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REVISION NOTES ON STANDARDS ON AUDITING

200-299 General Principals & Responsibilities

1. SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
2. SA 210	Agreeing the Terms of Audit Engagements
3. SA 220	Quality Control for Audit of Financial Statements
4. SA 230	Audit Documentation
5. SA 240	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements
6. SA 250	Consideration of Laws and Regulations in An Audit of Financial Statements
7. SA 260	Communication with Those Charged with Governance
8. SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
9. SA 299	Responsibility of Joint Auditors

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SA 200(R)

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

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SA 200(R)

SA 200

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

- It Establish overall Responsibility of Auditor
- It set out overall objectives and nature& scope of Audit Design to meet objectives
- It necessary when Audit of other Historical Financial Information Is conduct
- It requires that the auditor obtains Reasonable Assurance That Financial Statements free from material-misstatement And to issue Report
- It explains General Responsibility & Obligation of Auditor to comply with SAs.

SA 200(R)

REQUIRMENT OF SA 200 WHICH FULFILL BY THE AUDITOR

- **Ethical Requirments**
  - Every member of ICAI should follow Ethical Behaviour as Described in Code of Ethics issued by ICAI
- **Professional Skepticism**
  - Defines as Auditor's alertness towards information provided to him from Auditee
- **Exercise Professional Judgement**
  - It means a Judgement taken by Auditor out of his professioanl experience in a audit situation
- **Obtain Sufficient & appropriate Audit evidence**
  - Defines as Quantity and Quality of Audit evidence
- **Follow all Standards on Auditing**
  - AS Issued by AASB under the authority of Council of ICAI

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SA 200(R)

Ethical Requirements

- **Integrity**
  - Defines as honest behaviour, loyalty towards users of Financial Statements
- **Objectivity**
  - This achieve only by having Independence of Auditor
- **Professional competence & due care**
  - Defines that Auditor should update himself with latest developments in accounting & Auditing
- **Confidentiality**
  - Auditor should keep safe all information received from client & not Disclose anyone without permission of client or as required by any law
- **Professional behaviour**
  - Integrity

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SA 200(R)

By CA. Yogesh K.Birla

Inherent Limitations of Audit

Auditor cannot reduce risk to zero(0) and can't obtain absolute Assurance Because

Of Inherent Limitations of Audit Which is are follows—

Nature of Financial Reporting

Some items of FS are valued only on the basis of management estimates

Nature of Audit procedures

May be ineffective for detecting an intentional mistatement in FS.

To complete the Audit in reasonable time and at reasonable cost

As per expectation of users to provide FS in reasonable time

SA210(R)
AGREEING THE TERMS OF AUDIT ENGAGEMENTS

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SA 210(R)

Before accepting Engagement Auditor ensure that-

Preconditions for an Audit are present

There is common understanding between Auditor, Management & TCWG

Check FRF applied is acceptable

Management understand its responsibility

Prepare FS with applicable FRF

For internal control and FS free from MMS due to fraud & error

To provide the Auditor with

CONTINUED................

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SA 210(R)

CONTINUED.........

Management's Responsibility towards Auditor to provide with-

- Access to all information (books,records,docs)
- Additional information auditor may request from management
- Unrestricted access to persons within the entity

Note- To change in terms of audit engagement there will be reasonable justification for doing so.

SA220(R)

QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

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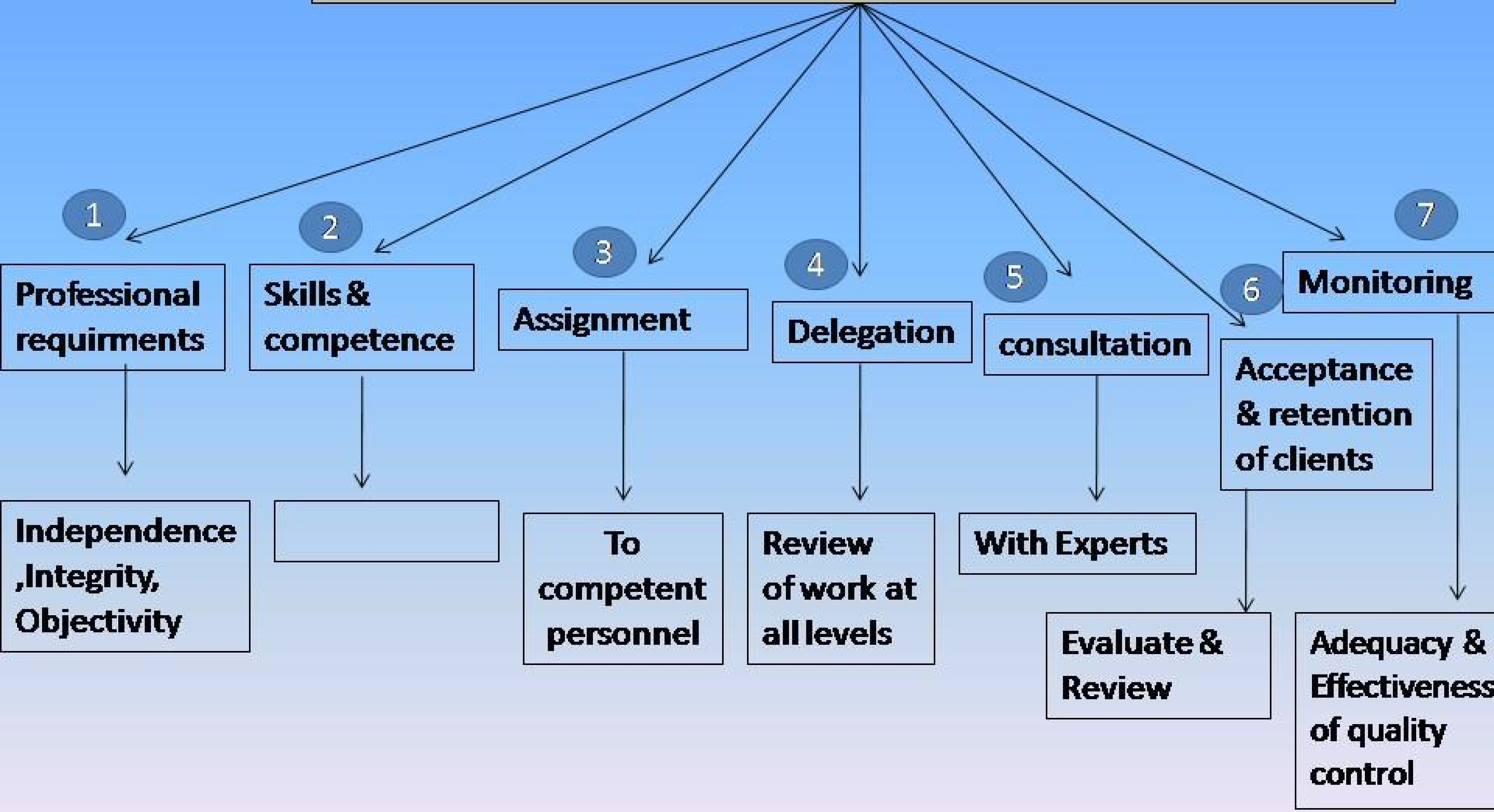
SA 220(R)

Factors to be considered for quality control incorporating in audit work



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SA 220(R)

If Audit work assign to assistant Then DO-

- Direction
- Review
- Supervision

Review

Following matters need to be Reviewed on timely basis—

- Audit plan & Audit program or modification
- Assess inherent & control risk
- Document the Audit evidences
- Any proposed adjustments in FS

SA230(R)

AUDIT DOCUMENTATION

SA 230(R)

Audit documantation includes following---

- Audit procedures performed
- Relevent audit evidences obtained
- Conclusion the Auditor reached
- Others Documents includes–
  - Audit plan, program,query, Observations etc.

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SA 230(R)

Matters required to be documented-

1. NTE of audit procedure performed
2. Results of audit procedures performed
3. Significant matters arising during audit
4. Matters discussed with managemen t
5. Inconsistent information identified during audit
6. If apply new audit procedures and draw new conclusions
7. Not follow requirement of any SA in a matter

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SA 230(R)

WHY Documentation

Documentation serve additional Purpose & Assist the engagement team To--

- Plan & perform the audit
- Work Accountable
- Superwise Audit work
- Retaining records of significant matters
- QC Reviews & Inspection
- Conduct external inspection

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SA 240(R)

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

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SA 240(R)

FRAUD

An intentional act by one or more Individuals to Obtain An unjust or illegal advantage

Next page….

