

Second Edition
STANDARDS ON AUDITING

The only book which

Provide very high level
of conceptual clarity.

Ensure easy compliance
with Standards on audit-
ing

Is most readable, under-
standable and self explan-
atory.

By MD IMRAN



By MD IMRAN

- 620 Using the work of Auditor's expert
- 600 Using the work of Another auditor



402 if Outsourced to service organisation

While auditing
230,240,250,260,265,
500,501,505,510,520,
530,540,550,560,570,
580



610 using the work of internal auditors

While reporting
700,705,706,710,720

After accepting audit 315,320,330,300

Befor accepting audit 200,210



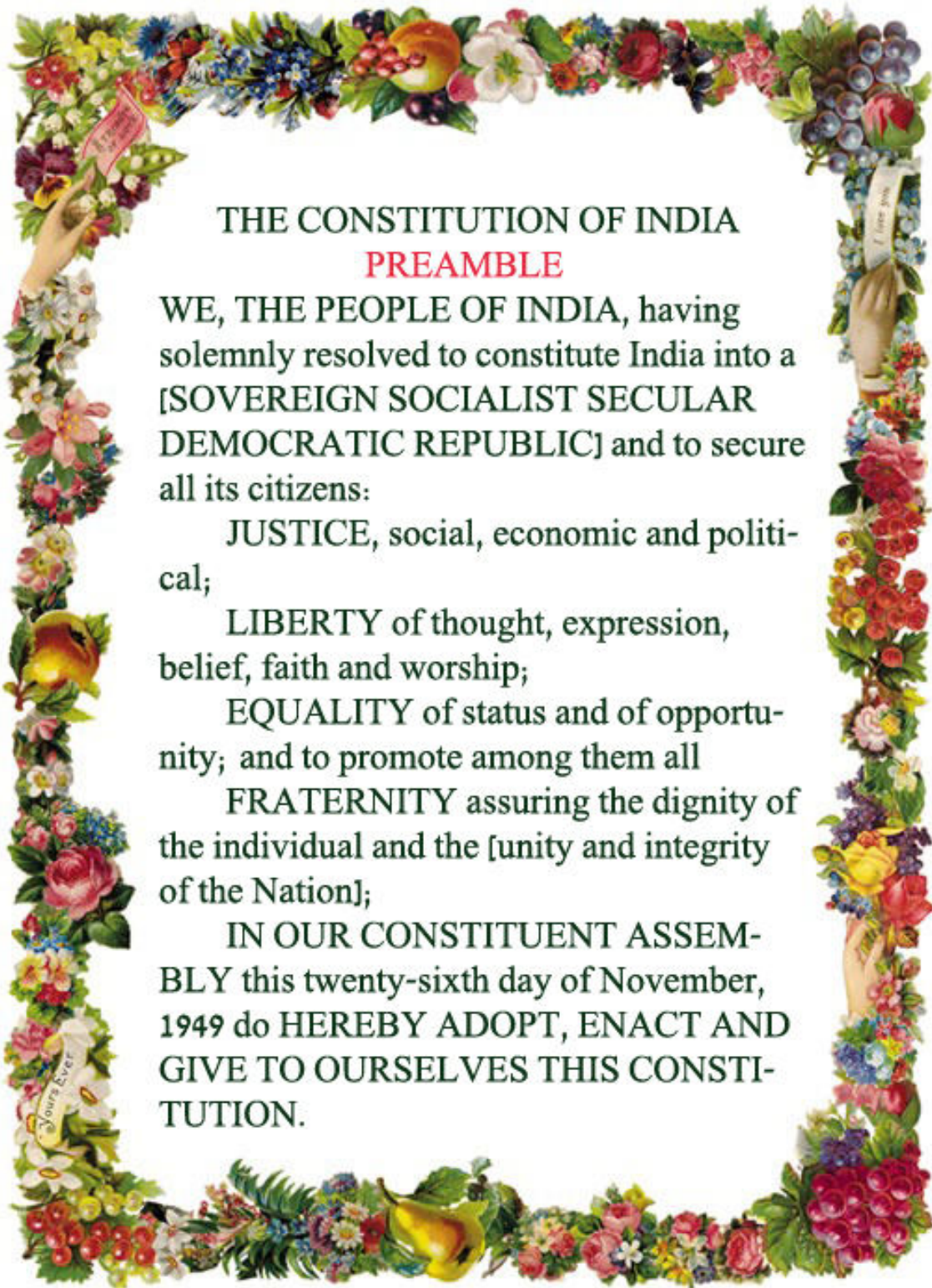
SQC-1,220



299 joint auditor



Section 143(10) of Companies Act, 2013- An auditor will comply with Standards on auditing. Failure to comply. Penalty 25,000-5,00,000. If knowingly 1,00,000-25,00,000. Imprisonment may be extend to one year.



THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a [SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC] and to secure all its citizens:

JUSTICE, social, economic and political;

LIBERTY of thought, expression, belief, faith and worship;

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the [unity and integrity of the Nation];

IN OUR CONSTITUENT ASSEMBLY this twenty-sixth day of November, 1949 do HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.

Dedicated to CA PROFESSION

By MD IMRAN, freebookmdimran@gmail.com

We are the great Indian of THE GREAT INDIA, We love unity in diversity, We proud to being a human and love humanity, unity, integrity, justice, liberty, equality, fraternity of INDIA.

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Circumstances	Material but not pervasive	Material and Pervasive						
Misstatement	Qualified opinion	Adverse opinion						

		Fails to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion
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SQC -1: STANDARD ON QUALITY CONTROL

INTRODUCTION

Applicable for all firms to ensure quality of A.R.

Elements of Quality Control (HEAL ME)

1. **Human Resources:** Firm should have sufficient personnel to perform the engagement and enable firm to issue report.
2. **Engagement Performance:** Engagements are consistently performed in accordance with Professional Standards and Regulatory legal requirement.
3. **Acceptance and continuation of client relationship:** following point should be considered for Acceptance and continuation of client relationship.
 - (i) Integrity of client.
 - (ii) Competency of client.
 - (iii) Compliance with Legal Ethical Requirement.
4. **Leadership Responsibilities for Quality within the Firm:** Promote an internal culture based on established Plan, policy and procedure which ensure quality of audit report and Such culture should under firm leadership.
5. **Monitoring:** Ensure Policies and procedures relating to the system of Quality control are relevant, Adequate, Operating effectively, and complied with in practice.
6. **Ethical Requirements:** Established policy and procedure that ensure firm's personnel comply with Integrity, Objectivity, Professional Competence, Confidentiality and Professional Behaviour. **Independence:** Obtain annually in writing that firm's personnel are independent, unbiased and no relationship, interest exist with engagement.

SA 200

1. **Overall objective: Express opinion** on financial prepared that financial statement prepared in all material respect and in accordance with applicable financial reporting framework for that auditor obtain reasonable assurance that financial statement free from ROMM whether due to fraud or error.
2. Financial statement consist of : **BPCSNR**
 - Balance sheet
 - Profit and loss accounts
 - Cash flow statement
 - Statement of change in equity
 - Notes to accounts
 - Receipt and payment accounts (in case of NPO)
3. Ethical requirement : **IOPCP IA₄ORS**
 - **Integrity**- Straight forward, honest & sincere in his approach of audit.
 - **Objectivity** – Auditor must be fair and unbiased, he should not allow any biasness or prejudice to express opinion on financial statement, to ensure financial statement free from ROMM & to ensure financial statement complies with FRF.
 - **Professional behaviour** – Auditor should act in a professional way with good reputation and should escape from conduct which disrepute the profession.
 - **Confidentiality**- Auditor should not disclose client information to third parties unless permitted by client.
 - **Professional competence** – Auditor should be competent to perform the engagement. Auditor and their staff should have adequate training, skill, experience and competency.
 - **Independence** – Auditor should not get influenced by other anything else.
 - **Audit documentation** – It refers to the working paper prepared and maintained by auditor during audit.
 - **Audit Planning** – It enable effective and efficient audit in a timely manner.
 - **Audit evidence** – Auditor should obtain SAAE. Auditor performs substantive & Compliance procedure to obtain SAAE. Substantive Procedure involved test of ABCD. Compliance Procedure involves evaluation of internal control.
 - **Accounting system and internal control** – Auditor should understand accounting system and related financial internal control to conduct audit in more effective manner.
 - **Other auditor's work**- Principle auditor uses the work of other auditor, internal auditor, auditor's expert, etc. For expressing opinion on financial statement of entity as whole
 - **Reporting requirement**

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- Skill

4. Risk

ROMM (Risk of Material Misstatement)

- ◆ **INHERENT RISK:** It is an integral part, do whatever you want to do that will remain therein. *The susceptibility of ABCD to misstatement that could be material either individual or aggregated with other statement, before consideration of an audit.*
- ◆ **CONTROL RISK:** Management procedure failed to prevent, detect and correct misstatement. Although it could be prevented, detected and corrected by management. *The susceptibility of ABCD to misstatement that could be material either individual or aggregated with other statements will not be prevented, detected and corrected misstatement.*

DETECTION RISK: it is the risk that auditor procedure to reduce the audit risk at acceptable law level will not detect a misstatement that exist and that could be material either individually or when aggregated with other misstatement.

