Section - I

Auditing and Assurance Standards

1. What are Auditing Standards?

In the simplest terms, auditing standards represent a codification of the best practices in the field of auditing. Auditing Standards are therefore, the performance benchmarks for the auditor. Auditing Standards for the professionals on how they should carry out their professional engagement, enshrined as the basic principles and essential procedures to apply those basic principles that relates to judgment or behaviour. The objective of the auditing standards is to a large extent serving the public interest.

2. Need for Auditing Standards

Formulation of Auditing Standards worldwide, including India, entails consideration of important factor's such as existing and accepted auditing practices in auditing, existing laws and regulations, usage and customs of trade and commerce, fundamental financial reporting principles, expectation of society from the auditor, Auditing standards therefore play critical role in –

1. Ensuring application of accepted financial reporting standards thereby lending credibility and wider acceptability to the financial statements.
2. Providing benchmarks against which the performance of the members can be measured and evaluated at global level also.
3. Ensuring compliance with the applicable legislative and regulatory framework.
4. Ensuring right approach of the professionals in complex/emerging areas of audit.
5. Ensuring consistency and quality in the work performed by the professionals.

Note → The Auditing Standards therefore are an important instrument for bring the expectation gap between the society and the Auditor.

3. Features of an Effective Auditing Standards

4. Auditing Standard – setting in India

The auditing standards in India are formulated by the Auditng and Assurance Board (AASB) of the ICAI. This Standards formulated by the AASB are issued under the authority of the Council of the Institute and are mandatory in nature. This implies that while carrying out their attest functions, it will be the duty of the members of the Institute to comply with these Standards. If for any reason a member has not been able to perform an audit in accordance with the applicable Standards, his report should draw attention to the material departures therefrom.

5. The Revised Preface

The Auditng profession in Indi too, which is looking forward to be reckoned among the best in the world and be accepted globally, this necessity comes as a necessary unavoidable. The AASB, as a top priority, has taken on the ambitious project of convergence with the International Standards issued by the International Auditng and Assurance Standards Board. As a first step towards convergence, it has, after going through its rigorous due process, in July 2007 published the Revised Preface of SQC, Auditing, Review, Other Assurance and Related Services, corresponding to its namesake issued by the IAASB in 2006. The Revised Preface, applicable from the April 1, 2008, has changed the face of the auditing literature, introducing some more fundamental concepts to the existing ones. The following paragraphs give a gist of the significant provisions of the Revised Preface.

5. Engagement Standards

Hitherto all the Auditing Standards issued by the AASB were known as the Auditing and Assurance Standards. The Revised Preface categorized and christens the Standards based on the nature of services being provided by a member. It therefore, introduces an umbrella concept of Engagement Standards. The terms "Engagement Standards"comprise the following Standards –

(a) Standards on Auditing (SAs), to be applied in the audit of historical financial information.

(b) Standards on Review Engagements (SREs), to be applied in the review of historical financial information.

(c) Standards on Assurance Engagements (SAEs), to be applied in assurance engagements, other than historical financial information.

(d) Standards on Related Services (SRSs), to be applied to engagements involving application of agreed- upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

Note → **The Revised Preface therefore, does away with the nomenclature "Auditng and Assurance Standards". It contains provisions for Standards, to be known as the Standards on Quality Control (SQCs), which would be fundamental to all the services covered by the Engagement Standards.**

8. Standards on Auditing

The Standards on Auditng (SAs) referred to in the point no. 5 above are formulated in the context of an audit of Financial Statements by an Independent Auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical Financial Information

7. New Format of Presenting the Standards on Auditing

In line with the format adopted by the IAASB under its Clarity Project, the Revised Preface provided that instead of a running text, the Standards on Auditing would now contain TWO distinct sections, ONE the Requirements Section and, Other one , The Application Guidance Section.

8. Requirements Section

The Fundamental Principles of the Standard are contained in the Requirements section and represented by use of "SHALL". Hitherto the word, "SHOULD" was used in the Standards, for this purpose. Further, this format also does away with the need to present the principles laid down by the Standards in bold text.

9. Application Material

The application and other explanatory material contained in an SA are an integral part of the SA as they provide further explanation of, and guidance for carrying out, the requirements of an SA, along with the background information on the matters addressed in the SA. These may include examples of procedures, some of which the auditor may judge to be appropriate in the circumstances. Such guidance is, however, not intended to impose a requirement.

The Revised Preface also contains the principles as to when a SA would be inapplicable as also the reporting responsibilities of the members in case of non compliance with any of the Standards.

10. Authority Attached

The Revised Preface also contains the authority attached to various documents issued by the Council or the AASB under the authority of the Council of the Institute, viz., Standards, Statements, Guidance Notes, General Clarifications, Studies, etc.

11. Renumbering of Standards

The provisions of the Revised Preface, coupled with the difficulties otherwise being faced by the Board in writing Standards on the conventions followed by the IAASB, necessitated the need to adopt a new numbering pattern for the auditing standards. Whereas hitherto the auditing standards have categorized on the basis of the specific aspect of audit that they deal with and accordingly allotted the numbers from that category. These categories are as follows –

S.N.	*Category*	*Number Series*
1	**Standards on Quality Control**	01 – 99
2	**Introductory Matters**	100 – 199
3	**General Principles and Responsibilities**	200 – 299
4	**Risk Assessment and Responses to Assessed Risks**	300 – 499
5	**Audit Evidence**	500 – 599
6	**Using Works of Others**	600 – 699
7	**Audit Conclusions and Reporting**	700 – 799
8	**Specialised Areas**	800 – 899
9	**Standards on Review Engagements**	2000 – 2699
10	**Standards on Assurance Engagement**	3000 – 3399
11	**Subject Specific Standards**	3400 – 3699
12	**Standards on Related Services**	4000 – 4699

Some Additional Points

Comprehensive List of Revised/New Standards on Auditng (SAs) issued by AASB under Clarity Project

Note → Effective date means that the SA is effective for audits of the Financial Statements for periods beginning on or after the specified date.

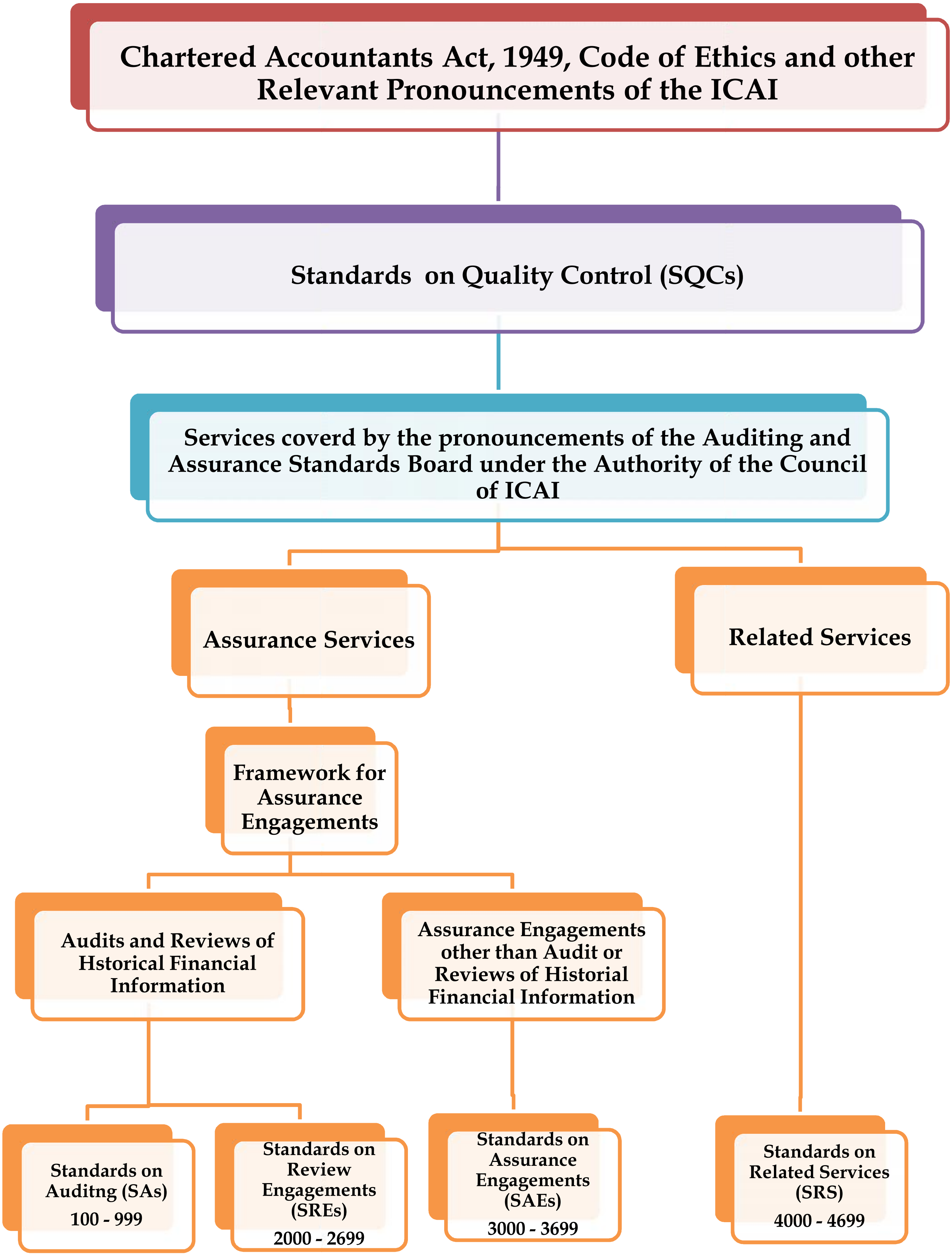
Quality Control						
Std. No. (SQC) (1 – 99)	**Title of Standard on Auditing**	**Published in Journal**	**Date from which effective**			
			April 1, 2008	**April 1, 2009**	**April 1, 2010**	**April 1, 2011**
SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	October, 2007		✓		
Audits and Reviews of Historical Financial Information						
Std No. (SA) (100-999)	**Standards on Auditing (SAs)**					
200-299	**General Principles and Responsibilities**					
200 (R)	Overall Objective of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditng	March, 2010			✓	
210 (R)	Agreeing the Terms of Engagements	September, 2009			✓	
220 (R)	Quality Control for an Audit of Financial Statements	March, 2010			✓	
230 (R)	Audit Documentation	January, 2009		✓		
240 (R)	The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements	December, 2007		✓		
250 (R)	Consideration of Laws and Regulations in an Audit of Financial Statements	December, 2008		✓		
260 (R)	Communication with Those Charged with Governance	December, 2008		✓		
265	Communicating Deficiencies in Internal Control to those Charged with Governance and Management	September, 2009			✓	
299	Responsibility of Joint auditors		Effective for all audits related to accounting periods beginning on or after April 1, 1996			
300 – 499	**Risk Assessment and Response to Assessed Risks**					
300 (R)	Planning an Audit of financial Statements	December, 2008	✓			
315	Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment	February, 2008	✓			
320 (R)	Materiality in planning and Performing the Audit	August, 2009			✓	

330	The Auditor's Responses to Assessed Risks	February, 2008	✓			
402 (R)	Audit Considerations Relating to Entities using Service Organisations	August, 2009			✓	
450	Evaluation of Misstatements Identified During the Audit	August, 2009			✓	
500 – 599	**Audit Evidence**					
500 (R)	Audit Evidence	April, 2009		✓		
501 (R)	Audit Evidence—Specific Considerations for Selected Items	March, 2010			✓	
505 (R)	External Confirmations	March, 2010			✓	
510 (R)	Initial Audit Engagements—Opening Balances	March, 2009			✓	
520 (R)	Analytical Procedures	March, 2010			✓	
530 (R)	Audit Sampling	February, 2009		✓		
540 (R)	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	February, 2009		✓		
550 (R)	Related Parties	March, 2009			✓	
560 (R)	Subsequent Events	January, 2009		✓		
570 (R)	Going Concern	December, 2008		✓		
580 (R)	Written Representations	October, 2008		✓		
600 – 699	**Using Work of Others**					
600	Using the Work of Another Auditor		Effective for all audits related to accounting periods beginning on or after April 1, 2002			
610 (R)	Using the Work of Internal Auditors	August, 2009			✓	
620 (R)	Using the work of an Auditor's Expert	March, 2010			✓	
700 – 799	**Audit Conclusion and Reporting**					
700* (R)	Forming an Opinion and Reporting on Financial Statements	February, 2009				✓
705*	Modifications to the Opinion in the Independent Auditor's Report	February, 2010				✓
706*	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	February, 2010				✓
710 (R)	Comparative Information—Corresponding Figures and Comparative Financial Statements	April, 2010				✓
720	The Auditor's Responsibility in relation to Other Information in Documents containing Audited Financial Statements	April, 2010			✓	

* The Council of the ICAI, in partial modification of the decision taken by its at its 291st meeting held in December 2009, has decided that the effective date/applicability of three standards viz. SA 700 (Revised), SA 705 and SA 706 be postponed by one year and consequently the said Standards shall now be effective/applicable for audits of Financial Statements for periods beginning on or after 1st April, 2012 (instead of audits of Financial Statements for periods beginning on or after 1s April, 2011 as was earlier decided.

