# SA 500 (Revised)
# Audit Evidence

Information used by auditor to arriving at the conclusion on which auditor's opinion is based

## Duty of Auditor as per SA 500

Obtain sufficient appropriate audit evidence → To draw reasonable conclusion → By performing compliance(test of controls) and substantive procedure(assertion level)

## Sufficient appropriate audit evidence ?

**Sufficient**

Quantity of Audit evidence (In Numbers)

**Appropriateness**

Quality of Audit evidence

- Reliability--- (Depend on nature & source of audit evidence)
- Relevance (Affected by direction of testing)



## Sources of Audit Evidence

- Internal sources (Within entity) → Internal Audit evidence (ex-BRS)
- External Sources → External Audit evidence (ex-Bank statement)

## Audit Procedures to obtain Sufficient & Appropriate Audit Evidence??

- Risk Assessment procedure (As per SA 315 & 330)
- Further Audit Procedures
  - Test of controls(Compliance procedure)
    - to ascertain the existence, effectiveness and continuity of the internal control system.

      Ex- BRS not maintained)
  - Substantive procedures (Designed to detect Material misstatement at assertion level
    - to ensure the completeness, accuracy and validity of the data produced by the accounting system.

      Ex- Building- existence, rights, obligation, completeness, valuation, disclosures

## Various Other assisting Audit Procedures available to Auditor to Obtain sufficient appropriate Audit evidence---

- **Inspection**
  - Examine Records & Assets physically
- **Observation**
  - Process performed by others (Inventory)
- **External confirmation**
  - Written response by 3RD party
- **Re-calculation**
  - Checking Mathematical accuracy of records
- **Re-performance**
  - Independent execution of procedures
- **Analytical procedures**
  - Evaluation of Financial information made
- **Enquiry & confirmation**
  - Representation from MGMT

## Reliability of Audit Evidence
(depend upon nature & source of Audit evidence)

Check Reliability

- **External audit evidence**
  - More reliable than internal audit evidence
- **Internal Audit Evidence**
  - When internal control adequate than reliability increased
- **Directly obtained by Auditor**
  - More reliable than obtained indirectly
- **Documentary evidence(paper)**
  - More reliable than orally
- **Original documents**
  - More reliable than photocopy,digitalized Docs etc.



## Considerations(Ways) to selecting Items for Testing--

- **Selecting all Items(100%)**
  - Appropriate when---
    - Small Nos of large value items
    - Process perform automatic by Information
- **Selecting specific Items**
  - Items includes-
    -High value or key items
    -All items over a limit set
    -Items to obtain information
- **Audit Sampling**
  - SA 530

# SA 501 (Revised)

## Audit Evidence - Specific Considerations for Selected Items ⇒

**Objective of Auditor As Per SA 501**

⇓

To obtain Sufficient Appropriate Audit Evidence for →

- Existance & Condition of Inventory → (1)
- Completeness of Litigation & Claims involving the entity → (2)
- Presentation & Disclosure of Segment information accordance with FRF → (3)



### (1) Consideration in Audit of Inventory

- Physical Verification
- If Physical Verification Not Possible Than → Perform Some physical Count on Alternative Date and Reconcile it with Year End Balance.
- If Count not Possible → Perform Alternative Audit Procedure
- Modify the Opinion in Auditor's Report.

## ② Considerations in Audit of Litigation & Claims ⇒

- Inquiry of MGMT & Inhouse counsel
- Review minutes of Meetings of TCWG
- Correspondence Between Entity and Its legal Counsel
- Review Legal Expenses Accounts
- Direct Communication with Legal Counsel
- Written Representation from MGMT

## ③ Considerations in Audit of Segment Information ⇒

- Obtain Understanding of methods used By MGMT in Determining Segment Info.
- Evaluate Disclosure According to FRF
- Perform Analytical Procedures If Required.



**If Inventory is in Custody of Third Parties**

⇓

If material than –

⇓

Auditor Perform –

- Request Confirmation from Third Parties
- Perform Inspection (If Possible)

Is it Mandatory for Auditor to do Physical Inventory counting

⇓

YES

⇓

Unless it is impracticable to do so.

NOV. 08 Exam question →

If MGMT done Physical Verification of Inventory But Auditor not present that time. than How Auditor check that Mgmt done Verification is in order?



Answer →

Auditor Make some Physical Count on an Alternative date & Perform Alternate Audit Procedures which includes following –

- Reconcile with Year End Balance
- Verify Procedure Adopted By MGMT in Physical Verification
- Ensure that Appropriate Cut-off Procedure followed By MGMT.
- Obtain written Representation from MGMT

## SA 505 (R)

# External Confirmation's

## Auditor's duty

⇓

Determine whether use of External confirmation is Necessary to obtain Sufficient Appropriate Audit Evidence in Certain matters.

