ii) The division of work among JA as well as the areas of work to be covered by all of them should be adequately **documented** and preferably **communicated to the entity**.

C. Co-ordination - If some JA comes to know a **matter, relevant for other JA**, then he should **communicate** it immediately in writing to other JA. The **date** of such communication should be **before** date of **audit report**.

D. Relationship Among JAs - In respect of audit work divided among the JAs each JA is **responsible** only for the **work allocated** to him, whether or not he has prepared a separate report on the look performed by him. On the other hand, all the JA are **jointly & severally responsible**:

i) In respect of the audit **work** which is **not divided** among the JA and is carried out by all of them

ii) In respect of **decisions taken by all** the JA concerning the nature, timing, or extent of the **audit procedures** to be performed by any of the JA.

iii) In respect of **matters** which are brought to the notice of the JAs by any one of them and on which there is an agreement among the JAs.

iv) For examining that the FS comply with the **disclosure requirements** of the relevant statute.

v) For ensuring that the audit report completes with the requirements of **relevant statute**.

vi) **However**, If any matters of the nature referred to in "C" above are **brought to the attention** of the entity or other JAs by an auditor **after the audit report** has been submitted, the other JAs would **not be responsible** for those matters.

E. Each JA is entitled to assume that the other JAs have carried out their part of the audit work in accordance with the **GAAP**. Each JA is entitled to rely upon other JA for bringing to his **notice** any **departure** from **GAAP** or any **material error** noticed in the course of audit.

F. Where separate FS of **division / branch** are audited by **one of the JAs**, the other JA are entitled to proceed on the basis that such FS **comply** with all the legal & professional **requirements** regarding the disclosures to be made and present a true & fair view of the state of affairs and of the working results of the division / branch concerned, subject to such observations as may be communicated by the JA concerned.

G. Reporting Responsibilities - Normally, the JAs are able to arrive at an **agreed report**. However, where the JAs 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**. A JA is **not bound by** the views of the **majority** of the JAs regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement.

SA 300 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

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

B. Requirements -

i) **Involvement of Key Engagement Team Members** - The engagement partner (EP) and other **key members** of the engagement team shall be involved in planning the audit.

ii) **Preliminary Engagement Activities** - The auditor shall undertake the following activities at the beginning of the current audit engagement:

a. **performing procedures** required by **SA220** regarding continuance of client relationship

b. **Evaluating compliance** with ethical requirements, independence, required by SA 220;

c. Establishing an understanding of the terms of the engagement, as required by SA 210.

iii) Planning Activities - The auditor shall establish an '**overall audit strategy**'* that sets the scope, timing & direction of audit that guides the development of the audit plan.

***The Overall Audit Strategy** - The process of establishing the overall audit strategy assists the auditor to determine such matters as:

- a.** The **resources** to deploy for specific audit area, such as the use of appropriately team members for high risk area or the involvement of experts on complex matters.
- b.** The **amount of resources to allocate** to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, audit budget.
- c.** **When** these resources to be **deployed**, such as interim audit stage/key cut-off dates.
- d.** **How** such resources are **managed**, directed & supervised, such as when team briefing & debriefing meetings are expected to be held.

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 the engagement to plan the timing of the audit and the nature of the communications required;
- c.** Consider the **factors** that 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 EP for the entity is relevant; and
- e.** Ascertain the **NTE** of procedures.

The auditor shall develop an "Audit Plan" that shall include a description of:**

- a.** The NTE of **planned risk assessment procedures**, as determined under SA 315.
- b.** The NTE of planned **further audit procedures** at the assertion level, as determined under SA 330.
- c.** **Other planned audit procedures** that are required to be carried out so that the engagement complies with SAs. The auditor shall **update and change** the overall audit strategy and the audit plan as necessary during the course of the audit. He shall plan the NTE of direction and supervision of engagement team members & the review of their work.

****Audit Plan** - The Audit Plan is **more detailed than the overall audit strategy** that **includes** the nature, timing & extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for engagement develops. For e.g. planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing & extent (NTE) of specific further audit procedures depends on the outcome of those Risk Assessment Procedures.

Changes to planning Decisions during the course of the Audit - As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to **modify the overall audit strategy & audit plan** and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks.

iv) Documentation - 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.

v) Additional Considerations in Initial Audit Engagements - 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.

C. Considerations Specific to Smaller Entities - Many audits of small entities involve the engagement partner working with one engagement team member. With a **smaller team**, **co-ordination** of, and **communication** between, team members are **easier**. Establishing the **overall audit strategy** for the audit of a small entity need **not be a complex or time-consuming exercise**; it varies according to the size of the entity, the complexity of the audit, and the size of the engagement team.

SA 315 - IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

A. Objective - The auditor should identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels. He should understand the entity and its environment, including the entity's internal control. Thus, he can design and implement 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.

B. Definitions -

i) Assertions - Representations by management, explicit or otherwise, embodied in the FS.

ii) 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.

iii) Significant Risk - An identified and assessed risk of material misstatement that requires special audit consideration.

C. Requirements -

i) Risk Assessment Procedures and Related Activities - Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. The risk assessment **procedures** shall **include** the following:

a. Inquiries of management and of others within the entity

b. Analytical procedures.

c. Observation and inspection.

The auditor shall consider whether information obtained from the auditor's client acceptance or continuance process is relevant to identifying risks of material misstatement. Where engagement partner (EP) has performed **other engagements** for the entity, consider whether information obtained is relevant to identifying risks of material misstatement. If auditor uses his **previous experience**, consider if changes have occurred since the previous audit. The EP and other key engagement team members shall discuss the susceptibility of the entities FS to material misstatement.

ii) The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control

a. The Entity and Its Environment - The auditor shall obtain an understanding of:

- Relevant industry, regulatory, and other **external factors**

- The **nature of the entity** including:

- ~ its operations; ~ Its ownership and governance structures;

- ~ the types of investments; ~ the way that the entity is structured and how it is financed;

- Entity's selection & application of **accounting policies**, including reasons for changes.

- The **entity's objectives and strategies**, and those related business risks that may result in risks of material misstatement

- The measurement and review of the entity's **financial performance**

b. The Entity's Internal Control - The auditor shall obtain an **understanding** of IC 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 audit

c. Nature and Extent of the understanding of Relevant Controls – He will **evaluate the design of controls** and determine whether they have been **implemented**.

d. Components of Internal Control:

- **The Control Environment** – The auditor shall evaluate whether:

~ Management & TCWG has created & maintained culture of **honesty & ethical behavior**.
~ The **strength** in the control environment provides an appropriate **foundation** for the other components of IC.

- **The Entity's Risk Assessment Process** –

~ Consider if **entity has a process** for:

→ Identifying **business risks** relevant to financial reporting objectives;
→ Estimating the **significance** of the risks;
→ Assessing the likelihood of their **occurrence**; and
→ Deciding about **actions** to address those risks.

~ If the entity has established **entity's risk assessment process**, the auditor shall obtain an understanding of it, and the results thereof.

~ If the entity has **not established** such a process or as an adhoc process, the auditor shall **discuss** with management whether **business risks** relevant to financial reporting objectives have been **identified** and how they have been addressed.

- **The Information System, Including the Related Business Processes, Relevant to Financial Reporting, And Communication.**

~ **The auditor shall obtain an understanding of the following areas:**

→ The **classes of transactions**

→ The **procedures** within both IT and manual systems, by which those transactions are initiated, recorded, processed and reported in the FS.

→ The related **accounting records**

→ **How** the **information system** captures events and conditions, other than transactions, that are significant to the FS.

→ The financial **reporting process**

→ **Controls** surrounding journal entries

~ **The auditor shall obtain an understanding of:**

→ Communications between management & TCWG

→ External communications, such as those with regulatory authorities.

- **Control Activities Relevant To the Audit.**

~ The Auditor shall obtain an **understanding of control** to assess the risks of material mis-statement at the assertion level & design further audit procedures.

~ In understanding the entity's control activities the auditor shall obtain an **understanding of how** the entity has **responded to risks** arising from it.

- **Monitoring of Controls** - Obtain an understanding of the:

~ **activities** that the entity uses **to monitor** internal control over financial reporting, and

~ **Sources of the information used** in entity are monitoring activities and their reliability.

iii) Identifying and Assessing the Risks of Material Misstatement

The auditor shall identify and assess the risks of material misstatement at:

a. The financial statement level; and

b. The assertion level for classes of transactions, account balances, and disclosures; to provide a basis for designing and performing further audit procedures.

For this purpose, the auditor shall:

a. Identify risks,

b. Assess and evaluate the identified risks,

- c. Relate the identified risks to what can go wrong at the assertion level,
- d. Consider the likelihood of misstatement.

Risks that Require Special Audit Consideration - In exercising judgment as to which risks are significant risks, the auditor shall consider the **following**:

- a. Whether the **risk** is a risk of **fraud**;
- b. **Risk** is related to recent **significant** economic, accounting, or other **developments**;
- 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; and
- f. Whether the risk involves significant **unusual transactions**.

Risks for which Substantive Procedures alone Do Not Provide Sufficient Appropriate Audit Evidence - Such risks may relate to the **inaccurate or incomplete recording** of routine and significant classes of transactions or account balances, the characteristics of which often permit **highly automated processing** with little or no manual intervention. In such cases, the **entity's controls over such risks** are relevant to the audit and the auditor shall obtain an understanding of them.

Revision of Risk Assessment - The auditor's assessment of the risks of material misstatement at the assertion level may **change** during the course of the audit as additional audit evidence is obtained. The auditor shall revise the assessment and **modify** the further planned **audit procedures** accordingly.

iv) Material Weakness in Internal Control - The auditor 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.

The auditor shall **communicate** material weaknesses in internal control identified during the audit on a timely basis to management at an appropriate level of responsibility, and, as required by **SA 260** "Communication with Those Charged with Governance", with TCWG (unless all of TCWG are involved in managing the entity).

v) Documentation - The auditor shall document:

- a. The **discussion** among the engagement team and the significant decisions reached;
- b. Key elements of the **understanding** obtained regarding each of the aspects of the entity and its **environment** and of each of the internal control **components**; the sources of information from which the understanding was obtained; and the risk **assessment procedures** performed;
- c. The **identified and assessed risks of material misstatement** at the financial statement level and at the assertion level; and
- d. The **risks identified, and related controls** about which the auditor has obtained an understanding.

SA 320 - MATERIALITY IN PLANNING & PERFORMING AN AUDIT

A. Objective - The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.

B. Materiality In The Context Of An Audit – Financial Reporting Framework (FRF) often discuss the concept of materiality in context of preparation and presentation of FS. If the applicable FRF does not include a discussion of concept of materiality, the following characteristics determines it:

i) Misstatements, including omissions, are material if they, individually or in aggregate, could be expected to influence the economic decisions of users taken on the basis of FS;

- ii) Judgments about materiality are made in the light of **surrounding circumstances**, and are affected by the **size or nature** of a misstatement;; and
- iii) Judgments about matters that are material to users of the FS are based on a consideration of the **common financial information needs** of users as a group.
- iv) The auditor's determination of materiality is a matter of **professional judgment**, and is affected by the auditor's perception of the financial information **needs of users** of the FS.
- v) In planning the audit, the auditor makes judgments about the **size of misstatements** that will be considered material. These judgments provide a basis for:
 - a. Determining the nature, timing and extent of risk **assessment procedures**;
 - b. Identifying and assessing the **risks** of material misstatement; and
 - c. Determining the nature, timing and extent of **further audit procedures**.
- vi) Auditor considers not only the size but also the **nature** of uncorrected misstatements, when evaluating their effect on the FS.

C. Performance Materiality – (i) It means the amount or amounts set by the auditor **at less than materiality for the FS as a whole** to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the FS as a whole. (ii) If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels **for particular classes of transactions**, account balances or disclosures.

D. Requirements -

i) Determining Materiality and Performance Materiality when Planning the Audit –

- a. When establishing the overall audit strategy, the auditor shall determine **materiality for the FS as a whole**.
- b. If, there is **one or more particular item** for which misstatements of **lesser amounts** than the materiality for the FS as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the FS, the auditor shall also determine the **materiality level** or levels to be applied to those particular items.
- c. 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.

ii) Revision as the Audit Progresses –

- a. The auditor shall **revise materiality** for the FS as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.
- b. If the auditor concludes that a **lower materiality** for the FS as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to **revise performance materiality**, and whether the nature, timing and extent of the further audit procedures remain appropriate.

iii) Documentation - The audit documentation shall include the following amounts and the **factors** considered in their determination:

- a. **Materiality** for the FS as a **whole**;
- b. If applicable, the **materiality level** or levels for **particular classes** of transactions, account balances or disclosures;
- c. **Performance materiality**; and
- d. Any **revision** of (a)-(c) as the audit progressed.

SA 330 - THE AUDITOR'S RESPONSE TO ASSESSED RISKS

A. Objective - 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.

B. Definitions -

i) Substantive Procedure - An audit procedure **designed to detect material misstatements** at the assertion level. Substantive procedures comprise:

- a.** Tests of details (of classes of transactions, account balances, and disclosures), and
- b.** Substantive analytical procedures.

ii) 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.

C. Requirements -

i) Overall Responses - The auditor shall **design and implement** overall responses to address the assessed risks of material misstatement at the FS level.

ii) Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level -

a. Further Audit Procedures - The auditor shall **design and perform** further audit procedures whose nature, timing & extent are based on and are responsive to the assessed risks of material misstatement at the assertion level, in designing the further audit procedures to be performed. The auditor shall:

- **Consider** the likelihood of material misstatement due to the particular characteristics of relevant **class of transactions**, account balance, or disclosure (i.e., the inherent risk); and whether the risk assessment takes into account the relevant controls (i.e., the control risk)
- **Obtain more persuasive audit evidence**, the higher the auditor's assessment of risk.

b. Tests of Controls - The auditor shall design and perform tests of controls when:

- He expects that the controls are **operating** effectively, or,
- **Substantive procedures alone cannot provide** sufficient appropriate **audit evidence** at the assertion level.

c. Timing of Tests of Controls - The auditor shall test controls for the particular time, or throughout the period.

d. Using Audit Evidence Obtained During an Interim Period - When the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall:

- Consider **significant changes** to those controls; and
- Determine the **additional audit evidence** to be obtained for the remaining period.

e. Using Audit Evidence Obtained In Previous Audits - He shall establish the continuing relevance of that evidence by obtaining audit evidence about whether **significant changes in those controls** have occurred subsequent to the previous audit.

- If there have been changes, the auditor shall **test the controls** in the current audit.
- If there have **not** been such changes, the auditor shall **test the controls at least once in every third audit**, and shall **test some controls each audit**.

f. Controls Over Significant Risks - When the auditor plans to rely on controls over a significant risk, the auditor shall **test** those controls in the current period.

g. Evaluating the Operating Effectiveness of Controls - Auditor should consider whether **misstatements** that have been detected **indicate** that **controls** are **not operating** effectively. Even if there are no identified misstatements, controls may not be effective. The auditor shall **communicate** material weaknesses in internal control identified during the audit on a timely basis to management at an appropriate level and TCWG.

h. Substantive Procedures - 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.

Substantive Procedures Related to the FS Closing Process - The auditor's substantive procedures shall include:

- Agreeing or **reconciling** the FS with the underlying accounting records;
- **Examining material journal entries** and other adjustments made during the course of preparing the FS.

Substantive Procedures Responsive to Significant Risks - When the auditor has determined a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk.

Timing of Substantive Procedures - When substantive procedures are performed at an interim date, the auditor shall cover the remaining period.

iii) Adequacy of Presentation and Disclosure - The auditor shall perform audit procedures to evaluate whether the overall presentation of the FS, including the related disclosures, is in accordance with the **applicable FRF**.

iv) Evaluating the Sufficiency and Appropriateness of Audit Evidence - The auditor shall conclude whether sufficient appropriate audit evidence has been obtained, in forming an opinion, the auditor shall consider all relevant audit evidence. If the auditor has **not obtained** sufficient appropriate audit evidence as to a material FS assertion, try to obtain **further audit evidence**. If the auditor is **unable** to obtain sufficient appropriate audit evidence, the auditor shall express a **qualified opinion or a disclaimer of opinion**.

v) Documentation - The auditor shall document:

- a.** The overall responses to **address assessed risks** of material misstatement at FS level;
- b.** The **linkage** of those procedures with the **assessed risks** at the assertion level; and
- c. Results** of the audit procedures.

If he uses audit evidence about the operating effectiveness of controls obtained in **previous audits**, the auditor shall **document the conclusions** reached about relying on such controls that were tested in a previous audit. The auditors' documentation shall demonstrate that the FS **agree or reconcile** with the underlying accounting records.

SA 402 - AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANISATION

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

- i)** 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
- ii)** To design and perform audit procedures responsive to those risks.

B. Definitions -

i) Complementary User Entity Controls - Controls that the service organisation assumes, in the design of its service, will be implemented by user entities.

ii) Report On The Description And Design Of Controls At A Service Organisation (Referred to in this SA as a Type 1 Report) - A report that comprises:

- a.** A **description, prepared by management** of the service organisation, of the service organisation's system, control objectives and related controls that have been designed and

implemented as at a specified date; and

b. A report by the service auditor with the objective of conveying reasonable assurance that includes the **service auditor's opinion** on the description of the service organisation's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.

iii) Report On The Description, Design, And Operating Effectiveness Of Controls At A Service Organisation (Referred to in this SA as a Type 2 Report) - A report that comprises:

a. A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and

b. A report by service auditor with objective of conveying reasonable assurance includes:

- The service **auditor's opinion** on the description of the service organisation's system, control objectives and related controls, the suitability of design of controls to achieve the specified control objectives, and the operating effectiveness of the controls; and
- A **description** of the service **auditor's tests of the controls** and the **results** thereof.

iv) Service Auditor - An **auditor** who, at the request of the service organisation, provides an assurance report on the controls **of a service organisation**.

v) Service Organisation - 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.

vi) Subservice Organisation - A service organisation used by another service organisation to perform some of the services provided to user entities.

vii) User Auditor - An **auditor** who audits and reports on the FS of a **user entity**.

E. Requirements -

i) Obtaining an Understanding of the Services Provided by a Service Organisation, including IC - When obtaining an understanding of the user entity in accordance with SA 315, 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 services to the user entity.

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.

The user auditor shall **evaluate** the design and implementation of **relevant controls at the user entity** that relate to the services provided by the service organisation. 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, 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 procedures**:

a. Obtaining a Type 1 or Type 2 report, if available;

b. Contacting the service org through the user entity to obtain specific information;

c. Visiting the service org and performing procedures; or

d. Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.