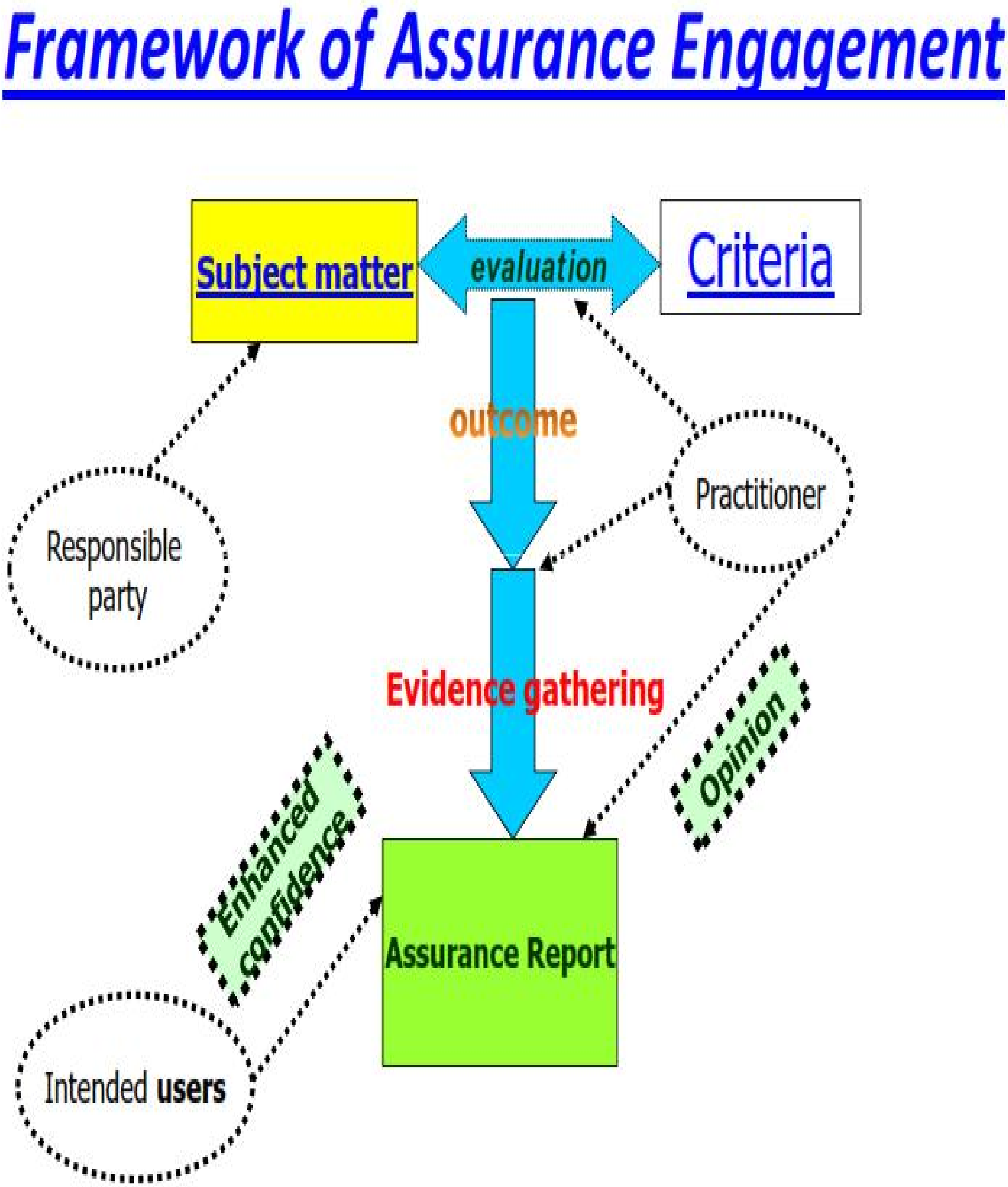
800 – 899	**Specialized Areas**					
800	Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	April, 2010				✓
805	Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	April, 2010				✓
810	Engagements to Report on Summary Financial Statements	April, 2010				✓
Std. No. (SRE) (2000-2699)	**Standards on Review Engagements (SREs)**					
2400 (R)	Engagements to Review Financial Statements	May, 2010			✓	
2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	May, 2010			✓	
Assurance Engagements Other Than Audits or Reviews of Historical Financial Information						
Std. No. (SRE) (3400-3699)	**Standards on Assurance Engagements (SAEs)**					
3000-3399	**Applicable to all Assurance Engagements**					
3400-3699	**Subject Specific Standards**					
3400	The Examination of Prospective Financial Information		Effective in relation to reports on projections/forecasts, issued on or after April 1, 2007			
3402	Assurance Reports On Controls at a Service Organisation	April, 2011				✓
Related Services						
Std. No. (SRS) (4000-4699)	**Standards on Related Services (SRSs)**					
4400	Engagements to perform Agreed upon Procedures Regarding Financial Information		Applicable to all agreed upon procedures engagements beginning on or after April 1, 2004			
4410	Engagements to Compile Financial Information		Applicable to all agreed upon procedures engagements beginning on or after April 1, 2004			

Structure of Standards Issued By Auditing and Assurance Board Under the Authority of the Council.



Assurance Engagement

Definition → Assurance Engagement means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the Intended User's other than the Responsible Parties about the outcome of the evaluation or measurement of a Subject Matter against Criteria



Flow Char of Process of 'issue of Auditng Standards

Process of Issuing Auditing Standards

Standard on Quality Control (SQC 1)

Quality Control for Firms that performs Audits, Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

1. Effective Date [Para –110]

This Standard on Quality Control is recommendatory for all engagements relating to accounting periods beginning on or after April 1, 2008 and is mandatory for all engagements relating to accounting periods beginning on or after April 1, 2009.

2. Introduction [Para – 3]

The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances.

3. Definitions [Para – 6]

S. No.	Terms	Description
(a)	**Engagement Documentation**	The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are also sometimes used). The documentation for a specific engagement is assembled in an engagement file.
(b)	**Engagement Partner**	The partner or other person in the Firm who is a member of ICAI and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the Firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
(c)	**Engagement quality control review**	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
(d)	**Engagement quality control reviewer**	A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. However, in case the review is done by a team of individuals, such team should be headed by a member of the Institute.
(e)	**Engagement team**	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
(f)	**Firm**	A sole practitioner/proprietor, partnership, or any such entity of professional accountants, as may be permitted by law.
(g)	**Inspection**	In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.
(h)	**Listed Entity**	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are traded under the regulations of a recognized stock exchange or other equivalent body.
(i)	**Monitoring**	A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
(j)	**Network Firm**	An entity under common control, ownership or management with the firm or

		any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
(k)	**Partner**	Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
(l)	**Personnel**	Partner and Staff.
(m)	**Professional standards**	Engagement standards, as defined in the AASB's "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," and relevant ethical requirements as contained in the Code.
(n)	**Reasonable assurance**	In the context of this SQC, a high, but not absolute, level of assurance.
(o)	**Staff**	Professionals, other than partners, including any experts which the firm employs.
(p)	**Suitably qualified external person**	An individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

4. Elements of a System of Quality Control – [Para – 7]

S. N.	*Elements*
1.	*Leadership responsibilities for quality within the firm.*
2.	*Ethical requirements*
3.	*Acceptance and continuance of client relationships and specific engagements.*
4.	*Human resources.*
5.	*Engagement performance.*
6.	*Monitoring*

5. The quality control policies and procedures should be documented and communication to the Firm's personnel – [Para – 8]

Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. In addition, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.

6. Leadership Responsibilities for Quality within the Firm –

Para No.	*Description*
9	The firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing partners (or equivalent), to assume ultimate responsibility for the firm's system of quality control.
12	Any person or persons assigned operational responsibility for the firm's quality control system by the firm's chief executive officer or managing board of partners should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.

7. Ethical Requirement

14	The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

15	Ethical requirements relating to audits and reviews of historical financial information, and other assurance and related services engagements are contained in the Code. The Code establishes the fundamental principles of professional ethics, which include – (a) Integrity, (b) Objectivity, (c) Professional competence and due care, (d) Confidentiality, and (e) Professional behavior.
17	The firm's policies and procedures should emphasize the fundamental principles, which are reinforced in particular by (a) The leadership of the firm, (b) E ducation and training, (c) Monitoring, and (d) A process for dealing with non-compliance.

8. Independence

18	The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code. Such policies and procedures should enable the firm to – (a) Communicate its independence requirements to its personnel and, where applicable, to others subject to them, and (b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.
19	Such policies and procedures should require – (a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements, (b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken, and (c) The accumulation and communication of relevant information to appropriate personnel so that – 1. The firm and its personnel can readily determine whether they satisfy independence requirements, 2. The firm can maintain and update its records relating to independence, and 3. The firm can take appropriate action regarding identified threats to independence.
20	The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures should include requirements for – (a) All who are subject to independence requirements to promptly notify the firm of independence breaches of which they become aware, (b) The firm to promptly communicate identified breaches of these policies and procedures to – (i) The engagement partner who, with the firm, needs to address the breach, and (ii) Other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action, and (c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.
23	At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.
25	The Code discusses the familiarity threat that may be created by using the same senior personnel on an

	assurance engagement over a long period of time and the safeguards that might be appropriate to address such a threat. Accordingly, the firm should establish policies and procedures – (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time, and (b) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the Code.
26	Using the same senior personnel on assurance engagements over a prolonged period may create a familiarity threat or otherwise impair the quality of performance of the engagement. Therefore, the firm should establish criteria for determining the need for safeguards to address this threat. In determining appropriate criteria, the firm considers such matters as (a) the nature of the engagement, including the extent to which it involves a matter of public interest, and (b) the length of service of the senior personnel on the engagement. Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.
27	The familiarity threat is particularly relevant in the context of financial statement audits of listed entities. **For these audits, the engagement partner should be rotated after a pre-defined period, normally not more than seven year**

8. Acceptance and Continuance of Client Relationships and Specific Engagements –

28	☞ The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it – (a) Has considered the **integrity of the client** and does not have information that would lead it to conclude that the client lacks integrity, (b) Is competent to perform the engagement and has the **capabilities, time and resources** to do so, and (c) Can comply with the **ethical requirements.** ☞ The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. When issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should **document how the issues were resolved.**

Significant matters to consider (examples) –

Client Integrity	Firm Capabilities	Ethical Issues
✓ The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance. ✓ The nature of the client's operations, including its business practices. ✓ Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment. ✓ Whether the client is aggressively concerned with maintaining the firm's fees as low as possible. ✓ Indications of an inappropriate	✓ Firm personnel have knowledge of relevant industries or subject matters, ✓ Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively, ✓ The firm has sufficient personnel with the necessary capabilities and competence, Experts are available, if needed, ✓ Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable, and	✓ The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities, and ✓ The possibility of withdrawing from the engagement or from both the engagement and the client relationship.

limitation in the scope of work. ✓ Indications that the client might be involved in money laundering or other criminal activities. ✓ The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.	✓ The firm would be able to complete the engagement within the reporting deadline.	

9. Human Resources –

36	The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.
37	☞ Such policies and procedures address the following personnel issues – (a) Recruitment, (b) Performance evaluation, (c) Capabilities, (d) Competence, (e) Career development, (f) Promotion, (g) Compensation, and (h) Estimation of personnel needs. ☞ Addressing these issues enables the firm to ascertain the number and characteristics of the individuals required for the firm's engagements. The firm's recruitment processes include procedures that help the firm select individuals of integrity as well as the capacity to develop the capabilities and competence necessary to perform the firm's work.

10. Assignment of Engagement Teams –

42	The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that – (a) The identity and role of the engagement partner are communicated to key members of the client's management and those charged with governance, (b) The engagement partner has the appropriate capabilities, competence, authority and time to perform the role, and (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner.
44	The firm should also assign appropriate staff with the necessary capabilities, competence and time to perform engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

11. Engagement Performance –

46	The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances.

12. Consultation –

51	The firm should establish policies and procedures designed to provide it with reasonable assurance that –

	(a) Appropriate consultation takes place on difficult or contentious matters, (b) Sufficient resources are available to enable appropriate consultation to take place, (c) The nature and scope of such consultations are documented, and (d) Conclusions resulting from consultations are documented and implemented.
52	Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter

13. Differences of Opinion –

57	The firm should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached should be documented and implemented.
58	Such procedures encourage identification of differences of opinion at an early stage, provide clear guidelines as to the successive steps to be taken thereafter, and require documentation regarding the resolution of the differences and the implementation of the conclusions reached. **The report should not be issued until the matter is resolved.**

14. Engagement Quality Control Review –

60	The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should – (a) Require an engagement quality control review for all audits of financial statements of listed entities, (b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed, and (c) Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).
61	The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued.
63	The firm should establish policies and procedures setting out – (a) The nature, timing and extent of an engagement quality control review, (b) Criteria for the eligibility of engagement quality control reviewers, and (c) Documentation requirements for an engagement quality control review.