## What is External Confirmation?

⇓

Process of obtaining & Evaluate audit Evidence through A Direct Communication from a third party in Response to A Request ~~from~~ for Information on some matters.



## How External Confirmation obtains? ( Process for obtaining E.C.)

⇓

(1) Select the items for Confirmation
↓
(2) Design form of Confirmation Request
↓
(3) Communicate Request with 3rd party
↓
(4) obtain Response from 3rd party
↓
(5) Evaluate the Information

# Areas in which Auditor Usually Requires External Confirmation

- Bank Balance & other Info from Bank
- Accounts Receivable Balances
- Stock held By 3rd party
- Loan from lenders
- Long outstanding Share Application money
- Property Title deeds held By 3rd Party
- Investment Purchased But Delivery not Taken
- Accounts Payable Balances



# What factors An Auditor Should Consider while obtaining External Confirmation

**Consideration for**

- Audit Risk → Reduce Audit Risk
- Timing → on Date or Near to Date of Financial Statements
- Design
  - Positive Request
  - Negative Request
- Control over Process
  - Select Party
  - Prepare & Send Request
  - Response to Request
- When NO Response to a positive Confirmation Request → Perform Alternative Procedure
- Reliability of Responses Received → Consider Authenticity & Reliability

For Example →

A Debtors - 5 years old showing in the Books

↓

And He Confirmed his Balance

↓

Than Auditor should Enquire about Debtor to confirm External Confirmation

↓

- Who is The Debtor? ↓ whether He Releted to client
- Debtor's Financial Abilities
- Reasons for Non-Payment
- obtain Reason from Entity for Not filing A suit against Debtors.



$\boxed{\text{Proper Controlover Confirmation Procedures Perform By MGMT.}}$

# SA 510 (R)

## Initial Audit Engagements - Opening Balances

### What is initial engagement?

An Engagement of Auditor in an Entity in which either :-

① Financial statements for Prior Period were not Audited

OR

② Financial statements for Prior period were Audited By Predecessor Auditor



### Define Opening Balances

- Accounts Balances That Exists at the Beginning of the Period
- Based upon closing Balances of Prior Period
- Effect of Transactions & Events of Prior Periods.
- Effect of Accounting Policies applied in Prior Period
- Opening Balances includes Matters Requiring Disclosures

# SA 510 (R)

## Auditor's Duty in relation to opening Balances (SA 510)

- Read latest Audited financial statements and previous Auditor's Report
- obtain sufficient appropriate Audit Evidence About Mis-statement in opening Balances
  - Closing Balances Correctly Brought forward
  - Any Adjust-ment to Disclose as Prior Period in Current Records.
- Perform one or more following ⇒
  - where Prior year fin stat. Audited → Obtain copies & Releted DOCs
  - If in previous years No Audit Conducted or Not Properly Conducted ⇒
    - for Current Assets & liabilities → Evidence About opening Balances may be obtained
    - for Inventories
      - Do Current Physical Inventory vesification and Reconcile with opening Balance
      - Perform Audit Procedure on Gross-Profit & cut-off
    - for Non-Current Assets & liabilities
      - Evidence from Accounts
      - opening Balance Confirm from 3rd Parties
      - Exq. P&M, invest-ment, Debt. etc

## How Auditor will Conclude and Report on opening Balances

1. If Auditor unable to obtain sufficient Appropriate Audit. Evidence Than Express A
   - Qualified opinion OR Disclaimer of opinion

2. If Auditor Concludes That opening Balances contains **Mis-statement**
   - If materially Effects current financial statements and Effect NOT Adequately Disclosed Than Auditor Express A
     - Qualified opinion OR Adverse opinion

3. Conclusion about Accounting Policies
   - If Auditor Concludes that
     - Accounting Policies not Consisstantly Applied OR
     - change in Accounting policies not Adequately Disclosed
   - Than Auditor Express a
     - Qualified opinion OR Adverse opinion

# SA 520(R)

## Analytical Procedures

Means

1. Analysis of Significant Ratios & Trends
- Analysis of Resulting investigation of fluctuations and Relationship That Are Inconsistent with other relevant Info.
- Auditor should Apply Analytical Procedures at Planning and overall Review Stages of Audit
- Examples
  - Analytical Procedures used for following Purposes ⇒
    - Assist the Auditor in Plan NTE of Audit Procedure
      - Understand Business
      - Identify Areas of Potential Risk.
    - As Substantive Procedure
      - When their use can Be more Effective & Efficient & Reduce Risk
    - overall Review of financial statements
      - At End of Audit But Before forming opinion
    - Investigating Unusual fluctuations

SA 530 (Revised)

# Audit Sampling

Means

- Application of Audit procedures to less than 100% of Items within a class of Transactions
- To Enable The Auditor To Obtain & Evaluate Audit Evidence
- About Characteristics of items Selected
- to form a ~~Cons~~ conclusion