Using a Type 1 or Type 2 Report to Support the User Auditor's Understanding of the Service Organisation - In determining the sufficiency and appropriateness of the audit evidence provided by Type 1 or Type 2 report, the user auditor shall be satisfied as to:

- a.** The service auditor's **professional competence** (except where the service auditor is a member of the ICAI) and independence from the service organisation; and
- b.** The **adequacy of the standards** under which the Type 1 or Type 2 report was issued

ii) Responding to the Assessed Risks of Material Misstatement - In responding to assessed risks in accordance with SA 330, the user auditor shall:

- a.** Determine whether sufficient appropriate **audit evidence** concerning the relevant FS assertions is available from **records** held at the user entity; and, if not,
- b.** Perform **further audit procedures** to obtain sufficient appropriate audit evidence or use another auditor to perform those procedures at the service organisation on the user auditor's behalf.

Tests of Controls - 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 from one or more of the following procedures:

- a. Obtaining a Type 2 report**, if available;
- b. Performing** appropriate **tests of controls** at the service organisation; or
- c. Using another auditor** to perform tests of controls at the service organisation on behalf of the user auditor.

iii) Type 1 and Type 2 Reports that Exclude the Services of a Subservice Organisation - If user auditor **plans to use** a Type 1 or a Type 2 **report** that **excludes** the services provided by a subservice organisation and those services are **relevant** to the audit of the user entity's FS, the user auditor **shall apply the requirements of this SA** with respect to the services provided by the subservice organisation also.

iv) Fraud, Non- Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation - The user auditor shall **inquire of management of the user entity** whether the service organisation has reported to the user entity, or whether the user entity is otherwise aware of, any fraud, noncompliance with laws and regulations or uncorrected misstatements affecting the FS of the user entity. The user auditor shall **evaluate** how such matters affect the nature, timing and extent of the **user auditor's further audit procedures**, including the **effect** on the user auditor's conclusions and user auditor's report.

v) Reporting by the User Auditor - The user auditor shall **modify the opinion** in user auditor's report, if user auditor is **unable to obtain** sufficient appropriate audit evidence regarding the services provided by the service organisation. The user auditor shall **not refer to the work of a service auditor** in user auditor's report containing an unmodified opinion. 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.

SA 450 - EVALUATION OF MIS-STATEMENTS IDENTIFIED DURING THE AUDIT

A. Objective - The objective of the auditor is to evaluate:

- i) The effect of identified misstatements on the audit; and
- ii) The effect of uncorrected misstatements, if any, on the FS.

B. i) Uncorrected Misstatements - Misstatements that the auditor has accumulated during the audit and that have not been corrected.

ii) Misstatements may result from:

- a. An inaccuracy in gathering or processing data from which the FS are prepared.
- b. An omission of an amount of disclosure
- c. An incorrect accounting estimate arising from overlooking or clear misinterpretation of facts and
- d. Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.

C. Requirements -

i) Accumulation of Identified Misstatements - The auditor shall **accumulate** misstatements identified during the audit, **other than** those that are **clearly trivial**.

ii) Consideration of Identified Misstatements as the Audit Progresses - 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**. If, at the auditor's request, 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 determine whether misstatements remain.

iii) Communication and Correction of Misstatements - 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. 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.

iv) Evaluating the Effect of Uncorrected Misstatements - Prior to evaluating the effect of uncorrected misstatements, the auditor shall **reassess materiality** determined in accordance with SA 320 (Revised) to confirm whether it remains appropriate in the context of the entity's actual financial results. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

- a. The **size and nature** of the misstatements and the FS as a whole; and
- b. The **effect** of uncorrected misstatements related to prior periods on the relevant and the FS as a whole.

Communication with Those Charged with Governance - 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 or regulation. The auditor's communication shall **identify** material uncorrected misstatements **individually**. The auditor shall request that uncorrected misstatements be corrected. The auditor shall also **communicate** with those charged with

governance the **effect** of uncorrected misstatements related to prior periods.

vi) Written Representation - 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 FS as a whole. A **summary** of such items shall be included in or attached to the written representation.

vi) Documentation - The audit documentation shall include:

- a. The **amount below which** misstatements would be regarded as clearly trivial.
- b. **All** misstatements **accumulated** during the audit & whether they have been corrected;
- c. The auditor's **conclusion** as to whether uncorrected misstatements are **material**, individually or in aggregate and the basis for that conclusion

SA 500 - AUDIT EVIDENCE

A. Objective - 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 reasonable conclusions on which to base the auditor's opinion.

B. Definitions -

i) Appropriateness (Of Audit Evidence) - The measure of the **quality** of audit evidence; i.e., its relevance & its reliability in providing support for conclusions on which auditor's opinion is based.

ii) 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 FS.

iii) Sufficiency (Of Audit Evidence) - The measure of the **quantity** of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

C. Requirements -

i) Sufficient Appropriate Audit Evidence - The auditor shall design and perform audit procedures that are **appropriate in the circumstances** for the purpose of obtaining sufficient appropriate audit evidence.

a. Audit procedures for obtaining Audit Evidence - As required by SA 315 & SA 330 audit evidence to **draw reasonable conclusions** on which to base the auditor's opinion is obtained by performing:

- **Risk Assessment Procedures; and**

- **Further audit procedures**, which comprise of test of controls & substantive procedures including tests of details and substantive analytical procedure.

b. Inspection - Inspection consists of **examining records**, documents or tangible assets. Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media. An **example** of inspection used as a test of controls is inspection of records for evidence of authorisation. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets.

c. Observation - Observation consists of **witnessing a process** or procedure being performed by others. For **example**, the auditor may observe the counting of inventories being performed by client's personnel.

d. Inquiry and Confirmation - "**Inquiry**" consists of seeking appropriate information from knowledgeable persons inside or outside the entity. "**Confirmation**" consists of the response to an inquiry. For **example**, the auditor requests confirmation of receivables by

direct communication with debtors.

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

f. Analytical Procedures - Analytical Procedures refers to **studying significant ratios** and trends and investigating unusual fluctuations.

g. Reperformance - Reperformance involves auditor's independent **execution of procedures** or controls that were originally performed as part of entity's internal control.

ii) Information to be used as Audit Evidence -

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

b. The **reliability** of audit evidence is **increased** when it is obtained from independent sources outside the entity.

c. The reliability of audit evidence that is **generated internally** is increased when the related **controls are effective**. Audit evidence **obtained directly** by the auditor is **more reliable** than audit evidence obtained indirectly.

d. Audit evidence in **documentary form**, whether paper, electronic, or other medium, is **more reliable** than evidence obtained orally.

e. Audit evidence provided by **original documents** is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

f. When information to be used as audit evidence has been prepared using the work of a **management's expert**, the auditor shall:

- **Evaluate** the **competence**, capabilities and objectivity of that expert;
 - Obtain an **understanding of the work** of that expert; and
 - **Evaluate appropriateness** of that expert's work as audit evidence for relevant assertion.
- g.** When using information **produced by the entity**, the auditor shall **evaluate** whether the information is sufficiently **reliable** for the auditor's purposes.

iii) Selecting Items for Testing to Obtain Audit Evidence - When designing tests of controls and tests of details, the auditor shall determine **means of selecting items for testing** that are **effective** in meeting the purpose of the audit procedure.

iv) Inconsistency in, or Doubts over Reliability of Audit Evidence - If,

a. audit evidence obtained from one source is **inconsistent** with that from another;

b. Auditor has **doubts over the reliability** of information to be used as audit evidence. Auditor shall **determine what modifications** to audit procedures are **necessary** to resolve the matter, and shall consider **effect** of matter, if any on other aspects of the audit.

SA 501 - AUDIT EVIDENCE - SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

A. Objective - To obtain sufficient appropriate audit evidence regarding the:

i) Existence and condition of inventory

ii) Completeness of litigation and claims involving the entity; and

iii) Presentation & disclosure of segment information in accordance with applicable FRF.

B. Requirements -

i) Inventory -

a. Sufficient Appropriate Evidence - When inventory is material, he shall obtain sufficient appropriate **evidence w.r.t. existence and condition** of inventory by attendance at physical count & examining entities final inventory records & comparing them

with actual count result evaluate IC, Observe management, count procedure, Inspect inventory, and Perform test count.

b. Inventory Counting Conducted At Date Other Than B/S Date - He shall perform **additional procedure w.r.t. changes** in inventory between count date & B/S date.

c. Auditor Unable To Attend Inventory Count Due To Unforeseen Circumstances - He shall make some **count on alternate date** and perform procedures on intervening transactions.

d. Attendance At Inventory Count Is Impracticable - He shall perform **alternate procedures**. If it is not possible, then **modify the audit report**.

e. Inventory Under Control Of A Third Party - Obtain evidences by performing one or more of following:

- Request **confirmation** from third party.
- Obtaining **service auditor's report** w.r.t. adequacy of procedures of third party.
- Attending / arranging **another auditor** to attend third party's counting procedure.
- **Inspecting documentation** (Example - warehouse receipts).
- **Request confirmation** from parties when inventory has been pledged as collateral.

ii) Litigation and Claims

a. Identify Litigation and Claims - Perform procedures to Identify litigation & claims by **Inquiring management** & others. **Reviewing minutes** of meetings of TCWG and correspondence with **legal counsel** & reviewing legal expense account.

b. Risk Of Misstatement w.r.t Litigation & Claims - If Risk is identified then, seek communication with **entity's external legal counsel**. If law, regulation etc. prohibits such direct communication & then perform **alternate procedures**.

c. Written Representation (WR) - Auditor shall request WR from management and TCWG that **all know litigation** & claims affecting FS have been **disclosed to auditor** and appropriately accounted for.

d. Modify the opinion - If management does **not permit auditor to communicate with legal counsel** or Legal counsel **refuses** to respond and auditor is unable to obtain sufficient appropriate evidence then modify opinion.

iii) Segment Information

a. Sufficient Appropriate Evidences - w.r.t. presentation and disclosure of segment information as per applicable FRF

b. Audit procedures - He should **understand the methods used** by management and evaluate their consistency with applicable FRF. perform **analytical procedures** appropriate in circumstances.

SA 505 - EXTERNAL CONFIRMATIONS

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

B. Definitions

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

ii) Positive Confirmation Request - A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing requested information.

iii) Negative Confirmation Request - A request that the confirming party respond directly to the auditor only if confirming party disagrees with the information provided in the request.

iv) Exception - A response that indicates a difference between information requested to be

confirmed, or contained in the entity's records, and information provided by the confirming party.

C. Requirements -

i) External Confirmation Procedures - He shall maintain control over external confirmation requests including following:

- a. Determining the information to be confirmed,
- b. Selecting the appropriate third party,
- c. Designing the confirmation requests (Properly addressed also),
- d. Sending the request including follow-up requests if required.

ii) Management Refusal to Allow The Auditor To Send A Confirmation Request

In such case, he shall

- a. Inquire management's **reasons** for refusal and assess their validity,
- b. **Evaluate** the possibility of **risk** of material misstatement and
- c. Perform **alternative procedures**.

If the auditor concludes that:

- a. If management's refusal is **unreasonable**, or
- b. Auditor is **unable to perform** alternate procedures.

Then he shall **communicate** with TCWG and consider **effect** on his report.

iii) Results of the External Confirmation Procedures

a. Reliability Of Response to Confirmation Requests - If he has doubts about reliability of response, he shall obtain **further evidences** to resolve doubts. If response is found to be **unreliable**, it may indicate fraud risk factor. He shall consider its **effect** on Nature, Timing and Extent of other procedures.

b. Non Responses - In the case of each non-response, the auditor shall perform **alternative audit procedures** to obtain relevant and reliable audit evidence.

c. When a Response to a Positive Confirmation Request is Necessary to Obtain Sufficient Appropriate Audit Evidence - If the auditor has determined that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does **not obtain such confirmation**, the auditor shall determine the **implications** for the audit and the auditor's **opinion** in accordance with **SA 705**

d. Exceptions - The auditor shall **investigate** exceptions to determine whether or not they are indicative of misstatements.

iv) Negative Confirmation Requests - It asks the third party to respond directly to the auditor only if there is disagreement with the information provided in the request. It is considered to be less persuasive than the positive confirmation request. Auditor should **use** them **only if all of following are present:**

- a. **Risk** of misstatement is **low**
- b. **IC** is effective
- c. Item contains **small amount**
- d. **Low exception rate** is expected
- e. **No reason to believe** that recipient may disregard the request.

v) Evaluating the Evidence Obtained - 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.

SA 510 - INITIAL AUDIT ENGAGEMENTS- OPENING BALANCES

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

- i)** Opening balances contain misstatements that materially affect the current period's FSs;
- ii)** Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's FSs, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable FRF.

B. Definition -

i) Initial Audit Engagement - An engagement in which either:

- a.** The FSs for the prior period were **not audited**; or
- b.** The FSs for the prior period were **audited by a predecessor auditor**.

C. Requirements -

i) Audit Procedures -

a. Opening Balances - The auditor shall **read the most recent FSs**, if any, and the predecessor **auditor's report** thereon, if any, for information relevant to opening balances, including disclosures. The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances **contain misstatements** that materially affect the current period's FSs by:

- 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 year's Statement of Profit and Loss;
- Determining whether the opening balances reflect the application of appropriate **accounting policies**; and
- Performing one or more of the following:
 - ~ Where the prior year FSs were audited, perusing the **copies of the audited FSs**.
 - ~ **Evaluating** whether audit **procedures** performed in the current period provide evidence relevant to the opening balances; or
 - ~ Performing **specific audit procedures** to obtain evidence regarding opening balances.

If the auditor obtains audit evidence that the opening balances contain misstatements that could **materially affect** the current period's FSs, the auditor shall perform such **additional audit procedures** as are appropriate in the circumstances to determine the effect on the current period's FSs. If the auditor concludes that such misstatements exist in the current period's FSs, the auditor shall **communicate the misstatements** with the appropriate level of management and those charged with governance in accordance with **SA 450**.

b. Consistency of Accounting Policies - The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been **consistently applied** in the current period's FSs, and whether **changes** in the **accounting policies** have been properly accounted for and adequately presented and **disclosed** in accordance with the applicable FRF.

c. Relevant Information in the Predecessor Auditor's Report - If the prior period's FS 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 FSs in accordance with SA 315.

ii) Audit Conclusions and Reporting

a. Opening Balances - • 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**. • If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's FSs, 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**.

b. Consistency of Accounting Policies - If the auditor concludes that the current period's accounting policies are **not consistently applied** in relation to opening balances in accordance with the applicable FRF. A **change in accounting policies** is not properly accounted for or not adequately presented or disclosed in accordance with the applicable FRF. The auditor shall express a **qualified opinion or an adverse opinion**.

c. Modification to the Opinion in the Predecessor Auditor's Report - If the predecessor auditor's opinion regarding the prior period's FSs included a modification to the auditor's opinion that **remains relevant and material** to the **current period's FSs**, the auditor shall **modify** the auditor's opinion on the current period's FSs.

SA 520 - ANALYTICAL PROCEDURES

A. Objective - The objectives of the auditor are:

- i) To obtain relevant & reliable audit evidence when using substantive analytical procedures; and
- ii) 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 FS are consistent with the auditors understanding of the entity.

B. Analytical Procedures - It means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

Nature of Analytical Procedures - It includes **comparison with**:

- i) Comparable information for **prior periods**.
- ii) **Anticipated results** like budgets or forecasts.
- iii) Similar **industry** information.
- iv) **Predictive estimates** prepared by the auditor.

C. Requirements -

i) Substantive Analytical Procedures (SAP) - When using substantive analytical procedures, he shall consider the **following four factors**:

a. Suitability of Particular SAP - He should **determine suitability** of SAP for a particular item. These are generally adopted for those transactions that tend to be predictable over time for **example**, it can be used to compare gross profit ratio in a stable entity. However, such comparisons may not be performed for PSU.

b. Reliability Of Data To Be Compared - It is influenced by the following:

- **Source** of information available (more reliable if obtained from some independent source)
- **Comparability** of information available (Entities should be comparable)
- **Relevance** of the information available (budgets should be realistic)
- **Control** over Preparation of information (if last year's FS are audited)

c. Development of Expectations - He shall develop an expectation of recorded values. Their expectations should be sufficiently **precise** so that misstatement can be identified.

d. Difference of Recorded Amount from Expected Values That Is Acceptable - SA 330 requires auditor to **obtain more persuasive evidence** if he identifies high risk. Thus, for risky items, acceptable differences should be low. If difference is more than acceptable difference, he shall **further investigate** to rule out the possibility of misstatement.

ii) Analytical Procedures That Assist When Forming Overall Conclusion - He shall design and perform analytical procedures **near the end of audit**. This way he can conclude whether FS are **consistent with his understanding** of entity. Thus, it helps him in forming opinion on FS.

iii) Investigating Results of Analytical Procedures - If he identifies **fluctuations** or a significant difference between recorded & expected values, he shall **investigate by inquiring of management** and thereafter **obtaining evidences** to corroborate the same, & performing other procedures as necessary in the circumstances.

SA 530 - AUDIT SAMPLING

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

B. Definitions -

i) Audit Sampling (Sampling) - The application of audit procedures to **less than 100% of items** within a population such that all sampling units have a chance of selection in order to draw conclusions about the entire population.

ii) Population - The **entire set of data** from which a sample is selected and about which the auditor wishes to draw conclusions.

iii) 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. Sampling risk can lead to **two types of erroneous conclusions**:

a. in the case of a test of controls, that controls are **more effective** than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

b. In the case of a test of controls, that controls are **less effective** than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

iv) Non-Sampling Risk - The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

v) Anomaly - A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

vi) Sampling Unit - The individual items constituting a population.

vii) Statistical Sampling - An approach to sampling that has the following characteristics:

a. Random selection of the sample items; and

b. The **use of probability theory** to evaluate sample results, including measurement of sampling risk. A sampling approach that does not have characteristics (a) or (b) is considered non-statistical sampling

viii) 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).

ix) 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 is not exceeded by the actual misstatement in the population.

x) Tolerable Rate of Deviation - A **rate of deviation** from prescribed IC 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.

C. Requirements -

i) Sample Design, Size and Selection of Items for Testing - The auditor shall **determine a sample size** sufficient to reduce sampling risk to an acceptably low level. The auditor shall select items for the sample in such a way that each sampling unit in the

population has a chance of selection.

ii) Performing Audit Procedures - The auditor shall perform audit procedures, appropriate to the purpose, on each item selected. If the auditor is **unable to apply** the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall **treat that item as a deviation or a misstatement**.

iii) Nature and Cause of Deviations and Misstatements - The auditor shall **investigate** the **nature and cause** of any deviations or misstatements identified, and **evaluates** their possible **effect** 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.

iv) Projecting Misstatements - For tests of details, the auditor shall project misstatements found in the sample to the population.

v) Evaluating Results of Audit Sampling - The auditor shall evaluate the results of the sample and whether the use of audit sampling has provided a **reasonable basis** for conclusions about the **population** that has been **tested**.