15. Criteria for the eligibility of Engagement Quality Control Reviewers –

68	The firm's policies and procedures should address the appointment of engagement quality control reviewers and establish their eligibility through – (a) The technical qualifications required to perform the role, including the necessary experience and authority, and (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.

16. Documentation of the Engagement Quality Control Review –

73	Policies and procedures on documentation of the engagement quality control review should require documentation that – (a) The procedures required by the firm's policies on engagement quality control review have been performed, (b) The engagement quality control review has been completed before the report is issued, and (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe

	that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

17. Engagement Documentation –

74	The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.

18. Confidentially, Safe Custody, Integrity, Accessibility and retrievability of Engagement –

77	The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

19. Retention of Engagement Documentation –

82	The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

20. Monitoring –

86	The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.
93	The firm should evaluate the effect of deficiencies noted as a result of the monitoring process and should determine whether they are either – (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and regulatory and legal requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances, or (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.
94	The firm should communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.
95	The firm's evaluation of each type of deficiency should result in recommendations for one or more of the following – (a) Taking appropriate remedial action in relation to an individual engagement or member of personnel, (b) The communication of the findings to those responsible for training and professional development, (c) Changes to the quality control policies and procedures, and (d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.
96	Where the results of the monitoring procedures indicate that a report may be inappropriate or that procedures were omitted during the performance of the engagement, the firm should determine what further action is appropriate to comply with relevant professional standards and regulatory and legal requirements. It should also consider obtaining legal advice.
97	At least annually, the firm should communicate the results of the monitoring of its quality control system to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, it's managing partner(s). Such communication should enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated should include the following – (a) A description of the monitoring procedures performed.

	(b) The conclusions drawn from the monitoring procedures. (c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.

21. Complaints and Allegations –

101	The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with – (a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements, and (b) Allegations of non-compliance with the firm's system of quality control.

22. Documentation –

106	The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.
107	How such matters are documented is the firm's decision. For example, large firms may use **electronic databases** to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections. Smaller firms may use more simpler and informal methods such as manual notes, checklists and forms
108	Factors to consider when determining the **form and content** of documentation evidencing the operation of each of the elements of the system of quality control include the following – ✓ The size of the firm and the number of offices. ✓ The degree of authority both personnel and offices have. ✓ The nature and complexity of the firm's practice and organization.
108	The firm **retains** this documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

Space for Notes

Space for Notes

Standard on Auditing (SA) 200 (Revised)

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

1. Effective Date [Para – 10]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 2010.**

2. Scope of this SA [Para – 1]

This Standard on Auditing (SA) establishes the:

1. Independent Auditor's **Overall responsibilities** when conducting an audit of financial statements in accordance with SAs,
2. It sets out the **Overall objectives** of the Independent Auditor,
3. Explains the **nature and scope of an audit designed** to enable the Independent Auditor to meet those objective,
4. It Explains the **Scope, authority and structure of the SAs,**
5. **General responsibilities** of the independent auditor applicable in all audits, and
6. **Obligation to comply with the SAs.**

Note → SAs are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. **[Para – 2]**

3. Overall Objectives of the Auditor

Para No.	*Aspect*	*Description*
11 & 12	**Auditor's Objective**	In conducting an audit of financial statements, the overall objectives of the auditor are: (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and (b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings. Note → When – (a) Reasonable assurance cannot be obtained and (b) A qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the SAs require that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted. ***[Para – 12]***

4. Definitions [Para – 13]

S. N.	*Terms*	*Description*
(a)	**Applicable financial reporting framework**	The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements, - (a) That is acceptable in view of the nature of the entity and the objective of the

		financial statements, **or** (b) That is required by law or regulation.
(b)	**Fair Presentation Framework**	A financial reporting framework that requires **compliance** with the requirements of the framework and – (a) Acknowledges explicitly or implicitly that, to achieve **Fair Presentation** of the financial statements, it may be necessary for management to provide **disclosures** beyond those specifically required by the framework, or (b) Acknowledges explicitly that it may be necessary for management to **depart** from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in **extremely rare circumstances.**
(c)	**Compliance Framework**	A financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.
(d)	**Audit Evidence**	**Information** used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both - information contained in the accounting records underlying the financial statements and other information. For purposes of the SAs: (a) **Sufficiency** of audit evidence is 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. (b) **Appropriateness** of audit evidence is the measure of the **quality** of audit evidence, ✓ That is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.
(e)	**Audit Risk**	The risk that the auditor expresses an **inappropriate audit opinion** when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.
(f)	**Auditor**	☞ "Auditor" is used to refer to the **person or persons conducting the audit**, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. ☞ Where an SA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.
(g)	**Detection Risk**	The risk that the **procedures performed** by the auditor to reduce audit risk to an acceptably low level **will not detect a misstatement** that exists and that could be material, either individually or when aggregated with other misstatements.
(h)	**Financial Statement**	☞ A **structured representation of historical financial information**, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. ☞ The term "financial statements" ordinarily refers to a **complete set of financial statements** as determined by the requirements of the **applicable financial reporting framework,** but can also refer to a single financial statement.
(i)	**Historical Financial Information**	**Information expressed in financial terms** in relation to a particular entity, derived primarily from that entity's accounting system, about economic **events occurring in past time periods** or about economic **conditions or circumstances at points in time**

		in the past.
(j)	**Management**	The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
(k)	**Mis – Statement**	☞ A difference between the amounts, classification, presentation, or disclosure of a **reported** financial statement item and the amount, classification, presentation, or disclosure that is **required for the item to be** in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. ☞ When the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those **adjustments** of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.
(l)	**Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted** ***[This is also referred to as the "Premise"]***	Management and, where appropriate, those charged with governance have the following responsibilities that are fundamental to the conduct of an audit in accordance with SAs. That is, responsibility: (i) For the **preparation and presentation of the financial statements** in accordance with the applicable financial reporting framework. This includes the design, implementation and maintenance **of Internal Control** relevant to the preparation of Financial Statements that are free from material mis – statement, whether due to fraud and error; and (ii) To provide the auditor with: a. **All information**, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements; b. Any **additional information** that the auditor may request from management and, where appropriate, those charged with governance; and c. **Unrestricted access** to those within the entity from whom the auditor determines it necessary to obtain audit evidence. Note → In the case of a fair presentation framework, the responsibility is for – (a) The preparation and ***fair*** presentation of the financial statements in accordance with the financial reporting framework; or (b) The preparation of financial statements that give a ***true and fair view*** in accordance with the financial reporting framework. This applies to all references to "preparation and presentation of the financial statements" in the SAs.
(m)	**Professional Judgment**	The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in **making informed decisions** about the courses of action that are **appropriate** in the circumstances of the audit engagement.
(n)	**Professional Skepticism**	An attitude that includes – ✓ **A questioning mind,** ✓ B**eing alert** to conditions which may indicate possible misstatement due to error or fraud, and ✓ A **critical assessment** of audit evidence.
(o)	**Reasonable Assurance**	In the context of an audit of financial statements, a **high, but not absolute,** level of assurance.

(p)	**Risk of Material Mis – Statement**	The risk that the financial statements are **materially misstated prior to audit.** This consists of two components, at the assertion level, viz. (a) Inherent Risk, and (b) Control Risk. [See separate points below]
(q)	**Inherent Risk**	The **susceptibility** of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other mis-statements, **before consideration of any related controls.`**
(r)	**Control Risk**	The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, **will not be prevented, or detected and corrected,** on a timely basis by the entity's internal control.
(s)	**Those Charge with governance**	The person(s) or organisation(s) (e.g., a corporate trustee) with **responsibility for overseeing the strategic direction** of the entity and obligations related to the **accountability of the entity.**

5. Requirements of SA – 200(R)

Para No.	*Aspects*	*Description/Auditors' Duties*
14	*Ethical Requirements*	☞ The auditor shall comply with relevant **ethical requirements,** including those pertaining to independence, relating to financial statement audit engagements. ☞ Relevant ethical requirements ordinarily comprise the Code of Ethics issued by the Institute of Chartered Accountants of India. The Code establishes the following as the fundamental principles of professional ethics: [Para A.15] (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behaviour Note → (a) The Code describes independence as comprising both **independence of mind and independence in appearance.** (b) The auditor's independence from the entity safeguards the auditor's ability to form an audit opinion without being affected by influences that might compromise that opinion *[Para A. 16]*
15	*Professional Skepticism*	☞ The auditor shall plan and perform an audit with **professional skepticism** recognising that circumstances may exist that cause the financial statements to be materially misstated. **[Para – 15]** ☞ Professional skepticism includes **being alert** to, for example: ✓ Audit evidence that **contradicts** other audit evidence obtained. ✓ Information that brings into question the **reliability of documents** and responses to inquiries to be used as audit evidence. ✓ Conditions that may indicate possible **fraud.** ✓ Circumstances that suggest the need for **audit procedures in addition to those required by the SAs.** ☞ Maintaining professional skepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of: ✓ Overlooking unusual circumstances. ✓ Over generalising when drawing conclusions from audit observations.

		✓ Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.
16	*Professional Judgment*	☞ The auditor shall exercise **professional judgment** in planning and performing an audit of financial statements. **[Para – 16]** ☞ Professional judgment is essential to the proper conduct of an audit. Professional judgment is necessary in particular regarding decisions about**: [Para A.23]** ✓ Materiality and audit risk. ✓ The nature, timing, and extent of audit procedures used to meet the requirements of the SAs and gather audit evidence. ✓ Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the SAs and thereby, the overall objectives of the auditor. ✓ The evaluation of management's judgments in applying the entity's applicable financial reporting framework. ✓ The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements. ***Features of Professional Judgement*** ☞ The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the auditor.**[Para A.25]** ☞ Professional judgment can be evaluated based on whether the judgment reached reflects a competent **application of auditing and accounting principles** and is **appropriate** in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.**[Para A.26]** ☞ Professional judgment needs to be **exercised throughout the audit**.**[Para A.27]** ☞ Professional judgment also needs to be appropriately documented.**[Para A.27]** ☞ Professional judgement is **not to be used as the justification** for decisions that are not otherwise supported by the facts & circumstances of the engagement or sufficient appropriate audit evidence.
17	*Audit Evidence and Audit Risk*	☞ To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. **[Para – 17]** ☞ Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. Audit evidence might be the information obtained from sources inside or outside the entity such as previous audits, entity's accounting records, expert's report etc.**[Para A.28]** ☞ Audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement.**[Para A.32]** ☞ The risks of material misstatement may exist at two levels: **[Para A.34]** ✓ The overall financial statement level - relates pervasively to the financial statements as a whole and potentially affect many assertions.**[Para A.35]** ✓ The assertion level for classes of transactions, account balances, and disclosures – such risks are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient

		appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.**[Para A.36]** ➢ The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk.**[Para A.37]**
Conduct of an audit in accordance with SAs has the following aspects/components –		
18 To 20	***Complying with SAs relevant to the4 Audit***	☞ The auditor shall comply with **all SAs relevant** to the audit. An SA is relevant to the audit when the SA is **in effect** and the **circumstances** addressed by the SA exist.**[Para – 18]** ☞ The Auditor shall have an **understanding of the entire text** of an SA's, including its application and other Explanatory Material, to understand its objectives and to apply its requirements **properly.[Para – 19]** ☞ The auditor shall **not** represent compliance with SAs in the auditor's report unless the auditor has **complied** with the requirements of this SA and all other SAs relevant to the audit.**[Para – 20]**
21	***Objectives stated in individual SAs***	☞ To achieve the **overall objectives** of the auditor, the auditor shall use the objectives stated in relevant SAs in planning and performing the audit, having regard to the interrelationships among the SAs, to: **[Para – 21]** (a) Determine whether any audit procedures in addition to those required by the SAs are necessary in pursuance of the objectives stated in the SAs; and (b) Evaluate whether sufficient appropriate audit evidence has been obtained. ☞ Each SA contains one or more objectives which provide a link between the requirements and the overall objectives of the auditor. The objectives in individual SAs serve to focus the auditor on the desired outcome of the SA, while being specific enough to assist the auditor in: **[Para A.66]** ✓ **Understanding** what needs to be accomplished and, where necessary, the appropriate means of doing so; and ✓ Deciding whether **more needs to be done to achieve** them in the particular circumstances of the audit.
22 to 23	***Complying with Relevant Requirements***	☞ <u>***Normal Situations:***</u> The auditor shall comply with each requirement of an SA unless, in the circumstances of the audit: ***[Para – 22]*** (a) The entire SA is not relevant; or (b) The requirement is not relevant because it is conditional and the condition does not exist. ☞ <u>*Exceptional Situations: [Para – 23]*</u> ✓ In exceptional situations the auditor may judge it necessary to depart from a relevant requirement in an SA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. ✓ The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement.
24	***Failure to Achieve an Objective***	☞ If an objective in a relevant SA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SAs, to **modify the auditor's opinion or withdraw from the engagement.[Para – 24]** ✓ Whether an objective has been achieved is a matter for the auditor's professional judgment. That judgment takes account of the results of audit

		procedures performed in complying with the requirements of the SAs, and the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained and whether more needs to be done in the particular circumstances of the audit to achieve the objectives stated in the SAs.**[Para A.74]** ☞ Failure to achieve an objective represents a **significant matter requiring documentation** as per SA – 230(R). **[Para – 24]**