AUDIT RISK: It is risk of expressing inappropriate (unmodified) opinion on materially misstated financial statement. It is a function of ROMM and detection risk.

Risk at financial statement level : PICK	Risk at assertion level (ABCD) : FACT ₂ Inherent audit risk at ABCD : FACT ₂
Professional judgment Integrity of management Control Knowledge of the management.	Financial statement likely to be susceptible Amount of judgement involved in determining ABC Complex and unusual transaction Transaction ONCB. Transaction with related parties.

5. **Professional skepticism :** It is an auditor's attitude of critical analysis & not accepting anything without reasonable justification that is being alert and questioning mind with respect to FRF, CAE, Reliability of document, exception, unusual transaction, inappropriate assumption & estimate, keeping in mind that there may be any Circumstance may indicate the possible existence of fraud and error.
6. **Professional judgment :** Auditor made professional judgement for ROMM, Sampling, Materiality, NTE of audit, SAAE by utilising their experience, knowledge & skill.
7. **Inherent Limitation of Audit :** This is the reason because of which audit fail as mentioned below :-
 - *Complex internal control*
 - *Wrong judgment*
 - *Audit sampling*
 - *Fraud*
 - *Audit evidence is persuasive in nature rather than conclusive in nature.*

SA 210

1. Precondition for an audit

- Providing the auditor with
 - ✓ Access to all information relevant to preparation and presentation of F.st.
 - ✓ Additional information as require by auditor.
 - ✓ Unrestricted access to those with in the entity .

2. Factor which make it appropriate to revise the term of the audit engagement: RMC₆

- Revision in the term of audit engagement
- Management misunderstood the objective of audit
- Change in the ownership
- Change in the operation
- Change in the Nature timing and extent of audit
- Change in the relevant industry
- Change in the AFRF.

3. Audit procedure when management request change in TOAE.

- Determine reason why management requested to change in TOAE.
- Is there any reasonable justification for changes, if yes then, auditor may accept the change and record reason.
- If there is no reasonable justification and *the auditor decided to withdraws, then :*
 - a. *Discuss with the appropriate level of management and TCWG, withdrawal from the engagement and the reason for the withdrawals.*
 - b. *Determine whether there is a professional or legal requirement to report to person who made the audit appointment or in some case to regulatory authorities, if yes then communicate, withdraws from the engagement and the reason for such withdraw.*

4. Audit Engagement Letter

For accept an audit auditor writes an **engagement letter** to client and get it acknowledge from client. It is a letter issued by auditor to their client, containing objective and scope of audit, auditor responsibilities, management responsibilities, Peer Review and Fees detail **to confirm the scope of audit**. When audit is carried out under any law and if law itself specify scope then you may send engagement letter in such a case it would be informative in nature.

Content of Audit Engagement Letter.

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Title, Addressee, Introduction Para, Auditor's Responsibilities, Management's Responsibilities, Peer Review Clause, Fees, Acknowledgment Paragraph, Signature of the auditor, Date & Place of Signature(Specific location where the audit report is signed.

	<i>Title</i>
Engagement Letter for audit of XYZ Ltd.	
	<i>Addressee</i>
To the Board of Director of Xyz Ltd.	
	<i>Introductory paragraph</i>
You have requested that we audit the balance sheet of (Name of the Company) as at 31st March, 20XX and the related profit and loss account and the cash flow statement for the year ended on that date. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.	
	<i>Auditor's Responsibility</i>
Our responsibilities is to give opinion on financial statement. We will conduct our audit in accordance with the auditing standards issued by ICAI. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. However, having regard to the test nature of an audit, persuasive rather than conclusive nature of audit evidence together with inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements of financial statements, resulting from fraud, and to a lesser extent error, if either exists, may remain undetected.	
	<i>Management's Responsibility</i>
The responsibility for the preparation of financial statements on a going concern basis is that of the management. The management is also responsible for selection and consistent application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards. The management is also responsible for making judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the entity at the end of the financial year and of the profit or loss of the entity for that period. The responsibility of the management also includes the maintenance of adequate accounting records and internal controls for safeguarding of the assets of the company and for the preventing and detecting fraud or other irregularities. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.	
	<i>Peer Review Clause</i>
We also wish to invite your attention to the fact that our audit process is subject to	

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'peer review' under the Chartered Accountants Act, 1949. The reviewer may examine our working papers during the course of the peer review.	
Fees	
Our fees will be billed as the work progresses.	
Acknowledgment	
If all the term & condition are acceptable, Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.	
<i>Signature</i>	
<i>for X Y Z & Co. LLP</i> <i>Chartered Accountants</i> Firm's registration number: 00000000 WWWWW <i>Partner</i> Membership number: 000000	
Date and place of signature	
Acknowledged on behalf of _____ Company by (Signature) Name and Designation Date	

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SA 220

1. Requirement of sa 220 HEAL ME

- **Human Resources** – ensure right person are appointed to right job.
- **Engagement performance – EQCR** properly supervised and reviews the audit work. Engagement is performed in accordance with RLR, LER, maintain proper working paper and documentation.
- **Acceptance and continuation of client relationship** – Consider integrity of client and competency of client to comply with applicable law and regulation, Relevant ethical requirement, etc.
- **Leadership responsibilities** – Engagement partner should take accountability and responsibility for engagement performance. Engagement quality control review should Plan, supervise, review the engagement performance. There should be adequate and timely communication from engagement partner to engagement team member and should resolve the conflict between team members.
- **Monitoring** – Work done by audit assistance should be properly monitored on regular basis to ensure policies procedure relating to quality control are adequate and operating effectively.
- **Ethical requirement** – complies with **IOPCPI. (Integrity, Objectivity, Professional competence, Confidentiality, Professional behaviour, Independence)**

SA 230

Introduction

Audit documentation is record of audit procedure performed relevant audit evidence obtain and the conclusion audit reach. It is basis of conclusion and evidenced that the audit was conducted in accordance with SA, ALRR & GAAP applicable in the circumstances. Auditor should document to the extent of that is sufficient to enable experienced auditor having no previous connection with that audit, to understand – Nature timing extent of audit, result of audit procedure performed relevant audit evidence obtained and the conclusion the auditor reach and Significant matter arising during audit and conclusion reached thereon, **inconsistency** found and how it has been resolved, in case **departure from GAAP** how alternative audit procedure performed. Auditor should **assemble** audit files and working paper within 60 days, and it should be retained for not less than 7 year. This audit documentation is the property of auditor, auditor may make portion, extract to make available to client at his discretion.

1. **Purpose of audit documentation:** It **assists** the engagement team to plan and perform audit, made **accountable** to engagement team for their work, for **future** audit and for QCR.
2. **Matter to be specifically documented *DIDI***
 - **Discussion of significant matter with management and TCWG.**
 - **Inconsistency found and how it has been resolved**
 - **Departure from ALRR & GAAP and what alternative audit procedure performed**
 - **Inclusion of matter arising after the date of AR.**
3. **PERMANENT AUDIT FILE:** MOA, AOA, Bye laws, Previous year Audit Report, Communication with retiring auditor, notes regarding significant accounting policies, MR.
4. **CURRENT AUDIT FILE:** Minutes, Audit Programme, External confirmation, planning process & analysis of ABCD.
5. **Factor affecting amount of working paper *ISCA N₃***
 - Identified ROMM.
 - Significant of audit evidence obtained.
 - Complexity and size of transaction & entity.
 - Audit methodology and tools.
 - NTE of audit
 - Nature of audit procedure performed.
 - Need to document a conclusion.