D. Examples of Factors Influencing Sample Size For Test of Control -

FACTOR	EFFECT ON SAMPLE SIZE
An increase in number of sampling units in the population	Negligible effect
An increase in the extent to which the auditor's risk assessment taken into account relevant controls	Increases
An increase in tolerable rate of deviation	Decreases
An increase in expected rate of deviation of the population to be tested	Increases

E. Examples of Factors Influencing Sample Size For Test of Details -

FACTOR	EFFECT ON SAMPLE SIZE
An increase in tolerable mis-statement	Decreases
An increase in amount of mis-statement, the auditor expects to find in the population	Increases
An increase in auditor's assessment of risk of material mis-statement	Increases
Stratification of the population when appropriate	Decreases
An increase in the use of other substantive procedures directed at the same assertion	Decreases

F. Sample Selection Method - There are many methods of selecting samples. The principle method are as follows-

i) Random Selection (applied through random number generators. e.g., random numbers.

ii) Systematic Selection - in which the number of **sampling units** in the population is **divided by the sample size** to give a sampling interval, for e.g. 50 and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerized random number table.

iii) Monetary Units Sampling - monetary unit sampling is a type of value weighted selection in which sample size, selection and evaluation results in a conclusion in **monetary amounts**.

iv) Haphazard selection - in which the auditor selects the sample without following a structured technique. Although **no structured technique** is used the auditor would none the less avoid any conscious, bias or predictability and thus attempt to ensure that all items in the population have a chance of selection is not appropriate when using statistical sampling.

v) Block Selection - It involves selection of a **block of contiguous items** from within the population. It **cannot ordinarily be used** in audit sampling because most population are structured such that items in a sequence can be expected to have similar characteristics to each other, but **different characteristics** from items elsewhere in the population.

SA 540 – AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES, & RELATED DISCLOSURES

A. Objectives - To obtain sufficient appropriate audit evidence whether accounting estimates, including fair value accounting estimates are reasonable; and related disclosures in the FS are adequate.

B. Definitions -

i) 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.

ii) Auditor's Point Estimate or Auditor's Range - The amount, respectively, derived from audit evidence for use in evaluating management's point estimate.

iii) Estimation Uncertainty - The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.

iv) Management Bias - A lack of neutrality by management.

v) Management's Point Estimate - The amount selected by management for recognition or disclosure in the FSs as an accounting estimate.

vi) Outcome of an Accounting Estimate - The actual monetary amount which results from the resolution of the underlying transaction(s) and event(s).

C. Nature of Accounting Estimates - Some FS items cannot be measured precisely, but can **only be estimated**. For purposes of this SA, such FS items are referred to as accounting estimates. The degree of estimation uncertainty affects the risks of material misstatement of accounting estimates. A difference between the outcome of an accounting estimate and the amount originally recognized in the FSs does **not necessarily** represent a **misstatement** of the FSs. This is particularly the **case for fair value accounting estimates**.

D. Requirements -

i) Risk Assessment Procedures and Related Activities - Auditor shall obtain an understanding of the following in order to identify and assess the risks of material misstatement for accounting estimates:

a. The **requirements** of the applicable financial reporting framework.

b. How **management identifies** those transactions, events and conditions that may give rise to the need for accounting estimates.

c. How management makes **accounting estimates** (methods, assumptions, use of expert)

d. Auditor shall **review** the outcome of accounting estimates included in the prior period FS.

ii) Identifying and Assessing the Risks of Material Misstatement - In identifying and assessing risks of material misstatement, as required by SA 315, auditor shall **evaluate** the **degree of estimation uncertainty** associated with an accounting estimate. The auditor

shall determine whether, in the auditor's judgment, any of those accounting estimates that have been identified as having **high estimation uncertainty** give rise to significant risks.

iii) Responses to the Assessed Risks of Material Misstatements - Based on the assessed risks of material misstatement, the auditor shall determine:

- a. Whether management has **appropriately applied** the applicable FRF.
- b. Whether the **methods are appropriate** and have been applied **consistently**,

iv) Further Substantive Procedures to Respond to Significant Risks -

a. Estimation Uncertainty - For accounting estimates that give rise to significant risks, the auditor shall **evaluate** the following:

- **How management** has considered alternative assumptions or outcomes, and why it has rejected them.
- Whether the **significant assumptions** used by management are reasonable.
- If, in the **auditor's judgment**, management has not adequately addressed the effects of estimation uncertainty, the auditor shall **evaluate** the reasonableness of accounting estimate.

b. Recognition and Measurement Criteria - For accounting estimates that give rise to significant risks, the auditor shall obtain sufficient appropriate audit evidence whether the following are in accordance with the requirements of the applicable financial reporting framework:

- **Management's decision** to recognise/not recognise, the accounting estimates in the FS;
- The **selected measurement basis** for the accounting estimates.

v) Evaluating the Reasonableness of the Accounting Estimates, and Determining Misstatements - The auditor shall **evaluate**, based on the audit evidence, whether the accounting estimates in the FS are either **reasonable** in the context of the applicable financial reporting framework, or are misstated.

vi) Disclosures Related to Accounting Estimates - The auditor shall **obtain** sufficient appropriate audit **evidence** about whether the accounting estimates and their disclosure in the FSs is appropriate. For accounting estimates that give rise to significant risks, the auditor shall **check adequacy of the disclosure** of their estimation uncertainty in the FSs.

vii) Indicators of Possible Management Bias - The auditor shall **review** the judgments and decisions made by management.

viii) Written Representations - The auditor shall **obtain** written representations from management whether management **believes significant assumptions** used by it in making accounting estimates are reasonable.

ix) Documentation - The audit documentation shall include:

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

SA 550 - RELATED PARTIES

A. Objective - The objectives of the auditor are:

i) Irrespective of whether the applicable Financial Reporting Framework (FRF.) establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:

- a. To **recognise fraud risk factors**, if any, arising from related party relationships and

transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and

b. To **conclude** whether the **FS**, insofar as they are **affected by those relationships** and transactions achieve a true and fair presentation; or are not misleading; and

ii) In addition, where the applicable FRF. establishes related party requirements, to obtain sufficient appropriate audit evidence about whether **related party relationships** and **transactions** have been appropriately **identified, accounted for and disclosed** in the FS in accordance with the framework.

B. Definitions –

i) Arm's Length Transaction - A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.

ii) Related Party – A party that is either:

a. A related party as defined in the **applicable FRF.**, or

b. Where the applicable FRF. establishes minimal or no related party requirements:

- A **person** or other **entity** that has **control or significant influence**, directly or indirectly through one or more intermediaries, over the reporting entity;
- **Another entity** over which the reporting entity has **control or 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;
 - ~ Owners who are close family members; or
 - ~ Common key management.

However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another

C. Nature of Related Party Relationships and Transactions –

i) The nature of related party, relationships and transactions may, in some circumstances, **give rise to higher risks of material misstatement** of the FS than transactions with unrelated parties. **For example** - Related party transactions may not be conducted under normal market terms and conditions; Some related party transactions may be conducted with no exchange of consideration.

ii) Planning and performing the audit with professional skepticism is therefore particularly important in this context, given the potential for undisclosed related party relationships and transactions.

iii) The requirements in this SA are designed to **assist the auditor in identifying and assessing the risks of material misstatement** associated with related party relationships and transactions, and in designing audit procedures to respond to the assessed risks.

D. Requirements –

i) Risk Assessment Procedures and Related Activities –

a. Understanding the Entity's Related Party Relationships and Transactions - The auditor shall **inquire** of management regarding:

- The **identity** of the entity's related parties, including changes from the prior period;
- The **nature of the relationships** between the entity and these related parties; and
- Whether the entity entered into any **transactions** with these related parties during the period and, if so, the type and purpose of the transactions.

The auditor shall **inquire of management and others** within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to:

~ **Identify**, account for, and **disclose related party relationships and transactions** in accordance with the applicable FRF.;

~ **Authorise and approve** significant transactions and arrangements **with related parties**; and

~ Authorize and approve significant transactions and arrangements **outside the normal course** of business.

b. Maintaining Alertness for Related Party Information When Reviewing Records or Documents - 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. If the auditor identifies significant transactions outside the entity's normal course of business the auditor shall inquire of management about:

- The **nature** of these transactions; and
- Whether **related parties** could be involved.

c. Sharing Related Party Information with the Engagement Team - The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.

ii) Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions - The auditor shall identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are **significant risks**. If the auditor identifies **fraud risk factors** the auditor shall consider such information when identifying and assessing the risks of material misstatement due to fraud in accordance with SA 240.

iii) Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions -

a. Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions - If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

- Promptly **communicate** the relevant information to other members of engagement team;
- Where the **applicable FRF** establishes related party requirements:
 - ~ **Request management to identify** all transactions with the newly identified related parties for the auditor's further evaluation; and
 - ~ **Inquire as to why** the entity's controls over related party relationships and transactions **failed** to enable the identification or disclosure of the related party relationships or transactions;
- Perform appropriate **substantive audit procedures** relating to such newly identified related parties or significant related party transactions;
- **Reconsider** the **risk that other related parties** or significant related party transactions may **exist** that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
- If **non-disclosure** by management appears **intentional** evaluate implications for audit.

b. Identified Significant Related Party Transactions outside the Entity's Normal Course of Business - For identified significant related party transactions outside the entity's normal course of business, the auditor shall:

- **Inspect** the underlying contracts or agreements, if any, and **evaluate** whether:
 - ~ The **business rationale** (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;
 - ~ The **terms of the transactions** are consistent with management's explanations; and
 - ~ The transactions have been **appropriately accounted** for and **disclosed** in accordance

with the applicable FRF; and

- **Obtain audit evidence** that transactions have been appropriately authorised & approved.

c. Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction - When management has made an assertion in the FS to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an **arm's length transaction**, the auditor shall obtain **sufficient appropriate audit evidence** about the assertion.

iv) Evaluation of the Accounting for and Disclosure of Identified Related Party Relationships and Transactions - In forming an opinion on the FS auditor shall evaluate:

- a. Whether the identified related party relationships and transactions have been **appropriately accounted** for and **disclosed** in accordance with the applicable FRF.; and
- b. Whether **the effects** of the related party relationships and transactions:
 - **Prevent the FS** from achieving true and fair presentation; or
 - **Cause the FS** to be **misleading**.

Where the applicable FRF establishes related party requirements, the auditor shall obtain written representations from management and, where appropriate, those charged with governance (TCWG).

v) Written Representations

- a. They have **disclosed to the auditor** the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
- b. They have **appropriately accounted** for and disclosed such relationships and transactions in accordance with the requirements of the framework.

vi) Communication with TCWG - Unless all of TCWG are involved in managing the entity, the auditor shall communicate with TCWG **significant matters** arising during the audit in connection with the entity's related parties.

vii) Documentation - In meeting the documentation requirements of SA 230 and other SAs, the auditor shall include in the audit documentation the **names** of the identified related parties and the **nature of the related party relationships**.

SA 560 - SUBSEQUENT EVENTS

A. Objective - The objectives of the auditor are to:

- i) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the FS and the date of the auditor's report that require adjustment of, or disclosure in, the FS are appropriately reflected in those FS; and
- ii) 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.

B. Definitions -

i) Date of the FS - The date of the end of the latest period covered by the FS.

ii) Date of approval of the FS - The date on which the FS have been prepared & those with the recognized authority have asserted that they have taken responsibility for those FS.

iii) Date of the auditor's report - The date the auditor dates the report on the FS.

iv) Date the FS are issued - The date that the auditor's report and audited FS are made available to third parties.

v) Subsequent events - Events occurring between the date of FS and the date of auditor's

report, and facts that become known to the auditor after the date of the auditor's report.

C. Requirements -

i) Events Occurring Between the Date of the FS and the Date of the Auditor's Report - The auditor shall obtain sufficient appropriate audit evidence that all events occurring between the date of the FS and the date of the auditor's report that require **adjustment** of, or **disclosure** in, the FS have been **identified**.

The auditor shall:

a. Obtain an understanding of any procedures management has established to ensure that subsequent events are identified.

b. Inquiring of management and TCWG.

c. Read minutes, if any, of the meetings, of the entity's owners, management and TCWG, that have been held after the date of the FS.

d. Read the entity's latest subsequent interim FS, if any. If auditor identifies events that require adjustment of, or disclosure in, the FS, the auditor shall determine whether each such event is appropriately reflected in those FS.

Written Representations - Auditor shall request management to provide **Management Representation Letter** that **all** events occurring subsequent to the date of FS & for which the applicable FRF. requires adjustment or disclosure have been **adjusted or disclosed**.

ii) Facts which become known to the Auditor after the Date of the Auditor's Report but Before the Date the FS are Issued - The auditor has no obligation to perform any

audit procedures regarding the FS after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the FS 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 management and TCWG

b. Determine whether the FS need **amendment** and, if so,

c. Inquire how management intends to **address the matter** in the FS. If management **amends the FS**, the auditor shall:

- **Extend the audit procedures** referred to the date of the new auditor's report; and

- Provide a **new auditor's report** on the amended FS.

When law, regulation or the FRF does not prohibit management from restricting the amendment of the FS to the effects of the subsequent events, the auditor is permitted, to restrict the audit procedures on subsequent events to that amendment.

In such cases, the auditor shall either:

a. Amend the auditor's report to include an additional date restricted to that amendment; **or b. Provide a new or amended auditor's report** that includes a statement in an **Emphasis of Matter paragraph or Other Matter(s) paragraph** that conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the FS as described in the relevant note to the FS. In some entities, management may not be required by the applicable law, regulation or the FRF. to issue amended FS and, accordingly, the auditor need not provide an amended or new auditor's report. However, when management does **not amend** the FS in circumstances where the auditor believes they **need to be amended**, then

a. If auditor's report has not yet been provided to entity, He shall **modify** the **opinion**; **or**

b. If auditor's report has **already** been **provided** to entity, He shall **notify** management & TCWG **not to issue** the FS to third parties before necessary amendments have been made. If the FS are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate **action**, to seek to prevent reliance on the auditor's report.

iii) Facts which become known to the Auditor after the FS have been issued - After the FS has been issued, the auditor has **no obligation** to perform any audit procedures

regarding such FS. However, when, after the FS 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 TCWG

b. Determine whether the FS need amendment and, if so,

c. Inquire how management intends to address the matter in the FS. If the management amends the FS, the auditor shall:

- **Carry out the audit procedures** necessary in the circumstances on the amendment.

- **Review** the steps taken by management to ensure that anyone in receipt of the previously issued FS together with the auditor's report thereon is informed of the situation.

If management does not take the necessary steps to ensure that anyone in receipt of the previously issued FS is informed of the situation, the auditor will seek to prevent future reliance on the auditor's report.

SA 570 - GOING CONCERN

A. Objective - The objectives of the auditor are:

i) 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 FS;

ii) 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

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

B. Going Concern Assumption - Under the going concern assumption, an entity **is viewed as continuing** in business for the **foreseeable future**. General purpose FS are prepared on a going concern basis, unless management either **intends to liquidate** the entity or to **cease operations**. When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

C. Responsibilities Of Management -

i) In case the FS have not been prepared on a going concern basis, the **fact** would need to be appropriately disclosed.

ii) The **detailed requirements** regarding management's responsibility may also be set out in the **law** or regulation.

iii) It is the management's responsibility to **assess the entity's ability to continue** as a going concern even if the FRF does not include an explicit requirement to do so. The **following factors** are relevant to that judgment:

a. The **degree of uncertainty** associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs.

b. The **size and complexity of the entity**, the **nature and condition of its business** and the degree to which it is affected by external factors.

c. **Any judgment about the future** is based on information available at the time at which the judgment is made. However subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

D. Responsibilities of Auditor - The auditor's responsibility is to **obtain** sufficient appropriate **audit evidence** about the appropriateness of management's use of the going concern assumption. He shall consider whether there is a **material uncertainty** about the entity's ability to continue as a going concern. The absence of any reference to going

concern uncertainty in an auditor's report **cannot be viewed as a guarantee** as to the entity's ability to continue as a going concern. (SA 200A)

E. Requirements -

i) Risk Assessment Procedures And Related Activities - The auditor shall consider whether there are events or conditions that may **cast significant doubt** on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a **preliminary assessment** of the entity's ability to continue as a going concern (discuss with management). If such an assessment has not performed, that auditor shall **discuss with management** the basis for the intended use of going concern assumption & inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's to continue as a going concern. 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. There may be following types of indicators:

Financial Indicators	Negative Net worth/working capital;
	Arrears / discontinuance of Dividends;
	Adverse Financial ratio;
	Substantial operating losses;
	Borrowings approaching maturity without any chance of renewal/repayment;
	Short term borrowing for long term asset financing;
	No payment to creditors on due date.
	Non compliance with terms in loan agreement;
	Negative cash flow from operations;
	Rearrangement with creditors for reduction in liability; or
	Change from creditors to cash on delivery transaction with supplier.
Operating Indicators	Loss of key management and no replacement available;
	Loss of major market or supplier;
	Labour unrest, strikes etc; or
	Loss of major license, franchise, etc.
Other Indicators	Pending legal proceedings;
	Change in Govt. Policy affecting the entity adversely; or
	Non- compliance with Statutory requirements

However, such indications may be mitigated by some positive factors .For example: loss of some major supplier may be compensated by availability of some alternate source of supply.

ii) Evaluating Management's Assessment - In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor **shall cover the same period** as that used by management to make its assessment as required by law or regulation if it specific a longer period. In evaluating management's assessment, the auditor shall **consider whether** management has considered all **relevant information** of which the auditor is aware.

iii) Period Beyond Management's Assessment - 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.

iv) Additional Audit Procedures When Events or Conditions Are Identified - 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 **perform procedures** as follows:

- a. Request management** to make its assessment of the **entity's ability** to continue as a going concern. When management has not yet performed an assessment of entity's ability to continue as a Going Concern
- b. Evaluating management's plans** for future actions.
- c. When the entity has prepared a cash flow forecast**, and then considers its reliability.
- d. Considering whether any additional facts or information** have become available since the date on which management made its assessment.
- e. Requesting written representations from management or TCWG**, regarding their plans for **future action** and the **feasibility** of these plans.

v) Audit Conclusions and Reporting - Auditor shall conclude whether a **material uncertainty exists** related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A **material uncertainty exists** when the magnitude of its **potential impact** and likelihood of occurrence is such that, in the auditor's judgment, appropriate **disclosure** of the nature and implications of the uncertainty is **necessary**.

vi) Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists

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

- 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. Disclose clearly** that there is a **material uncertainty** related to events or conditions that may **cast significant doubt** on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

If adequate **disclosure is made** in the FSs, the auditor shall express an **unmodified opinion** and include an **Emphasis of Matter paragraph** in the auditor's report to:

- a. Highlight** the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to
- b. Draw attention** to the **note** in the FS that discloses the matters set out.