It includes-

- Management
- TCWG
- Employees
- Third parties

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SA 240(R)

Intentional act

2 types

Fraudulent financial reporting(FFR)

- Manipulate records
- Intentional omission of transactions
- Misapplication of accounting principles
- Record fictitious Journal entries
- Inappropriate assumptions

Misappropriation of assets(MOA)

- Embezzling receipts
- Stealing physical assets for personal use
- Fictitious payments,sales & purchases etc.
- Entity's assets use for personal purpose

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SA 240(R)

Objective of auditor as per SA240

A

Identify and assess risk of material misstatements

B

Obtain sufficient appropriate audit evidence

C

Respond to identified or suspected fraud or risk

Now discuss in brief…………

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SA 240(R)

A Identify and assess risk of material misstatements

Steps of assessing risk

- Understanding the entity's Business
- Enquiries through management
  - How management assess the fraud risk factor
  - Knowledge about actual & suspected fraud
- Enquiries with internal Auditor
- Results of Auditor's analytical procedures

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SA 240(R)

B

Obtain sufficient appropriate evidence

Auditor's responses towards Assessed risk of MMS

SA330

Overall Response

- Depute adequately skilled & experienced Engagement team
- Evaluate accounting policies properly selected & applied
- Auditor incorporate an element of unpredictability in selection of NTE of audit procedures

Response to assertion level

- Test the appropriateness of Journal entries recorded
- Review of accounting estimates

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SA 250(R)

Auditor's duty in relation to SA250

- Understand the entity's environment
  - Legal & Regulatory framework applicable and compliance of it by mgmt.
- Obtain sufficient appropriate audit evidence
- Duty to remain alert
- Duty to perform procedures
  - Enquiry from Mgmt & TCWG
  - Inspect correspondence with legal authorities
- Obtain representation from management

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SA 250(R)

Indications of non compliance of Laws & Regulations

- Payment of fines & penalties or investigation
- Excessive commission on sales or agent fees
- Purchases above or below market prices to avoid taxes
- Unusual payments in cash
- Adverse media comment
- Unusual paments of legal fees
- Payment of loans to related parties
- Unauthorized transactions

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SA 260(R)

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE(TCWG)

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SA 260(R)

WHO is Those charged with governance(TCWG) ??

It includes Person(s) or Organisation(s)

Responsible for overseeing the strategic direction of entity

It includes overseeing financial reporting process

TCWJ may be management personnel (executive members)

Such personnel who will-
(a)supervise the performance of management
&
(b)Responsible for approving financial statements

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SA 260(R)

Matters required to be communicated with TCWJ

- Auditor's responsibility in relation to audit of financial statements
- Planned scope and timing of Audit
- Significant findings from audit
  - Communicate views about accounting practices
    - Accounting policies
    - Accounting estimates
    - Disclosures in FS
  - Significant difficulties during audit
  - Material weaknesses in internal control
  - Significant matters discuss
  - Requesting written representations

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SA 260(R)

Factors govern mode of communication with TCWG--- whether oral or written ??

- Size of the entity
- Operating structure of entity
- Control environment
- Legal structure of entity

SA 265(NEWLY ISSUED)

Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

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SA 265(N.I.)

What Deficiency means ?

When a control is designed, implemented or operated in such a way that it is either--

Enable to prevent, detect or correct misstatement in FS.

OR

It is missing

SA 265(N.I.)

Requirements under SA 265

If Auditor identifies one or more deficiencies in internal control than--

- **Communicate in writing with TCWJ & MGMT on timely basis**
- **Give full description & explanation of their effect**
- **Explain purpose of Audit**

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SA 299
RESPONSIBILITY OF JOINT AUDITORS

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SA 299

JOINT AUDITORS

More than one auditor appointed to conduct audit of a larger entity

Audit work is divided between them in terms of---

- **Identifiable units**
- **Specified areas**

Some areas which can not be divided covered by all joint auditors

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SA 299

Responsibility of joint auditors

- Individual responsibility
  - A
- Joint or several responsibility
  - B

SA 299

A Individual responsibility

- Significant matters required attention of other joint auditors,communicate with them
- Responsible for only work allotted to him
- It is responsibility of each joint auditor to--
  - Use of test check & sampling
  - Evaluate internal control
  - Review of audit reports/returns
  - Visiting branches
  - Obtain explanation from MGMT

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SA 299

B JOINT RESPONSIBILITY

On following matters all joint auditors are jointly responsible-

- Work not divided & jointly done
- Decision taken by all joint auditors on a matter
- A matter brought to notice by one joint auditor to all joint auditors & agreement between them on that matter
- Disclosure requirements in FSs
- Compliance of statute in audit report

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SA 299

Rights & Duties of a joint Auditor

RIGHT

- Each joint auditor assume that all other joint auditors carried out their part of audit work in accordance with GAAP
- It is not necessary for a joint auditor to review the work of other joint auditor
- Each joint auditor entitled to rely upon the other joint auditors to brought the matter in notice of them when material error is noticed in audit.

DUTY or Reporting responsibility

- If disagreement on any matter → Joint auditor have to express his own opinion in separate report (not bound by majority)
- If no disagreement than- → Joint Report is to be given