6. An Audit of Financial Statements

Para No.	*Aspect*	*Description/Auditors' Duties*
3	**Purpose of an audit of Financial Statement**	The purpose of an audit is to ***enhance the degree of confidence of intended users*** in the financial statements by the ***expression of an opinion by the auditor*** on: (a) Whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework and (b) In case of most General Purpose Frameworks, whether the financial statements are presented ***fairly***, in all material respects, or give a ***true and fair view*** in accordance with the framework. (c) An audit conducted in accordance with SAs and relevant Ethical Requirements enables the Auditor to form that opinion. (d) Where the applicable laws and regulations may require auditors to provide opinions on other specific matters, for (e.g. The effectiveness of internal control, or the consistency of a separate management report with the financial statements, etc.). **[Para A.1]** (e) While the SAs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.**[ParaA.1]** Note → The auditor's opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. **[Para A.1]**
4	**Management's Responsibilities are absolute**	(a) The financial statements subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance. (b) SAs do not – (i) Impose responsibilities on management or those charged with governance and (ii) Do not override laws and regulations that govern their responsibilities. (c) An audit in accordance with SAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibilities that are fundamental to the conduct of the audit. (d) As part of Management responsibility for the preparation and presentation of the financial statements, management and, where appropriate, those charged with governance are responsible for. **[Para A.3]** (i) The identification of the applicable financial reporting framework, in the context of any relevant laws or regulations. (ii) The preparation and presentation of the financial statements in

		accordance with that framework. (iii) An adequate description of that framework in the financial statements. Note → The audit of the financial statements does not relieve management or those charged with governance of those responsibilities. **[Para – 4]**
5.	**Reasonable Assurance e**	(a) As the basis for the auditor's opinion, SAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. (b) Reasonable assurance is a high level of assurance. (c) Reasonable Assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. Note → Reasonable Assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.
6.	**Materiality Concept**	(a) 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 financial statements. (b) In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. (c) Judgments about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. (d) The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole.
7.	**Auditor's Duties under SAs**	The SAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit and, among other things: (a) Identify and assess risks of material misstatement, by obtaining an understanding of the entity, its environment and internal control. (b) Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks. (c) Form an opinion on the financial statements based on conclusion drawn from the audit evidence obtained.
8 & 9	**Form of Opinion**	(a) The form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable laws or regulations. (b) The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit. These may be established by the SAs or by applicable laws or regulations.

<table>
<tr><td>A.4 & A.8</td><td>Financial Statement</td><td>(a) <u>General/Special Purpose:</u> The financial statements may be prepared in accordance with a financial reporting framework designed to meet – (i) The common financial information needs of a wide range of users (i.e., "general purpose financial statements"), or (ii) The financial information needs of specific users (i.e., "special purpose financial statements").

(b) <u>Complete Set of Financial Statements:</u> Generally, Financial Statements are intended to provide information about the state of affairs, results of operations and cash flows of an entity. For such frameworks, a complete set of financial statements would include –
1. A Balance Sheet,
2. Statement of Profit and Loss,
3. A Cash Flow Statement, and
4. Related Notes.

(c) <u>Single Financial Statement:</u> In certain Financial Reporting Frameworks, a single financial statement and the related notes might constitute a complete set of financial statements normally, for e.g. In Government Departments and local bodies, the primary financial statement is a statement of cash receipts and payments.</td></tr>
<tr><td>A.45</td><td>Inherent Limitations of Audit</td><td>The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from –

✓ The nature of financial reporting,
✓ The nature of audit procedures, and
✓ The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.</td></tr>
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Space for Notes

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Standard on Auditing (SA) 210 (Revised)
Agreeing the terms of Audit Engagements

1. Effective Date [Para – 2]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 2010.**

2. Scope of this SA [Para – 1]

1. This Standard on Auditing (SA) deals with the **auditor's responsibilities** in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance.
2. This SA also establishes that there are certain **preconditions** to the audit, the responsibility of which rests with the management and, where appropriate, those charged with governance.

3. Overall Objectives of the Auditor

Para No.	*Aspect*	*Description*
3	**Auditor's 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 – (a) Establishing whether the **preconditions for an audit** are present, and (b) Confirming that there is a **common understanding** between the auditor and management (and where appropriate, Those Charged with Governance) of the terms of the audit engagement.

4. Definition

Para No.	*Aspect*	*Description*
4	**Per – conditions for an audit**	(a) The use by Management of an acceptable Financial Reporting Framework in the preparation of the Financial Statements, and (b) The **agreement** of Management and Those Charge with Governance, to the premises on which an audit is conducted.
5	**Management**	For the purpose of this SA, references to "Management" should be read hereafter as "Management and, where appropriate, Those Charged with Governance".

5. Requirement of SA – 210 (R)

1. *Pre – Conditions for Audit* [Para – 6]
To establish whether the per – condition for pan audit are present, the Auditor shall:

Para No.	*Aspect*	*Auditor's Duties*
6a.	**Reporting Framework**	Determine whether the financial reporting framework to be applied in the preparation of the financial statements is **acceptable** with reference to the following– (a) The **nature of the entity** (for example, whether it is a business enterprise, or a not for profit organization), **[Para A.4]**

		(b) The **purpose** of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users), **[Para A.4]** (c) **Nature of the financial statements** (for example, whether the financial statements are a complete set of financial statements or a single financial statement), and **[Para A.4]** (d) **Whether law or regulation prescribes** the applicable Financial Reporting Framework. **[Para A.4]**
A. 4 and A.9 read with Appendix 2	**Determining the Acceptability of General Purpose Frameworks**	**Acceptable financial reporting frameworks** normally exhibit the following **attributes** that result in information provided in financial statements that is useful to the intended users: (a) ***Relevance*** – The information provided in the financial statements is relevant to the nature of the entity and the purpose of the financial statements. (b) ***Completeness*** – Transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted. (c) ***Reliability*** – The information provided in the financial statements – (i) Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and (ii) Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances. (d) ***Neutrality*** – It contributes to information in the financial statements that is free from bias. (e) ***Understandability*** – The information in the financial statements is clear and comprehensive and not subject to significantly different interpretation.
6b	**Management Responsibility**	Obtain, the **agreement of management** that **it acknowledges and understands its responsibility** (a) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation. (b) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and (c) To provide the auditor with: ✓ Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, ✓ Additional information that the auditor may request from management for the purpose of the audit, and ✓ Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.
		2. *Limitation on Scope prior to Acceptance*
7	**Limitation on Scope prior to 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 financial statements, the **auditor shall not accept** such a limited engagement as an **audit engagement**, unless required by law or regulation to do so.

<table>
<tr><td colspan="3">3. <u>Other Factors affecting Acceptance</u></td></tr>
<tr><td>8</td><td>Other factors affecting Acceptance</td><td>If the preconditions for an audit are not present, the 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:
(a) If the auditor has determined that the Financial Reporting Framework to be applied in the preparation of the financial statements is unacceptable, (except as provided in paragraph 19), or
(b) If the agreement (i.e. Management's Representation on its Responsibilities) referred to in paragraph 6(b) has not been obtained.
Note → Students are requested to also refer Para 19 & 20 of SA – 210</td></tr>
<tr><td colspan="3">4. <u>Agreement on Audit Engagement Terms</u></td></tr>
<tr><td>9</td><td>Agreement on Audit Engagement Terms</td><td>The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.</td></tr>
<tr><td colspan="3">5. <u>Engagement Letter</u>
<u>Principles relating to recording of Agreed Terms as above in Audit Engagement Letter, etc</u></td></tr>
<tr><td>10</td><td>Audit Terms not Prescribed by Law or Regulation</td><td>The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include –
a) The objective and scope of the audit of the financial statements,
b) The responsibilities of the auditor,
c) The responsibilities of management,
d) Identification of the applicable financial reporting framework for the preparation of the financial statements, and
e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
f) The form of any other communication of results of the audit engagement.
g) The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs.
h) Arrangements regarding the planning and performance of the audit, including the composition of the audit team.
i) The expectation that management will provide written representations.
j) The agreement of management to make available to the auditor draft financial statements and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timetable.
k) The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
l) The basis on which fees are computed and any billing arrangements.
m) A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.</td></tr>
</table>

		n) The fact that the audit process may be subjected to a peer review under the Chartered Accountants Act, 1949. o) Arrangements concerning the involvement of other auditors and experts in some aspects of the audit. p) Arrangements concerning the involvement of internal auditors and other staff of the entity. q) Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit. r) Any restriction of the auditor's liability when such possibility exists. s) A reference to any further agreements between the auditor and the entity. t) Any obligations to provide audit working papers to other parties. **Note →** **Points (a) to (e) are mandatory. Other items may be included in Audit Engagement Letter wherever relevant.** **Points (f) to (n) are covered by Para A.22 and Points (o) to (t) are covered by Para A.23.** **Note →** It is in the interests of both the entity and the auditor that the ***auditor sends an audit engagement letter before the commencement*** of the audit to help avoid misunderstandings with respect to the engagement.
11	**Audit Terms prescribed by Law or Regulation**	If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, 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 set out in paragraph 6(b).
12	**Management Responsibility to be documented**	☞ **If law or regulation prescribes responsibilities of management similar to those described in paragraph 6(b),** the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in that paragraph. ☞ For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the written agreement. ☞ For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written agreement shall use the description in paragraph 6(b).
		6. *Recurring Audits*
13	**Assessment by Auditor**	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.
A.27	**Factors**	The following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms – ✓ Any indication that the **entity misunderstands the objective and scope** of the audit. ✓ Any **revised or special terms** of the audit engagement. ✓ A recent change of **senior management**. ✓ A significant change in **ownership.** ✓ A significant change in **nature or size of the entity's business.** ✓ A change in **legal or regulatory requirements.**

<table>
<tr><td></td><td></td><td>✓ A change in the Financial Reporting Framework adopted in the preparation of the financial statements.
✓ A change in other reporting requirements.</td></tr>
<tr><td colspan="3">7. <u>Change in Terms in Engagement</u></td></tr>
<tr><td>A.28</td><td>Request for Change</td><td>A request from the entity for the auditor to change the terms of the audit engagement may result from –
☞ A change in circumstances affecting the need for the service,
☞ A misunderstanding as to the nature of an audit as originally requested or
☞ A restriction on the scope of the audit engagement, whether imposed by management or caused by other circumstances.</td></tr>
<tr><td>A.29 & A.30</td><td>Evaluation by Auditor</td><td>a) A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the audit engagement. [Para A.29]
b) In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory (For example might be where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified opinion or a disclaimer of opinion). [Para A.30]</td></tr>
<tr><td>14, 15, 16 & 17</td><td>Auditor's Duties in Specific Situation</td><td>Where there is a change in terms of engagement, any of the following situations shall arise:
<table>
<tr><th>Para No.</th><th>Situation</th><th>The Auditor Shall –</th></tr>
<tr><td>14</td><td>There is no reasonable justification for change in terms of audit engagement</td><td>Not agree to a change in the terms of the Audit Engagement.</td></tr>
<tr><td>15</td><td>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 (for e.g. a Review or a Related Services)</td><td>Determine whether there is reasonable justification for doing so.
Note → In case of a reasonable justification the report on the related service would not include reference to:
(a) The original audit engagement, or
(b) Any procedures that may have been performed in the original audit engagement. [Para A.32]</td></tr>
<tr><td>16</td><td>If the terms of the audit engagement are changed.</td><td>With Management agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.</td></tr>
<tr><td>17</td><td>If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement</td><td>☞ Withdraw from the audit engagement where possible under applicable law or regulation, and
☞ 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</td></tr>
</table></td></tr>
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<table>
<tr><td colspan="3">8. <u>Additional Considerations in Engagement Acceptance</u></td></tr>
<tr><td>18</td><td>Financial Reporting Standards supplemented by Law or Regulation</td><td>
<table>
<tr><th>S. N.</th><th>Situation</th><th>Auditor Shall –</th></tr>
<tr><td>1.</td><td>If financial reporting standards established by an authorised or recognised standards setting organization are supplemented by law or regulation</td><td>Determine whether there are any conflicts between the financial reporting standards and the additional requirements.</td></tr>
<tr><td>2.</td><td>If such conflicts exist</td><td>Discuss with management the nature of the additional requirements and shall agree whether:
✓ The additional requirements can be met through additional disclosures in the financial statements, or
✓ The description of the applicable financial reporting framework in the financial statements can be amended accordingly.</td></tr>
<tr><td>3.</td><td>If neither of the above actions is possible</td><td>Determine whether it will be necessary to modify the auditor's opinion in accordance with SA 705 (Revised)</td></tr>
</table>
</td></tr>
<tr><td>19 & 20</td><td>Financial Reporting Framework prescribed by Law or Regulation</td><td>
<table>
<tr><th>Situation</th><th>Auditor's Shall –</th></tr>
<tr><td>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. [Para – 19]</td><td>Accept the audit engagement only if the following conditions are present:
a) Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading, and
b) It is recognised in the terms of the audit engagement that:
✓ The auditor's report on the financial statements will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with SA 706 (Revised), and
✓ Unless the auditor is required by law or regulation to express the auditor's opinion on the financial statements 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 financial statements will not include such phrases.</td></tr>
<tr><td>If the conditions outlined in Para 19 are not present and the auditor is required by law or</td><td>a) Evaluate the effect of the misleading nature of the financial statements on the auditor's</td></tr>
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<tr>
<td>regulation to undertake the audit engagement. [Para – 20]</td>
<td>report, and
b) Include appropriate reference to this matter in the terms of the audit engagement.</td>
</tr>
</table>
</td>
</tr>
<tr>
<td>21</td>
<td>Auditor's Report Prescribed by Law or Regulation</td>
<td>
<table>
<tr>
<th>S.N.</th>
<th>Situation</th>
<th>Auditor Shall –</th>
</tr>
<tr>
<td>1.</td>
<td>Where the law or regulation applicable to the entity prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of SAs.</td>
<td>In such circumstance evaluate:
a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.</td>
</tr>
<tr>
<td>2.</td>
<td>If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding</td>
<td>Not accept the audit engagement, unless required by law or regulation to do so.</td>
</tr>
<tr>
<td>3.</td>
<td>An audit conducted in accordance with such law or regulation does not comply with SAs</td>
<td>Not include any reference within the auditor's report to the audit having been conducted in accordance with SAs</td>
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Space for Notes

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Standard on Auditing (SA) 220 (Revised)

Quality Control for an Audit of Financial Statements

1. Effective Date [Para – 5]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 2010.**

2. Scope of this SA [Para – 1]

1. This Standard on Auditing (SA) deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements.
2. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer.
3. This SA is to be read in conjunction with relevant ethical requirements.

