PART 2- SAs 300 - 499

By- CA.YOGESH K.BIRLA MBA, BCOM

REVISION NOTES ON STANDARDS ON AUDITING

300-499 Risk assessment & Response to assessed risk

1. SA 300	Planning an Audit of Financial Statements
2. SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
3. SA 320	Materiality in Planning and Performing an Audit
4. SA 330	The Auditor's Responses to Assessed Risks
5. SA 402	Audit Considerations Relating to an Entity Using a Service Organization
6. SA 450	Evaluation of Misstatements Identified during the Audits

Prepared by- CA.YOGESH K BIRLA (mail- birlayogesh1@gmail.com)

SA 300

Planning an Audit of Financial Statements

Objective of planning

To conduct Audit timely and in efficient manner

Documentations in SA300

- Overall Audit strategy
- The Audit plan
- Any significant changes during audit engagement in strategy or plan

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SA 300

Considerations involved in Audit planning

Establish overall audit strategy

For this purpose Auditor should------

- **Identify the characteristics**
- **Ascertain the reporting objectives**
- **Ascertain the factors significant for audit team**
- **Ascertain the NTE of resources**

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SA 300

Designing of audit strategy is backbone of 'Audit planning 'process– It helps-

- To Design optimized audit procedure
- To achieve Resonable Assurance at optimized cost
- To conduct Timely audit
- Information available when required

Strategy is Backbone of Audit Planning because it is includes Determination of

- Financial Reporting Framework (FRF)
- Industry specific reporting requirment
- Expected audit coverage
- Allocation of work in engagement team
- Manage resources
- Engagement budgeting
- Discuss with Manage-ment & TCWJ
- Communicate materiality

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SA 315(NEWLY ISSUED)

IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY & ITS ENVIRONMENT

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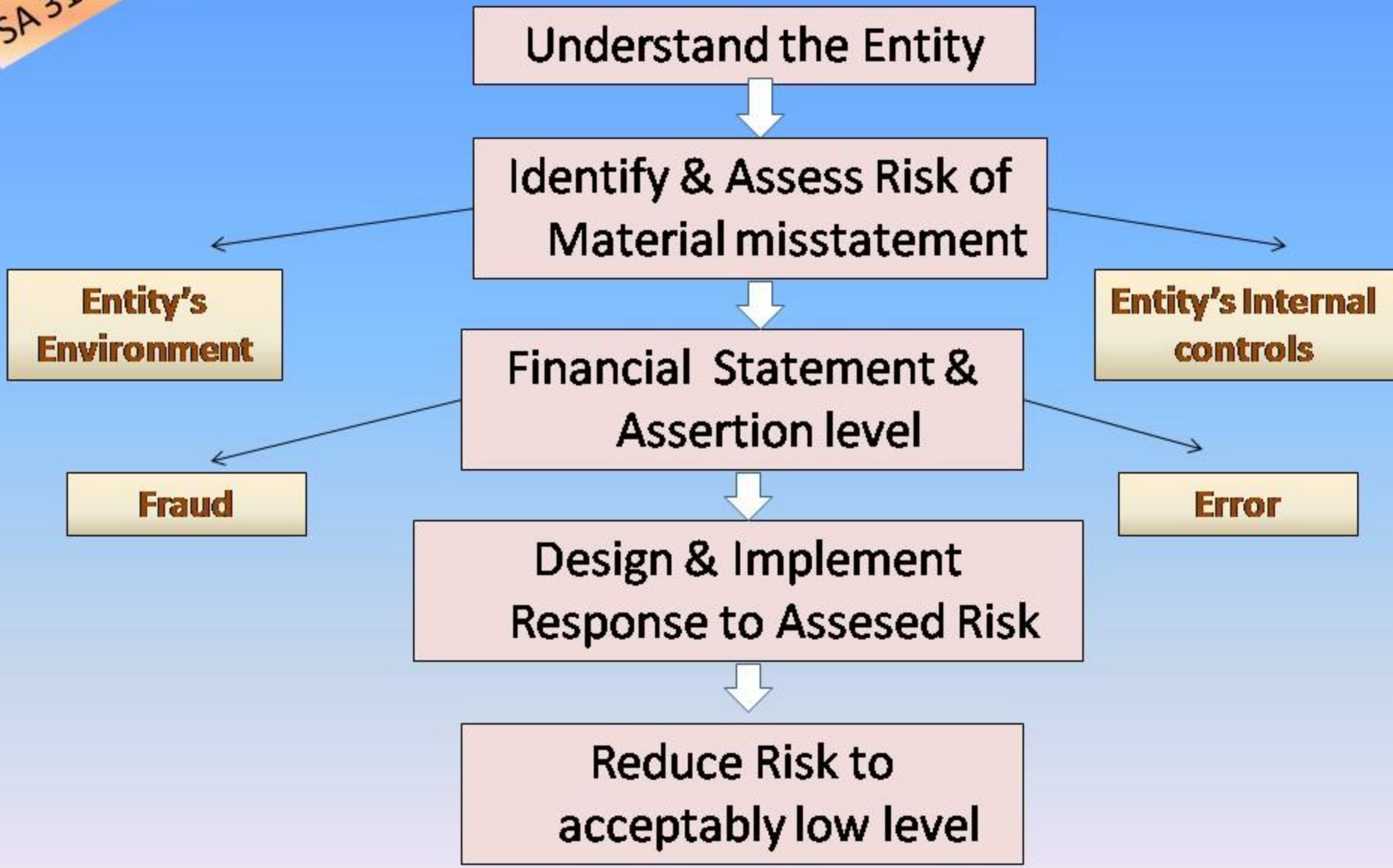
SA 315