SA 240

1. FRAUD verification procedure **ONPDW**

- Obtain RA that Fst are FFROMM.
- Risk of **Not** detecting the fraud high because executer concealed the way it is executed.
- Professional scepticism should be maintained.
- Discussion with AET should be made.
- Written representation should be obtained.

2. RAP (Risk Assessment Procedure): **ATMOF**

- **Analytical procedure:** Analysis of plausible relationship among financial and non-financial data. It may indicate unusual, abnormal, unexpected relationship among financial and non-financial data. Which would help to identify FRF, CAE & MM.
- **TCWG:** How TCWG oversight management's process and inquire TCWG whether they have knowledge of any actual, suspected or alleged fraud.
- **Management and other within the entity.**
 - Management assessment of ROMM.
 - Management process to identify and responds to FRF.
 - Management communication to TCWG.
 - Management communication to employee.
- **Other information and observation:** Consider whether other information obtained indicates ROMM.
- **Fraud risk factor:** it is indicator of ROMM. The auditor should discuss with engagement team.

Fraud risk factor- **HOTEL TIPS**

- **High turnover of senior level management.**
- **Oversight of TCWG ineffective.**
- **Transaction with related parties.**
- **Excess pressure on management.**
- **Lack of ethical standards.**
- **Transaction outside normal course of business.**
- **Inappropriate transaction.**
- **Personnel financial situation of management and TCWG.**
- **Significant decline in customer demand**

3. Responses :

- i. **At financial statement level.**

- ✓ Professional scepticism, Assignment, Evaluate SAAE, Incorporate unpredictability. (PAIE)

ii. At assertion level

- ✓ Change in the nature timing and extent of audit. Change in NTE

4. SPECIFIC SOLUTION, MENTIONED EVERYWHERE, WHEREVER FRAUD IS SUCH THAT AUDITOR UNABLE TO CONTINUE-

240/ 140(2)(3)/ CARO Clause 3(x)/ 143(12)

➡ SA 240

The auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain SAAE to determine whether material misstatement exists.

Circumstance may indicate the possible existence of fraud and error.

The auditor should perform such modified or additional procedure as he determined to be appropriate

*In exceptional circumstances that bring in to the question to the auditor ability to continue the engagement or **U TEA OOPS**, the auditor shall:*

- i. *Determine professional and legal responsibilities applicable in the circumstance.*
- ii. *Consider whether it is appropriate to withdraws from the engagement if legally permitted.*
- iii. *If the auditor withdraws:*
 - a. *Discuss with the appropriate level of management and TCWG, withdrawals from the engagement and the reason for the withdrawals.*
 - b. *Determine whether there is a professional or legal requirement to report to person who made the audit appointment or in some case to regulatory authorities, the auditor withdraws from the engagement and the reason for such withdraw.*

➡ **140(2)(3): resignation of auditor**-An auditor is required to file ADT-3 on resignation within 30 days to Company, ROC , CAG (If govt, co). Failure to which auditor punishable with a fine which may extend to Rs. 50000 but shall not exceed Rs. 500000.

➡ **CARO Clause 3(x) Reporting of Fraud**

Whether any fraud **by** the company or any fraud **on** the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

➡ **143(12) : Reporting of fraud by auditor**

When an auditor comes to knowledge or reason to believe that fraud has been committed or is being committed against the company by any employee or officer, the auditor is required report immediately but not later than 2 days **to the board or audit committee**.

Board or audit committee will submit their reply or observation within 45 days to auditor. Then Auditor shall report **to central government** in form ADT-4 within 15 days of receipt of reply from board or audit committee, by speed post or Registered post with acknowledgment due.

However if fraud amount is **less than Rs. 1 crore** then report only it to Board/ Audit committee & disclosure require in board report.

Report consists of following particular: **NPA**

1. Nature of fraud with description
2. Parties involved.
3. Approximate amount involved.
4. Remedial action taken.

AND such disclosure would not amount breach of any of his duties.

SA 250

1. Introduction

Non-compliance means failure to comply or violation of applicable laws and regulation. It is an Act of omission or commission by the entity, or on its behalf, by those charged with governance, management or employees which may be intentional or unintentional which is being contrary to the prevailing laws & Regulation.

2. AUDIT PROCEDURE: GO and follow procedure INQUIRY, INSPECTION, PROFESSIONAL SCEPTICISM, WR & WP

- General understanding of ALRR, LER & AFRF and how entity applies with it.
- Obtain SAAE w.r.t compliance with laws and regulation that directly affecting determination of material amount and disclosure made in financial statement.
- **Inquiry** with w.r.t to non-compliance with laws and regulation that may have affect on financial statement.
- **Inspection** of latest information of pending legal case, minutes and other evidence which shows non-compliance.
- **Professional scepticisms** should be maintained to identify confirmation as to compliance with applicable law and regulation.
- **Working paper**
- **Written representation** from management about possible non-compliance should be obtained.

3. Management Responsibilities with respect to compliance with laws and regulation.- MEMBER

M- Monitoring legal requirement.

E- Ensure employees complies with code of conduct.

M- Monitoring compliance of code of conduct by preparing checklist.

B- Better internal control should be designed, implemented and maintained.

E- Engaging Legal Advisor.

R-Register of Significant applicable laws and regulation should be maintained.

4. Indicator of non-compliance of laws and regulation – IMIPS and not a LOL

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- Inquiry of management
- MOA & AOA
- Income tax return
- Previous year audit report
- Share holder record.
- Latest interim financial statement.
- Obtain written representation
- Latest position of pending legal cases.

SA 260: Matter to be communicated to TCWG. (I.F.R.S)

- **Independent:** Communicate that auditor is subject independence, Statement stating that engagement team complied with REL regarding independence, and steps taken to provide safeguard against elimination of independence.
- **Finding:** Both finding should be reported qualitative as well quantities, significant difficulties encountered during audit.
- **Responsibilities:** Our responsibility is to express opinion on financial statement, our responsibilities doesn't relieve management or TCWG from their responsibilities.
- **Scope:** here auditor communicate planned scope and timing of audit, the auditor should communicate such timing that it do not compromise in effectiveness of audit.

SA 265:**DEFICIENCY –**

1. Control is DIO in such a way that is unable to PDCM in the F.St.
2. Control necessary to PDCM in the F.st is missing.

SIGNIFICANT DEIFIENCY: Deficiency of sufficient important that it is necessary to merit the attention of TCWG.

COMMUNICATION : if deficiency then reported to management. If significant deficiency then it is reported to TCWG.

SA 299:

⚙ JOINT AUDITOR DEVIDE WORK & COORDINATE share RESPONSIBILITIES and may DIFFERENCE OF OPINION

1. **JOINT AUDIT** – When two or more practice unit appointed to conduct an audit due to voluminous of work, is known as joint audit.
2. **Division of work** – They divide work among themselves on the basis of period, functional area, component of financial control, geographical location, identifiable unit, assets, liability, etc.
3. **Co-ordination** – each joint auditor should co-ordinate with each other, mater found relevant to other auditor should be immediately communicated before the date of audit report.
4. **Separate responsibilities in respect of work devide.**
5. **Difference of opinion:** generally all arrived at unanimous opinion, however they are not bound by majority of opinion, those disagree may provide their opinion through a separate report.

⚙ Responsibility of joint auditor when they are jointly and severally responsible in respect of audit conducted by them. joint audior got NP of NBFC

- 📖 *Each Joint auditor entitled to relies on the work of other joint audit that it is carried out in accordance with GAAP.*
- 📖 **Not divided audit engagement among the joint auditor.**
- 📖 **Prevailing system of internal control.**
- 📖 **NTE of audit procedure.**
- 📖 *Information Brought to the notice of the joint auditors by any one of them.*
- 📖 **Financial statements comply with disclosure requirement.**
- 📖 **Compliance of Audit report with the requirement of relevant statute.**

SA 300

1. Introduction

Plan enables to conduct effective and efficient audit in a timely manner. Here we determine nature, timing and extent of audit. It should be flexible in nature so that revision is possible as the audit progress if circumstances arise. Audit plan ensure work completed in a **timely** manner, **assistants are properly utilised**, there is proper **co-ordination** in this regard and **proper attention given to critical areas**.