If adequate **disclosure is not made**, auditor shall express **qualified or adverse opinion**, as appropriate. Auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about entity's ability to continue as going concern.

vii) Use of Going Concern Assumption Inappropriate - If FS have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern **assumption** in the FS is **inappropriate**, the auditor shall express an **adverse opinion**.

viii) Management Unwilling to Make or Extend Its Assessment - If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall **consider the implications** for the auditor's report.

ix) Communication with TCWG - Communication with TCWG shall include the following:

- a. Whether the events or conditions constitute a material uncertainty;**
- b. Whether the use of the going concern assumption is appropriate** in the preparation and presentation of the FS; and

c. The **adequacy** of related **disclosures** in the FS.

x) Significant Delay in Approval of FS - When the auditor believes that the delay in the approval of the FS could be related to events or conditions relating to the going concern assessment, the auditor shall perform **additional audit procedures** necessary.

SA 580 - WRITTEN REPRESENTATIONS

A. Objective - The objectives of auditor are:

- i) To obtain written representations from management that management believes that it has fulfilled the fundamental responsibilities.
- ii) To support other audit evidence by means of written representations, if determined necessary by the auditor or required by other SM; and
- iii) To respond appropriately to written representations provided by management or absence thereof.

B. Written Representations as Audit Evidence - Similar to responses to inquiries, written representations are audit evidence. Although written representations 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.

C. 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 FS, the assertions therein or supporting books and records.

From Whom - The auditor shall request written representations from management with **appropriate responsibilities** for the FS and **knowledge of the matters** concerned.

D. Requirements -

i) Management from Whom Written Representations Requested - The auditor shall request written representations from management with appropriate responsibilities for the FS and knowledge of the matters concerned.

ii) Written Representations about Management's Responsibilities -

a. Preparation and Presentation of the FS - written representation that mgt. has fulfilled its responsibility for the preparation and presentation of the FS

b. Information Provided to the Auditor - Written representation that mgt. 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 FS.

iii) Other Written Representations - Other SAs require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations, the auditor shall request such other written representations.

iv) Date of and Period(s) Covered by Written Representations - 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 FS. The written representations shall be for all FS and period(s) referred to in the auditor's report.

v) Form of Written Representations - The written representations shall be in the form of a representation letter **addressed** to the **auditor**. If law or regulation requires management to make written public statements about its responsibilities, the relevant matters covered by such statements need not be included in the representation letter.

vi) Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided -

a. Doubt as to the Reliability of Written Representations - If the auditor has concerns about the competence, integrity, ethical values or diligence of management, the auditor shall **determine** their **effect on the reliability of representations** (oral or written) and audit evidence in general. In particular, if written representations are **inconsistent** with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. 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.

b. Requested Written Representations Not Provided - if management does not provide one or more of the requested representation, he shall **discuss** the matter with management and **re-evaluate** the reliability and integrity of management. He shall consider its **effect on his audit report** as well.

c. Written Representation about Management's Responsibilities - The auditor shall **disclaim an opinion** on the FS if:

- The auditor concludes that there is sufficient **doubt about the integrity** of management such that the written representations are not reliable; or
- Management does **not provide the written representations**.

SA 600 - USING THE WORK OF ANOTHER AUDITOR

A. Objective - When the auditor delegates the work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on financial information.

B. Definitions -

i) Another Auditor - Another Auditor does **not mean internal auditor**. It means the auditor of a component (branch/subsidiary) of the organisation.

ii) Principal Auditor - Auditor of client.

iii) Component - Any branch, division, subsidiary, joint venture or associates etc, whose financial information is used in the FS of client.

C. Acceptance as Principal Auditor - The auditor should consider whether the auditor's own participation is sufficient to be able to act as a Principal auditor. For this purpose the auditor would consider:

- The **materiality** of the portion of the financial information which the principal auditor audits.
- The principal auditor's **degree of knowledge** regarding the business of the components.
- The **risk of material mis-statements** in the financial information of the component audited by the other auditor; and
- The **performance of additional procedures** as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

D. The Principal Auditor's Procedure –

i) 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 ICAI.

ii) 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 specific assignments. When using the work of another auditor, the principal auditor ordinarily **perform the following procedures**.

a. **Advice the other auditor** of the **use** that is to be made of the other auditor's work and report.

b. **Advice the other auditor** of the significant accounting, auditing and **reporting requirements**.

c. Principal auditor may require another auditor to **submit questionnaire** w.r.t. work performed by him.

d. The principal auditor should consider the **significant findings** of the other auditor.

iii) The principal auditor should **document** in his working papers the **components** whose financial information was audited by another auditor.

E. Co-Ordination Between Auditors - There should be **sufficient liaison** between the principal auditor and the other auditor. For this purpose, the principal auditor may find it necessary to issue **written communications** to the other auditor.

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. **For example**, by bringing to the principal auditor's immediate attention any **significant findings** requiring to be dealt with at entity level, adhering to the **time table** for audit of the component, etc. he should ensure compliance with the relevant **statutory requirements**. Similarly, the principal auditor should **advise the other auditor** of any matters that come to his attention that he thinks may have an important bearing on the other auditor's work.

F. Reporting Considerations - When the principal auditor concludes, based on his procedures, that the work of the other 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.

G. Division of Responsibility - 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 auditor, his **report** should **state clearly** the division of responsibility for the financial information an opinion of the entity **by indicating** the extent to which the financial information of components **audited by other auditor** have been included in the financial information of the entity. **Example** - The number of divisions' branches/subsidiaries or other components audited by other auditors.

It is not necessary that principal auditor will qualify his report if other auditors who have audited the components have given any qualified report.

SA 610 - USING THE WORK OF INTERNAL AUDITORS

A. Objectives - 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:

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

B. Definitions -

i) Internal Audit Function - An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, the adequacy and effectiveness of internal control.

ii) 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.

C. Relationship between the Internal Audit Function and the External Auditor - The **role and objectives** of the internal audit function are **determined by management** and, where applicable, TCWG. While the **objectives** of the internal audit function and the external auditor are **different**, **some** of the **ways** in which the internal audit function and the external auditor achieve their respective **objectives may be similar**. Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is **not independent** of the entity as is required of the external auditor when expressing an opinion on FS. The **external auditor has sole responsibility** for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of internal auditors.

D. Requirements -

i) Determining Whether and to What Extent to Use the Work of the Internal Auditors

The external auditor shall determine:

- a. Whether the **work** of internal auditors is likely to be **adequate** for purposes of the audit;
- 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.

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 **carried out with due professional care**; and
- d. Whether there is **effective communication** between internal and the external auditor.

In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures, the external auditor shall consider:

- a. The **nature and scope** of specific work performed/to be performed, by internal auditors;
- b. The **assessed risks** of material misstatement at the assertion level for particular classes of transactions, account balances, and disclosures; and
- c. The **degree of subjectivity** involved in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions.

ii) Using Specific Work of the Internal Auditors -

- a. In order for the external auditor to use specific work of the internal auditors, the external auditor shall **evaluate and perform audit procedures** on that work to determine its

adequacy for the external auditor's purposes.

b. To determine the **adequacy of specific work performed** by the internal auditors for the external auditor's purposes, the external auditor shall **evaluate** whether:

- Work was performed by internal auditors having adequate **technical training** & proficiency;
- The work was properly **supervised, reviewed** and documented;
- **Adequate audit evidence** has been obtained to enable him to draw reasonable conclusions;
- **Conclusions** reached are **appropriate** in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed and
- Any **exceptions/unusual matters disclosed** by the internal auditors are properly **resolved**.

iii) Documentation - 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 EXPERT

A. Objectives - The objectives of auditor are to determine whether:

- i) To use the work of auditor's expert &
- ii) That work is adequate for his purpose.

B. Definitions -

i) Auditor's Expert - An individual / organization possessing expertise in a field **other than accounting or auditing** whose work is used by auditor in obtaining evidence. He may be auditor's internal expert or external expert.

ii) Management Expert - Whose work is used by Entity in preparing the FS.

SA not applicable when -

- i) Engagement team includes a member, who is expert in area of accounting/auditing,
- ii) Auditor's use of management's expert.

C. Auditor's Responsibility -

- i) Auditor has **sole responsibility** of his audit opinion.
- ii) His responsibility is **not reduced** by using auditor's expert.
- iii) However, he may accept the work of auditor's expert as evidence if he concludes that auditor's expert is **adequate**.

D. Requirements -

i) Determining the Need for Auditor's Expert - If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall **determine whether to use** the work of an auditor's **expert**.

ii) Nature, Timing and Extent of Audit Procedures - The nature, timing and extent of the auditor's procedures with respect to the requirements of this SA will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including:

- a.** The **nature** of the matter to which that expert's work relates;
- b.** The **risks** of material misstatement in the matter to which that expert's work relates;
- c.** The **significance** of that expert's work in the context of the audit;
- d.** The **auditor's knowledge** of and experience with previous work performed by expert;

e. Whether that expert is subject to auditor's firm's **quality control policies & procedures**.

iii) The Competence, Capability and Objectivity of Auditor's Expert's - 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 evaluation of objectivity shall include inquiry regarding **interests and relationships** that may create a threat to that expert's objectivity.

iv) Obtaining The Understanding The Field Of Expertise Of Auditor's Expert - The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to:

- a. Determine the **nature, scope and objectives** of that expert's work for auditor's purposes;
- b. Evaluate the **adequacy** of that work for the auditor's purposes.

v) Agreement with Auditor's Expert - The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:

- a. The **nature, scope and objectives** of that expert's work;
- b. The **respective roles** and responsibilities of the auditor and that expert;
- c. The **nature, timing and extent of communication** between the auditor and that expert, including the form of any report to be provided by that expert; and
- d. The **need** for the auditor's expert to observe confidentiality requirements.

vi) Evaluating Adequacy Of Auditor's Expert's Work - The auditor shall **evaluate** the adequacy of the auditor's expert's work for the auditor's purposes, including:

- a. The **relevance and reasonableness** of that expert's **findings or conclusions**, and their **consistency** with other audit evidence;
- b. If that expert's work involves **use of significant assumptions and methods**, the relevance and reasonableness of those assumptions and methods in the circumstances; and
- c. If that expert's work involves the **use of source data** that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

vii) Reference To Auditor's Expert In Auditor's Report -

a. In case of unmodified opinion - Auditor shall **not refer to work** of auditor's expert in the **report** containing unmodified opinion **unless required by law / regulations** to do so. If required by law/regulations, he shall indicate in auditor's report that such reference does not reduce auditor's responsibility for the audit opinion.

b. In case of modified opinion - He shall **refer to work of auditor's expert** if such reference is **necessary for understanding** the nature of modification. He shall indicate that such reference does not reduce auditor's responsibility for the audit opinion.

General Clarification (GC)-AASB/1/2002 ON SA 620, Using the Work of an Expert

It is clarified that the auditor should, while using the certificate issued by the actuary or the insurer, obtain an understanding of the methods used by the actuary or the insurer in determining the liability and should also judge the appropriateness and reasonableness of assumptions, for example, with regard to the following:

i) Rate of Return ii) Number of Employees iii) Retirement Age iv) Salaries v) Promotion Policies vi) Age of Employees

SA 700 - FORMING AN OPINION AND REPORTING ON FS

A. Objectives –

- i) From an opinion on the FS based on an evaluation of the conclusions drawn from audit evidence obtained and
- ii) Express clearly that opinion through a written report that also describes the basis for the opinion.

B. General Purpose Framework - This Financial Reporting Framework (FRF) meets the common financial information needs of many users. It may be of **two types**:

i) Fair Presentation Framework - FRF that requires compliance with the requirements of FRF and acknowledges that **Management may provide disclosures beyond those specifically required by the framework**. Management **may depart** from requirements of framework to achieve **fair presentation** of FS. **Example**: FS of a company.

ii) Compliance Framework - FRF requiring compliance with requirements of the framework but does not contain acknowledgement as above.

C. Requirements –

i) Forming an Opinion on the FS –

- a. Auditor shall form an opinion as to whether the FS are prepared in accordance with applicable FRF.
- b. To form such an opinion, he shall obtain reasonable assurance as to whether FS as a whole are free from material misstatements.
- c. In forming such opinion he shall **consider the following**:
 - **Sufficiency & appropriateness** of audit evidences,
 - **Materiality** of uncorrected misstatements,
 - Adequacy of **disclosures** in FS,
 - Consistency of **accounting Policies** with applicable FRF,
 - Reasonableness of **Accounting Estimates**,
 - Reliability & relevance of financial information,
 - Adequacy of **disclosure** of material transactions & Events,
 - Appropriateness of **Terminology** used in FS.
- d. In case of **fair presentation framework**, he shall also consider:
 - **Overall presentation**, structure and content of the FS, &
 - Whether FS represent the underlying transactions & events to **achieve** fair presentation.

ii) Form of Opinion –

a. Unmodified Opinion - When he concludes that FS are prepared, in all material respects, in accordance with applicable FRF.

b. Modified Opinion - When the auditor:

- Concludes that FS as a whole are **not free** from material misstatements, or
- is **unable to obtain sufficient and appropriate evidence** to conclude that the FS as a whole are free from material misstatement.

iii) Auditor's Report - Auditor's report for audits conducted in accordance with SA's has following **basic elements**:

a. Title - Clearly indicating that it is an "**Independent Auditor's Report**", So that it can be distinguished from the reports issued by others.

b. Addressee - The auditor's report shall be addressed as required by the **circumstances** of the engagement.

c. Introductory Paragraph - The introductory paragraph in the auditor's report shall:

- **Identify the entity** whose FS have been audited;
- State that the FS have been **audited**;

- **Identify the title** of each statement that comprises the FS;
- **Refer** to the summary of **accounting policies** and other explanatory information;
- **Specify the date** or period **covered** by each FS comprising the FS.

d. Management's Responsibility for the FS - It describes the responsibility of Management / TCWG who are responsible for preparation of FS. It states that management is responsible for:

- **Preparation of FS** as per applicable FRF;
- Design, implementation & maintenance of **internal controls**; &
- **Fair presentation** of FS (in case, FS are prepared as per fair presentation framework)

e. Auditor's Responsibility - This Para shall state that:

- Responsibility of auditor is to **express an opinion** on the FS;
- Audit was conducted in accordance with **SA** issued by ICAI;
- Auditor complied with **ethical requirements**;
- Auditor obtained assurance as to whether FS are **free from material misstatements**;
- Audit involves procedures to obtain evidences about amounts & disclosures in FS;
- Procedures depend on the **auditor's judgment** including RAP;
- Auditor considers **internal controls** but do not express opinion thereon.
- Audit includes **evaluation of accounting policies** & overall presentation of FS; and
- Auditor believes that audit evidences are sufficient to provide basis for auditor's report.

f. Auditor's Opinion - While expressing unmodified opinion he shall use following:

- **In Case of Fair Presentation Framework** - FS present fairly in accordance with [Applicable FRF]. FS give true & fair view in accordance with [Applicable FRF]
- **In Case of Compliance Framework** - FS are prepared in all material respects in accordance with [applicable FRF]

g. Other Reporting Responsibilities - If there is any requirement, there shall be a separate heading "Report on other legal and Regulatory Requirements".

For Example - CARO in case of audit of a company.

h. Date of Auditor's Report - It can't be earlier than the date on which:

- All components of FS have been prepared, &
- Management/TCWG have asserted that they have taken the responsibility for those FS.

i. Place of Signature - Specific location (The city where the audit report is signed)

j. Signature of the Auditor -

- **In Case Of Sole Practitioner** - It is signed in the **personal name** of auditor. Mention **membership no.** of member in ICAI as well.
- **In Case Of Firm** - it is signed in **personal name** of proprietor/Partner **as well as in the name of firm**. **Firm's registration no.** is also mentioned in this case.

iv) Supplementary Information Presented With FS - Auditor shall **evaluate** whether it is clearly differentiated from the audited FS. If not, then he shall **ask the management to change the way** it is presented. If management **refuses** to do so, the auditor shall **mention in the audit report that such supplementary information has not been audited**.

SA 705 - MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

A. Types of Modified Opinions - This SA establishes three types of modified opinions, namely, a **qualified opinion**, an **adverse opinion**, and a **disclaimer of opinion**.

The **decision** regarding which type of modified opinion is appropriate **depends upon**:

i) The nature of the matter giving rise to the modification, that is, whether the FS are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

ii) The **auditor's judgment** about the pervasiveness of the effects or **possible effects of the matter** on the FS.

	Material but Not Pervasive	Material and Pervasive
FS are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

After Accepting the Engagement, If Management Imposes Limitations, He shall request the Management to Remove the Same

If Management			
Removes The Same	Refuses To Remove The Same		
OK	Communicate to TCWG		
Continue	Whether it is possible to perform alternate procedures to obtain sufficient appropriate evidences		
	Yes	No	
	Ok	If Possible Effect on FS	
		Material But Not Pervasive	Material And Pervasive
		Qualified Opinion Determine Possibility Of Resignation	
		Yes	No
		Resign	Communicate to TCWG + Disclaimer

B. Requirements -

i) **Circumstances When a Modification to the Auditor's Opinion Is Required** - The auditor shall **modify the opinion** in the auditor's report when the auditor:

a. Concludes, based on the evidences obtained that the FS as a whole are not free from material misstatements, or

b. Is unable to obtain sufficient and appropriate **evidences** to conclude that FS as a whole are free from material misstatements.

ii) Determining the Type of Modification to the Auditor's Opinion

a. Qualified Opinion - The auditor shall express a qualified opinion when:

- The auditor, having **obtained sufficient appropriate** audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the FS;
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the **possible effects** on the FS **of undetected misstatements**, if any, could be **material but not pervasive**.

b. Adverse Opinion - The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are **both material and pervasive** to the FS.

c. Disclaimer of Opinion - The auditor shall disclaim an opinion when the auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, and the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both **material and pervasive**.

The auditor shall **disclaim an opinion** when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the FS due to the potential interaction of the uncertainties and their possible cumulative effect on the FS.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management - Imposed Limitation after the Auditor Has Accepted the Engagement

- If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a **qualified opinion or to disclaim an opinion** on the FS, the auditor shall request management to **remove the limitation**.

If management **refuses to remove** the limitation, the auditor shall **communicate the matter to those charged with governance** and determine whether it is possible to **perform alternative procedures** to obtain sufficient appropriate audit evidence.

If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:

- a. If the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be **material but not pervasive**, the auditor shall **qualify the opinion**; or
- b. If the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be **both material and pervasive** so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - **Resign** from the audit, where practicable and not prohibited by law or regulation; or
 - If resignation from the audit before issuing the auditor's report is not practicable or possible, **disclaim an opinion** on the FS.