## Sampling Risk

Risk that the Auditor's Conclusion Based on a Sample which May Be Different from Conclusion If the Entire Population were Subjected to Same Audit Procedure

2 Types of Sampling Risk

- Test of Controls — Controls are more Effective than they Actually are & vice varsa
- Test of Details — A material mis-statement does not Exists But Actually Does Exists & vice-varsa

# Steps involved in Audit Sampling

⇓

1) Design of Sample

↓

2) Determine Sample Size

↓

3) Selection of Items for Sample

↓

4) Performing Audit Procedures on Selected Samples

⇓

5) Analysis of Deviation & Mis-statements identified

↓

6) Projecting Mis-statements

↓

7) Evaluating Results of Audit Sampling

# SA 540(R)

**Auditing Accounting Estimates, Including fair value Accounting Estimates and Releteel disclosures**

⇓

**Accounting Estimates Means :-**

⇓

An Approximation of Monetary Amount in Absence of a precise (Accurate) means of Measurement.

**2 Types of Estimates**



1. fair value Accounting Estimates

   1. Express in terms of value of a current or financial statement Item Based on conditions prevalent at the measurement Date.

2. Other Accounting Estimates :- (or other than fair value accounting estimates)

   2. FRF Prescribe specific Method of measurement & Disclosure

Examples →

## Fairvalue accounting Estimates

- FMV of Inventory
- Share Based Payments
- Scrap Value of Equipment Retired
- Goodwill & Other Intangible Assets
- Exchange of Assets & liabilities without monetary considerations

## Other Accounting Estimates

- Depreciation method or Asset useful life
- Warranty obligations
- Uncertainty in Price of Investments (Horizon)
- Outcome of long term Contracts
- Cost of litigation Settlement
- Judgements
- Inventory obsolecense
- Allowance for doubtful Accounts.

# Auditor's Considerations (Duty of Auditor)

1. Accounting Estimates are Resonable
2. Perform Risk Assesment Procedures (RAP) & Response to Assessed Risk
   - Requirment of Applicable FRF
   - Need of Disclosure & Revise Existing Accounting Estimates
   - methods used By MGMT for estimate purpose
     - use of Experts
     - Relevant Controls
     - Assumptions
3. Releted Disclosures in financial statements are Adequate

# SA 550 (Revised)

## Releted Parties

Means

- A Releted Party Defined in Applicable FRF
- If not Defined in FRF Then —
  - who Control or Significant influence, directly or indirectly or Through Intermediaries
    - A Person or other entity on Reporting Entity (Ex. Holding Comp.)
    - By Reporting Entity on another entity (Ex. Subsidiary Company)
  - Another Entity under Common Control of Reporting Entity (fellow subsidiary)
    - common Control ownership
    - owners are close family members
    - Common key MGMT.



## Auditor's duty SA550

- FRF & Statutory Compliance Releted to Releted Parties Transactions accounting & Disclosure are Complied with.
- To Understand entity's Releted Parties Relation-ships and Transactions
- To Evaluate Fraud Risk factors in Relation to Releted Parties
- Duty to have an attitude of Professional Skepticism

## Requirment of SA 550 that Auditor Complied with –

- Enquiry with MGMT
- Enquiry About controls
- Maintaining Alertness
- Response to Results of Audit Procedures
- Sharing Releted Parties Information with Engagement Team
- Design Audit Procedures As Required
- OTHER
  - Written Representation from MGMT
  - Communication with TCWG
  - Documentation

V.V. Imp.
Exam Question

How the Statutory Auditor can verify Existance of Releted Parties & Disclosure?

Solution →

As per AS 18 & SA 540

⇓

During the Audit, Auditor May inspect Records or docs That May Provide Info. about Releted Party relationships and Transactions.

For Example →

- Internal Auditor's Report
- Records of Investments
- Entity income Tax Returns
- Information Supplied To Regulatory Authorities
- Review Working Papers of Prior years
- Shareholders Register
- Inquire Affiliation of directors & Key Managers, Personnel etc.
- Contract or Agreement with TCWG or Key Personnel

# SA 560 Revised

## Subsequent Events

Means

- Events occuring between Balance sheet date of financial statement and date of Auditor's Report
- facts that known to Auditor after the date of Auditor's Report

for Example –

Recording of ₹ 2 crores as Arrears of Salaries & wages payable →



- SA 560(R)
- AS-4
- AS-29

Audit Procedures on Subsequent Events to obtain Sufficient Appropriate Audit Evidence →

- Review Procedures Adopted By MGMT To Identify Subsequent Events
- Examine minuts of Board, Executive Committee meetings
- Collect Info. from other Sources (Budget, forecast etc.)
- Enquiry & Discussion with TOP MGMT
- Detail from layer About litigation matter

# SA 570 Revised

# Going Concern

**Means of Going Concern Assumption ⇒**

⇓

**As per AS-1**

↓

→ The Enterprise is normally viewed As a going Concern, i.e as Continuing in operation for the foreseable future.