2. Following are the steps in planning

- a. Preliminary engagement activities- check compliance with AS 220,200,210. That is preparing and sending engagement letter, compliance with ethical requirement, ensure quality control as per 220 and communication with predecessor auditor.
- b. Planning activity.
 - ❖ Over all audit strategy- knowledge of entity and its environment, ascertain NTE of audit.
 - ❖ Audit plan- SA 315,330 and other planned audit procedures.
- c. 315 & 330
- d. Revision

3. Following factor should be consider in developing overall audit plan:- TRAINING DAYS

- a. Terms of auditor's engagement and any statutory responsibilities.
- b. RAP to be applied to understand and analyse the extent of risk.
- c. ALRR and accounting policies adopted by client and changes thereto.
- d. Identification of significant audit areas and setting the materiality level.
- e. Nature timing of reports or other communication.
- f. Involvement of other auditor in the audit component.
- g. NTE of audit.
- h. Get the previous audit report,
- i. Degree of reliance of IC.
- j. Allocation of work.
- k. Yardstick to determine materiality.
- l. Staff requirement and co-ordination.

SA 315: Audit procedure

RAP & Related activity, Understand entity and its environment, Components of internal control, Identify and assess ROMM, Risks that require special audit consideration, Revision of risk assessment.

1. Risk Assessment Procedure and related activity.
 - RAP: ATMOF (Refer SA 240)
 - Use obtained information to identify ROMM.
 - Consider change on using last year audit working paper.
 - Discussion of engagement partner among engagement team member and determine the matter to be communicated.
2. Understand entity and environment:- the auditor shall obtain and understanding of the following:
 - Relevant industry, regulatory and other external factor including AFRF.
 - The nature of entity, including:
 - ✓ It operation
 - ✓ Ownership and governance
 - ✓ Nature of investment made by entity, how it is structured and how it is finance
 - The entity's selection and application of accounting policies.
3. Component of INTERNAL CONTROL: **CRCIM**

Introduction

Internal Financial Controls / internal control definition

The Plan, Policies and Procedure of an organisation and all the method and procedure adopted by management of an entity to assist in achieving management objectives of ensuring as far as practicable the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. Following are the component of Internal control:-

- **Control environment:** entity has developed the culture of honesty, integrity and ethical behaviour. The strength in the control provides appropriate foundation for other component of control.
- **Risk assessment Process:** evaluate entity has a process for **IEAA**
 - Identifying business risk
 - Estimating the significant of the risks
 - Assess the likelihood of their occurrence.

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- Action to address to those risks.
- **Control activity:** understand how entity IRCPT (initiate, record, correct, process transaction). Identify those control activity which are related to significant ABCD.
- **Information & communication:** **TRIPS**
 - Transaction significant to financial statement.
 - Related accounting record & Reporting process used to process entity F.st.
 - Information system capture event and condition
 - Procedure by which significant transaction are initiated, recorded, processed, corrected as necessary.
 - Surrounding journal entries.
- **Monitoring-** How the significant financial reporting activity is being monitored, and how remedial action initiated for deficiency in internal control.

4. Significant Risk that require special audit consideration. DCR of TT

- **Degree of subjectivity with regard to assumption and estimate.**
- **Complexity of transaction**
- **Risk of fraud**
- **Transaction with related parties.**
- **Transaction outside normal course of business.**

5. Revision of risk assessment.

If additional audit evidence obtain is inconsistent with the original audit evidence, then the auditor shall revise the assessment and modify the further planned audit procedure accordingly.

SA 320

1. Introduction

Material item is the assertion of financial statement which affects decision of user of financial statement on either discloser is made or not made on financial statement. It is very subjective in nature; it depends on nature and size of entity & nature and size of item. Generally what amount would be material or not material is determined by management and TCWG of entity, auditor have to consider such materiality level while auditing. However there is another materiality level which is determined by auditor is known as **performance materiality**. Performance materiality level is set by auditor, lower than the actual materiality level to ensure, is there any misstatement which may be immaterial individually but if taken it as whole it would be material due its repetitive in nature. Determination of materiality is a matter of professional judgement; generally certain percentage is often applied on chosen benchmark.

2. Audit procedure to determine performance materiality :- REFERENCE

- ➡ Relative volatility of benchmark
- ➡ Entity's ownership structure and the way it is financed.
- ➡ Focused and material item on which user give more attention for example profit.
- ➡ Related AFRF & ALRR.
- ➡ Elements of financial statement.
- ➡ Nature of entity.
- ➡ Common financial information needs.
- ➡ Entity surrounding circumstance.

SA 330:**Introduction**

The objective of auditor is to obtain SAAE through designing and implementing appropriate responses to the assessed ROMM.

Responses to assessed ROMM - NTE

- ◆ **Nature of the audit technique and procedure-** More audit procedure if assessed risk is high & less audit procedure if assessed risk is low.
- ◆ **Timing of audit procedure-** Full year transaction should be cover if assessed risk is high & Part of the transaction may be covered if assessed risk is low.
- ◆ **Extent of audit procedure-** Sample size should be extended if assessed risk is high & Sample size may be reduced if assessed risk is low.

Factor that may warrant retest of control: D₃PSC

- Deficient control environment
- Deficient monitoring of control
- Deficient general IT control
- Personnel changes that significantly affect the application of the control.
- Significant manual element to the relevant control.
- Changing circumstances that indicate the need for change in the control.

SA 402:**4. Understand how user entity uses the service of service organisation including DN₃**

- Degree of interaction between them.
- Nature of service provided by service organisation
- Nature and Materiality of transaction processed by the SO.
- Nature of relationship between them.

5. Sub-service organisation

- i. Information will be obtained about DN3 at sub-service organisation
- ii. Service organisation report either include or exclude sub-service organisation relevant control objective related control. This two method name as inclusive method or carve-out method respectively. In case of it is excluded in such a case user auditor is required to apply SA 402, at sub service organisation.

6. Source of information about nature of service provided by SO. I M RUSTAM

-  Initiating, recording or processing transaction as agent of user entity.
-  Maintenance of the user entity's accounting record.
-  Report by service organisation's internal auditors or regulatory authorities on control at the service organisation.
-  User manual.
-  System overview.
-  Technical manual.
-  Audit report of Service organisation. Type I or type II Report as the case may be required by circumstances. Refer SAE 3402
-  Management of assets.

SA 450:**1. Introduction**

While conducting an audit of financial statement, Auditor comes to knowledge of many misstatements, which is either material or immaterial, Auditor response to such misstatement in accordance with procedure prescribed under this SA.

While dealing and discussing with the management/ TCWG some misstatement get resolved and some unresolved. Auditor has to consider the affects of uncorrected material misstatement in financial statement.

2. Audit Procedure to evaluate identified and uncorrected misstatement.**ACCECWD**

1. Accumulation of identified misstatements
2. Consideration of identified misstatement as the audit progresses.
3. Communication for correction of misstatement to management.
4. Evaluating the effect of uncorrected misstatement.

C I A of T A T A

C- Change in earning or other assertion as a result of such uncorrected misstatement.

I- Incorrect selection or application of accounting policies.

A-Analytical procedure used to evaluate entity's financial information.

T- Transaction with the related parties.

A-Applicable legal regulatory requirement has been followed.

T- Transaction outside the normal course of business.

A-Affect compliance with debt covenant or other contractual requirement.

5. Communication uncorrected misstatement to those charged with governance.
6. Written representation.
7. Documentation.

3. Misstatement may result from - IOWAI

- Inaccuracy in gathering and collecting data.

- Omission of an amount of disclosure.
- Wrong estimate and judgement of management.
- Application of accounting policies inappropriately.
- Incorrect accounting estimate arising from overlooking or clear misinterpretation of fact.

SA 500:**1. Introduction**

Auditor should obtain SAAE to draw conclusion on which his opinion is based. Audit evidence obtained by auditor is persuasive in nature rather than conclusive in nature.