If the auditor resigns, **before resigning**, the auditor shall **communicate** to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the FS as a whole, the auditor's report **shall not also include an unmodified opinion** with respect to the same financial reporting framework **on a single FS or one or more specific elements**, accounts or items of a FS. To include such an unmodified opinion in the same report in these circumstances would **contradict** the auditor's adverse opinion or disclaimer of opinion on the FS as a whole.

iii) Form & Content Of Auditor's Report In Case Of Modified Opinion

a. Basis for Modification Paragraph - He shall, in addition to SA 700, place this Para immediately before the opinion Para. Its **heading** is "Basis for _____ opinion" as appropriate. Here, he shall **describe the matter** giving rise to modification. It includes **quantification of financial effects** of matter unless impracticable. If **not practicable** to quantify, **state this fact**.

b. Basis for Qualified Opinion - Except for the effects of matter described in the "Basis for qualified opinion" Para,

- The FS present fairly, in all material respects (or give a true & fair view) in accordance with fair presentation framework, or
- The FS have been prepared in all respects, in accordance with compliance framework.

c. Basis for Adverse Opinion - In the auditor's opinion because of significance of matters described in the basis for adverse opinion Para:

- The FS do **not present fairly** (or give a true & fair view) in accordance with the fair presentation framework; or
- The FS have **not been prepared**, in accordance with compliance **framework**."

d. Basis for Disclaimer of Opinion - Because of significance of the matter described in the "basis for disclaimer" Para, the auditor has not been able to obtain sufficient appropriate evidence & thus, the auditor does not express an opinion on the FS.

e. Description of Auditor's Responsibility:

- **In case of Qualified/Adverse Opinion** - State that auditor has **obtained** sufficient & appropriate evidences to provide a **basis for Auditor's modified opinion**

- **In case of Disclaimer of Opinion** - State that auditor has **obtained not able to obtain** sufficient & appropriate evidences and **a basis for such opinion**

iv) Communication with Those Charged with Governance - In case he expects to **modify his opinion**, He shall **communicate** the circumstances & proposed wordings.

SA 706 - EMPHASIS OF MATTER PARAGRAPHS & OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

A. Objective - The objective of the auditor, having formed an opinion on the FS, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

- A **matter**, although appropriately presented or disclosed in the FS, that is of such **importance** that it is **fundamental** to users' understanding of the FS; or
- As appropriate, **any other matter** that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

B. Requirements -

i) Emphasis of Matter Paragraph

a. Meaning - Para which refers to a matter appropriately incorporated in the FS, which is of such importance that it is fundamental to user's understanding of FS.

b. In Audit Report - Place it immediately after the opinion paragraph in auditor's report.

c. Heading - "Emphasis of matter"

d. It Includes - Clear reference to the matter being emphasised; and where exactly it can be found in the FS.

e. Clarification by Auditor - That audit opinion is not modified in respect of the matter emphasised

f. Examples where Emphasis of Matter may be necessary:

- Substantial doubt about going concern properly disclosed in FS.
- Material change in the accounting policy.
- Early application of a new accounting standard.
- Uncertainty relating to a pending litigation, properly disclosed in the FS by management.

ii) Other Matter Paragraph

a. Meaning - Para relating to matter, Other than those in FS, which is relevant to, User's understanding or auditor's responsibility or his report.

b. In audit report - After the "Opinion" Para & any "Emphasis of matter" Para

c. Heading - "Other Matter"

d. Examples where it is necessary

- Other reporting responsibilities in case of audit of a company
- LFAR in case of audit of a bank.

iii) Communication with TCWG - If auditor expects to include an Emphasis of matter or other matter paragraph, he shall communicate the same to TCWG

SA 710 - COMPARATIVE INFORMATION - CORRESPONDING FIGURES & COMPARATIVE FINANCIAL STATEMENTS

A. Objectives -

- To obtain sufficient appropriate audit evidence about whether the comparative information included in the FS has been presented in all material respects, in accordance with the requirements for comparative information in the applicable FRF; and

ii) To report in accordance with the auditor's reporting responsibilities.

B. Nature Of Comparative Information - The nature of comparative information that is presented in an entity's FS depends on the **requirements of the applicable FRF**. There are **two different broad approaches** to auditor's reporting responsibilities in respect of such comparative information; corresponding figures & comparative FS. The approach to be adopted is **specified by law/regulation** but may be specified in **terms of engagement**.

C. Definitions -

i) Comparative Information - The **amounts and disclosures** included in FS in respect of one or more **prior periods** in accordance with the applicable **reporting framework**.

ii) Corresponding Figures - Comparative information where amounts and other disclosures for the prior period are included as an **integral part** of the **current period** FS, and are intended to be read only in relation to the current period. The level of detail presented in the corresponding amounts and disclosures is dictated primarily by, its relevance to the current period figures.

iii) Comparative FS - Comparative information where amounts and other disclosures for the prior period are included for comparison with the FS of current period but, if audited, are referred to in auditor's opinion. The level of FS is comparable with FS of current period. For purposes of this SA references to prior period should be read as "**prior periods**" when the comparative information includes amounts & disclosures for more than one period.

D. The Essential Audit Reporting Difference Between The Approaches Are:

i) for **corresponding** figures, auditor's opinion on FS refers to **current period only**,

ii) for **comparative FS**, auditor's opinion refers to **each period** for which FS are presented

E. Requirements -

i) Audit Procedures -

a. Determine as to Whether - FS include Comparative information required by FRF, & such information is classified appropriately.

b. Evaluate Whether - Comparative information agrees with the amounts and other disclosures presented in the prior period; and Accounting policies reflected in the comparative information are **consistent** with those applied in the current period. **Changes** in accounting policies, if any, have been properly accounted for and disclosed.

c. Professional Skepticism - In case there is a doubt of Material Misstatement in comparative information; He shall perform **additional audit procedures** to obtain sufficient appropriate audit evidence regarding existence of material misstatement.

d. Obtain Written Representation - For all periods referred to in his opinion Also, for any prior period item **separately disclosed** in current year's profit and loss statement

ii) Audit Reporting

a. Corresponding Figures - When corresponding figures are presented, the auditor's opinion shall **not refer to the corresponding figures except in the circumstances** described below *, **, ***.

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 FS. In the **Basis for Modification paragraph** in the auditor's report, the auditor shall either:

- **Refer to both** the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the **effects** or possible effects of the matter on the **current period's** figures are **material**; or

- In **other cases**, explain that the audit **opinion** has been **modified** because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

* If the auditor obtains audit evidence that a material misstatement exists in the prior period FS on which an unmodified opinion has been previously issued, the auditor shall verify whether the **misstatement** has been **dealt with as required** under the applicable financial reporting framework and, if that is not the case, the auditor shall express a **qualified opinion or an adverse opinion** in the auditor's report on the current period FS, modified with respect to the corresponding figures included therein.

**** Prior Period FS Audited by a Predecessor Auditor** - If the FS of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor **shall state** in an **Other Matter paragraph** in the auditor's report:

- That the FS of the prior period were **audited by the predecessor** auditor;
- The **type of opinion** expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
- The **date** of that report.

***** Prior Period FS Not Audited** - If the prior period FS were not audited, the auditor shall state in an **Other Matter paragraph** in the auditor's report that the corresponding figures are unaudited. Such a statement does **not 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 FS

b. Comparative FS - When comparative FS are presented, the auditor's opinion shall refer to each period for which FS are presented and on which an audit opinion is expressed. When reporting on prior period FS in connection with the current period's audit, if the auditor's opinion on such prior period FS **differs** from the **opinion** the auditor **previously expressed**, the auditor shall **disclose the substantive reasons** for the different opinion in an Other Matter paragraph in accordance with SA 706

Prior Period FS Audited by a Predecessor Auditor - If the FS of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's FS, the auditor shall state in an Other Matter paragraph:

- That the FS of the prior period were **audited** by a predecessor auditor;
- The **type of opinion** expressed by the predecessor auditor and, if the opinion was modified, the **reasons** therefore; and
- The **date** of that report, unless the predecessor auditor's report on the prior period's FS is revised with the FS.

If the auditor concludes that a material misstatement exists that affects the prior period FS on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed. If the prior period FS are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended FS of the prior period, the auditor shall report only on the current period.

Prior Period FS Not Audited - If the prior period FS were not audited, the auditor shall state in an Other Matter paragraph that the comparative FS 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 FS.

SA 720 - THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FS

A. Objective - The objective of the auditor is to respond appropriately when documents containing audited FS and the auditor's report thereon include other information that could undermine the credibility of those FS and the auditor's report.

B. Definitions -

i) Other Information - **Financial and non-financial information** which is included, either by law, regulation or custom, in a document containing audited FS & auditor's report thereon.

ii) Inconsistency - Other information that **contradicts** info contained in the audited FS.

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

C. Requirements -

i) Reading Other Information - The auditor shall:

- a.** Read other information **to identify material inconsistencies** with the audited FS.
- b.** Make **appropriate arrangements with management** or those charged with governance to obtain the other information prior to the date of the auditor's report

ii) Material Inconsistencies - If on reading the other information, the auditor identifies a material inconsistency; the auditor shall determine whether the **audited FS** or the other information needs to be **revised**.

a. Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report -

- When **revision** of the audited FS is necessary and management refuses to make the revision, the auditor shall **modify the opinion**.
- When **revision** of the other information is necessary and management refuses to make the revision, the auditor shall **communicate** this matter to those charged with governance; and
 - ✓ Include in the auditor's report an **Other Matter(s) paragraph** describing the material inconsistency.
 - ✓ Where **withdrawal** is legally permitted, withdraw from the engagement.

b. Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor's Report -

- "When **revision** of the **audited FS** is necessary, the auditor shall follow the relevant requirements in SA 560 (Revised).
- When **revision** of the **other information** is necessary and **management agrees** to make the revision, the auditor shall carry out the procedures necessary under the circumstances.
- When **revision** of the **other information** is necessary, but **management refuses** to make the revision, the auditor shall notify those charged with governance of the auditor's concern regarding the other information and take any further appropriate action.

iii) Material Misstatements of Fact - When the auditor:

- a.** On reading the other information for the purpose of identifying material inconsistencies, becomes aware of a material misstatement, He shall **discuss the matter with management**.
- b.** Still considers that there is an apparent material misstatement of fact, He shall request management to **consult with a qualified third party** & shall consider the advice received.

c. Concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall **notify TCWG** of the auditor's concern regarding the other information and **take any further appropriate action**.

SA 800 - SPECIAL CONSIDERATIONS - AUDITS OF FS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

A. Objective - The objective of the auditor, when applying SAs in an audit of FS prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:

- i) The acceptance of the engagement;
- ii) The planning and performance of that engagement; and
- iii) Forming an opinion and reporting on the FS.

B. Definitions -

i) Special Purpose FS – FS prepared in accordance with a special purpose framework.

ii) Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a **fair presentation framework or a compliance framework**.

C. Requirements -

i) Considerations When Accepting the Engagement

Acceptability of the Financial Reporting Framework - SA 210 (Revised) requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the FS. In an audit of special purpose FS, the auditor shall obtain an understanding of:

- a. The **purpose** for which the FS are prepared;
- b. The **intended users**; and
- c. The **steps taken by management** to determine that the applicable financial reporting **framework** is acceptable in the circumstances.

ii) Considerations When Planning and Performing the Audit - SA 200 (Revised) requires the auditor to **comply with all SAs relevant** to the audit. In planning and performing an audit of special purpose FS, the auditor shall determine whether application of the SAs requires special consideration in the circumstances of the engagement. SA 315 requires the auditor to obtain an understanding of the entity's **selection and application of accounting policies**. In the case of FS prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any **significant interpretations** of the contract that management made in the preparation of those FS. An interpretation is significant when adoption of another reasonable interpretation would have produced a **material difference** in the information presented in the FS.

iii) Forming an Opinion and Reporting Considerations - When forming an opinion and reporting on special purpose FS, the auditor shall apply the requirements in SA 700.

a. Description of the Applicable Financial Reporting Framework - SA 700 (Revised) requires the auditor to **evaluate** whether the FS **adequately refer** to or describe the applicable financial reporting framework. In the case of FS prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the FS adequately describe any significant interpretations of the contract on which the FS are based.

SA 700 (Revised) deals with the **form and content** of the auditor's report. In the case of an auditor's report on special purpose FS:

- The auditor's report shall also **describe the purpose** for which the FS are prepared and, if necessary, refer to a note in the special purpose FS that contains that information; and

- If management has a **choice of financial reporting frameworks** in the preparation of such FS, the explanation of management's responsibility for the FS shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

b. Alerting Readers that the FS Are Prepared in Accordance with a Special Purpose Framework - The auditor's report on special purpose FS shall include an **Emphasis of Matter paragraph** alerting users of the auditor's report that the FS are prepared in accordance with a special purpose framework and that, as a result, the FS may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading.

SA 805 - SPECIAL CONSIDERATIONS - AUDITS OF SINGLE FS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

A. Objective - The objective of the auditor is to address appropriately the special considerations that are relevant to:

- i) The acceptance of the engagement;
- ii) The planning and performance of that engagement; and
- iii) Forming an opinion and reporting on the single FS or on the specific element, account or item of a FS.

B. Definitions -

i) Element of a FS or element - means an "element, account or item of a FS";

ii) Financial Reporting Standards - means the Accounting Standards promulgated by the Accounting Standards Board (ASB) of the ICAI or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the ICAI, as may be applicable; and A single FS (for example, a cash flow statement) or to a specific element of a FS (for example, cash and bank balances) **includes the related notes**. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the FS or to the element.

C. Requirements -

i) Considerations When Accepting the Engagement

a. Application of SAs - SA 200 (Revised) requires the auditor to comply with **all SAs** relevant to the audit. In the case of an audit of a **single FS** or of a **specific element** of a FS, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of FS. If the auditor is not also engaged to audit the entity's complete set of FS, the auditor shall determine whether the audit of a single FS or of a specific element of those FS in accordance with SAs is practicable.

b. Acceptability of the Financial Reporting Framework - SA 210 (Revised) requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the FS. In the case of an audit of a single FS or of a specific element of a FS, this shall include whether application of the financial reporting framework will **result** in a presentation that provides **adequate disclosures** to enable the intended users to understand the information conveyed in the FS or the element, and the **effect of material transactions** and events on the information conveyed in the FS or the element.

c. Form of Opinion - SA 210 (Revised) requires that the agreed terms of the audit engagement include the **expected form** of any reports to be issued by the auditor. In the case of an audit of a single FS or of a specific element of a FS, the auditor shall consider whether the **expected form of opinion is appropriate** in the circumstances.

ii) Considerations When Planning and Performing the Audit - SA 200 (Revised) states that SAs are written in the context of an audit of FS; they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

iii) Forming an Opinion and Reporting Considerations - When forming an opinion and reporting on a single FS or on a specific element of a FS, the auditor shall **apply** the requirements in **SA 700**, adapted as necessary in the circumstances of the engagement.

Reporting on the Entity's Complete Set of FS and on a Single FS or on a Specific Element of Those FS - If the auditor undertakes an engagement to report on a single FS or on a specific element of a FS in conjunction with an engagement to audit the entity's complete set of FS, the auditor shall **express a separate opinion** for each engagement. An audited single FS or an audited specific element of a FS may be **published** together with the entity's audited complete set of FS. If the auditor concludes that the presentation of the single FS or of the specific element of a FS does **not differentiate it sufficiently** from the complete set of FS, the auditor shall **ask management to rectify** the situation. The auditor shall also differentiate the opinion on the single FS or on the specific element of a FS from the opinion on the complete set of FS. The auditor shall **not issue the auditor's report** containing the opinion on the single FS or on the specific element of a FS **until satisfied** with the **differentiation**.

Modified Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Entity's Complete Set of FS - If the opinion in the auditor's report on an entity's complete set of FS is modified, or that report includes an **Emphasis of Matter paragraph** or an Other Matter paragraph, the auditor shall determine the **effect** that this may have on the auditor's report on a single FS or on a specific element of those FS. When deemed appropriate, the auditor shall **modify the opinion** on the single FS or on the specific element of a FS, **or** include an **Emphasis of Matter paragraph** or an **Other Matter paragraph** in the auditor's report, accordingly.

If the auditor concludes that it is necessary to express an **adverse** opinion or **disclaim** an opinion on the entity's complete set of FS as a whole, SA 705 does not permit the auditor to include in the same auditor's report an unmodified opinion on a single FS that forms part of those FS or on a specific element that forms part of those FS. This is because such an unmodified opinion would **contradict** the adverse opinion or disclaimer of opinion on the entity's complete set of FS as a whole.

If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of FS as a whole but, in the context of a separate audit of a specific element that is included in those FS, the auditor nevertheless considers it appropriate to express an **unmodified opinion on that element**, he shall only **do so if**:

- a.** The auditor is **not prohibited by law** or regulation from doing so;
 - b.** That opinion is expressed in an auditor's report that is **not published together** with the auditor's report containing the adverse opinion or disclaimer of opinion; and
 - c.** Specific element does **not constitute a major portion** of entity's complete set of FS.
- The auditor shall **not express** an **unmodified opinion** on a single FS of a complete set of FS if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of FS as a whole. This is the case even if the auditor's report on the single FS is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single FS is deemed to constitute a major portion of those FS.

SA 810 - ENGAGEMENTS TO REPORT ON SUMMARY FS

A. Objectives - The objectives of the auditor are to:

- i)** Determine whether it is appropriate to accept the engagement to report on summary FS;
- ii)** Form an opinion on the summary FS based on an evaluation of the conclusions drawn from the evidence obtained; and
- iii)** Express clearly that opinion through a written report that also describes the basis for that opinion.

B. Definitions -

i) Applied Criteria - The criteria applied by management in preparation of summary FS.

ii) Audited FS - FS audited by the auditor in accordance with SAs, and from which the summary FS are derived.

iii) Summary FS - Historical financial information that is derived from FS but that contains less detail than the FS, while still providing a structured representation consistent with that provided by the FS of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.

C. Requirements -

i) Engagement Acceptance - The auditor shall, ordinarily, accept an engagement to report on summary FS in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the FS from which the summary FS are derived. Before accepting an engagement to report on summary FS, the auditor shall:

- a.** Determine whether the **applied criteria** are acceptable;
- b.** Obtain the **agreement of management** that it acknowledges and understands its responsibility:
 - For the **preparation of the summary FS** in accordance with the applied criteria;
 - To make the **audited FS available to the intended users** of the summary FS without undue difficulty; and
 - To **include the auditor's report** on the summary FS in any document that contains the summary FS and that indicates that the auditor has reported on them.

c. Agree with management the **form of opinion** to be expressed on the summary FS.