→ It is assumed that Enterprise has neither the intention nor the necessity of liquidation.

## Responsibility As per SA570(R)



**Responsibility of MGMT**

⇓

To Consider Going Concern Assumption at the time of Preparation & Presentation of fin. statements

**Responsibility of Auditor**

- Obtain Suffice. Appro. Audit Evidence About Appropriate-ness of Going Concern Assumption
- To Conclude whether a Material Uncertainty Exist
- To Determine Implication for the Audit Report

Procedure to Be Performed By Auditor in Expressing opinion on "going Concern" Assumption (GCA)

- Review terms of loan Agreements or Debentures (wether Breached)
- Analyze & discuss Cash flow & other forecast
- Read minuts of Meetings of Shareholders, BOD
- Review events After B/S date for items affecting Entity's "GCA"
- Confirm financial support with other Parties
- Analyze & discuss Entity's latest Interim fin. stat.



Evaluating going Concern Assumption

↓

In Assessing Such a Risk, Auditor Examine following indications

1. financial Indication
   ↓
   v.v.v Imp
2. Operating Indications
3. Other Indications

Indications

① Financial Indications

- Net liability or current liability position
- Withdrawal of financial support by creditors
- Negetive operating cash flows
- Adverse financial Ratios
- Significantly Reduce value of Assets
- Arrears or dis-continuence of Dividends
- Inability to pay creditors on due dates
- Inability to comply with term of loan agreement
- Inability to develop new products or do Essential Investments
- finance long term Assets with short term Borrowings



③ other Indications

- Non compliance with statutory Requirments
- Pending legal proceedings which may affect Entity
- Change in law, Regulation & Govt. Policy may Adversly Affect the entity
- Un-insured Disaster occurs

## (2) Operating Indications

- MGMT Intention to liquidate the entity or cease operations
- Loss of key MGMT without Replacement
- loss of Major markets, key customers, franchise etc.
- Labour Difficulties
- Shortage of Important Supplies
- Emergence of Highly Successful Competitor

# SA 580 (Revised)

## Written Representations

Means

- Statement By MGMT → To confirm certain matters
- Statement By MGMT → To support other Audit Evidence
- Written Representation Not includes –
  - financial Statement Assertion
  - Supporting Books & Records

## Objective of Auditor in SA-580

- obtain written Representations That MGMT fulfill the fundamental Responsibilities
- To support other Relevant Audit Evidence, if Necessasary or Required By SAs
- To Respond to Representations Provide by MGMT or Request to MGMT for Providing written Representa-tions (WR)



**Exam Question** ⇒ **Limitation of Scope**

If MGMT Not Provide written Representation Requested By Auditor than Auditor shall ⇒

- ~~Discuss~~ Discuss Matter With MGMT
- Re-evaluate Integrity of MGMT & evaluate its effect on Reliability of Representations
- Determine Possible Effect on opinion in Auditor's Report → Should Disclaim The opinion

# Considerations Required while obtain written Representation from MGMT

- Written Representation About MGMT Responsibilities
- W.R. Required By another SAs
- Date of written Representation
- Form of written Representation
- Auditor's doubt on MGMT
- Evaluation of W.R. with Other Audit Evidence
- W.R. found Unreliable
- Limitation of Scope

# SA-600 (R)

## Using the work of another Auditor

### Who is other Auditor

A Branch Auditor (main Auditor = Principal Auditor)

An Auditor of Subsidiary (Auditor of Holding comp. is = principle Auditor)

### Duties of Principle Auditor Define in SA-600



following procedures performing princi. Auditors

- Advise other Auditor & use of work & Report of other Auditor
- Should co-ordinate at the planning stage of Audit
- Share significant findings with other Auditor.
- Should inform other Auditor's Matters requiring special consideration.
- Should suggest procedures for identification of Inter-Component Tran^n which requires Disclosure
- Should decide time-table for completion of Audit & significant Acctg, Auditing & Reporting Requirements
- Should Discuss Audit procedures Applied & Summary

Exam Q.

V. Imp.

The statutory Auditor of Holding Comp. demands for the working papers of Auditor of Subsidiary Company

As per SA 230 working papers are property of Auditor

Clause (1) Part (1) Second Schedule

Auditor have guilty of Prof. misconduct if He disclose Info. of client to others

Maintain Confidentiality of Info Acquired during Audit

Disclose Info. only when it is legal or Prof. duty of Auditor

As per Clarification of ICAI

Auditor not provide working papers to client, or other Auditor of Same enterprise or Releted Enterprise Eg. parent or Subsidiary comp.