3. Objectives of the Auditor [Para – 6]

Para No.	Aspect	Description
6	**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, and (ii) The Auditor's Report issued is appropriate in the circumstances.

4. Definition [Para – 7]

S.N.	Aspect	Description
(a)	**Engagement Partner**	The partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
(b)	**Engagement Quality Control Review**	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
(c)	**Engagement Quality Control Reviewer**	A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. However, in case the review is done by a team of individuals, such team should be headed by a member of the Institute.
(d)	**Engagement team**	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement
(e)	**Firm**	A sole practitioner/proprietor, partnership, or any such entity of professional accountants, as may be permitted by law.
(f)	**Inspection**	In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

(g)	**Listed Entity**	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are traded under the regulations of a recognized stock exchange or other equivalent body.
(h)	**Monitoring**	A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
(i)	**Network firm**	A firm or entity that belongs to a network.
(j)	**Network**	A larger structure: (i) That is aimed at cooperation, and (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
(k)	**Partner**	Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
(l)	**Personnel**	Partners and Staff.
(m)	**Professional Standards**	Engagement Standards, as defined in the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", issued by the Institute of Chartered Accountants of India and relevant ethical requirements as contained in the Code of Ethics issued by the Institute.
(n)	**Relevant Ethical Requirements**	Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise the Code of Ethics of the Institute of Chartered Accountants of India related to an audit of financial statements.
(o)	**Staff**	Professionals, other than partners, including any experts which the firm employs.
(p)	**Suitably qualified external person**	An individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

5. Requirements of SA – 220

Para No.	Aspects	**Description**
8	**Leadership Responsibility**	The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.
9 & 10	**Relevant Ethical Requirements**	a) Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. b) If the Engagement Partner comes to know that the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.
11	**Independence**	The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall – a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence, b) Evaluate information on identified breaches, if any, of the firm's

		independence policies and procedures to determine whether they create a threat to independence for the audit engagement, and c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. d) The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.
12 & 13	**Acceptance and Continuance of Client Relationships and Audit Engagements**	a) The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. b) If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action
14	**Assignment of Engagement Teams**	The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to: a) Perform the audit engagement in accordance with professional standards and regulatory and legal requirements, and b) Enable an auditor's report that is appropriate in the circumstances to be issued.
		Engagement Performance
15	**Direction, Supervision & Performance**	The engagement partner shall take responsibility – a) The direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements, and b) The auditor's report being appropriate in the circumstances.
16 & 17	**Reviews**	a) The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. b) On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
18	**Consultation**	The engagement partner shall – a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters, b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted, and d) Determine that conclusions resulting from such consultations have been implemented.
		Engagement Quality Control Review

<table>
<tr><td>19</td><td>Concept of Review</td><td>For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall –
a) Determine that an engagement quality control reviewer has been appointed,
b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer, and
c) Not date the auditor's report until the completion of the engagement quality control review.</td></tr>
<tr><td>20</td><td>Duties of QC Reviewer</td><td>The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve –
a) Discussion of significant matters with the engagement partner,
b) Review of the financial statements and the proposed auditor's report,
c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached, and
d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.</td></tr>
<tr><td>21</td><td>Special Matters – Listed Entities</td><td>For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following –
a) The engagement team's evaluation of the firm's independence in relation to the audit engagement,
b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations, and
c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.</td></tr>
<tr><td>22</td><td>Difference of Opinion</td><td>If differences of opinion arise –
a) Within the Engagement Team,
b) With those Consulted or,
c) Where applicable, between the Engagement Partner and the Engagement Quality Control Reviewer.
The engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.</td></tr>
<tr><td>23</td><td>Monitoring</td><td>☞ An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.
☞ The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement.</td></tr>
</table>

Documentation	
The Auditor shall document [Para – 24]	The QC Reviewer shall document [Para – 25]

The auditor shall document – a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved. b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions. c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements. d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.	The engagement quality control reviewer shall document, for the audit engagement reviewed, that – a) The procedures required by the firm's policies on engagement quality control review have been performed, b) The engagement quality control review has been completed on or before the date of the auditor's report, and c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

Space for Notes

Space for Notes

Standard on Auditing (SA) 230 (Revised)

Audit Documentation

1. Effective Date [Para – 4]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 2009.**

2. Scope of this SA [Para – 1]

- ✓ This Standard on Auditing (SA) deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. It is to be adapted as necessary in the circumstances when applied to audits of other historical financial information.
- ✓ The application of this SA – 230 is not limited to specific requirement, additional documentation requirements may be established by –
  - ☞ Laws or Regulations, and
  - ☞ Other SAs

3. Auditor's Objective [Para – 5]

The objective of the auditor is to prepare documentation that provides –

(a) A sufficient and appropriate record of the basis for the auditor's report, and

(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

4. Definitions [Para – 6]

S.N.	Aspect	Definitions
(a)	**Audit Documentation**	1. The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "work papers" are also sometimes used). 2. Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include – [Para A.3] ✓ Audit programmes ✓ Analyses ✓ Issues memoranda ✓ Summaries of significant matters ✓ Letters of confirmation and representation ✓ Checklists ✓ Correspondence (including e-mail) concerning significant matters. 3. The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity. [Para A.3] 4. The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for

		typographical or other errors, and duplicates of documents. [Para A.4] 5. The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity. [Para A.14]
(b)	**Audit File**	One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
(c)	**Experienced Auditor**	An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of – 1. Audit processes, 2. SAs and applicable legal and regulatory requirements, 3. The business environment in which the entity operates, and 4. Auditing and financial reporting issues relevant to the entity's industry.

5. Purpose of Documentation [Para – 2 & 3]

Nature of Audit Documentation	Basic Purpose of Audit Documentation
Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides – (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objective of the auditor, and (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.	1. Assisting the engagement team to plan and perform the audit. 2. Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with Proposed SA 220 (Revised). 3. Enabling the engagement team to be accountable for its work. 4. Retaining a record of matters of continuing significance to future audits. 5. Enabling the conduct of quality control reviews and inspections in accordance with SQC 1. 6. Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Additional Requirement

6. Requirements of SA – 230

<table>
<tr><th>Para No.</th><th>Aspect</th><th>Description/Auditor's Duties</th></tr>
<tr><td>7</td><td>Timeliness</td><td>The auditor shall prepare audit documentation on a timely basis.</td></tr>
<tr><td colspan="3"><u>Documentation of Audit Procedures and Audit Evidence</u></td></tr>
<tr><td>8</td><td>Basic Requirements</td><td>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand –
(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements,
(b) The results of the audit procedures performed, and the audit evidence obtained, and
(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
☞ Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include – [Para A.8]
1. Matters that give rise to significant risks (as defined in SA 315).Results of audit procedures indicating –
(a) That the financial statements could be materially misstated, or
(b) A need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
2. Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
3. Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis on Matter Paragraph in the Auditor's Report</td></tr>
<tr><td>A.2</td><td>Factors Governing Form & Content of Working Papers</td><td>The form, content and extent of audit documentation depend on factors such as –
1. The size and complexity of the entity.
2. The nature of the audit procedures to be performed.
3. The identified risks of material misstatement.
4. The significance of the audit evidence obtained.
5. The nature and extent of exceptions identified.
6. The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
7. The audit methodology and tools used.</td></tr>
<tr><td>9</td><td>Audit Procedures</td><td>In documenting the nature, timing and extent of audit procedures performed, the auditor shall record –
(a) The identifying characteristics of the specific items or matters tested,
(b) Who performed the audit work and the date such work was completed, and
(c) Who reviewed the audit work performed and the date and extent of such review.</td></tr>
<tr><td>10</td><td>Discussions</td><td>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.</td></tr>
<tr><td>11</td><td>Inconsistencies</td><td>If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.</td></tr>
<tr><td>12</td><td>Departure from SA</td><td>If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, the auditor shall document how the alternative</td></tr>
</table>

	Requirement	audit procedures performed achieve the aim of that requirement, and the reasons for the departure. A requirement is not relevant only in the cases where – [Para A.19] (a) The SA is not relevant [for example, if an entity does not have an internal audit function, nothing in SA – 610 (R) is relevant], or (b) The requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor's opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability).
13	**Matters arising after the Date of 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 – (a) The circumstances encountered, (b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report, and (c) When and by whom the resulting changes to audit documentation were made and reviewed.
	Assembly of Final Audit File	
14,15 & 16	1. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. [Para – 14] 2. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period. [Para – 15] 3. SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than ***60 days*** after the date of the auditor's report. [Para A.21] 4. The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature. Examples of such changes include – [Para A.22] ✓ Deleting or discarding superseded documentation. ✓ Sorting, collating and cross referencing working papers. ✓ Signing off on completion checklists relating to the file assembly process. ✓ Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report. 5. SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than ***seven years*** from the date of the auditor's report, or, if later, the date of the group auditor's report. [Para A.23] 6. In circumstances other than those envisaged in paragraph 13 where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document – [Para – 16] (a) The specific reasons for making them, and (b) When and by whom they were made and reviewed.	
A.25	**Ownership of Audit**	☞ Standard on Quality Control (SQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance

	Documentati on	and Related Services Engagements", issued by the Institute, provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor. ☞ He may at his discretion, make portions of, 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.

Space for Notes

Space for Notes

Standard on Auditing (SA) 240 (Revised)

The Auditor's Responsibilities Relating to Fraud, in an Audit of Financial Statements

1. Effective Date [Para – 9]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 2009.**

2. Scope of this SA [Para – 1]

This Standard on Auditing (SA) deals with the auditor's responsibilities relating to fraud in an audit of financial statements. Specifically, it expands on how SA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," and SA 330, "The Auditor's Responses to Assessed Risks," are to be applied in relation to risks of material misstatement due to fraud.

3. Auditor's Objective [Para – 10]

(a) To identify and assess the risks of material misstatement in the financial statements due to fraud,
(b) To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses, and
(c) To respond appropriately to identified or suspected fraud.

4. Definitions [Para – 11]

S.N.	Aspect	Definition
(a)	**Fraud**	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
(b)	**Fraud Risk Factors**	Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

5. Characteristic s [Para – 2 & 3]

Para No.	Description
2	☞ Misstatements in the financial statements can arise from either fraud or error. ☞ The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
3	☞ Although fraud is a broad legal concept, for the purposes of the SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. ☞ Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred.
6	☞ Fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. ☞ Attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false.

	☞ While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error.
7	The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees.

6. Responsibility for Fraud Prevention and Detection [Para – 4]

☞ The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

☞ It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

☞ This involves a commitment to creating a culture of honesty and ethical behavior which can be reinforced by an active oversight by those charged with governance.

☞ In exercising oversight responsibility, those charged with governance consider the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability.

6. Responsibility of Auditor [Para 5 – 8]

S.N.	**Aspect**	**Auditor Responsibility**
(a)	**Reasonable Assurance**	☞ An auditor conducting an audit in accordance with SAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. [Para – 5] ☞ Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs. [Para – 5] ☞ The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.[Para – 6]
(b)	**Professional Skepticism**	☞ When obtaining reasonable assurance, the auditor is responsible for maintaining an attitude of professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. ☞ The requirements in this SA are designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement.