If the auditor concludes that the **applied criteria** are **unacceptable** or is **unable to obtain** the **agreement** of management, he shall not accept the engagement to report on the summary FS, unless required by law or regulation to do so. The auditor shall include appropriate **reference** to this fact in the terms of the engagement. The auditor shall also **determine** the effect that this may have on the engagement to audit the FS from which the summary FS are derived.

ii) Nature of Procedures - The auditor shall perform the **following procedures**, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary FS:

a. Evaluate whether the summary FS adequately **disclose** their summarised nature and identify the audited FS.

b. When summary FS are **not accompanied by the audited FS**, **evaluate** whether they describe clearly:

- From whom or where the audited FS are available; or
- The law or regulation that specifies that the audited FS need not be made available to the intended users of the summary FS and establishes the criteria for the preparation of the summary FS.

c. Evaluate whether the summary FS adequately **disclose** the applied criteria.

d. Compare the summary FS with the information in the audited FS to determine whether the summary FS agree with information in the audited FS.

e. Evaluate whether the summary FS are prepared in accordance with the **applied criteria**.

f. Evaluate, in view of the purpose of the summary FS, whether the summary FS **contain the information necessary**, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

g. Evaluate whether the audited FS are **available to the intended users** of the summary FS without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary FS.

iii) Form of Opinion - When the auditor has concluded that an **unmodified opinion** on the summary FS is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following **phrases**:

a. The summary FS are **consistent**, in all respects, with the audited FS; or

b. The summary FS are a **fair summary** of the audited FS.

If law or **regulation prescribes** the **wording of the opinion** on summary FS in terms that are **different** from those described in paragraph, the auditor shall:

a. Apply the procedures described in paragraph & any **further procedures** necessary to enable the auditor to express the prescribed opinion; and

b. Evaluate whether users of the summary FS might misunderstand the auditor's opinion on the summary FS and, if so, whether **additional explanation** in the auditor's report on the summary FS can mitigate possible misunderstanding. Accordingly, the auditor's report on the summary FS shall not indicate that the engagement was conducted in accordance with this SA.

iv) Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited FS - The auditor's report on the summary FS may be **dated later than the date of the auditor's report** on the audited FS. In such cases, the auditor's report on the summary FS shall state that the summary FS and audited FS **do not reflect the effects of events** that occurred subsequent to the date of the auditor's report on the audited FS that may require adjustment of, or disclosure in, the audited FS.

The auditor may become **aware of facts that existed at the date of the auditor's report** on the audited FS, but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary FS until the auditor's consideration of such facts in relation to the audited FS in accordance with SA 560 (Revised) has been completed.

v) Auditor's Report on Summary FS -

Elements of the Auditor's Report - The auditor's report on summary FS shall include the following elements:

a. A **title** clearly indicating it as the report of an independent auditor.

b. An **addressee**.

c. An **introductory paragraph** that:

~ **Identifies the summary FS** on which the auditor is reporting, including the title of each statement included in the summary FS;

~ **Identifies the audited FS**;

~ **Refers to the auditor's report** on the audited FS, the date of that report, and, subject to paragraphs 17-18, the fact that an unmodified opinion is expressed on the audited FS;

~ If the **date** of the auditor's report on the summary FS **is later** than the date of the auditor's report on the audited FS, states that the summary FS and the audited FS do not

reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited FS; and

~ A **statement** indicating that the summary FS **do not contain all the disclosures** required by the financial reporting framework applied in the preparation of the audited FS, and that reading the summary FS is not a substitute for reading the audited FS.

d. A description of management's responsibility for the summary FS, explaining that management is responsible for the preparation of the summary FS in accordance with the applied criteria.

e. A statement that the auditor is responsible for expressing an opinion on the summary FS based on the procedures required by this SA.

f. A paragraph clearly expressing an opinion.

g. The auditor's signature along with the firm registration number, wherever applicable, and the membership number assigned by ICAI.

h. The date of the auditor's report.

i. The place of signature.

If the **addressee** of the summary FS is **not the same** as the addressee of the auditor's report on the audited FS, the auditor shall **evaluate** the appropriateness of using a different addressee.

The auditor shall **date** the auditor's report on the summary FS no earlier than:

a. The date on which the auditor has **obtained sufficient appropriate evidence** on which to base opinion, including evidence that the summary FS have been prepared & those with the recognised authority have asserted that they have taken responsibility for them;

b. The date of the auditor's report on the audited FS.

Modifications to the Opinion, Emphasis of Matter Paragraph or Other Matter

Paragraph in the Auditor's Report on the Audited FS - When the auditor's report on the audited FS contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph, but the auditor is satisfied that the summary FS are **consistent**, in all material respects, with or are a fair summary of the audited FS, in accordance with the applied criteria, the auditor's report on the summary FS shall, **in addition** to the elements in paragraph 14:

a. State that the auditor's report on the **audited FS contains** a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter paragraph; and

b. Describe:

~ The **basis** for the qualified opinion on the audited FS, and that qualified opinion; or the Emphasis of Matter or the Other Matter paragraph in the auditor's report on the audited FS;

~ The **effect thereof** on the summary FS, if any.

When the auditor's report on the audited FS contains an **adverse opinion or a disclaimer of opinion**, the auditor's report on the summary FS shall:

a. State that the auditor's report on the audited FS contains an adverse opinion or disclaimer of opinion;

b. Describe the basis for that adverse opinion or disclaimer of opinion; and

c. State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary FS.

Modified Opinion on the Summary FS - If the summary FS are **not consistent, in all material respects, with or are not a fair summary** of the audited FS, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall **express an adverse opinion** on the summary FS.

vi) Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting

- When distribution or use of the auditor's report on the audited FS is restricted, or the auditor's report on the audited FS alerts readers that the audited FS are prepared in accordance with a special purpose framework, the auditor shall **include a similar restriction or alert** in the auditor's report on the summary FS.

vii) Comparatives - If the audited FS contain comparatives, but the summary FS do not, the auditor shall determine whether such **omission is reasonable** in the circumstances of the engagement. The auditor shall **determine the effect** of an unreasonable omission on the auditor's report on the summary FS.

If the summary FS contain comparatives that were reported on by **another auditor**, the auditor's report on the summary FS shall also contain the matters that **SA 710 (Revised)** requires the auditor to include in the auditor's report on the audited FS.

viii) Unaudited Supplementary Information Presented with Summary FS - The auditor shall **evaluate** whether any unaudited supplementary information presented with the summary FS is **clearly differentiated** from the summary FS. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary FS, the auditor shall **ask management to change the presentation** of the unaudited supplementary information. If management **refuses** to do so, the auditor shall **explain** in the auditor's report on the summary FS that such information is **not covered** by that report.

ix) Other Information in Documents Containing Summary FS - The auditor shall **read** other information included in a document containing the summary FS and related auditor's report to identify material inconsistencies, if any, with the summary FS. If, on reading the other information, the auditor identifies a **material inconsistency**, the auditor shall determine whether the summary FS or the other information needs to be **revised**. If, on reading the other information, the auditor becomes aware of an apparent material misstatement of fact, the auditor shall **discuss the matter with management**.

x) Auditor Association - If the auditor becomes aware that the entity **plans to state** that the auditor has reported on summary FS in a document containing the summary FS, **but does not plan to include the related auditor's report**, the auditor shall **request management to include** the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other **appropriate actions** designed to prevent management from inappropriately associating the auditor with the summary FS in that document.

The auditor may be engaged to report on the FS of an entity, while not engaged to report on the summary FS. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary FS are derived from the FS audited by the auditor, the auditor shall be **satisfied** that:

- a.** The **reference to auditor is made** in the context of auditor's report on audited FS; and
 - b.** The statement does **not give impression** that auditor has reported on the summary FS.
- If (a) or (b) are not met, the auditor shall **request management to change** the statement to meet them, or not to refer to the auditor in the document. **Alternatively**, the entity may engage the auditor to report on the summary FS and include the related auditor's report in the document. If management does **not change** the statement, **delete the reference** to the auditor, or include an auditor's report on the summary FS in the document containing the summary FS, the auditor shall **advise management** that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other **appropriate actions** designed to prevent management from inappropriately referring to the auditor.

SRE 2400 - ENGAGEMENTS TO REVIEW FINANCIAL STATEMENTS

A. Objectives - To enable the auditor to state whether on the basis of less extensive procedures (than required in audit) anything has come to auditor's attention that causes him to believe that FS are not prepared as per appropriate financial reporting framework.

B. Principles - Auditor should comply with code of ethics issued by ICAI i.e.

- Independence • Integrity • Objectivity • Professional competence and due care
- Confidentiality • Professional conduct, and • Technical standards.

C. Scope of Review - It is decided by requirements of this standard, relevant legislation and regulations & terms of Review Engagement.

D. Terms of Engagement Planning - Auditor and client should agree on terms of review engagement to avoid any misunderstanding. Engagement terms should contain

- Objective of the service • Management's responsibility for FS. • Scope of the review, including reference to this standard • Unrestricted access to whatever records, documentation and other information • The fact that the engagement cannot be relied upon to disclose errors, violation of laws or other irregularities • Statement that an audit is not being performed and that an audit opinion will not be expressed

E. Planning: He shall plan for effective performance of review engagement. He should obtain/update the knowledge of the business.

F. Work Performed By Others - Auditor should be satisfied that it is adequate for his purpose.

G. Documentation - Of Important evidences to support review report and compliance with this standard

H. Procedures & Evidences - "Engagements to Review FS", procedures for the review of FS will ordinarily include:

- i) Discuss terms and scope of the engagement with the client and the engagement team.
- ii) Prepare an engagement letter setting forth the terms and scope of the engagement.
- iii) Read the minutes of meetings of shareholders, the board of directors and other appropriate committees in order to identify matters that could be important to the review.

iv) Inquire:

- a. if actions taken at shareholder, board of directors or comparable meetings that affect the FS have been appropriately reflected therein.
- b. about the existence of transactions with related parties, how such transactions have been accounted for and whether related parties have been properly disclosed.
- c. About contingencies and commitments.
- d. About plans to dispose of major assets or business segments.
- e. whether all financial information is recorded: Completely; Promptly; and After the necessary authorisation.
- f. whether there have been any significant changes in the entity from the previous year (e.g., changes in ownership or changes in capital structure).
- g. about the accounting policies and consider whether: They comply with the applicable AS; applied appropriately and consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.

v) Obtain:

- a. an understanding of the entity's business activities and the system for recording financial information and preparing FS.

- b. the FS and discuss them with management.
- c. explanations from management for any unusual fluctuations or inconsistencies in the FS.
- d. trial balance and determine whether it agrees with the general ledger and the FS.
- vi) Compare** the results shown in the current period FS with those shown in FS for comparable prior periods and, if available, with budgets and forecasts.
- vii) Consider:**
 - a. the adequacy of disclosure in the FS and their suitability as to classification and presentation.
 - b. the effect of any unadjusted errors – individually and in aggregate. Bring the errors to the attention of management and determine how the unadjusted errors will influence the report on the review.
 - c. obtaining a representation letter from management.
 - d. results of previous audits including accounting adjustments required.

I. Conclusion & Reporting - There should be clear written expression of negative assurance:

- i) Title
- ii) Addressee
- iii) Opening or introductory paragraph including -
 - a. Identification of the financial statement on which the review had been performed; and
 - b. A statement of the responsibility of entity's management & the responsibility of auditor
- iv) Scope paragraph, including -
 - a. A reference to this standard & to relevant laws or regulations
 - b. A statement that a review is limited primarily to inquiries and analytical procedures.
 - c. A statement that
 - An audit has not been performed
 - The procedures undertaken provide less assurance than an audit
 - An audit opinion is not expressed
- v) Statement of negative assurance
- vi) Date of the report
- vii) Place
- viii) Auditor's signature and membership number

J. Date of Report: He shall sign the review report as of the date review is completed and date of review report by auditor should not be earlier than date of signing/approval by management.

K. Changing Terms of Engagement - If no Justification for changing the terms, Auditor shouldn't agree to change, If not permitted to continue the original engagement. Then withdraw and consider whether any obligation to report these circumstances to other parties (BOD or Shareholders).

L. Negative Assurance - He shall state that -

- i) Nothing has come to auditor's attention based on review that causes him to believe that financial statements do not give a true and fair view (or not presented) in accordance with appropriate framework.
- ii) If matters come to auditor's attention that impair true and fair view, then describe those matters with quantification on financial statement and either Express qualification of negative assurance, or if effect is so material and pervasive that qualification is not adequate give an adverse statement.
- iii) If there is material scope limitation, describe the limitation and either expresses a qualification of negative assurance, or when possible effect of limitation is so significant don't provide any assurance.

SRE 2410 - REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY INDEPENDENT AUDITOR OF THE ENTITY

A. Interim Financial Information (IFI) - IFI is either a complete or condensed set of financial statements for a period shorter than entity's FY.

B. SRE 2410 is applicable when - Independent auditor of the entity is also engaged to review the IFI. He is having understanding of entity and its environment and IC. Thus, he can review IFI with much ease.

C. General Principles of review of IFI - He shall comply with Code of Ethics issued by ICAI, implement quality control procedures as per SQC and maintain professional skepticism.

D. Objectives of This SRE - It is to enable auditor to express a conclusion whether, On the basis of the review, anything has come to auditor's attention, That causes auditor to believe, That IFI is not prepared, in all material respects, in accordance with applicable FRF.

E. Agreeing the Terms of Engagement - Terms of Engagement shall cover the following:

- i) Objective of a review of IFI.
- ii) Scope of review.
- iii) Management's responsibility for:
 - a. Interim Financial Information
 - b. Establishing and maintaining effective Internal Control relevant to preparation of IFI.
 - c. Making all financial records & related information available to auditor.
 - d. Management's agreement to provide WR to auditor to confirm representations made orally during review, as well as representations implicit in entity's records. Anticipated form and content of report to be issued, including identity of addressee of report. Management's agreement that where any document containing IFI indicates that IFI has been reviewed by entity's auditor, review report will also be included in document.

F. Procedures for a Review

i. Understanding the entity and Its environment - He shall update understanding obtained during annual audits w.r.t. preparation of annual financial statements. Identify types of potential material misstatements and consider likelihood of occurrence. Perform inquiries, analytical & other review procedures. Determine nature of review procedures required for components.

ii. Inquires, Analytical and Other Review Procedures - Auditor shall make inquiries and perform Analytical and Other Review Procedures. Ordinarily auditor is not required to perform inspection/observation/confirmation. Direct external confirmations are also not necessary.

iii. Collection of Evidences - Obtain evidence that the IFI agrees or reconciles with the underlying accounting records. Examine whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the IFI. Inquire about management's assessment of going concern. When the auditor becomes aware of events or conditions casting significant doubt on the entity's ability to continue as a going concern, the auditor shall perform extended procedures.

G. Evaluation of Misstatements - Evaluate, by exercising professional judgment, whether uncorrected misstatements are material to IFI. However, he is not required to obtain reasonable assurance that WI is free of material misstatements.

i) Representations from Management - For following:

- a. Responsibility for internal control to prevent and detect fraud and error.

- b.** IFI is prepared and presented in accordance with applicable FRF.
- c.** Uncorrected misstatements are immaterial, both individually and in the aggregate, to IFI.
- d.** It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management affecting the entity. Results of its assessment of the risk of fraud. All known actual or possible non-compliance with laws and regulations affecting the IFI. All significant events that have occurred subsequent to the balance sheet date up to the date of the review report that may require adjustment to or disclosure in IFI.

ii) Auditor's Responsibility for Accompanying Information

- a.** He shall read the other information accompanying the IFI to consider whether it is inconsistent with the IFI.
- b.** If a matter comes to the auditor's attention that causes the auditor to believe that the other information is misstated, he shall discuss the matter with the entity's management.

H. Reporting –

i) Elements –

- a.** An appropriate title
- b.** An addressee, as required by the circumstances of the engagement.
- c.** Identification of the IFI including title of each statement therein.
- d.** Management responsibility for preparation of IFI.
- e.** Statement for Auditor's Responsibility for expressing a conclusion on the IFI.
- f.** Statement that review of IFI was conducted in accordance with SRE 2410.
- g.** Statement that review is substantially less in scope than an audit
- h.** Auditor's Conclusion.
- i.** The date of the report,
- j.** Place of signature.
- k.** Auditor's signature including his Membership number.
- l.** Firm registration number.

ii) Departure from applicable FRF -If a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should have been made to the IFI so that it can comply with applicable FRF then, express a qualified or adverse conclusion.

iii) Limitation on Scope- If he is unable to complete review, communicate the reason in writing to appropriate level of management/TCWG and consider whether it is appropriate to issue a report.

SAE 3400 - THE EXAMINATION OF PROSPECTIVE FINANCIAL INFORMATION

A. Prospective Financial Information (PFI) - It means financial information based on the assumptions about the events that may occur in future and possible action by management. It is, thus, a subjective concept requiring **judgment**. It may be of two types.

i) Forecast - It is based upon assumptions which management expects to take place. (Best estimate assumptions)

ii) Projection - It is based on **(a)** Hypothetical assumptions which are not necessarily expected to take place; or **(b)** Mixture of best estimate and hypothetical assumptions.

B. Management's Responsibility - Management is responsible for preparation of PFI including: • Identification and disclosure of PFI; • The basis of forecast: • Underlying assumptions.

C. Auditor's Duty

- i)** Auditor may be asked to examine and report **on** it to enhance its credibility.
- ii)** It relates to events and actions that have not yet occurred and might not occur.
- iii)** Evidence is future oriented and thus speculative.
- iv)** Auditor is not in a position to express opinion as to whether the results shown in

prospective financial information will be achieved.

v) He can provide only moderate assurance (Negative assurance).

D. Acceptance of engagement

i) He should not accept or should withdraw from engagement when assumptions are clearly unrealistic or when he believes that it will be inappropriate for its intended use.

ii) Auditor and client should agree on the terms of the engagement.

E. Knowledge of business - Auditor should obtain knowledge of the business so that he can be able to evaluate whether all required assumption have been identified, He should consider the extent of reliance that can be placed on entity's historical financial information (whether it was audited/reviewed, etc.)

F. Period covered - Auditor should consider the time period covered by prospective financial information. Assumption becomes more speculative if length of period covered increases.

G. Examination procedures - While determining NTE of Audit procedure, he should consider -

i) Knowledge obtained during any previous engagement

ii) Management's competence

iii) Likelihood of material misstatement

iv) Extent to which PFI is affected by management's judgment

v) Source of information and their reliability

vi) Stability of entity's business

vii) The experience of engagement team in this connection

H. Documentation - He should keep proper documentation to support his report and to have evidence that he has followed this standard. If report is modified, he should document the reasons also.