Process of Assessing risk & Reducing Risk



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SA 315

Understand entity & its environment

- Relevant industry Regulations, FRF
- Nature of entity
  - Operations
  - Ownership & structure
  - Investment made
  - Financial structure
- Selection & application of accounting Policues
- Entity's objective & Strategies
- Measure & review entity's Financial performance

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SA 315

Internal control

Control of entity over its business

Internal control is-

- A Process designed, implemented & maintained
- By TCWG, Management & other personnel
- To provide reasonable assurance about achieving entity's objectives with regard to -
  - Reliability of Financial repoorting
  - Effectiveness & efficiency of operations
  - Safeguarding of assets
  - Compliance with laws & regulations

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SA 315

Identifying & Assesing risk of material mis-statement

- At Financial statement level
- At Assertion level
  - Classes of transactions
  - Account balances
  - Disclosure to provide a basis for design audit procedures

IT Systems also pose specific risks to an entity's internal control, they are–

- Reliance on inaccurate data
- Unauthorise access of Data & master files
- Abuse the power of personnel
- Unauthorise changes in system or programs
- Potential loss of data
- Inability to access data when required

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SA 315

In computerised environment risk of material mis statement arise from folllowing deficiencies

- Developed program & Maintinance have some defect
- System software support is improper
- Operations & process of data not regulated
- Lack of physical security
- Control over access of program is improper

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SA 320 (REVISED)
Materiality in Planning & Performing an Audit

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SA 320(R)

Materiality
(Relation B/W Risk & Materiality

Any item or Information → Will said to be Material → If mis statement of which can influence the user's decision

How Auditor judges Materiality factor in Financial statements–

- See surrounding circumstances
- Size & nature of mis statements
- Use own professional judgements

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SA 315

Performance Materiality–

- The amount set by auditor at less than materiality
- The probability that the mis-statement Exceeds materiality set
- Amount can be set at assertion level

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SA 330 (NEWLY ISSUED)
THE AUDITOR'S RESPONSE TO ASSESED RISK

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SA 330 (New)

Duty of the Auditor As per SA 330

To obtain sufficient appropriate audit evidence

About assessed risk of material mis-statement

Through designing and implementing appropriate responses to assessed risk

Audit Risk

Risk of material misstatement

Inherent Risk

If no internal control at place than the risk of fraud or error to each item of B/S & P&L a/c is known as Inherent risk at assertion level

Control Risk

If internal control adopted by management to prevent misstatement, but auditor feels that still misstatement can be there despite of controls is called control risk.
Exa-same person appointed for collecting & recording of cash.

Detection risk

The procedures performed by auditor to reduce audit risk to acceptably low level will not detect a misstatement that exists and that could be material, the risk of that is called Detection risk.
Exa- Select Randomly items and not 100%

SA 330 (New)

How to assess audit risk Following steps-

- **Step 1- Assess Inherent risk (FS level)**
- **Step 2- Preliminary assessment of control risk**
- **Step 3- Apply Substantive procedures And perform test of controls**
  - **If test of control supports preliminary assessment of control risk**
    - **Apply substantive procedures appropriately**
  - **If test of control Contrary preliminary assessment of control risk**
    - **Than Modification in substantive procedures is required**

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SA 330 (New)

Relationship between Detection risk & Inherent risk & Control risk

Audit risk = (Inherent risk × Control risk) × Detection risk

There is Inverse relationship between all

For example-

If business is too complex and there is no internal control in place than-

inherent risk & control risk is high so Total risk is highest

If Auditor use substantive procedure to make Detection risk is lowest

Now understand by Formula

Audit risk = (IR × CR) × DR

= (High × High) × Lowest

= Highest × Lowest

= Medium

So Overall Audit Risk level is Medium

SA-402(R)
Audit considerations relating to an entity using service organisations

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SA 402(R)

Why additional considerations taken by Auditor Relating to audit of entity which using Service Organization

The Auditor should consider how a service organization affects the client's accounting and Internal control system