2. Method to Obtain audit evidence: ICAI Obs Rep

Inspection-Examining document, record, other corroborative evidence to examine EOv (Existence, ownership and valuation).

Computation- Checking mathematical accuracy.

Analytical review procedure- Evaluation of financial information through analysis of plausible relationship among financial and non- financial data, is known as analytical procedure.

Inquiry and confirmation- Questioning the management to obtain clear understanding of their intention, integrity, etc.

Observation- Looking at a procedure performed by other.

Re-performance – Independent execution of procedure or control that were originally performed by management.

3. Audit procedure:**a. Risk assessment procedure: (ATMOF)****b. Other procedure**

i. **Compliance Procedure (I.C)**- Test designed to obtain reasonable assurance that internal control on which audit reliance is to place are in affects. Here we check existence, effectiveness and continuity of internal control.

ii. **Substantive Procedure (Test MCOVER for ABCD)**: Test designed to obtain reasonable assurance as to completeness, accuracy and validity of data produced by accounting system. It also includes Analytical procedure.

M- Measurement.

P- Presentation

C- Completeness / cut off procedure.

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O- Occurrence/ ownership

V- Valuation

E- Existence

R- Right and obligation.

4. Evaluation of Management Expert work: CCO/Obtain understanding/Evaluate ASK

- Evaluate Competence, capabilities and objective of that expert.
- Obtain understanding of work of mgt expert.
- Evaluate Assumption, source data and knowledge use by that expert.

5. Reliability of Audit evidence.

- **External** more reliable than internal,
- **written** more reliable than oral,
- **Directly** obtained more reliable than indirectly,
- **Original** is more reliable than Photocopy.

SA 501**INVENTORY – AUDIT PROCEDURE**

Inventory is material assertion of financial statement. Physical verification is the responsibility of management; an auditor responsibility is to examine EOV (Existence, ownership and valuation). Auditor should attend inventory counting unless impracticable to **EIPO**, if due to unavoidable circumstance unable to attend physical count, then request management to provide alternate days for attending physical counting on alternative date. Estimate the physical quantity and its value and satisfy with assertion made in financial statement and ensure management procedure is properly complied.

Auditor should attend inventory counting unless impracticable to **EIPO**
Evaluate management's procedure to control and record results of the physical inventory counting.

Inspect the inventory.

Perform test counts.

Observe the performance of management's count procedure.

If unable to obtain SAAE regarding inventory then QO or DO as the case may be.

LITIGATION AND CLAIM – AUDIT PROCEDURE

1. Same as HOW TO IDENTIFY SUBSEQUENT EVENT: **IMLOL**

- **Inquiry of management.**
- **Minutes of board meeting.**
- **Latest interim financial statement.**
- **Obtain written representation**
- **Latest position of pending legal cases.**

SEGMENT INFORMATION – AUDIT PROCEDURE : IAS is a segment UPSC

- **Identification of reportable segment.**
- **Accounting policy consistently applied.**
- **SAAE should be obtained.**

- **Understanding the method used by management in determining the segment.**
- **Performing analytical procedure.**
- **Sales, transfer and elimination of inter segment transfer.**
- **Compliance with AS-17, Comparing expected budget with actual.**

SA 505 :

INTRODUCTION

Obtaining direct confirmation from third party with respect to assertion made in financial statement to obtain more persuasive audit evidence because external evidence is more reliable than the internal evidence. Two types of confirmation request is used Positive confirmation request and negative confirmation request to obtain external confirmation. It is after considering the level of inherent and control risk. Reply of positive confirmation request is necessary whereas reply of negative confirmation request is not necessary (reply only when disagree), to obtain SAAE.

External confirmation process: DSDSRR

- ❖ **Determining the item for which confirmation is to obtain**
- ❖ **Selecting the appropriate third party**
- ❖ **Designing the confirmation request**
- ❖ **Sending the confirmation request**
- ❖ **Receive confirmation response**
- ❖ **Reconciling the assertion as per confirmation and response by third party.**

The auditor should consider the following factors before Designing the confirmation request- PLASTIC

P-Prior experience in audit.

L-Layout and presentation of confirmation.

A-Assertion to be addressed.

S-Specified identification of risk of material misstatement.

T-The method of communication.

I-Information on which confirmation is required.

C-Class of transaction to be covered.

SA 510

1. Introduction-

Whenever auditor accept new engagement wherein he was not an auditor of entity for previous year, either previous year financial statement would have not been audited, or audited by previous auditor. Auditor audits current year financial statement wherein opening balance is brought forward from previous year, So this standards provides guidance how to obtain SAAE regarding opening balance. If auditor unable to obtain SAAE then auditor should modify his opinion.

2. audit procedure when previous year audit report unaudited -

O₂ C₂A Obtain confirmation

- ◆ Obtain confirmation from account receivable or debtor.
- ◆ Obtain confirmation from account payable or creditor.
- ◆ Check subsequent realisation of debtor.
- ◆ Cheque subsequent payment made to creditor.
- ◆ Accounting policies consistently applied.
- ◆ Obtain confirmation in relation to bank balance.

3. Audit procedure when previous year audit report audited by previous year auditor.

- Current year auditor can place reliance on previous year audit report, ensure that in current year opening balance correctly brought forward from previous year audited report.
- Check type of opinion expressed in previous year audit report, if in previous year unmodified opinion then simply check balance correctly brought forward. However if in previous auditor report modified, then verify whether the qualification made in previous has been resolved or not. If resolved then unmodified opinion, if it is not resolved then modify current year audit report.

SA 520

1. Introduction

Evaluation of financial information through analysis of plausible relationship among financial and non- financial data, is known as analytical procedure. To identify unusual, abnormal, unexpected relationship among financial and non-financial data, assertion, etc. Which would help to identify FRF, CAE & MM. When Analytical procedure used at the timing of Planning, is Known as **preliminary analytical procedure**. When it is applied at the time of review financial statement and form a conclusion it is known as **substantive analytical procedure**.

2. Type of analytical review procedure-

- ❖ Ratio analysis – evaluation of relationship among different assertion shown in the financial statement, for example Debt-equity ratio, Current assets ratio, etc.
- ❖ Trend analysis- It shows movement of assertion/ item over a period of time. Here we analyse trend of information keeping benchmark previous year information.
- ❖ Comparison method – compare current year information with the previous year
- ❖ Reasonableness – Ask a question whether is it reasonable or not.

3. Audit consideration while analytical procedure: **SRED**

- ❖ Suitability of SAP
- ❖ Reliability of data
- ❖ Expectation of auditor for such.
- ❖ Determine the difference between expectation and actual. Investigate unusual item and significant fluctuation and corroborate such by inquiry of management and by other audit procedure.

SA 530

1. Introduction

Sampling - Application of audit procedure on less than 100% of item with in a population, where in each item have equal chances of selection.

Select **audit sample** from **entire audit population** in such a manner that sample is representative of population. Perform audit procedure on selected audit sample to obtain SAAE. The process of dividing the population in to sub population is known as **stratification**.

2. Steps in sampling

i. **Defined entire population**

ii. **Choose Sample selection technique- HRSM**

❖ **Haphazard selection sampling technique** – Pick sample from population in a **unstructured way** where in each item have equal chances of selection.

❖ **Random Selection sampling technique** – Use random number table generated from random number generator.

- **Simple random sampling** - Here each item have equal chances of selection.

- **Stratified sampling technique** – First entire population is stratified then random selection sampling technique is applied.

❖ **Systematic sampling technique**- Define population and select sample in a very structured manner.

- **Block Selection technique**- Entire audit population is stratified in systematic blocks of continues item of similar characteristics, then selection of item from each blocks is done.

- **Cluster sampling technique**- Entire audit population is stratified in number of cluster then number of cluster are randomly selected.

❖ **Monetary unit sampling technique** – value weighted selection technique is used.

3. Sampling Risk

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It is a risk of selecting wrong sample. It is a risk that auditor conclusion based on sample may vary if entire population is subjected same audit procedure. Following two risk

- **Risk of incorrect acceptance:** Erroneous conclusion that control are more effective than actual and material misstatement doesn't exist when in fact it exist.
- **Risk of incorrect Rejection:** Erroneous conclusion that controls are less effective than actual and material misstatement exist whereas in fact doesn't exist.