I. Report on examination of PFI

i) Title

ii) Addressee

iii) Identification of PFI

iv) Reference to this standard

v) Statement that management is responsible for its preparation.

vi) When applicable, a reference to the purpose and for restricted distribution of PFI.

vii) Statement that examination procedure included examination, on a test basis of evidences supporting the assumptions, amounts and other disclosures in PFI.

viii) Statement of negative assurance as to whether assumptions provide a reasonable basis for PFI.

ix) Opinion as to whether PFI is properly prepared on the basis of assumptions and presented as per relevant financial reporting framework.

x) Appropriate caveats w.r.t. achievability of results indicated by PFI.

xi) Date

xii) Place

xiii) Signature

J. Considerations

i) If presentation and disclosures are not adequate - resign or provide Qualified report.

ii) If significant assumptions don't provide reasonable basis - either resign/adverse report.

iii) If he can't perform necessary procedures - either resign or disclaimer.

SAE 3402 - ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANISATION

A. Objectives - The objectives of the service auditor are:

i) To obtain reasonable assurance about whether, in all material respects, based on suitable criteria:

a. The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period (or in the case of a type 1 report, as at a specified date);

b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period (or in the case of a type 1 report, as at a specified date);

c. Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved throughout the specified period.

ii) To report on the matters in (i) above in accordance with the service auditor's findings.

B. Definitions

i) Carve-Out Method – Method of dealing with the services provided by a subservice organization, whereby the service organization's description of its system includes the nature of the services provided by a subservice organization, but that subservice organization's relevant control objectives and related controls are excluded from the service organization's description of its system and from the scope of the service auditor's engagement. The service organization's description of its system and the scope of the service auditor's engagement include controls at the service organization to monitor the effectiveness of controls at the subservice organization, which may include the service organization's review of an assurance report on controls at the subservice organization.

ii) Complementary User Entity Controls – Controls that the service organization assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives stated in the service organization's description of its system, are identified in that description.

iii) Inclusive Method – Method of dealing with the services provided by a subservice organization, **whereby the service organization's description of its system includes the nature of the services provided by a subservice organization**, and that subservice organization's relevant control objectives and related controls are **included** in the service organization's description of its system and in the scope of the service auditor's engagement.

iv) Report On The Description And Design Of Controls At A Service Organization (Referred To In This SAE As A "Type 1 Report") – A report that comprises:

a. The service organization's **description** of its system;

b. A **written assertion** by the service organization that, in all material respects, and based on suitable criteria:

- The **description** fairly presents the **service organization's system** as designed and implemented as at the specified date;

- The **controls** related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date; and

c. A service auditor's **assurance report** that conveys reasonable assurance about the matters in (b) above.

v) Report on the description, design and operating effectiveness of controls at a service organization (referred to in this SAE as a "type 2 report") – A report that comprises:

a. The service organization's description of its system;

b. A written assertion by the service organization that, in all material respects, and based on suitable criteria:

- The description fairly presents the service organization's system as designed and implemented throughout the specified period;
 - The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and
 - The controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period; and
- c.** A service auditor's assurance report that:
- Conveys reasonable assurance about the matters in (b) above; and
 - Includes a description of the tests of controls and the results thereof.
- vi) Service organization's assertion** – The written assertion about the matters referred to in paragraph 9(k)(ii) (or paragraph 9(j)(ii) in the case of a type 1 report).
- vii) Subservice organization** – A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to user entities' internal control as it relates to financial reporting.

C. Requirements

i) Framework for Assurance Engagements - The service auditor shall not represent compliance with this SAE unless the service auditor has complied with the requirements of this SAE and the requirements of the Framework for Assurance Engagements.

ii) Ethical Requirements - The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements.

iii) Management and Those Charged with Governance - The service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact.

iv) Acceptance and Continuance - Before agreeing to accept, or continue, an engagement the service auditor shall:

a. Determine whether:

- The service auditor has the **capabilities and competence** to perform the engagement;
- The **criteria** to be applied by the service organization to prepare the description of its system will be suitable and available to user entities and their auditors; and
- The **scope** of the engagement and the service organization's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors.

b. Obtain the agreement of the service organization that it acknowledges and understands its **responsibility**

If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change.

v) Assessing the Suitability of the Criteria: In assessing the suitability of the criteria to evaluate the service organization's description of its system, the service auditor shall determine if the criteria encompass, at a minimum:

a. Whether the description presents how the service organization's system was designed and implemented,

b. In the case of a type 2 report, whether the description includes relevant details of changes to the service organization's system during the period covered by the description.

c. Whether the description omits or distorts information relevant to the scope of the service organization's system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities

vi) Materiality: When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of type 2 reports, the operating effectiveness of controls.

vii) Obtaining an Understanding of the Service Organization's System: The service auditor shall obtain an understanding of the service organization's system, including controls that are included in the scope of the engagement.

viii) Obtaining Evidence Regarding the Description: The service auditor shall obtain and read the service organization's description of its system, and shall evaluate whether those aspects of the description included in the scope of the engagement are fairly presented,

ix) Obtaining Evidence Regarding Design of Controls: The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization's description of its system, and shall assess whether those controls were suitably designed.

x) Obtaining Evidence Regarding Operating Effectiveness of Controls: When providing a type 2 report, the service auditor shall test those controls that the service auditor has determined are necessary to achieve the control objectives stated in the service organization's description of its system, and assess their operating effectiveness throughout the period. Evidence obtained in prior engagements about the satisfactory operation of controls in prior periods does not provide a basis for a reduction in testing, even if it is supplemented with evidence obtained during the current period.

a. Sampling - When the service auditor uses sampling, the service auditor shall:

- Consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn when designing the sample;
- Determine a sample size sufficient to reduce sampling risk to an appropriately low level;
- Select items for the sample in such a way that each sampling unit in the population has a chance of selection;
- If a designed procedure is not applicable to a selected item, perform the procedure on a replacement item; and
- If unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation.

b. Nature and Cause of Deviations: The service auditor shall investigate the nature and cause of any deviations identified and shall determine whether Identified deviations are within the expected rate of deviation and are acceptable, Additional testing of the control or of other controls is necessary to reach a conclusion.

xi) The Work of an Internal Audit Function

a. Obtaining an Understanding of the Internal Audit Function: If the service organization has an internal audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement.

b. Determining Whether and to What Extent to Use the Work of the Internal Auditors: The service auditor shall determine:

- Whether the work of the internal auditors is likely to be adequate for purposes of the engagement; and
- If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures.

In determining whether the work of the internal auditors is likely to be adequate for purposes of the engagement, the service auditor shall evaluate:

- The objectivity of the internal audit function;
- The technical competence of the internal auditors;

c. Using the Work of the Internal Audit Function: In order for the service auditor to use specific work of the internal auditors, the service auditor shall evaluate and perform procedures on that work to determine its adequacy for the service auditor's purposes.

d. Effect on the Service Auditor's Assurance Report: If the work of the internal audit function has been used, the service auditor shall make no reference to that work in the section of the service auditor's assurance report that contains the service auditor's opinion. In the case of a type 2 report, if the work of the internal audit function has been used in performing tests of controls, that part of the service auditor's assurance report that describes the service auditor's tests of controls and the results thereof shall include a description of the internal auditor's work and of the service auditor's procedures with respect to that work.

xii) Written Representations: The service auditor shall request the service organization to provide written representations:

- a. That re-affirms the assertion accompanying the description of the system;
- b. That it has provided the service auditor with all relevant information
- c. That it has disclosed to the service auditor any of the following of which it is aware:

xiii) Other Information: The service auditor shall read the other information, if any, included in a document containing the service organization's description of its system and the service auditor's assurance report, to identify material inconsistencies, if any, with that description. While reading the other information for the purpose of identifying material inconsistencies, the service auditor may become aware of an apparent misstatement of fact in that other information. If the service auditor becomes aware of a material inconsistency or an apparent misstatement of fact in the other information, the service auditor shall discuss the matter with the service organization. If the service auditor concludes that there is a material inconsistency or a misstatement of fact in other information that the service organization refuses to correct, the service auditor shall take further appropriate action.

xiv) Subsequent Events: If the service auditor is aware of such an event, and information about that event is not disclosed by the service organization, the service auditor shall disclose it in the service auditor's assurance report. The service auditor has no obligation to perform any procedures regarding the description of the service organization's system, or the suitability of design or operating effectiveness of controls, after the date of the service auditor's assurance report.

xv) Documentation: The service auditor shall prepare documentation that is sufficient to enable an experienced service auditor, having no previous connection with the engagement, to **understand:**

- a. The **nature, timing, and extent of the procedures performed** to comply with this SAE and applicable legal and regulatory requirements;
- b. The **results** of the procedures performed, and the evidence obtained; and
- c. **Significant matters arising** during the engagement, and the **conclusions** reached thereon and **significant professional judgments** made in reaching those conclusions.

xvi) Preparing the Service Auditor's Assurance Report

a. Content of the Service Auditor's Assurance Report - The service auditor's assurance report shall include the following basic elements:

- **A title** that clearly indicates the report is an independent service auditor's assurance report.
- An **addressee**.
- **Identification** of:
 - ~ The service organization's **description of its system**, and the service organization's assertion
 - ~ Those parts of the service organization's description of its system, if any, that **are not covered** by the service auditor's opinion.
 - ~ If the description refers to the need for complementary user entity controls, a **statement** that the service auditor has **not evaluated the suitability of design** or operating effectiveness of complementary user entity controls,
 - ~ If services are performed by a subservice organization, **the nature of activities performed by the subservice organization** as described in the service organization's description of its system and whether the **inclusive method or the carve-out method** has been used in relation to them.
- Identification of the **criteria**, and the party specifying the control objectives.
- A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors,
- A statement that the service organization is responsible for:
 - ~ Preparing the description of its system, and the accompanying assertion, including the completeness, accuracy and method of presentation of that description and that assertion;
 - ~ Providing the services covered by the service organization's description of its system;
 - ~ Stating the control objectives (where not identified by law or regulation, or another party, for example, a user group or a professional body); and
 - ~ Designing and implementing controls to achieve the control objectives stated in the service organization's description of its system.
- A statement that the service auditor's responsibility is to express an opinion on the service organization's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.
- A statement that the engagement was performed in accordance with SAE 3402,
- A summary of the service auditor's procedures to obtain reasonable assurance
- A statement of the limitations of controls and, in the case of a type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.
- The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:
 - ~ In the case of a type 2 report:
 - The description fairly presents the service organization's system that had been designed and implemented throughout the specified period;
 - The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and
 - The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.
 - ~ In the case of a type 1 report:
 - The description fairly presents the service organization's system that had been designed and implemented as at the specified date; and
 - The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date.
- The date of the service auditor's assurance report, which shall be no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the opinion.

- **Practitioner's Signature**-The report should be signed by the practitioner in his personal name. Where the firm is appointed, the report should be signed in the personal name of the engagement partner and in the name of the firm. He shall mention the membership number the registration number of the firm.
- The place of signature – the report should name specific location, which is ordinarily the city where the report is signed.

b. Modified Opinions - If the service auditor concludes that:

- The service organization's description does not fairly present, in all material respects, the system as designed and implemented;
- The controls related to the control objectives stated in the description were not suitably designed, in all material respects;
- In the case of a type 2 report, the controls tested, which were those necessary to provide reasonable assurance that control objectives stated in the service organization's description of system were achieved, did not operate effectively, in all material respects; or
- The service auditor is unable to obtain sufficient appropriate evidence, the service auditor's opinion shall be modified, and the service auditor's assurance report shall contain a clear description of all the reasons for the modification.

xvii) Other Communication Responsibilities - If the service auditor becomes aware of non-compliance with laws and regulations, fraud, or uncorrected errors attributable to the service organization that are not clearly trivial and may affect one or more user entities, the service auditor shall determine whether the matter has been communicated appropriately to affected user entities. If the matter has not been so communicated and the service organization is unwilling to do so, the service auditor shall take appropriate action.

SRS 4400 - ENGAGEMENT TO PERFORM AGREED UPON PROCEDURE REGARDING FINANCIAL INFORMATION

A. Objective – The objective is to carry out procedure of audit nature, to which the auditor and the entity and any appropriate third parties have agreed and to report on factual finding thereon. The report is generally restricted to those parties that have agreed to the procedures to be performed.

B. Principles Of Agreed Upon Procedure - Auditors should comply with the Code of Ethics issued by ICAI. Ethical principle are: **(i)** Integrity; **(ii)** Objectivity **(iii)** Professional competence and due care; **(iv)** Confidentiality **(v)** Professional conduct; and **(vi)** Technical standard. Independence is not required compulsorily. But if he's not independent, he should refer it in his Report

C. Defining Terms Of Engagement - There should be clear understanding regarding the agreed procedures including the following:

(i) Nature of the engagement **(ii)** Purpose **(iii)** Identification of the financial information **(iv)** Nature, timing and extent of the specific procedures **(v)** Limitation on distribution of the report of factual findings If such limitation would be in conflict with the legal requirements, the auditor would not accept the engagement.

D. Planning – The auditor should plan the work so that an effective engagement can be performed.

E. Documentation – He shall document important matters to support the report of factual findings and to provide evidence that engagement was performed as per this standard and terms of engagement

F. Procedures & Evidence - Auditors should carry out agreed upon procedures (such as computation, comparison, observation, inspection and obtaining confirmations) to use evidence obtained there from as basis for report of factual findings.

G. Reporting - The report of factual findings should contain:

- i) Title;
- ii) Addressee;
- iii) Identification of specific financial or non-financial information to which the agreed- upon procedures have been applied.
- iv) A statement that the procedures performed was those agreed-upon with the recipient.
- v) A statement that the engagement was performed in accordance with this standard and terms of engagement.
- vi) Identification of the purpose.
- vii) A listing of the specific procedures performed.
- viii) A description of the auditor's factual findings including sufficient details of errors and exceptions found.
- ix) A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.
- x) A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
- xi) A statement (when applicable) that the report relates only to the elements and that it does not extend to the entity's financial statements taken as a whole
- xii) Date of the report.
- xiii) Place of signature.
- xiv) Auditor's signature.

Report should be signed by the auditor in his personal name. Where the firm is appointed, the report should be signed in the personal name of the auditor and in the name of the firm. Also mention the membership number.

SRS 4410 - ENGAGEMENTS TO COMPILE FINANCIAL INFORMATION

A. Objective of Compilation Engagement – The objective is to collect, classify and summaries financial information by using accounting expertise.

B. Principles of a Compilation Engagement - Auditors should comply with the Code of Ethics issued by ICAI. Ethical principle are: **(i)** Integrity; **(ii)** Objectivity **(iii)** Professional competence and due care; **(iv)** Confidentiality (v) Professional conduct; and **(vi)** Technical standard. Independence is not required compulsorily. But if he's not independent, he should refer it in his Report

C. Management's Responsibility –The management is responsible for:

- i) Ensuring correctness & completeness of **financial information** generated in the entity.
- ii) Maintaining **Accounting Records** and **Internal Controls**.
- iii) Selecting and applying appropriate **accounting policies**.
- iv) Establishing controls for safeguarding the assets **and detecting frauds**.
- v) Ensuring compliance with **laws** and regulation.
- vi) Complete disclosure of all material and relevant information to the accountant.

D. Defining terms of engagement - He should send an engagement letter listing the key terms of appointments to **avoid** misunderstanding. It includes the following:

- i) **Nature** of the **engagement**.
- ii) Fact that engagement can't be relied upon to **disclose fraud**, etc. but if accountant

comes across any such matter, he'll tell management about same.

iii) Nature of information to be supplied by client.

iv) Fact that management is responsible for:

- a.** Complete disclosure of all material and relevant information to the accountant;
- b.** Ensuring correctness & completeness of financial information generated in the entity;
- c.** Maintaining Accounting Records and Internal Controls;
- d.** Selecting and applying appropriate accounting policies;
- e.** Establishing controls for safeguarding the assets and detecting frauds;
- f.** Ensuring compliance with laws and regulation.

v) Intended use and distribution of information.

vi) Basis of accounting.

vii) Unrestricted access to documents records etc.

viii) Basis for fee computation and billing arrangements

ix) Fact that management is responsible to users for compiled information

x) Request for client to confirm the terms of engagement by acknowledging receipt of engagement letter.

E. Planning - He should plan the work for effective performance of work.

F. Documentation - He shall document important matters to provide evidence that engagement was performed as per this standard and terms of engagement.

G. Procedures and evidences

i) General Procedures - He should –

- a.** Obtain the general knowledge of business and operations of the entity
- b.** Be familiar with Accounting principles and practices of industry in which entity operates
- c.** Understand form and content of financial statements / information which is appropriate in the circumstances.
- d.** Request management representation letter on significant matters
- e.** Read compiled information to consider whether it appears to be appropriate in form and free from obvious misstatement

ii) Procedures in exceptional circumstances - If information by management is expected to be incorrect, incomplete, or unsatisfactory, than he should **make enquiries of management**, assess internal controls, or verify any matters and explanations. He shall request management to provide additional information; If management **refuses to provide additional information**; he should withdraw from engagement informing entity of the reasons for the withdrawal

H. Special Consideration

i) For Clients having

Identified Financial Reporting Framework	No Identified Financial Reporting Framework
If material departure from requirements of same, it should be included in:	Different basis of compilation should be included in:
(i) Notes to A/c and (ii) Accountant's report on compilation	(i) Notes to A/c and (ii) Accountant's report on compilation

ii) Non - Compliance with applicable Accounting Standard - He should bring this to management's attention; if not rectified by management; it should be included in Notes to accounts and Accountants report.

iii) If it appears to accountant that some estimate is unreasonable, he should draw management's attention towards this.

iv) If he becomes aware of material misstatements - Accountant should persuade management to amend the financial information. If management doesn't make them and

thus financial information is still misleading; Accountant should withdraw from engagement
v) Financial information compiled should be approved by client before signing the compilation report by accountant. The word 'audit' should not be used anywhere. He shouldn't prepare financial statements etc. on his letter head as it may mislead the user.

I. Report

i) Title: Title of the report should be "Accountant's Report on Compilation of Un-audited Financial Statements.

ii) Addressee: addressed to the appointing authority.

iii) Identification of the financial information also noting that it is based on the information provided by the management.

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

v) A statement that the management is responsible for:

a. Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant;

b. Maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;

c. Preparation and presentation of financial statements or other financial information in accordance with the applicable laws and regulations, if any;

d. Establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.

e. Establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any non-compliance.

vi) A statement that the engagement was performed in accordance with this standard;

vii) A statement that neither an audit nor a review has been carried out and that accordingly no assurance is expressed on the financial information;

viii) A paragraph, when considered necessary, drawing attention to the disclosure of material departures from the identified financial reporting framework;

ix) Date of report

x) Place

xi) Accountant's signature: The report on compilation of financial information should be signed by the accountant in his personal name and in the name of the firm. Also mention the membership number.

xii) Financial statements compiled by the accountant should contain a reference such as "Unaudited", "Compiled without Audit or Review" and also "Refer to Compilation Report" on each page or on the front of financial statements.