Principle Auditor not have Right to Access working papers of other Auditor

SA 600

He can however Ask the other Auditor to answer Certain question or certain other Clarifications Regarding Audit

# SA-610 (R)

## Using the work of Internal Auditors

### What is internal Audit function??

An Independent Mgmt function which involves a continuing and critical appraisal of the functioning of an entity with a View to →

- Suggest Improvements Thereto
- and
- Strenghten the overall governence Machanism of entity including
  - Entity's strategic Risk Mgmt
  - and
  - Internal control system.

[Internal Audit provide Assurance that there is transparency in reporting, As a part of Good governance.]

Exam R — Factors to be Considered that says if Internal ~~Control~~ Audit commensurate with size & Nature of Bus. ⇒ OR

② Auditor Consider following Before Relying Internal Auditor's Report OR

③ In determination whether work of internal Auditors likely to be Adequate for purpose of the Audit OR

V. Imp

**Objectivity**
- Status of internal Audit function within entity
- Whether internal Auditor: Reports to TCWG or An officer
- Whether internal Auditor free of any Conflicting Responsibilities
- Whether TCWG oversee Employment decisions of Internal Auditor
- Any Restriction placed on Internal Auditor by Mgmt or TCWG
- Whether and what extent Mgmt Acts on Recommendation of Internal Auditor.

**Technical Competence**
- Whether Internal Auditors are members of Prof. Bodies
- Int. Auditor have adequate technical training & proficiency
- Compliance with standards on Internal Audit
- there are established policies for hiring & training internal Auditors.

**Due Prof. Care**
- Activities properly planned, supervised, Reviewed, & Documented
- Existance & Adequacy of Audit manuals & Internal Audit Documentation

**Communication** (B/W ex. & Int. Auditor)
- Meeting held at appropriate intervals
- External Auditor has access to Report of Internal Auditor
- External Auditor informs to Internal Auditor significant matters that Affect Internal Audit function

V.V.V. Imp

*** SA 620 (R)

# Using the work of An Auditor's Expert

Expert

## Auditor's Expert

→ person expertise in a field other than Accty & Auditing
→ person whose work is used By Auditor to obtain sufficient Appropriate Audit Evidence

SA 620

## Mgmt's Expert

person expertise other than Accty or Auditing, whose work use By entity to assist in preparing fin. statements.

(SA 500)



## When / Why use expert's work

- matter Relates to expert's work
- ROMM in matter Related to expert's work
- Significance of expert's work in Audit
- previously used the expert work
- Audit firm's quality Control policies & procedures

Considerations By Auditor for :

Before engaging An Expert

- Necessary Competence, Capabilities
- Understanding fileld of Expertise By Auditor
  - Determine Nature, Scope objective of that Expert's work
  - Evaluate the Adequacy of that work

While engaging an Expert (Auditor agreed in Writing)

- Nature, Scope & objective of That work
- Roles & Responsi-bilities of Expert & Auditor
- NTE of Communication B/w them & form of Report
- Observe Confidentiality requirements

Evaluate Experts work

How Evaluate Adequacy

[Relevance & Reasonableness of]

- Expert's finding & Conclusions
- Significant assumptions & methods used by expert
- Use of Source Data that is Significant to Expert's work



(Procedures to evaluate Adequacy)

- Inquiry of Auditor's Expert
- Review working papers & Reports of Expert
- Discuss with another Expert
- Discuss Expert's Report with Agent
- Corroborative Procedures

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# SA-700 (R)

## Forming an Opinion and Reporting on the financial Statements

### How an auditor forms an opinion on fin. statements?

- Audit Expresses unqualified/unmodified opinion when He concludes that the fin. stat. are prepared Materially in Accordance with Applicable FRF
- If Auditor concludes them fin. stat. are not free from mat. misstate. OR Unable to obtain sufficient appropriate audit Evidence ⇒ Auditor modify/qualify opinion in Report
- If fin. state. Do not prepare according to fair representation ⇒ Discuss with mgmt ⇒ If not satisfy qualify/ modify opinion. (Exa. fin. stat. made According to Schedule VI)



### Basic Elements of Auditor's Report

OR (Auditor's Report prescribed By law & Regulation)

- Title
- Addressee
- Introductory Paragraph
  - Identify Entity
  - State fin. stat. Audited
  - Identify title of each state.
  - Summary of significant Accts policies
  - Specify Date & period covered in fin. stat.
- Mgmt's Responsibility for fin. stat.
- Auditor's Responsibility
- Auditor's opinion
- Signature of Auditor
- Date of Report
- Place of Signature → City where Report signed

# SA 705

## Modifications to the opinion in the independent Auditor's Report

### Modification of opinion means

If Auditor not gives unmodified / unqualified opinion than
⇓
It said that he is modify his opinion

Types of Modi. opinion Refers to →

- Qualified opinion
- Adverse opinion
- Disclaimer of opinion



### When Auditor decide to modify his opinion

When :-

- Auditor concludes that fin. stat. not free from mat. misstatements
  ⇓
  on the basis of Audit Evidence obtained
- Auditor is unable to obtain suffice appro. Audit Evidence