So as to plan the Audit in effective way

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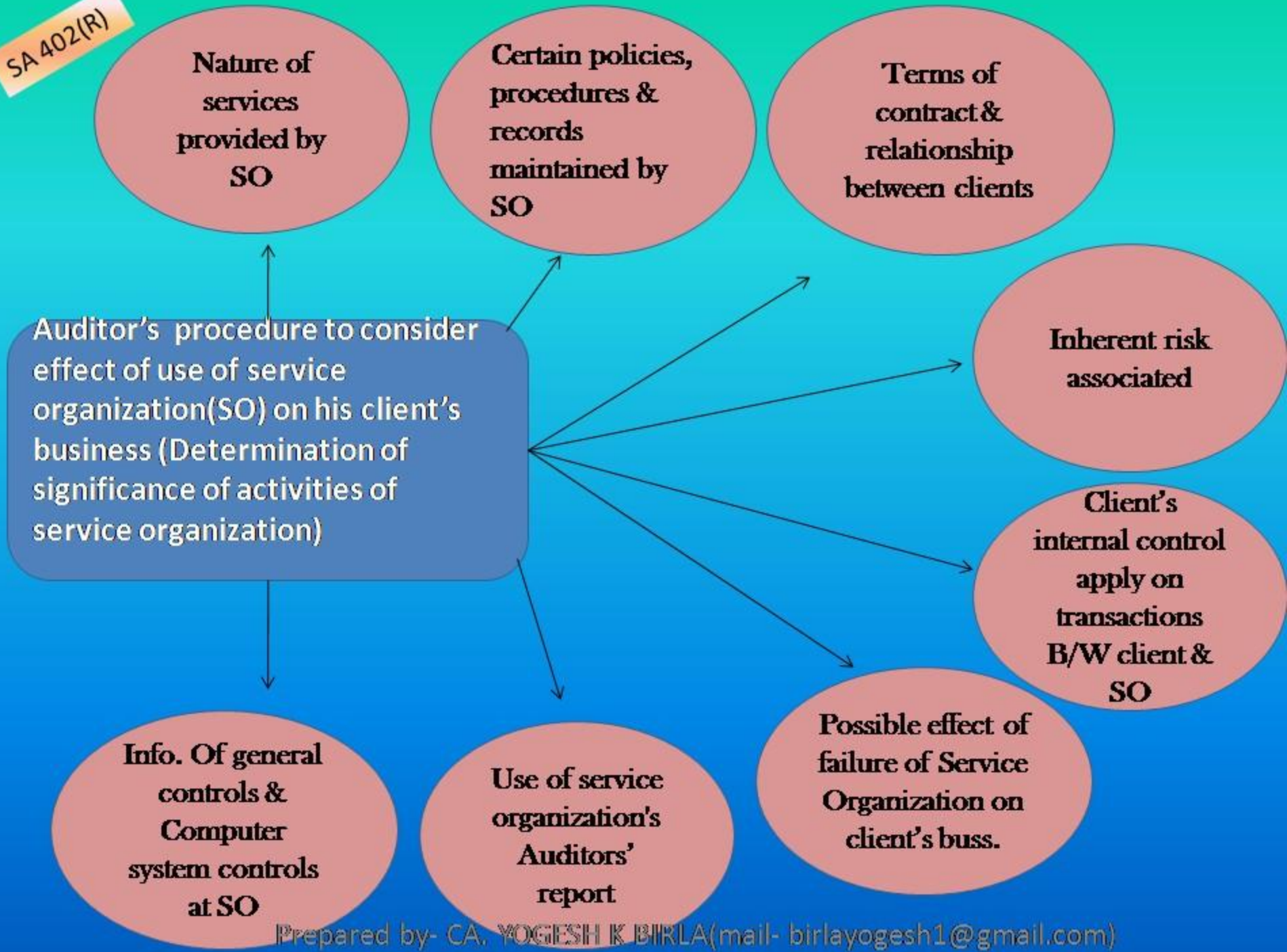
SA 402(R)



SA 402(R)

Use of service organization's Auditors' report by auditor of Client

Report of service organization's auditor are of 2 types–

- Type 1 report
  Report on suitability of design
  - Description of Accounting & Internal control system
    - Above description is accurate
  - Opinion of SO's Auditor
    - Proper controls are placed
    - Accounting & internal control system suitably designed
- Type 2 report
  - Report on suitability of design & operating effectiveness of controls
    - Based on results from test of controls

How to Identify question of SA 402 in exam- in Q. folllowing wording used—
1- Data of a company processed by 3rd party or
2-Outsourced certain activities to an outsource agency

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SA- 450
Evaluation of Mis-statement Identified during the Audit

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SA 450

Objective of Auditor as per SA 450

To Evaluate–

- The effect of Identified Mis statement on Audit
  - Can arise from error or fraud
- The effect of Uncorrected mis-statement on Financial Statement
  - Refers to mis statement that accumulated during the audit but still not corrected

Requirements under SA 450- 5 steps given–

1. Step 1 Cosiderations of identified mis statements as audit progress
2. Step 2 Communication with Mgmt & correct the misstatement
3. Step 3 Communication with TCWG
4. Step 4 Written Representation from Mgmt
5. Step 5 Documentation of misstatement accumulated & Conclusion of Auditor

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SA 450

Possible sources of Misstatements–

- Inaccurate data gathered or processed in FS
- Omission of An amount of disclosure
- Incorrect accounting estimate
- Under accounting estimate
  - Unreasonable judgment of Mgmt
  - Inappropriateness of accounting policies

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Thank you.... ☺

Next SAs are Uploaded very soon

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