4. Non- sampling risk

- **Anomaly: very rare and odd in nature.**

5. Tolerable misstatement

It is the monetary amount set by the auditor in respect of which auditor seek to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population. It is the application of performance materiality, it may be the same amount or lower than the performance materiality.

SA 540

1. Introduction: It is an approximation / estimation made by management for any assertion of financial statement in the absence of precise means of measurement. It requires management to calculate fair value or management estimate, Judgement, assumption, etc. Auditor is to evaluate reasonable of such assumption and estimation and make their own judgement based on his experience and competence, compare it with mgt estimate. If difference arises then direct management to adjust.

2. Procedure applied by auditor: TREAT MICRO

- To understand the methods adopted by management to calculate the accounting estimates.
- Review and test the procedures followed by management in relation to accounting estimate.
- Environment under which the estimate are made.
- Assumption
- Testing of calculation based on accounting estimate
- Make independence estimate and compare it with the given accounting estimate.
- Investigate unusual and abnormal variation or range between auditor's point estimate and management point estimate.
- Complex accounting estimate then take help of expert
- Review and consider the events occurring after the balance sheet date.
- Obtain understanding of AFRF.

SA 550

1. HOW TO IDENTIFY RELATED PARTIES: **IMIPS**

- Inquiry of management
- MOA & AOA
- Income tax return
- Previous year audit report
- Share holder record.

2. AUDIT PROCEDURE : *O related parties* **U LOVE & RESPECT IPS**

- ✚ Understand RPRT
- ✚ Life insurance policies acquired by entity
- ✚ Obtain written representation that all RP identified and disclosed.
- ✚ Verify minutes of meeting of board of directors or shareholders.
- ✚ Entries made in the register maintained U/s 189 of CA 2013.
- ✚ Relationship with the guarantors and guarantees given
- ✚ Examine the contract and agreement with related party.
- ✚ Statement of conflict of interest from mgt and TCWG.
- ✚ Participation in unincorporated partnerships with other parties.
- ✚ Examine the confirmation from bank, legal and third parties.
- ✚ Check whether any fraud risk exists due to transaction with related party.
- ✚ Transactions under contracts whose terms are changed before expiry.
- ✚ Internal control ; whether such IC
 - Identify and disclose RPRT in accordance with AFRF.
 - AASTAA with related parties.
 - AASTAA which is ONCOB.
- ✚ Professional scepticism
- ✚ Share information with in the engagement team.

3. if related parties transaction found to **biased** then Evaluate

- ◆ Rational of transaction whether such suggest FRF or concealment of MOA.
- ◆ Term of transaction consistent with management explanation.
- ◆ Transaction accounted and disclosed in accordance AFRF.

SA 560

1. Introduction

Event occurring between the date of financial statements and date of audit report, and fact that became known to the auditor after the date of audit report.

2. HOW TO IDENTIFY SUBSEQUENT EVENT: **IMLOL**

- Inquiry of management.
- Minutes of board meeting.
- Latest interim financial statement.
- Obtain written representation
- Latest position of pending legal cases.

3. AUDIT PROCEDURE: **ROAR**

-  Reading minutes of meeting of shareholder and BOD.
-  Obtaining an understanding of management procedure to identify subsequent event.
-  Ask mgt and TCWG. About **THE IAS SENA**
 - ❖ There has been any development in contingency.
 - ❖ High and unusual accounting estimate.
 - ❖ Event occurred which are relevant to recoverability of assets.
 - ❖ Increase in capital or debt.
 - ❖ Any assets compulsory acquired by government.
 - ❖ Situation which are relevant for measurement of accounting estimate or provision.
 - ❖ Sale or acquisition of assets.
 - ❖ Event occurred which question the appropriateness of accounting policies.
 - ❖ New commitment, borrowing and guarantee have been entered into?
 - ❖ Any assets have been destroyed.
-  Reading the entity latest subsequent interim financial statements.

SA 570

1. INTRODUCTION

Going concern is fundamental accounting assumption as to whether entity will continue in foreseeable future in the next one year. It has neither intention nor necessity to liquidate or curtail the majority of operation within in next one year, that is why depreciation is provided, assets is capitalised, etc. If it is not expected to continue for foreseeable future depreciation and provision not provided, assets is disclosed at realisable value and liabilities at payable value. It is management responsibilities to determine going concern assumption is appropriate or not. **Auditor has to obtain SAAE regarding appropriateness of use of GCA to ensure whether there is any material uncertainties exist.** However audit report is not a guarantee toward future viability.

2. Indicator of inappropriateness of use of GOING CONCERN ASSUMPTION**I. OPERATIONAL INDICATOR.**

-  Labour difficulties.
-  Mgt lock out.
-  Loss major buyer.
-  Lack of raw material.
-  Emergence of new competitors.
-  Sale of assets.
-  Management intention to liquidate.
-  Significant revision of operation.

II. FINANCIAL INDICATOR

-  Adverse key financial ratio.
-  Default in loan repayment.
-  Non- compliance of loan agreement.
-  Unable to pay creditor.
-  Unable to pay dividend
-  Short term borrowing used for long term purpose.
-  Withdrawal of support by creditors.
-  Negative operating cash flows.

III. Other indicator.

-  Change in government policy.

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- ✚ Natural calamities.
- ✚ Non- compliance of statutory requirement.

3. PROCEDURE TO BE APPLIED BY AUDITOR: SLICES

- ✚ Subsequent events after the balance sheet date.
- ✚ Latest position of pending Legal cases.
- ✚ Interim financial statements.
- ✚ Cash flow statements.
- ✚ Examine Minutes of BOD & shareholder
- ✚ Status of Debt compliance and applying analytical procedure.

4. AUDITOR REPORT:

- ✚ UNQUALIFIED: when GCA is appropriate.
- ✚ ADVERSE: If GCA is inappropriate.
- ✚ UNQUALIFIED WITH EOM PARA: GCA appropriate but resolved by mgt explanation.
- ✚ QUALIFIED: When mgt explanation found to be inadequate.

SA 580:**Introduction**

Written representation obtained by auditor from management to confirm certain matter or to support other audit evidence, but doesn't include financial statement, assertions & supporting books/ records. It is corroborative audit evidence it is not substitute of audit evidence.

Written representation letter provided by management to the auditor, if management doesn't provide then auditor itself write and get acknowledge from management. If management doesn't provide one or more requested written representation letter, the auditor shall:

- ✓ Discuss with the management.
- ✓ Re-evaluate the integrity of management.
- ✓ Determine the effect of opinion.

OBTAIN WRITTEN REPRESENTATION FOR – RSS in UPLC & TT

1. *Related parties*
2. *Subsequent event*
3. *Selection and application of accounting policies,*
4. *Uncorrected misstatement either individually or in aggregate immaterial.*
5. *Preparation and presentation of financial statement.*
6. *Litigation claim.*
7. *Compliance with ALRR.*
8. *Transaction recorded is reflected in financial statement.*
9. *Title of Assets subject to lien and consignment.*

SA 600**1. Introduction**

Principle auditor express opinion on financial statement, if entity consist of one or more component then principle auditor uses the work of auditor of component (Other auditor) because principle auditor is responsible for the audit opinion on the whole of the group financial statement.

COMPONENT CONSIST OF ABSDJ

- ✚ Associate
- ✚ Branch
- ✚ Subsidiary companies
- ✚ Division
- ✚ Joint venture

2. AUDIT PROCEDURE- VIPCAPTAIN

- ✚ Visit component if auditor thinks it is necessary.
- ✚ Instruct reporting requirement
- ✚ Principle auditor has right to examine books of account and other records of components.
- ✚ Consider significant finding of other auditor.
- ✚ Advising the other auditor about the use of his work and ensuring co-ordination.
- ✚ Principle auditor will be responsible for his opinion on the entity as a whole and should indicate division of responsibility with the other auditor in the report.
- ✚ The principle auditor should obtain SAAE to ensure adequacy of work of other auditor.
- ✚ Advising significant account requirement reporting requirement.
- ✚ In planning whether to use work of another auditor Professional competencies of other auditor should be consider if other auditor other than CA.
- ✚ Nature, timing and extent of audit procedures to be understood.