# (Or) Features of qualified Audit Report (B100, Case 2)

## When An Auditor Express qualified opinion

Audit obtain suffice. Appro. Audit Evidence, Conclude that missstatement Individually or in Aggregate Are Material But not pervasive (means mat. हैं पर व्यापक (अपार) प्रभाव नहीं हैं)

Auditor Unable to obtain suffice. Appro. Audit Evidence, Concludes that Undetected missstatements, if any Could Be material But not pervasive

## When Auditor Express Adverse opinion

→ When Auditor obtain Suffice. Appro. Audit Evidence &
→ Concludes that missstatement Individually or Aggregate
→ Are Both Material & pervasive.
→ He Shall give Adverse opinion.



## When Auditor Expres Disclaimer of opinion

If Auditor Unable to obtain Suffice. Appro. Audit evidence & Concludes that → Effect on fin. state of Undetected missstatements, if any Both mat. & pervasive

When limitation on scope is mat. & pervasive

When Multiple uncertainties are there.

# SA 706

## Emphasis of matter paragraphs and other Matter paragraphs in the Independant Auditor's Report

Exam Emphasis of matter paragraph in Audit Report

Means

- Refers to a Matter appropriately presented or disclosed in fin. State. that, In the Auditor's judgement is of such importance that It is fundamental to user's understanding of the fin. statements.
- It includes immediately after opinion paragraph in Report
- use the Heading "Emphasis of matter" or other appropriate Heading.
- Make clear Reference to matter
- Indicate that Auditor's opinion not Modified in respect of matter Emphasized.

Example of Report on Matter paragraph -

If there is Uncertainty of litigation matter etc -

'we draw attention to Note X to the financial statements which Describes the Uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company. our opinion not qualified in respect of this matter.

# Other matter paragraph

Refers to a Matter other than those presented -- (Same as matter p.)

included in report immediately after opinion para & matter para with Heading "Other Matter" para.

Example - Auditor not able to do Audit of certain subsidiaries & Rely upon Report of Auditor's of subsidiary

# SA 710 (R)

## Comparative Information – Corresponding figures and Comparative financial Statements

### Comparative Info.

Means Amounts & disclosures included in fin. stat. ~~in respect~~

~~in accordance with~~ in respect of one or more prior periods

In accordance with Applicable FRF

2 types of Comp. Info.

- By way of Corresponding figures
- By way of Comparative fin. stat.



### Auditor's Responsibilities in respect of Corresponding figures / Justify the in C.F. Procedure less than in Current figures

Any

| | | | | | | |
|---|---|---|---|---|---|---|
| Obtain ~~sufficient~~ Suffice. App. Audit. Evi. that Corresponding figures Meet Requirement of Applicable FRF | Extent of Audit Procedure ~~this~~ less than Current Period figures | Check acctg policies used in Corresp. figures are Consistent with Current period. | Corresponding figures Agree with the amounts & other disclosures Presented. | When Fin. Stat. of prior period Audited By Another Auditor (Incoming Auditor Assess) | When Prior Pd's Fin. Stat. not Audited The New Auditor Assure that C.F. meet requirements | If Possible Misstatement in Corresp. fig. Auditor Perform Addnal Procedures |

# SA - 720

## The Auditor's responsibility in Relation to other information in Documents Containing Audited fin. statements

Other Information means

Refers to financial and non-financial Info. (other than fin. Stat. & Report thereon)

which is included either By Law, Regulation or Custom

in a Document Containing Audited fin. stat & Audit Report thereon.

Objectives Auditor to Respond Appropriately when doc--- includes other Info. that could undermine credibility of fin. stat. & Report

Obtain other Info. from Mgmt & TCWG

If Auditor Identify Material inconsistency

Before / prior to date of Auditor's Report

If Revision Necessary & Mgmt Refuse to Revision

Modify opinion (SA 705)

other Mat. Para in Report (SA 706)

Communicate Matter with TCWG

or withdraw from Engagements (If legally permitted)

After the date of Audit Report then

If Revision necessary

follow Requirements of SA 560 S.E.

# SA-800

## Special Considerations - Audit of financial Statements prepared in accordance with special purpose frameworks

What is SPF for preparation & presentation of fin. stat.

A FRF Designed to Meet the fin. Info. needs of specific users.

FRF may Be →

- A fair presentation framework
- or
- A compliance framework



Considerations Required for Audit of Special Purpose fin. Stat.