7. Requirements

1. Professional Skepticism –		
Para No.	**Aspect**	**Description/Auditor's Duties**

12	**Attitude of Skepticism**	The auditor shall maintain an attitude of professional skepticism throughout the audit, recognizing 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. **Note →** Audit of Financial Statements is aimed at expression of opinion and not on the meticulous detection of each fraud and error. The Auditor uses his judgement in obtaining reasonable assurance on the Financial Statements. He would not investigate each and every transaction in depth to identify frauds and errors, unless circumstances arouse his suspicion.
13	**Authenticity of Records**	☞ Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. ☞ If conditions identified during the audit, cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further.
14	**Inconsistencies**	Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.
		2. Discussion among the Engagement Team –
15	**Discussion**	☞ SA 315 requires a discussion among the engagement team members and a determination by the engagement partner of matters which are to be communicated to those team members not involved in the discussion. This discussion shall place particular emphasis on how and where the entity's financial statements 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.
		3. Risk Assessment Procedures and Related Activities → When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by SA 315, the auditor shall perform the following procedures to obtain information for use in identifying the risks of material misstatement due to fraud [Para – 16]. –
17	**Inquiry of Management**	The auditor shall make inquiries of management regarding – (a) Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments, (b) Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist, **Note →** In the case of entities with multiple locations management's processes may include different levels of monitoring of operating locations, or business segments. Management may also have identified particular operating locations or business segments for which a risk of fraud may be more likely to exist. [Para A.14]

		(c) Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity, and (d) Management's communication, if any, to employees regarding its views on business practices and ethical behavior.
18 & 19	**Inquiry of Others within the Entity**	☞ The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. [Para – 18] ☞ For those entities that have an internal audit function, the auditor shall make inquiries of internal audit to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. [Para – 19]
20 & 21	**With Respect to Those Charged With Governance**	☞ Unless all of those charged with governance are involved in managing the entity, the auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. [Para – 20] ☞ The auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management. [Para – 21]
22	**Unusual or Unexpected Relationships**	The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud.
23	**Other Information**	The auditor shall consider whether other information obtained by the auditor indicates risks of material misstatement due to fraud. ***<u>For example</u>* –** ☞ Engagements to review interim financial information may be relevant in the identification of the risks of material misstatement due to fraud. ☞ The discussion among team members may provide information that is helpful in identifying such risks.
24	**Evaluation of Fraud Risk Factors**	☞ The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. ☞ While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud.
	4. <u>Identification and Assessment of Risks due to Fraud</u> –	
25	**I & A the risk at FS Level and at Assertion Level**	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.
26	**I & A the risk based on presumption**	☞ When identifying and assessing the risks of material misstatement due to fraud, 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.

		☞ Paragraph 47 specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud.
27	**Assessed risk as Significant Risk**	The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

5. Responses to Assessed Risk of Material Mis – Statement due to Fraud –

28 & 29	**At Financial Statement Level**	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. [Para – 28] In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall – (a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement, (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earning, and (c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.
30	**At Assertion Level**	The Auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risk of material mis – statement due to fraud at the assertion level.
31, 32 & 33	**Risk related to Management override of Controls**	☞ Management is in a unique position to perpetrate (commit) fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. [Para – 31] ☞ ***Audit Procedure*** – The Auditor shall design and perform audit procedures in the areas relating to – (i) Journal Entries, (ii) Accounting Estimates, and (iii) Unusual Transaction. [Refer table below] [Para – 32] ☞ ***Additional Procedure*** – The auditor shall determine whether, in order to respond to the identified risks of management override of controls, the auditor needs to perform other audit procedures in addition to those specifically referred to above. [Para – 33]

6. Audit Procedures towards Management Override of Controls

Aspect	Description/Auditor's Duties
Journal Entries	✓ Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. ✓ Make inquiries of individuals involved in the financial reporting

<table>
<tr><td colspan="2"></td><td>process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments,
✓ Select journal entries and other adjustments made at the end of a reporting period, and
✓ Consider the need to test journal entries and other adjustments throughout the period</td></tr>
<tr><td colspan="2">Accounting Estimates</td><td>✓ Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.
✓ Evaluate whether the judgments and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor shall re - evaluate the accounting estimates taken as a whole, and
✓ Perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year.</td></tr>
<tr><td colspan="2">Unusual Transaction</td><td>For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, the auditor shall evaluate whether the business rationale (or the 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.</td></tr>
<tr><td colspan="3">7. Evaluation of Audit Evidence</td></tr>
<tr><td>34</td><td>Analytical Procedures</td><td>The auditor shall evaluate whether analytical procedures that are performed when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's understanding of the entity and its environment indicate a previously unrecognized risk of material misstatement due to fraud.</td></tr>
<tr><td>35</td><td>Indentifies a Misstatement</td><td>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, recognizing that an instance of fraud is unlikely to be an isolated occurrence.</td></tr>
<tr><td>36</td><td>Assessment of the Risks of Material Misstatement</td><td>☞ 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 (in particular, senior 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 nature, timing and extent 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.</td></tr>
<tr><td>37</td><td>Implications</td><td>When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud the auditor shall evaluate the implications for the audit.</td></tr>
<tr><td colspan="3">8. Auditor Unable to Continue the Engagement –</td></tr>
</table>

38	**Auditor Unable to Continue the Engagement**	If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, 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, where withdrawal from the engagement is legally permitted, and (c) If the auditor withdraws – 1. 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 2. Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.
<u>9</u>. <u>Management Representation</u> –		
39	**Management Representation**	The auditor shall obtain written representations from management and, where applicable, those charged with governance that – (a) They acknowledges their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud, (b) They have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud, (c) They have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving – 1. Management, 2. Employees who have significant roles in internal control, or 3. Others where the fraud could have a material effect on the financial statements, and (d) They have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
<u>10</u>. <u>Communication to Management and with Those Charged with Governance</u> –		
40	**To Management**	If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.
41 & 42	**To Those Charge with Governance**	☞ Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving – [Para – 41] 1. Management, 2. Employees who have significant roles in internal control, or 3. Others where the fraud results in a material misstatement in the financial

		statements. ☞ The auditor shall communicate these matters to those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions to those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit. [Para – 42]
43	**To Regulatory and Enforcement Authorities**	☞ If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. ☞ Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances.
11. Documentation –		
44	**Matter covered by SA – 315(R)**	☞ The significant decisions reached during the discussion among the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to fraud, and ☞ The identified and assessed risks of material misstatement due to fraud at the financial statement level and at the assertion level.
45	**Matters Covered by SA – 330(R)**	☞ The overall responses to the assessed risks of material misstatement due to fraud at the financial statement level and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risks of material misstatement due to fraud at the assertion level, and ☞ The results of the audit procedures, including those designed to address the risk of management override of controls.
46	**Communication**	The auditor shall document communications about fraud made to management, those charged with governance, regulators and others.
47	**Revenue Recognition**	When the auditor has concluded that the 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.

I. Examples of Fraud Risk Factors – Fraudulent Financial Reporting

A. Incentives / Pressures –

1. **Financial Stability or Profitability is threatened by economic, industry, or entity operating condition, e.g.**
   (a) High degree of competition or market saturation, accompanied by declining margins.
   (b) High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates.
   (c) Significant declines in customer demand and increasing business failures in either the industry or overall economy.
   (d) Operating losses making the threat of bankruptcy, foreclosure, or hostile takeover imminent.
   (e) Recurring negative cash flows from operations or an inability to generate cash flows from operations while reporting earnings and earnings growth.
   (f) Rapid growth or unusual profitability especially compared to that of other companies in the same industry.
   (g) New accounting, statutory, or regulatory requirements.

2. Excessive pressure exists for management to meet the requirements or expectations of third parties due to the following –

(a) Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or other external parties (particularly expectations that are unduly aggressive or unrealistic), including expectations created by management in, for example, overly optimistic press releases or annual report messages.

(b) Need to obtain additional debt or equity financing to stay competitive—including financing of major research and development or capital expenditures.

(c) Marginal ability to meet exchange listing requirements or debt repayment or other debt covenant requirements.

(d) Perceived or real adverse effects of reporting poor financial results on significant pending transactions, such as business combinations or contract awards.

3. Information available indicates that the personal financial situation of management or those charged with governance is threatened by the entity's financial performance arising from the following

(a) Significant financial interests in the entity.

(b) Significant portions of their compensation (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow.

(c) Personal guarantees of debts of the entity.

(d) There is excessive pressure on management or operating personnel to meet financial targets established by those charged with governance, including sales or profitability incentive goals.

B. Opportunities

1. The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following

(a) Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.

(b) A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions.

(c) Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate.

(d) Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.

(e) Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist.

(f) Use of business intermediaries for which there appears to be no clear business justification.

(g) Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification.

2. The monitoring of management is not effective as a result of the following

(a) Domination of management by a single person or small group (in a non owner-managed business) without compensating controls.

(b) Oversight by those charged with governance over the financial reporting process and internal control is not effective.

3. There is a complex or unstable organizational structure, as evidenced by the following

(a) Difficulty in determining the organization or individuals that have controlling interest in the entity.

(b) Overly complex organizational structure involving unusual legal entities or managerial lines of authority.

(c) High turnover of senior management, legal counsel, or those charged with governance.

4. Internal control components are deficient as a result of the following
   (a) Inadequate monitoring of controls, including automated controls and controls over interim financial reporting (where external reporting is required).
   (b) High turnover rates or employment of accounting, internal audit, or information technology staff those are not effective.
   (c) Accounting and information systems that are not effective, including situations involving significant deficiencies in internal control

C. Attitudes/Rationalisations

1. Communication, implementation, support, or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards, that are not effective.
2. Non-financial management's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates.
3. Known history of violations of securities laws or other laws and regulations, or claims against the entity, its senior management, or those charged with governance alleging fraud or violations of laws and regulations.
4. Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend.
5. The practice by management of committing to analysts, creditors, and other third parties to achieve aggressive or unrealistic forecasts.
6. Management failing to remedy known significant deficiencies in internal control on a timely basis.
7. An interest by management in employing inappropriate means to minimize reported earnings for tax-motivated reasons.
8. Low morale among senior management.
9. The owner-manager makes no distinction between personal and business transactions.
10. Dispute between shareholders in a closely held entity.
11. Recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality.
12. The relationship between management and the current or predecessor auditor is strained, as exhibited by the following –
    (a) Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters.
    (b) Unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit or the issuance of the auditor's report.
    (c) Restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance.
    (d) Domineering management behavior in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance of personnel assigned to or consulted on the audit engagement.

II. Examples of Fraud Risk Factors – Misappropriation of Assets

A. Incentives/Pressures –

1. Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.
2. Adverse relationships between the entity and employees with access to cash or other assets susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following –
   (a) Known or anticipated future employee layoffs.
   (b) Recent or anticipated changes to employee compensation or benefit plans.
   (c) Promotions, compensation, or other rewards inconsistent with expectations.

B. Opportunities –
1. Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following (a) Large amounts of cash on hand or processed. (b) Inventory items that are small in size, of high value, or in high demand. (c) Easily convertible assets, such as bearer bonds, diamonds, or computer chips. (d) Fixed assets which are small in size, marketable, or lacking observable identification of ownership. **2. Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets. For example, misappropriation of assets may occur because there is the following:** (a) Inadequate segregation of duties or independent checks. (b) Inadequate oversight of senior management expenditures, such as travel and other reimbursements. Inadequate management oversight of employees responsible for assets, for example, inadequate supervision or monitoring of remote locations. (c) Inadequate job applicant screening of employees with access to assets. (d) Inadequate record keeping with respect to assets. (e) Inadequate system of authorization and approval of transactions (for example, in purchasing).Inadequate physical safeguards over cash, investments, inventory, or fixed assets. (f) Lack of complete and timely reconciliations of assets. (g) Lack of timely and appropriate documentation of transactions, for example, credits for merchandise returns. (h) Lack of mandatory vacations for employees performing key control functions. (i) Inadequate management understanding of information technology, which enables information technology employees to perpetrate a misappropriation. (j) Inadequate access controls over automated records, including controls over and review of computer systems event logs.
C. Attitudes/Rationalisations –
1. Disregard for the need for monitoring or reducing risks related to misappropriations of assets. 2. Disregard for internal control over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control. 3. Behavior indicating displeasure or dissatisfaction with the entity or its treatment of the employee. 4. Changes in behavior or lifestyle that may indicate assets have been misappropriated.Tolerance of petty theft.

Space for Notes

Space for Notes

Standard on Auditing (SA) 250 (Revised)

Consideration of Laws & Regulations in an Audit of Financial Statements

1. Effective Date [Para – 9]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 2009.**

2. Scope of this SA [Para – 1]

1. This Standard on Auditing (SA) deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements.
2. This SA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

3. Effect of Laws and Regulation [Para – 2]

1. The effect on the financial statements of laws and regulations varies considerably.
   - Those laws and regulations to which an entity is subject constitute the legal and regulatory framework.
   - The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity's financial statements.
   - Other laws or regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity's financial statements.
   - Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health).
2. Non-compliance with laws and regulations may result in –
   - Fines, Litigation or
   - Other consequences for the entity that may have a material effect on the financial statements.

3. Definition [Para – 11]

1.	**Non – Compliance**	✓ Acts of omission or commission by the entity, ✓ Either intentional or unintentional, ✓ Which are contrary to the prevailing laws or regulations. • Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. ✓ Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

4. Type of Laws & Regulations [Para – 6]

This SA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows –

1.	**Direct Effect**	Laws and Regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and labour laws, and
2.	**Do not have direct effect**	Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental – • To the operating aspects of the business, • To an entity's ability to continue its business, or • To avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations etc.)