SA 610 USING THE WORK OF INTERNAL AUDITOR

◆ Internal audit function includes **GIR**

- Governance
- Internal control process: **IamCFO**
 - ✓ **Internal control:** IAF may assigned to review control, evaluate operation and recommend improvement
 - ✓ **Compliance with law and regulation:** IAF may assigned to review compliance with L&R.
 - ✓ **Financial and operating information:** IAF may assigned to review the means to identify, recognise, measure, classify and report FAOI.
 - ✓ **Operating activity:** IAF may assigned to review economy, efficiency & effectiveness of operating activities.
- Risk management

◆ Using the work of internal auditor :

Determining the nature and extent of work of the internal audit function that can be used & audit procedure when using the work of internal audit function **SATAI LO_{psrd}**

- ✓ Systematic and disciplined approach.
- ✓ Adequate and SAAE has been obtained.
- ✓ Technical training and proficiency of internal auditor.
- ✓ Appropriateness of conclusion reached in the circumstances.
- ✓ Inconsistency, exceptional or unusual matter disclosed by internal auditor has been resolved.
- ✓ Level of competencies of internal audit function.
- ✓ Objective of internal auditor w.r.t internal audit function's organisational status and relevant policies and procedure.
- ✓ Properly planned, supervised, reviewed and documented.

Determining the nature and extent of work that can be assigned to internal auditor providing direct assistance

The external auditor shall consider

- ➡ amount of judgment involved in Planning and performing audit & evaluating the audit evidence,
- ➡ assessed ROMM and
- ➡ threats to objectivity and level of competency of internal auditor

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However, external auditor will not use internal auditors to provide direct assistance in following case:

- ◆ Audit procedure involves making significant judgment.
- ◆ ROMM is high.
- ◆ Audit procedure related to work which has already been reported to TCWG/management.

Audit procedure when using internal auditor to provide direct assistance

1. *Obtain written agreement from the entity that the internal auditors will allowed to follow external auditor instruction and entity will not intervene in the work of internal auditor.*
2. *Obtain written agreement from internal auditor that they will maintain confidentiality.*
3. *External auditor will direct, supervise and review the work performed by internal auditor*

SA 620

Some time to obtain audit evidence auditor uses work of audit expert. Auditor expert is an expert having expertise in the field other than accounting and auditing. Lawyer, valuer, engineer, Actuaries, etc are example of auditor expert. Expert appointed by management is known as management expert it is covered in SA 500.

Audit procedure for using the work or auditor expert.

Understand competency(cco) of Auditor expert & enter in to an agreement then evaluate relevance and reasonableness of Assumption, source data and knowledge.

1. Understanding the field of expertise of the auditor's expert. Determine NSO of expert's work and evaluate adequacy of that expert's work.
2. Competence, capabilities and objective of that expert including inquiry regarding interest and relationship that may create a threat to that expert's objectivity.
3. Auditor expert: An individual having expertise in the field other than accounting and auditing.
4. Agreement with auditor's expert regarding NSO, Role and responsibilities, NTE Of communication and confidentiality.
5. Evaluating the relevance and reasonableness of expert's finding, Assumption used, Source data and knowledge of that expert

If the auditor determine that the work of the auditor's expert is not adequate for the auditor's purpose, the auditor shall agree to perform further audit procedure with that expert and perform further audit procedure.

SA 700**What is unmodified opinion?**

When conclude that financial statement prepared in

- all material respect,
- in accordance with applicable financial reporting framework.
- free from risk of material misstatement.
- It doesn't contain any reservation and qualification.

Content of Audit report. (TAIMAORS DPS)

Title, Addressee, Introduction Para, Management's Responsibilities, Auditor's Responsibilities, Opinion Para, Report on other legal and regulatory requirement, Signature of the auditor, Date & Place of Signature(Specific location where the audit report is signed.

	<i>Title</i>
Independent Auditor's Report	
	<i>Addressee</i>
To the Members of Xyz Ltd.	
	Introductory paragraph
Report on the Standalone Financial Statements We have audited the accompanying standalone financial statements of Xyz Ltd. ('the Company'), which comprise the balance sheet as at 31 March 2016, the statement of profit and loss and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.	
	Management's Responsibility
Management's Responsibility for the Standalone Financial Statements The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation and presentation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.	

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Auditor's Responsibility										
Auditor's Responsibility Our responsibility is to express an opinion on these standalone financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.										
										Opinion
Opinion In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2016 and its profit and its cash flows for the year ended on that date.										
Report on Other Legal and Regulatory Requirements										
Report on Other Legal and Regulatory Requirements 1. As required by the Companies (Auditor's Report) Order, 2016 (pp"the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure A, a statement on the matters specified in the paragraph 3 and 4 of the order. 2. As required by Section 143 (3) of the Act, we report that:										
Duties to make report ----- I B₂A₃D MIS										
Mnemonics	I	B	B	A	A	A	D	M	I	S
Clause	a	B	c	d	e	f	g	h	i	j
a) Information and explanation- whether he has sought and obtained all the										

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information and explanation which to the best of his knowledge and belief were necessary for the purpose of audit and if not, the detail there of and affect of such information on the financial statement.

- b) **Books of accounts-** whether in his opinion proper books of accounts as required by law have been kept by the company so far it appear from examination of those books and proper return adequate for the purpose of his audit have been received from branched not visited by him.
- c) **Branch office-** Whether the report on the accounts of any branch office of the company audited by a person other than company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report.
- d) **Agreement-** Whether the company's balance sheet and profit and loss account dealt with in report are in agreement with the books of account and returns.
- e) **Accounting Standards-** Whether in his opinion the financial statement comply with the accounting standards.
- f) **Adverse affect-** the observation or comment of the auditors on financial transaction or matter which have any adverse affect on the functioning of the company.
- g) **Disqualified –** Whether any director is disqualified from being appointed as a director under section 164(2).
- h) **Maintenance of books of accounts-** any qualification, reservation or adverse remarks relating to the maintenance of accounts and other matters connected therewith.
- i) **Internal financial control-** whether the company has adequate internal financial controls system in place and the operating effectiveness of such control.
- j) **Such other matter as may be prescribed.**

Signature

for **X Y Z & Co. LLP**
 Chartered Accountants
 Firm's registration number: 00000000
WWWWW
 Partner
 Membership number: 000000

Date and place of signature

SA 705**1. INTRODUCTION**

Modify opinion when financial statement not free from material misstatement or fails to obtain sufficient appropriate audit evidence. Three types of modification QO,AO,DOO

QO: Subject to reservation.

AO: Financial Statement doesn't show true and fair view.

DOO: Unable to obtain SAAE.

2. TYPES OF MODIFIED REPORT ON RESPECTIVE CIRCUMSTANCES

Circumstances	Material but not pervasive	Material and Pervasive
Misstatement	Qualified opinion	Adverse opinion
Fails to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

First give **basis of QO, AO & DOO** then opinion paragraph as follows:

QO: Except for the effect of matter described in the basis for qualified opinion paragraph, financial statement prepared in all material respect and in accordance with AFRF.

AO: in the auditor's opinion because of significant of matters described in the basis of adverse opinion paragraph. Financial statement have not prepared in all material respect in accordance with AFRF when reporting in accordance with compliance framework.

DOO: Because of significant of the matter's described in the basis for disclaimer of opinion paragraph, the auditor's has not able to obtain SAAE to provide basis for auditor opinion. The auditor doesn't express opinion on the financial statement.

SA 706**1. INTRODUCTION**

EOM or OM Para given after the Opinion Para when some additional explanatory Para required, Although it doesn't affect unqualified opinion.

2. **EOM:** It is used for Matter adequately presented in financial statement but in auditor opinion it is of such importance that it specially requires attention of user of financial statement. It is fundamental to user understanding.
3. **OM:** It is used for assertion not made in financial statement but in auditor's opinion it is relevant to user understanding.
4. **EXAMPLE:**

 EOM paragraph: We draw our attention to note no xxx to the financial statement which describe uncertainty related to outcome of law suit filed against the company by xyz ltd. Our opinion is not qualified in respect of this matter.