Auditor Should obtain Understanding of →

- → Purpose for which fin. Stat. are prepared.
- → Intended users and
- → Steps taken by mgmt to Determine Applicable FRF is Acceptable

Audit Report on Spl. Purp fin Stat (SA 700(R)) includes following →

- Purpose for which fin. stat. prepared or Intended users
- Explanation of mgmt's Responsi. for determining applicable FRF is Acceptable
- Report on fin. sta. includes an "Emphasis of Matter paragraph" that fin. sta. prepared Acc. to SPF & fin. sta. not suitable for another purpose

# SA-805 :

## Special Considerations – Audit of Single purpose financial Statements and specific elements, Accounts or Items of a financial Statement

⇓

What you mean by single fin. Stat., specific elements, Accts or items of a fin. Stat. ???/???

⇓

(Single fin. Stat. means) – A part of a Complete Set of fin. Stat. (Ex. cash flow Stat.)

(Special Elements) ⇓ (Ex. Cash & Bank Balances)

(Accts & special items) ⇓ (Ex. Accts Receivable, Inventory, etc.)



(Example of All) ⇒ Fin. Stat. prepared by Mgmt in Accordance with Cash Receipts & Payments Basis of Accounting to Respond to a Request for cash flow Info. Recd from a Creditor.

## Consideration Required to Conduct Audit of spec. fin. stat.

- Auditor Shall follow All SAs As Applicable to circumstances & Should Report Accordingly
- (700) 705 – Express opinion
- 706 – Emphasis on Matter Para.

# SA-810

## Engagement to Report on Summery financial Statements

### What is Summery fin. state.

Historical fin. Info; that derived from fin. State. But contains less detail then fin. state.

Structured Representation of entity's Economic Resources or obligations
At a point in time or changes therein for A period of time.

Auditor of original fin state May engage for conduct Audit of Summ fin stat.

Diff. jurisdiction use diff. terminology to describe such Histo. fina Info



### Before Accepting Assignment of Report on Summery fin stat: what is Auditor's duty

Determine whether Applied criteria is Acceptable

obtain that Mgmt agree that it Knows its Responsibility

- for prepare Summ. fin. stat
- to Available to Intended users
- To Include Auditor's Report on Summ. fin. Stat.

## Procedure for Audit of Summary Fin Stat

- Evaluate Summ fin stat Adequ. disclose their Summarized Nature
- Evaluate the Summ fin stat adequately disclosed Applied Criteria
- Compare Summ fin stat with Relevant Info in Audited fin stat.
- Evaluate Summ fin stat prepared According to Applied Criteria.
- whether Sum fin st contain Info. necessary
- Evaluate whether Audited fin stat Available to users of Summ fin Stat.

(SRE - Standard on Review Engagements)

SRE - 2400 (R)

# Engagements to Review financial Statements

SRE Provide guidence on the practitioner's professional Responsibilities → When a practitioner

who is not Auditor of entity
⇓
Engage to Review fin. Statements.
⇓
(According to SRE 2400)

who is Auditor of Entity
⇓
Engage to review of Interim fin. Info.
⇓
(According to SRE - 2410)

- objective
  - (-ve Assurance)
  - Check that fin. stm. not prepared, in All mat. Aspects in According to FRF
- Principles of Review engage.
  - Auditor Comply with code of Ethics & SRE's issued By ICAI
- Scope of Review
  - Review procedures According to Requirement of SRE, legislation, Regulation, & terms of Engagement
- Moderate Assurance
  - Info. is free from mat. mis-Statements (in form of -ve Assurance)
- Terms of Engagement
- Planning
- Work Performed By others
- Documentation
- Conclusion & Reporting

SRE - 2410

Review of Interim financial Information performed by the Independent Auditor of the Entity

Procedures for Review of Interim Fin. Info.

| | | | | | | |
|---|---|---|---|---|---|---|
| understanding of Entity & its Environment & its internal Control | obtain Evidences I.F.Info. Agree with Accts Records | whether mgmt Identify upto date of Review Report viz Require Adjustments | Consider Adequacy of Disclosure of such Matters in I.F.I. | Whether A Material Adjustment should be made in I.F.I. | Evaluate uncorrected misstatement are Material for I.F.I. | Obtain written Representation from Mgmt |

# (SAE- Standards on Assurance Engagements)

## (SAE - 3400)

## The examination of Prospective financial Information

### Prospective fin. Info. means

- fin. Info. Based on Assumptions about events that ⇓ May occurs in the future and possible actions by an Entity
- its preparation Require Judgement
- Pr. Fin. Info Can be in form
  - Forecast
  - Projection
  - or Combination of Both → Eg. One year forecast plus 5 yrs projection
- Pr. Fin. Info. Includes → fin. states. & other more fin. states.
- Prepared As an internal mgt tool → Eg. Assist in evaluating possible Cap. Invest-ment



| Forecast | Projection |
| --- | --- |
| Assumptions ⇓ future Events & mgmt Actions Expect to take place | HypOthatical Assumptions ⇓ future Events & mgmt Actions not nesessarily Expects to take place. |

Mgmt is responsible for preparation & presentation of prospective financial Info. & Identify & Disclose

(Auditor may Engaged to Examine & Report on prospective fin. Info.)