Note → Non – Compliance with such laws and regulations may therefore have a material effect on the financial statements (see paragraph 14).

5. Responsibilities

Para No.	Aspect	Description
3	**Management Responsibility**	1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. [Para – 3] 2. Examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations – [Para A.2] (a) Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements. (b) Instituting and operating appropriate systems of internal control. (c) Developing, publicising and following a code of conduct. (d) Ensuring employees are properly trained and understand the code of conduct. (e) Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it. (f) Engaging legal advisors to assist in monitoring legal requirements. (g) Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints. **Note →** In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following – [Para A.2] • An internal audit function. • An audit committee. • A compliance function.

4 & 5	**Auditor's Responsibility**	1. The auditor is not responsible for preventing non-compliance and cannot be expected to detect non- compliance with all laws and regulations. [Para – 4] 2. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. [Para – 5] 3. Sometimes the auditor may be specifically required to report, as part of the audit of the financial statements, on whether the entity complies with certain provisions of laws or regulations. [Para A.5] 4. In some audit engagements, (e.g. audit of government ventures and undertakings, etc.) there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations. [Para A.6] 5. In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following – [Para – 5] (a) There are many laws and regulations, relating principally to the operating aspects of an entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting. (b) Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor. (c) Whether an act constitutes non – compliance is ultimately a matter for legal determination by a court of law. 6. Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non- compliance.

6. Requirements

A. Basic Duties of an Auditor – [Para – 7]		
1.	**Direct Effect**	To obtain sufficient appropriate audit evidence about compliance with the provisions of those laws and regulations.
2.	**Do not Direct Effect**	Undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.
B. The Auditor's Consideration of Compliance with Laws and Regulations		
12	**Obtain a general understanding of –**	As part of obtaining an understanding of the entity and its environment in accordance with SA 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.
13	**Obtain sufficient appropriate audit evidence**	The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.

14	**Perform Audit Procedures**	Audit procedures to help identify instances of non- compliance with other laws and regulations that may have a material effect on the financial statements – (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations, and (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities (e.g., RBI License for NBFC Companies.)
8 & 15	**Remain Alert**	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. **<u>For Examples</u> – [Para A.11]** ✓ Reading minutes, ✓ Inquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, ✓ Claims and assessments, ✓ Performing substantive tests of details of classes of transactions, ✓ Account balances or disclosures.
16	**Written Representation**	Request Management and, where appropriate, those charged with governance to provide Written Representations that all known instances of non-compliance or suspected non- compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor. **Note →** W R's do not provide Sufficient Appropriate Audit Evidence on their own and, accordingly, do not affect the nature and extent of other audit evidence that is to be obtained bv the Auditor.
17	**Note for above 12 to 16 Para's**	In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs

<u>C. Audit Procedure's when Non – Compliance is Identified or Suspected</u>

A.13	**Indicators of Non–Compliance**	When the auditor becomes aware of the existence of, or information about, the following matters, it may be an indication of non-compliance with laws and regulations – ✓ Investigations by regulatory organisations and government departments or payment of fines or penalties. ✓ Payments for unspecified services or loans to consultants, related parties, employees or government employees. ✓ Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received. ✓ Purchasing at prices significantly above or below market price. ✓ Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts. ✓ Unusual payments towards legal and retainership fees. ✓ Unusual transactions with companies registered in tax havens. ✓ Payments for goods or services made other than to the country from which the goods or services originated. ✓ Payments without proper exchange control documentation. ✓ Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence. ✓ Unauthorised transactions or improperly recorded transactions.

		✓ Adverse media comment.

Para No.	Situation	The Auditor shall –
18	The auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance	(a) Obtain an understanding of the nature of the act and the circumstances in which it has occurred, and (b) Further information to evaluate the possible effect on the financial statement
19	Auditor suspects there may be non-compliance	(a) Discuss the matter with management and, where appropriate, those charged with governance. (b) The auditor shall consider the need to obtain legal advice. ✓ Management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, ✓ In the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements.
20	If sufficient information about suspected non-compliance cannot be obtained	Evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

Note → **1.** The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. [Para – 21 and A.17]

2. In exceptional cases, the auditor may consider whether, unless prohibited by law or regulation, withdrawal from the engagement is necessary when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, even when the non-compliance is not material to the financial statements. When deciding whether withdrawal from the engagement is necessary, the auditor may consider seeking legal advice. [Para A.18]

3. If withdrawal from the engagement is prohibited, the auditor may consider alternative actions, including describing the non- compliance in an Other Matter(s) paragraph in the auditor's report. [Para A.18]

D. Reporting of Identified or Suspected Non – Compliance :

1. Reporting to Those Charge with Governance

22	**Management is not aware of non-compliance**	Communicate with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit. **Note →** **Exceptions** – Reporting is not required: (a) When all the matters are clearly inconsequential, or (b) All TCWG are involved in the Management of the Entity, and therefore aware of matters communicated already by the Auditor.
23	**Non-Compliance is believed to be intentional and material**	Communicate the matter to those charged with governance as soon as practicable.

24	**Management/TCWG with Governance are involved in non – compliance**	☞ Communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. ☞ Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

2. Reporting in Auditor's Report on Financial Statements

Para No.	Situation	The Auditor Shall –
25	The Auditor Non – Compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements	In accordance with SA – 705, express a Qualified or Adverse Opinion on the Financial Statements
26	The Auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred	Express a Qualified Opinion or Disclaim an Opinion on the Financial Statements on the basis of a Limitation on the scope of the audit in accordance with SA 705.
27	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	Evaluate the effect on the Auditor's Opinion in accordance with SA 705.

3. Reporting to Regulatory and Enforcement Authorities

28	**Identified or Suspects Non – Compliance with Laws and Regulations**	The Auditor Responsibility – 1. Determine whether the auditor has a responsibility to report the Identified or Suspected Non – Compliance to parties outside the entity. [Para – 28] 2. The auditor's professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with laws and regulations to a party outside the entity. [Para A.19] 3. However, the auditor's legal responsibilities vary under different laws and regulations and, in certain circumstances. [Para A.19] 4. The duty of confidentiality may be overridden by statute, the law or courts of law. [Para A.19] 5. Under the present legal and regulatory framework for Financial Institutions in India, their auditor has a statutory duty to report the occurrence, or suspected occurrence, of Non – Compliance with Laws and Regulations to supervisory authorities. [Para A.19] **Note →** For example, the auditor is required to report certain matters of non-compliance to RBI as per the requirements of NBFC's Auditor's Report (Reserve Bank) Directions, 1988, issued by the Reserve Bank of India. Also, some laws or Regulations require the Auditor to report Mis – Statements to authorities in those cases where Management and TCWG, fail to take corrective action. [Para A.19] 6. In case of certain entities, such as national governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions and enterprises), the auditor may be obliged to report on instances of non-compliance to governing authorities or to report them in the

		auditor's report. [Para A.20]
E. Documentation –		
29	**Documentation**	☞ The auditor shall document identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity ☞ The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example: ✓ Copies of records or documents. ✓ Minutes of discussions held with management, those charged with governance or parties outside the entity.

Space for Notes

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Standard on Auditing (SA) 260 (Revised)

Communication with Those Charged with Governance

1. Effective Date [Para – 4]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 2009.**

2. Scope of this SA [Para – 1]

1. Deals with the auditor's responsibility to communicate with those charged with governance in relation to an audit of financial statements.
2. Although this SA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities.
3. This SA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

3. Auditor's Objective w.r.t. TCWG [Para – 5]

(a) Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;

(b) Obtain from those charged with governance information relevant to the audit;

(c) Provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and

(d) Promote effective two-way communication between the auditor and those charged with governance.

4. Definitions [Para – 6]

S.N.	Terms	Definitions
(a)	**TCWG**	☞ The person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. ☞ For some entities those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector undertakings or an owner-manager. ☞ In some cases, those charged with governance are responsible for approving the entity's financial statements (in other cases management has this responsibility).
Governance Structures may vary reflecting different size and ownership characteristics. For Example		
A.5	**Form of Governance Structures**	☞ **Based on Legal Structure** – In most of the entities, those charged with governance hold positions that are an integral part of the entity's legal structure, for example, company directors. In others, for example, some government undertakings a body that is not part of the entity is charged with governance. [Para A.5] ☞ **Based on Management** – In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and management comprises different persons. [Para A.5] ☞ **Based on Responsibility** –

		✓ In some cases, TCWG are responsible for approving the entity's Financial Statements (In other cases management has this responsibility). [Para A.5] ✓ In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees, or equivalent persons. [Para A.6] ✓ In some smaller entities, however, one person may be charged with governance, for example, the owner-manager where there are no other owners, or a sole trustee. When governance is a collective responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities. Alternatively, a subgroup or individual may have specific, legally identified responsibilities that differ from those of the governing body. [Para A.6]
(b)	**Management**	☞ The person(s) with executive responsibility for the conduct of the entity's operations. ☞ For some entities, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner – manager. ☞ Management is responsible for the preparation of the financial statements, overseen by those charged with governance, and in some cases management is also responsible for approving the entity's financial statements (in other cases those charged with governance have this responsibility).

5. Requirements

A. Management and Auditor's Responsibility to Communicate		
Para No.	**Aspect**	**Description**
A.2 & A.3	**Responsibility**	(a) The auditor is responsible for communicating with TCWG, observations that arise from the audit that are significant. Management also has responsibility to communicate matters of governance interest to TCWG. [Para A.2] (b) Communication by the auditor does not relieve management of this responsibility, and vice – versa. Communication of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance. [Para A.2] (c) Laws or regulations may restrict the auditor's communication of certain matters with those charged with governance. In following cases, the auditor may consider obtaining Legal Advice. [Para A.3] ✓ For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. ✓ In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex.
B. Those Charged with Governance		
7	**Identification**	The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate
8	**Sub Group**	When the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall

		determine whether the auditor also needs to communicate with the governing body.
9	**Governance = Management**	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) with those Management responsibilities.

Note → If appropriate person(s) with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, (for e.g. family-owned entities, some not-for-profit organisations, and some government entities). In such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. [Para A.7]

C. Matters to be Communicated

Para No.	Matters	Description
10	**Auditor's Responsibilities**	(a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance, and [Para – 10] (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. [Para – 10] (c) The auditor's responsibility for performing the audit in accordance with SAs, The matters that SAs require to be communicated with TCWG. [Para A.13] (d) SAs do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance. [Para A.13] (e) When applicable, the auditor's responsibility for communicating particular matters required by laws or regulations, by agreement with the entity or by additional requirements applicable to the engagement. [Para A.13]

Note → The above information is often included in the Engagement Letter or other suitable form of written agreement that records the agreed terms of engagement. Providing the Governance Team with a copy of such letter may be an appropriate way to communication with them.

11	**Audit Scope**	The auditor shall communicate with those charged with governance – 1. An overview of the planned scope and timing of the audit. [Para – 11] 2. How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error. [Para A.17] 3. The auditor's approach to internal control relevant to the audit. [Para A.17] 4. The application of the concept of materiality in the context of an audit. 5. Where the entity has an internal audit function, the extent to which the auditor will use the work of internal audit. [Para A.18]
12	**Significant Audit Finding**	The auditor shall communicate with those charged with governance – 1. The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. 2. Significant difficulties, if any, encountered during the audit, such as – ✓ Significant delays in management providing required information. ✓ An unnecessarily brief time within which to complete the audit. ✓ Extensive unexpected effort required to obtain sufficient appropriate audit

		evidence. ✓ The unavailability of expected information. ✓ Restrictions imposed on the auditor by management. ✓ Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested **Note →** In some circumstances, such difficulties may constitute a scope limitation that leads to modification of the Auditor's Opinion 3. Unless all of those charged with governance are involved in managing the entity– (a) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management, and (b) Written representations the auditor is requesting, and 4. Other matters, if any, arising from the audit that, in the auditor's professional judgment, is significant to the oversight of the financial reporting process.
13	**Auditor's Independence, In case of Listed Entities only**	(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence, and (b) (i) 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. (ii) This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. (iii) These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor, and (c) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.
Exception → In the case of listed entities may also be relevant in the case of some other entities, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders. (E.g. public sector entities, credit institutions, insurance companies and retirement benefit funds.) [Para A.27] On the other hand, there may be situations where communications regarding independence may not be relevant, (for example, where all of those charged with governance have been informed of relevant facts through their management activities.) [Para A.27]		
D. Communication Process –		
14	**Preliminary**	☞ The auditor shall communicate with those charged with governance the form, timing and expected general content of communications, covering aspects like – [Para – 14 & A.33] ✓ Purpose of Communications, ✓ The form in which communications will be made, ✓ The person(s) in the audit team and amongst those charged with governance who will communicate regarding particular matters, ✓ The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor, matters