SQC 1 - QUALITY CONTROL FOR FIRMS THAT PERFORM AUDIT AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION AND OTHER ASSURANCE & RELATED SERVICES ENGAGEMENTS

A. Definitions -

i) Engagement Partner - Partners other person in firm (C.A full time in practice) responsible for engagement & report thereon.

ii) Engagement Quality Control (Q.C.) Review - Process to evaluate the judgment & conclusions of Engagement Team before report is issued.

iii) Engagement Q.C. Reviewer - Partner/Other person in firm /external person or a team to conduct Review.

iv) Network Firm - Entity under common control ownership or management with firm (Nationally / internationally).

B. Elements of Quality Control - Firms Q.C. should include Policies w.r.t. following -

i) Leadership Responsibilities for Quality within firm

- a. Establish Policies & Procedures to promote good internal culture.
- b. **CEO/**Managing partners should assume ultimate responsibility for firm's **Q.C.**
- c. They should assign these responsibilities to experienced and able persons in the firm.

ii) Ethical Requirements - Establish policies & Procedures to ensure compliance with following:

- a. Integrity
- b. Objectivity
- c. Professional competence & due care
- d. Confidentiality
- e. Professional behavior

They should ensure Proper (w.r.t. above (a)-(e) points) - Education & Training, Monitoring, Process for dealing with non- compliance, Leadership.

iii) Independence

- a. Establish Q.C. to maintain Independence. Thus:
 - Communicate Independence requirements to personnel
 - Identify threats to Independence
 - Try to eliminate those threats or to withdraw from engagements
- b. Such policies & procedures should require:
 - Engagement Partner to inform the firm about client engagements so that firm can evaluate the impact on independence.
 - Personnel to promptly notify firm any threat to independence.
 - Communication of relevant information to appropriate personnel to comply with independence requirements and action to be taken in case of breach of same.
- c. In case of breach of independence, firm should communicate the same to relevant EP & other personnel so that they can take appropriate action for the same.
- d. At least annually, firm should obtain written confirmation of compliance with independence from relevant firm personnel.
- e. They should set criteria for reducing the familiarity threat (when same personnel are performing an engagement over a long time).
(E.g.: - For listed entity, audit engagement partner should be rotated after pre- defined period maximum 7 Years).

iv) Acceptance & continuance of client relationship and specified engagements

- a. Ensure that it will undertake / continue relationships only where it: -
 - Has considered integrity of client
 - Is competent to perform the engagement.
 - Can comply with ethical requirements
- b. In case, such issues are identified & firm takes up! continue the engagement; it should document how issues were resolved.
- c. After taking up work, if firm obtains information that would have caused it to decline an engagement if information had been available earlier, then consider -
 - Communicating it to appointing authority & regulatory authority; & • Possibility of withdrawing from the engagement or from both the engagement & client relationship.

v) Human Resources - a. Establish Q.C polices & Procedure to reasonable assure that it has sufficient personnel (capable, competent & committed) to perform its engagement as per professional standard & regulatory requirements & to issue appropriate reports.

b. Firm should assign appropriate staff to perform engagements.

vi) Engagement Performance - Establish Q.C to reasonably assure that engagements are performed as per Professional standards & legal requirements & report is appropriate in circumstances.

a. Consultation - Ensure:

- Consultation of different matters.
- Documentation of consultation.
- That conclusions of consultation are also documented.

b. Difference of opinion - Establish Q.C to resolve difference of opinion within engagement Team, with those consulted & engagement partner & engagement Q.C reviewer (Documentation also). After resolution of matter, report is issued.

c. Engagement Q.C Review - Ensure:

- Q.C reviews for all audits of listed entities.
- Criteria to determine whether an engagement Q.C Review should be performed &
- Engagement Q.C Review for all engagement meeting aforesaid criteria.

It should be completed before report is issued.

Also decide the:

~ NTE of engagement Q.C Review,

~ Eligibility criteria for reviewers &

~ Documentation requirements for reviews.

- Reviewer should be technically competent and objective.

d. Completion of assembly of final engagement Files -

Assembly of files on a timely basis after engagement reports have been finalized.

e. Confidentiality etc. of engagement Documentation:

- Ensure confidentiality, safe custody, integrity, accessibility and irretrievability of engagement documentation.
- Ensure retention of engagement documentation for sufficient period. (At least for 7 years)

vii) Monitoring

a. Q.C Policies & Procedure to ensure that Q.C. system is adequate, relevant, operating effectively and complied with in practice.

b. It includes ongoing evaluation of firms system of Q.C. including a periodic inspection of completed engagements.

c. Evaluate effect of deficiencies:

- Instances that may not indicate insufficiency of firm **Q.C**
- Systematic, repetitive or other significant deficiencies requiring prompt corrective action.

d. Firm should communicate to relevant engagement partner, deficiencies noted.

e. When indication as to inappropriateness of report or omission of necessary procedures, the firm should determine further action (legal advice).

f. At least annually, the firm should communicate the result of monitoring to its engagement partners & firm's CEO / managing partners, information including:

- Description of monitoring procedures
- Conclusion of monitoring procedures
- Significant deficiencies & action taken (if any)

g. Firm should also ensure proper dealing with complaints & Allegations about non Compliance with legal or Professional standards & firm's system of Q.C.

C. Documentation - Firm should keep documentation as to operation of each element of its system of Q.C.

CASE STUDIES

Q1. While auditing Z Ltd., you observe certain material FS assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements?

Hint Ans: Refer SA 540 Point No. D-iv

Q2. The management of S Ltd. requests you not to seek confirmation from its debtors. As the auditor of S Ltd., what can be an appropriate response?

Hint Ans: Refer SA 505 Point No. C (ii)

Q3. The audit report of P Ltd. for the year 2008-09 contained a qualification regarding non-provision of doubtful debts. As the statutory auditor of the company for the year 2009-10, how would you report, if?

(a) The company does not make provision for doubtful debts in 2008-09?

(b) The company makes adequate provision for doubtful debts in 2008-09?

Hint Ans: Refer SA 710 Point No. E-(ii-a)

In the instant Case, if P Ltd. does not make provision for doubtful debts the auditor will have to modify his report for both current and previous year's figures as mentioned above. If however, the provision is made, the auditor need not refer to the earlier year's modification.

Q4. The directors of C Ltd. are concerned about the reliability and usefulness of the monthly financial management information that they receive. As a result, the company's auditors have been engaged to review the system and the information it generates, and to report their conclusions.

(a) What an ordinary procedure includes for the review of FS?

(b) Contrast this assignment with the statutory audit of the company's financial statements with regard to the scope of the assignment and to the report issued.

Hint Ans: (a) Refer SRE 2400 Point No. H

(b) Contrast of a review assignment with the statutory audit of the company's FS with regard to the scope of the assignment and to the report issued is hereunder:

SCOPE	
Review assignment	Statutory audit
Scope of Review assignments are generally falls in agreement between parties	Scope of Statutory audit should be in accordance with the Companies Act, 1956 or in accordance with other statute.
Scope of Review assignments is restricted to instructions	Scope of Statutory audit should be in accordance with Audit Regulations and Norms
Review assignment should be done in accordance with SREs	Statutory audit should be conducted in accordance with SAs, 14 Statements and Guidance Notes etc

REPORT	
Review assignment	Statutory audit
Report of Review Assignment is addressed to the board	Statutory Audit Report is addressed to the members
Format of Report of Review assignment is wholly discretionary	Statutory Audit Report is on true and fair view and as per prescribed format.
Report of Review Assignment is private report	Statutory Audit Reports are in public domain

Q5. You are appointed statutory auditor of X Ltd. X Ltd. has an internal audit system and reports for the same are given to you. Mention the factors you will consider to ensure that the said system of internal audit of X Ltd. is commensurate with the size of the company and nature of its business.

Hint Ans: Refer "SA 610" Point No. D (ii)

Q6. You are an audit senior working for the firm Kala & Company. You are currently carrying out the audit of W Ltd., a manufacturer of waste paper bins. You are unhappy with W Ltd.'s inventory valuation policy and have raised the issue several times with the audit manager. He has dealt with the client for a number of years and does not see what you are making a fuss about. He has refused to meet you on site to discuss these issues. The former engagement partner to W Ltd. retired two months ago. As the audit manager had dealt with W Ltd. for so many years, the other partners have decided to leave the audit of W Ltd. in his capable hands. Comment on the situation outlines above.

Hint Ans: Refer SA 220 Point No. C-(vi-e)

Q7. While commencing the statutory audit of B Company Limited, the auditor undertook the risk assessment and found that the detection risk relating to certain class of transactions cannot be reduced to acceptance level.

Hint Ans: SA 315 and SA 330 "Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment" and "The Auditor's Responses to Assessed Risks" establishes standards on the procedures to be followed to obtain an understanding of the accounting and IC systems and on audit risk and its components: inherent risk, control risk and detection risk. SA 315 and SA 330 require that the auditor should use professional judgement to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level. "Detection risk" is the risk that an auditor's substantive procedures will not detect a misstatement that exists in an account balance or class of transactions that could be material. The higher the assessment of inherent and control risks, the more audit evidence the auditor should obtain from the performance of substantive procedures. When both inherent and control risks are assessed as high, the auditor needs to consider whether substantive procedures can provide sufficient appropriate audit evidence to reduce detection risk, and therefore audit risk, to an acceptably low level. The auditor should use his professional judgement to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level. If it cannot be reduced to an acceptable level, the auditor should express a qualified opinion or a disclaimer of opinion as may be appropriate.

Q8. While auditing accounts of a public limited company for the year ended 31st March 2011, an auditor found out an error in the valuation of inventory, which affects the FS materially – Comment as per standards on auditing.

Hint Ans. Refer SA 240 Point No. E-vi (b), (c) and (d)

Q9. At the statutory audit of TOR Limited, the physical verification of fixed assets was conducted. However the auditor was not able to confirm the existence of valuables and important machinery. In this connection, the auditor obtained a certificate from the management to prove its existence and value and accepted the same blindly without any further procedures.

Hint Ans: The physical verification of fixed assets is the primary responsibility of the management. The auditor, however, is required to examine the verification programme. Further, he must satisfy himself about the existence, ownership, procession and valuation of fixed assets. It appears from the facts of the case that the auditor has not been able to verify either existence or valuation of significant fixed assets despite conducting physical verification audit procedure himself. Ultimately, he accepted the certificate from the

management without performing further procedures. As per **SA 580 (Revised)**, "Written Representations", representation by management **cannot be a substitute** for other audit evidence that the auditor could reasonably expect to be available. Thus, a representation by management as to the existence of valuables and machinery is no substitute for adopting normal audit procedures regarding verification of valuable and important machinery. If the auditor is unable to obtain sufficient appropriate audit evidence that he believes will be available, this will constitute a limitation on the scope of his examination even if he has obtained a representation from management on the matter and the auditor may express a disclaimer of opinion.

Q10. In the course of the audit of R Ltd., the audit manager of ABC & Co. observed that R Ltd. has outsourced certain activities to an outsourcing agency. As the engagement partner guide the audit manager in the assessment of services provided by the outsourcing agency in relation to the audit.

Hint Ans: Refer SA 402 Point No. E (i)

Q11. In the course of audit of T Ltd., the audit team is not sure of the possible source of misstatements in the FS. As the audit manager identify the sources of misstatements.

Hint Ans: Refer SA 450 Point No. B (ii)

Q12. The teeming & lading fraud was detected and the amount involved was subsequently deposited by the Executive Director of the company & therefore, need not be reported upon.

Hint Ans: It will be necessary for the auditor to bring to the notice of the shareholders about the teeming and lading fraud since the same had been committed by the Executive Director. Such an event shows that the **internal control systems** are quite weak in the organization and the top **management** is in a position to **abuse its authority**. The mere fact that no loss to the company has occurred would not preclude the auditor from bringing it to the notice of the shareholders. A **suitable disclosure** is called for, particularly, in view of the fact that the fraud has been committed by the Executive Director. Even **SA-240 (Revised)** on Auditors responsibilities relating to the fraud in an audit of FS require specifically, if the auditor identifies a misstatement, whether material or not, and the auditor has reason to believe that it is or may be the result of fraud and that management is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the NTE of audit procedures to respond to the assessed risks. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

Conclusion: Thus, the auditor should also consider the implications of the circumstances on the true and fair view which the FS ought to convey and frame his report accordingly.

[Note: The question does not specify the amount of money involve. Therefore, it is difficult to apply the criterion of materiality.]

Q13. "Auditor's assessment of materiality may be different at the time of planning the engagement than at the time of evaluating the results of his audit procedures". Discuss.

Hint Ans: SA 320 on "Materiality in Planning and Performing an Audit" recommends that the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the FS and in forming the opinion in the auditor's report. **SA 450** "Evaluation of Misstatements Identified during the Audit", explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the FS. While formulating an overall audit plan, **SA 300 (Revised)** on "Planning an Audit of FS" also requires the auditor to consider the

setting of materiality levels for audit purpose right from the initial stages and throughout the process of conducting the audit till the audit opinions is formulated. However, the auditor's assessment of materiality may be **different** at the time of initially planning the engagement than at the time of evaluating the results of his audit procedures. Since audit materiality related to specific amount balances and classes of transactions, helps the auditor decide such questions as what items to examine and whether to use sampling and analytical procedures. This enables the auditor to select audit procedures that, in combination, can be expected to support the audit opinion at an acceptably low degree of audit risk. Such selection of audit procedures would undergo a change as audit work progress. The assessment of materiality and audit risk the stage of evaluating the results of audit procedures would also change because of a change in circumstances or a change in the auditor's knowledge as results of audit. For example, if the audit is planned prior to period end, the auditor will anticipate the results of operations and the financial position. If actual results of operations and financial position are substantially different, the assessment of materiality and audit risk may also change. Additionally the auditor may, in planning the audit work, intentionally set the acceptable cut-off level for verifying individual transactions at a lower level than is intended to be used to evaluate the results of the audit. This may be done to cover a larger number of items and thereby reduce the likelihood of undiscovered misstatements and to provide the auditor with the major of safety when evaluating the effect of misstatements discovered during the audit.

QUESTIONS

Q1. Comment on the following:

(a) You are the auditor of Easy Communications Ltd. for the year 2007–08. The inventory as at the yearend i.e. 31.3.08 was Rs. 2.25 crores. Due to unavoidable circumstances, you could not be present at time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order? (5 Marks) **(Nov 2008)**

(b) You have been appointed as auditor of Good Health Ltd. for 2007-08 which was audited by CA Trustworthy in 2006-07. As the Auditor of company state the steps you would take to ensure that the Closing Balances of 2006-07 have been brought to account in 2007-08 as Opening Balances & Opening Balances do not contain misstatements.(5 Marks) **(Nov 2008)**

Q2. Short notes on Frauds through supplier ledger (4 Marks) (Nov 2008 & May 2011)

Q3. (a) In the course of the audit of R Ltd., the audit manager of ABC & Co. observed that R Ltd. has outsourced certain activities to an outsourcing agency. As the engagement partner guide the audit manager in the assessment of services provided by the outsourcing agency in relation to the audit. (4 Marks) **(May 2011)**

(b) In the course of audit of T Ltd., the audit team is not sure of the possible source of misstatements in FS. Identify the sources of misstatements. (4 Marks) **(May 2011)**

(c) While auditing Z Ltd., you observe certain material FS assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements? (6 Marks) **(May 2011)**

(d) The management of S Ltd. requests you not to seek confirmation from its debtors. As the auditor of S Ltd., what can be an appropriate response?(6 Marks) **(May 2011)**

Q4. Y Ltd. engaged an actuary to ascertain its employee cost, gratuity & leave encashment liabilities. As the auditor of Y Ltd., you would like to use the report of the actuary as audit evidence. How do you evaluate the work of the actuary? (8 Marks) **(May 2011)**

Q5. Short notes on Guidance note on Audit of Misc. Expenditure. (4 Marks) (Nov 2010)

Q6. While doing audit, Ram, the Auditor requires reports from experts for the purpose of Audit evidence. What types of reports/opinions he can obtain and to what extent he can rely upon the same? (4 Marks) **(Nov 2010)**

Q7. (a) In the course of audit of ABC Ltd. its management refuses to provide written representations. As an auditor what is your duty? (4 marks) **(May 2010)**

(b) While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind? (4 marks) **(May 2010)**

(c) Auditor's responsibilities in respect of corresponding figures? (4 marks) **(May 2010)**

(d) IT systems also pose specific risks to an entity's internal control? What are those risks? (4 Marks) **(May 2010)**

Q8. Answer the following:

(a) You are appointed statutory auditor of X Ltd. X Ltd. has an internal audit system and reports for the same are given to you. Mention the factors you will consider to ensure that the said system of internal audit of X Ltd. is commensurate with the size of the company and nature of its business. (8 Marks) **(June 2009)**

(b) Audit report of P Ltd. for year 2007-08 contained a qualification regarding non-provision of doubtful debts. As auditor of company for the year 2008-09, how would you report, if:

i) The company does not make provision for doubtful debts in 2008-09?

ii) Company makes adequate provision for doubtful debts? (8 Marks) **(June 2009)**

Q9. Moon Limited replaced its statutory auditor for the financial year 2008-09. During the course of audit, the new auditor found a credit item of Rs. 5 lakhs. On enquiry, the company explained him that it is, a very old credit balance. The creditor had neither approached for the payment nor is he traceable. Under the circumstances, no confirmation of the credit balance is available. Comment (5 Marks) **(Nov 2009)**

Q10. Explain briefly duties and responsibilities of an auditor in case of material misstatement resulting from Management Fraud. (6 Marks) **(Nov 2009)**

Q11. Briefly explain the audit procedures on subsequent events (4 Marks) **(Nov 2009)**

Q12. Comment on the following:

(a) You are appointed to compile FS of Y & Co. for tax purposes. During the course of work, you learn that the inventory is grossly understated. On pointing the same, the partners of Y & Co. tell you that since you are not conducting an audit, the said figures duly certified by the firm should be accepted. (5 Marks) **(June 2009)**

(b) While conducting statutory Audit of ABC Ltd., you come across IOUs amounting to Rs. 2 crores as against a cash balance shown in books of Rs. 2.10 crores. You also observe that despite similar high balances throughout the year, small amounts of Rs. 50,000 are withdrawn from the bank to meet day-to-day expenses. (5 Marks) **(June 2009)**