[Moderate level of Assurance is Required]

[∵ evidences on Assumptions made are future oriented, so i.e. speculative in nature]

# SAE - 3402

## Assurance Reports on Controls At a Service Organisation.

Report → On Controls → At a Service Organisation

(Prepare Accordingly to SAE 3402)

↓

Made By Prof. Accountant

↓

For use by Entity & their Auditors

↓

Provide Appropriate Audit Evidence under SA 402

At a Service Organisation ⇓ That provide services to user entity → For use by Entity & their Auditors

On Controls → For use by Entity & their Auditors



**Obtain Reasonable Assurance that**

⇓

Service organisation द्वारा दिया गया Description (उस के Sys. के लिए)

- Fairly Presents the System As designed & implemented throughout the specified Period
- At descriptions Includes Controls & Implemented
- Des. include Controls in Scope of Engagements ↓ Control operated Effectively
- Control Objectives are Reasonable
- Services of sub-service org. Adequately described

The word is used → (Service Auditor)

Obtain Evidence Regarding ⇒.

The Description

Design of Controls
- Identify Risk
- Linkage of Controls with those Risk

Operating Effectiveness of Controls.
- Controls are tested
- Selecting items for testing.



Reports

Type 1 Report
↓
on Description

Type 2 Report
↓
on operating Effectiveness of Controls

## SRS → Standards on Related Services

## SRS-4400

### Engagements to perform Agreed upon procedures regarding financial Information

- Auditor is Engaged to issue a Report of factual findings
  ⇓
  Based on specified Subject Matter of Specified elements, Accts or Items of a fin. State.
  Exg. → perform procedures on Accts payable, Accts Receivable, purchases from related parties etc.
- Auditor simply provides a Report of factual findings of Agreed upon procedures.
  ⇓
  No Assurance is Expressed in Report
- Report Restricted to those parties that Agreed to the procedures to be performed.

(Info. may be fin. or non fin.)



### General principles of an agreed upon procedures engagement

(Same as SA 200)

- Integrity
- Objectivity
- Prof. Competence & due care
- Confidentiality
- Prof. Conduct
- Technical Standards

V.V.V.V. Imp

# SRS-4410

"Accountant" word is used

## Engagements to Compile financial Information

### objective

- for an Accountant to use Acctg Expertise (as opposed to Auditing Expertise)
- To Collect, Classify & Summarize fin. Info. (Ex. Engage for Tax Audit (44AB) purpose) (A stock Auditor)
- Reducing detailed data to a Manageable and Understandable form



## Reporting on a Compilation engagement

### (Mode / format of Report)

- Title → "Accountant's Report on Compilation of Unaudited financial statements"
- Addressee → Report Addr. to Appointing Authority
- Identifi. of fin. Info. → Note that Based on Info. Provide By Mgmt
- When Relevant → A statement that Accountant is not Independent
- Mgmt Responsibility Statement (1) (2) (3) (4) (5)
- Statement that engagement performed According to SRS
- Statement that Audit or Review Not Perform S.O. → No Assurance is Expressed
- A Para: If necessary → Disclosure of Mat. Departure from FRF
- Date of Report
- Place of Sign.
- Accountant's Sign.

("Refer to Compilation Report" on each page of fin. Info.)

1.34, 1.36, 1.50

Imp. Question

AB & Co. → CA → Appointed to compile fin. stat. of a firm for Tax Audit purpose.

⇓

During work → noticed their stock valuation was grossly understated.

⇓

When it pointed out mgmt said that AB & Co. not statutory auditor of company and need not be concerned about valuation of stock.

⇓

(Comment !!!!)

Answer →



As per SRS 4410 --

⇓

If Accountant Become aware of Mat. Misstatements

⇓

The Accountant should persuade to mgmt to carry out necessary amendments in fin. statement.

⇓

If mgmt not made amendments & fin. stmt. Consider misleading

⇓

Accountant should withdraw from Engagement

Duty of Accountant →

Extra part → Tax Audit of Notes

As per guidance notes on Tax Audit under 44AB ⇒ Study the procedure followed by mgmt to value clo. stock is result in ~~correct~~ disclosure of correct profit & gains.

↓

Stock grossly understated result in not disclosure of correct profit

↓

Contention of mgmt that AB & Co. need not concern about stock valuation is not correct. ⇓

⇒ AB & Co. may withdraw from engagement if mgmt नहीं मानता।

SQC-1

Quality Control for firms That perform Audits And Review's of Historical financial Information And other Assurance and Related Service Engagements

Purpose/objective



establish stands & provide guidance on firm's sys. of quality Control

Which Designed to Provide Reasonable Assurance That →

That firm Complies with All professional & Regulatory Requirements

And Reports issued are Appropriate.