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<tr><td></td><td></td><td>they consider relevant to the audit, (for example, strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and concerns with the integrity or competence of senior management).
✓ The process for taking action and reporting back on matters communicated by the auditor.
✓ The process for taking action and reporting back on matters communicated by those charged with governance.
☞ Before communicating matters with those charged with governance, [Para A.37]
✓ The auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management.
✓ When the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.
☞ In addition to recognising management's executive responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations.</td></tr>
<tr><td>15 & 16</td><td>Forrms of Communications</td><td>(a) The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit when, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. [Para – 15]
(b) The auditor shall communicate in writing with those charged with governance regarding auditor independence. [Para – 16]
(c) In addition to the significance of a particular matter, the form of communication (e.g., whether to communicate orally or in writing, the extent of detail or summarisation in the communication, and whether to communicate in a structured or unstructured manner) may be affected by such factors as – [Para A.42]
✓ Whether the matter has been satisfactorily resolved.
✓ Whether management has previously communicated the matter.
✓ The size, operating structure, control environment, and legal structure of the entity.
✓ In the case of an audit of special purpose financial statements, whether the auditor also audits the entity's general purpose financial statements.
✓ Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law.
✓ The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
✓ The amount of ongoing contact and dialogue the auditor has with those charged with governance.
✓ Whether there have been significant changes in the membership of a governing body.</td></tr>
<tr><td>17</td><td>Timing</td><td>The auditor shall communicate with those charged with governance on a timely basis.</td></tr>
<tr><td>18</td><td>Adequacy</td><td>(a) The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose</td></tr>
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<tr><td></td><td></td><td>of the audit.
(b) If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action such as.
✓ Modifying the auditor's opinion on the basis of a scope limitation.
✓ Obtaining legal advice about the consequences of different courses of action.
✓ Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g., shareholders in a general meeting), or the responsible government minister or parliament in the public sector.
✓ Withdrawing from the engagement where permitted in the relevant jurisdiction.</td></tr>
<tr><td colspan="3"><u>E</u>. <u>Documentation</u> –</td></tr>
<tr><td>19</td><td>Documentation</td><td>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.</td></tr>
<tr><td colspan="3"><u>F</u>. <u>Communication with Third Parties</u> –</td></tr>
<tr><td>A.38
&
A.39</td><td>Communication with Third Parties</td><td>1. In some cases, disclosure to third parties may be illegal or otherwise inappropriate.
2. Communication to Third Parties (e.g. Bankers or Regulatory Authorities), where Governance Team itself may wish to provide Third Parties, with copies of a written from the Auditor.
3. In such cases, the Third Parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance –
✓ That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, should not be relied upon by third parties,
✓ That no responsibility is assumed by the auditor to third parties, and
✓ Any restrictions on disclosure or distribution to third parties.
4. The auditor may be required by laws or regulations to, for example –
✓ Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. The auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action.
✓ Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies (such as Central Government in the case of some public sector undertakings) or
5. Make reports prepared for those charged with governance publicly available.</td></tr>
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Standard on Auditing (SA) 265

Communication of Deficiencies in Internal Control to Those Charged with Governance and Management

1. Effective Date [Para – 4]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 2010.**

2. Scope of this SA [Para – 1]

1. This SA deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control[1] that the auditor has identified in an audit of financial statements.
2. This SA does not –
   - ✓ Impose additional responsibilities on the auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of SA 315 and SA 330, SA 260 (Revised).
   - ✓ Prohibit the auditor from communicating to those charged with governance and management other internal control matters that the auditor has identified during the audit. [Para – 3]

3. Auditor's Objective [Para – 5]

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

4. General Duties of Auditor [Para – 2]

1. The auditor is required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of material mis – statement.
2. In making those risk assessments, the auditor considers internal control 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 internal control.
3. The auditor may identify deficiencies in internal control not only during this risk assessment process but also at any other stage of the audit. This SA specifies which identified deficiencies the auditor is required to communicate to those charged with governance and management.

5. Definitions [Para –6]

Para No.	Terms	Definitions
(a)	Deficiency in Intenal 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 financial statements on a timely basis, or (b) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.
(b)	Significanct Deficiency in Internal Control	A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Note → The significance of a deficiency or a combination of deficiencies in internal control depends on –
- ✓ Whether a misstatement has actually occurred,
- ✓ The likelihood that a misstatement could occur and
- ✓ The potential magnitude of the misstatement.

Significant deficiencies may therefore exist even though the auditor has not identified misstatements during the audit.

6. Requirements

A. Identify Deficiencies [Para – 7]		
S.N.	**Aspect**	**Description**
1.	**Identify Deficiency**	The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control. [Para – 7]
2.	**Confim Deficiencies**	For this purpose auditor may discuss the relevant facts and circumstances of the auditor's findings with the appropriate level of management. [Para A.1]
3.	**Preliminary Response**	The Auditor may obtain other relevant information like – [Para A.2] (a) Management's understanding of the actual or suspected causes of the deficiencies. (b) Exceptions arising from the deficiencies that management may have noted, for example, misstatements that were not prevented by the relevant information technology (IT) controls. (c) A preliminary indication from management of its response to the findings.
B. Recognise Significant Deficiencies		
8	**Recognisation of SD**	If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.
A.6	**Matter to be Considered**	Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include – 1. The likelihood of the deficiencies leading to material misstatements in the financial statements in the future. 2. The susceptibility to loss or fraud of the related asset or liability. 3. The subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates 4. The financial statement amounts exposed to the deficiencies. 5. The volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies. 6. The importance of the controls to the financial reporting process; for example– ✓ General monitoring controls (such as oversight of management).Controls over the prevention and detection of fraud. ✓ Controls over the selection and application of significant accounting policies. ✓ Controls over significant transactions with related parties. ✓ Controls over significant transactions outside the entity's normal course of business. ✓ Controls over the period-end financial reporting process (such as controls

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<tr><td></td><td></td><td>over non-recurring journal entries).
7. The cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
8. The interaction of the deficiency with other deficiencies in internal control.</td></tr>
<tr><td>A.7</td><td>Indicators</td><td>Indicators of significant deficiencies in internal control include, for example –
1. Evidence of ineffective aspects of the control environment, such as –
✓ Indications that significant transactions in which management is financially interested are not being appropriately scrutinized by those charged with governance.
✓ Identification of management fraud, whether or not material, that was not prevented by the entity's internal control.
✓ Management's failure to implement appropriate remedial action on significant deficiencies previously communicated.
2. Absence of a risk assessment process within the entity or evidence of an ineffective entity risk assessment process, such as management's failure to identify a risk of material misstatement that the auditor would expect the entity's risk assessment process to have identified.
3. Evidence of an ineffective response to identified significant risks (e.g., absence of controls over such a risk).Misstatements detected by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control.
4. Disclosure of a material misstatement due to error or fraud as prior period items in the current year's Statement of Profit and Loss.
5. Evidence of management's inability to oversee the preparation of the financial statements.</td></tr>
<tr><td colspan="3"><u>C. Communicate Significant Deficiencies</u></td></tr>
<tr><td>9</td><td>To Government</td><td>The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis</td></tr>
<tr><td>10</td><td>To Management</td><td>The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis –</td></tr>
</table>

<u>**Matters to be Communicate**</u>	<u>**Appropriate Level of Management**</u>
In writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances. [Para – 10]	**CEO/CFO/Equivalent [Para A.19]**
Other deficiencies in internal control 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. [Para – 10]	**Operational Management [Para A.19]**

A.30	**To Regulatory**	Law or regulation may require the auditor or management to furnish a copy of the auditor's written communication on significant deficiencies to appropriate regulatory authorities. Where this is the case, the auditor's written communication may identify such regulatory authorities.

<u>***Level of details at which to communicate depends on***</u> – [Para A.15]

(a) The nature of the entity. For instance, the communication required for a public interest entity may be different from that for a non-public interest entity.

(b) The size and complexity of the entity. For instance, the communication required for a complex entity may be different from that for an entity operating a simple business.

(c) The nature of significant deficiencies that the auditor has identified.

(d) The entity's governance composition. For instance, more detail may be needed if those charged with governance include members who do not have significant experience in the entity's industry or in the affected areas.

(e) Legal or regulatory requirements regarding the communication of specific types of deficiency in internal control.

D. Matters to be included in Written Communication

11	**Matters to be included**	The auditor shall include in the written communication of significant deficiencies in internal control – 1. A description of the deficiencies and an explanation of their potential effects, and 2. Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that – (a) The purpose of the audit was for the auditor to express an opinion on the financial statements, (b) The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control, and (c) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

<table>
<tr><th colspan="2"><u>E. Pervious Communication/Continuous Deficiencies</u></th></tr>
<tr><td colspan="2">Management and Those charged with Governance may already be aware of significant deficiencies that the auditor has identified during the audit and may have chosen not to remedy them because of cost or other considerations.[Para A.16]
In such Cases, the Auditor has the following responsibilities –</td></tr>
<tr><td>In case of Know n Significant Deficiencies[Para A.17]</td><td>In Case of Known Other Deficiencies [Para A.24]</td></tr>
<tr><td>The auditor shall repeat the communication, if remedial action has not yet been taken, by –
(a) May repeat the description from the previous communication, or
(b) Simply reference the previous communication.</td><td>In case of known Other than Significant Deficiencies to management in a prior period, the Auditor need not repeat the communication in the current period, except in case of –
(a) A change of Management, or
(b) If new information has come to the Auditor's attention that alters the prior understanding of the Auditor and Management regarding the deficiencies.</td></tr>
<tr><td colspan="2">The Failure of management to remedy Significant and Other Deficiencies in Internal Control that were previously communicated may become a Significant Deficiency by itself, requiring communication with TCWG.</td></tr>
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Standard on Auditing (SA) 299

Responsibility of Joint Auditors

1. Effective Date [Para – 13]

This SA is effective for audits of financial statements for periods beginning **on or after April 1, 1996.**

2. Scope of this SA [Para – 1]

- **Applicability** – This Standard deals with the professional responsibilities which the auditors undertake in accepting such appointments as joint auditors.
- **Exception** – The Standard does not deal with the relationship between a principal auditor who is appointed to report on the financial statements of an entity and another auditor who is appointed to report on the financial statements of one or more divisions or branches included in the financial statements of the entity, e.g., the relationship between a company auditor appointed under section 224 of the Companies Act, 1956 and a branch auditor appointed under section 228 of the said Act

3. Definitions [Para – 1]

The practice of appointing more than one auditor to conduct the audit of large entities is in vogue these days. Such auditors, known as joint auditors, conduct the audit jointly and report on the financial statements of the entity.

4. Requirements

Para No.	Aspects	Description
2 & 3	**Divisoin of Work among the Joint Auditors**	1. **Manner of Division** – Where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of work would usually be in following manner – [Para – 2] (a) In terms of audit of identifiable units, or (b) Specified areas. (c) Items of assets or liabilities or income or expenditure , (d) With reference to periods of time. 2. **Common Coverage Areas** – Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors. [Para – 2] 3. **Documentation** – The division of work among joint auditors as well as the areas of work to be covered by all of them should be adequately documented and preferably communicated to the entity. [Para – 3]
4 & 5	**Co – ordination among the Joint Auditors**	1. **Communication** – A joint auditor should communicate in writing the following to all other Joint Auditors – (a) Matter which are relevant to the areas of responsibility of other joint auditors, (b) Matter which deserve their attention, and (c) Matte that disclosure or require discussion with, or application of judgement by, other joint auditors, he should communicate the same to all the other joint auditors. 2. **Pre – Audit Report** – This should be done by the submission of a report or note prior to the finalisation of the audit.

<table>
<tr><td></td><td></td><td colspan="2">3. <u>Post – Audit Communication</u> – If any such matter is brought to the attention of the entity or other Joint Auditors by an Auditor after report has been submitted, the other Joint Auditors would not be responsible for those matters.</td></tr>
<tr><td>5
To
9</td><td>Nature of the Responsibility of Joint Auditors</td><td><u>Joint & Several Responsibility</u></td><td><u>Several Responsibility</u></td></tr>
<tr><td colspan="4"><u>Please refer Audit under Companies Act, 1956 page no. 88 and 89</u></td></tr>
<tr><td>10
&
11</td><td>Reliance on Other Joint Auditor's Work</td><td colspan="2">1. <u>Compliance with SA</u> –Each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work in accordance with the generally accepted audit procedures (Standards on Auditing).
2. <u>No need for review</u> – It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner.
3. <u>Reliance</u> – Each joint auditor is entitled to rely upon the other joint auditors for bringing to his notice any departure from generally accepted accounting principles or any material error noticed in the course of the audit.
4. <u>Branch Audit Situation</u> – Where separate financial statements of a division/branch are audited by one of the joint auditors, the other joint auditors are entitled to assume –
(a) A true and fair view of the state of affairs and of the working results of the division/branch concerned,
(b) Compliance with Legal and Professional Requirement, and
(c) Correctness of disclosure of such Financial Statements.
However, subject to such observations as may be communicated by the joint auditor concerned</td></tr>
<tr><td>12</td><td>Reporting Responsibility of JA's</td><td colspan="2"><u>Refer Audit Under Companies Act, 1956 page no. 89</u></td></tr>
<tr><td colspan="4">Some Extra Points</td></tr>
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