 OM Paragraph: We didn't audit the financial statement of certain subsidiaries, whose financial statement reflect total assets (net) as on march/ 31/2016 total revenue (net) etc whose report furnished to us by management and our opinion is based solely on the report of other auditor. Our opinion in not qualified in respect of this matter.

SA 710**MEANING AND INTRODUCTION**

Corresponding figure: Prior period report included as integral part, Intended to read only in relation to the amounts and other disclosure. Auditor Express opinion only for Current year.

Comparative Financial Statement: Prior period report is not included as integral part rather it is attached to current period financial statement for comparison. Auditor express opinion on both years if audited.

SCOPE AND OBJECTIVE

It describes auditor responsibilities with regard to comparative information in an audit of financial statement, when pervious financial statement audited by predecessor auditor or not audited.

AUDIT PROCEDURE TO BE FOLLOWED BY THE AUDITOR: PAAAW

1. Professional scepticism should be adopt where doubt about material misstatement.
2. Accounting policies consistently applied.
3. Agreement of comparative information with the amounts and other disclosures presented in the prior period.
4. Applicable financial reporting framework had been followed while preparing comparative information and such information is classified appropriately.
5. Written representation for all period should be obtained.

REPORTING RESPONSIBILITIES OF THE AUDITOR FOR CORRESPONDING FIGURES.

1. **When the prior period audit reports are clean:** Then do not refer in opinion Para.
2. **When the prior period audit reports are modified:** Then refer in opinion Para and also modify current year audit report. No need to refer when such matter has been resolved.
3. **When the prior period financial statements are materially misstated:** Then write in opinion Para that Prior period financial statement audited by predecessor auditor and corresponding opinion.
4. **When prior period financial statement not audited:** Write in OM Para that Corresponding figure unaudited.

REPORTING RESPONSIBILITIES OF THE AUDITOR FOR COMPARATIVE FINANCIAL STATEMENT.

1. **When the prior period audit reports are modified:** Auditor's opinion refer to each period.
2. **When auditor's has different opinion for prior period:** In OM Para write suitable reason.
3. **When the prior period financial statements audited by predecessor auditor :** Write in OM Para Predecessor auditor and their opinion.
4. **When prior period financial statement not audited :** Write in OM Para that comparative Financial Statement unaudited.

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SA 720**INTRODUCTION AND BACKGROUND**

Other information: Some time with audit report other information like director report, financial highlight, financial ratio, speech, etc are included.

REQUIREMENT OF THE STANDARDS

1. **Reading other information:** Read other information with a view to identify to any material inconsistency but auditor is not expected to verify other information.
2. **Identify the material inconsistency:** If it is found Prior to audit report then follow **SA 705**. If it is found subsequent to audit report Request management to make Revision of other information. If management deny then appropriate legal action should be taken or take advise from auditor legal council.

SA 800**INTRODUCTION**

Some time financial statements are prepared in accordance with Special Reporting Framework rather than General Reporting framework for Specific user.

Objective of the standards

Provide guidance as regard to acceptance, planning, performance of engagement and forming opinion.

Requirement to be followed by auditor**1. Following point should be consider when accepting the engagement**

SA 210, Purpose, Intended user, Management step to determine acceptability of AFRE, Financial Reporting established by authorised organisation and conflict between the financial reporting standards and the additional legislative requirement.

2. Consideration when planning and performing the audit

Application of all SA relevant to audit, Entity selection and application of accounting policies and communication with previous auditor.

3. Forming an opinion and reporting considerations

In addition to SA 700 refer description of AFRE, purpose of intended user, Management responsibilities regarding acceptability of AFRE, write in EOM Para that this audit report is not suitable for other purpose.

SA 805**Introduction**

Single financial statement : for example Cash flow statement, Stock Statement, Etc.

Specific Elements: Cash and Bank balance, Account Receivable, Inventory, Provision for income tax.

Applicable on Single financial statement or specific element , when it is prepared in accordance with General Purpose Framework or Special Purpose Frameworks.

Requirement to be followed by auditor / Engagement acceptance consideration

1. Following point should be consider when accepting the engagement

SA 210 require compliance of all AS, Relevant ethical requirement, Acceptability of FRF, Agreeing the term of audit engagement as per SA 210 and consider expected form of opinion in circumstances.

2. Consideration when planning and performing the audit

Apply all SAs as necessary in the audit of FS, Obtain sufficient appropriate audit evidence, If Auditor of complete set of financial statement is same as auditor of single financial statement, then he can use evidence obtained during audit of complete set of financial statement, but separate opinion on each.

3. Forming an opinion and reporting considerations

- Apply SA 700, as necessary.
- If also engaged to report on full FS, express separate opinion on each engagement.
- If expressed Adverse or Disclaimer of opinion on complete set of financial statement then do not express unmodified opinion on single financial statement, however for Elements consider whether unmodified opinion is necessary if no then modify opinion if yes then express unmodified opinion but it should not published together with A.R. on whole financial statement.

SA 810**1. WHAT IS SUMMARY FINANCIAL STATEMENTS?**

Financial statement derived from full set of financial statement, presented in considerable less detail than complete financial statement.

2. Special point to be mentioned by auditor in his audit report- SFS ROAD

 **Substitute**- A Caveat should be given that reading abridge FS is not a **substitute** of for reading the detail AFS.

 **Framework** - Reference to **framework** followed in preparing SFS.

 **Such**- If the AR on AFS contains QO, AO, DOO, EMP or OMP then the AR on SFS should also contain **such**.

 **Reference** - Give **reference** to SA 810.

 **OPNION** - **OPNION** that SFS financial statement which is derived from audited financial statement are fair summary of AFS.

 **Accompanied**- A.R on SFS always **accompanied** with AR on FS. Where SFS is not accompanied with AFS then evaluate whether describe clearly from whom or where audited financial statement available.

 **Date** - **Date** on SFS should not earlier than AR on FS.

SA 2400 & 2410

SRE 2400 Applicable when review is conducted by independent *practitioner* (Other than companies Statutory auditor).

SRE 2410 Applicable when review is conducted by statutory *auditor* of companies.

Review of interim financial information performed by the independent auditor of the entity. It refers to independent examination of financial information whereby only limited procedure are applied mainly inquiry and confirmation and analytical procedure. As per requirement of SEBI all listed companies must published interim financial information or quarterly information which has to be reviewed either by the independent auditor or practitioner.

Procedure applied under review of financial statement. ***O W don't IRRITATE for 2400***

- ✚ Opinion paragraph- negative assurance as follows
Based on our review nothing has come to our attention which causes us believe that the accompanying financial *information* do not give true and fair view of the statement of affairs of the entity and its CFS in accordance with AFRF.
- ✚ Written representation for ***RSS*** in ***UPLC & TT***. Confirmation for assertion made in financial statement.
- ✚ Inquiry related to the entity's business, transactions, Contingencies and commitments.
- ✚ Ratio analysis.
- ✚ Read report of other practitioner/ auditor of component.
- ✚ Inquiry about the procedure for accounting.
- ✚ To compare the financial statement with the anticipated result.
- ✚ Accounting policy followed consistently and appropriately, it should comply with applicable accounting standards
- ✚ To compare the financial statement with the previous period.
- ✚ Enquiry concerning action taken in shareholder and BOD meeting.

SAE 3400:

1. INTRODUCTION

Forecast is for short term for one or two year, whereas projection is for longer period for more than two year or more.

2. Consideration before accepting the engagement

- ❖ Intended user
- ❖ Distribution
- ❖ Assumption realistic or not
- ❖ Period cover

3. Audit procedure: **AMU examine KMP Stability, Maintain of WP and express opinion**

- ✓ **Assumption:** Obtain SAAE for assumption used in making forecast. Ensure whether it is best estimate assumption or hypothetical assumption, if it is best estimate assumption then it should not be unreasonable it should be reasonable and management should believe that situation will exist, if it is hypothetical assumption then it should be consistent with the purpose of information, here management believe that it may or may not.
- ✓ **Method used for making the forecast**
- ✓ **Underlying data**
- ✓ **Knowledge of entity and environment should be obtained to ensure all significant assumption identified and followed in preparation of prospective financial information.**
- ✓ **Management judgement and experience**
- ✓ **Previous audit report**
- ✓ **Stability of business.**
- ✓ **Maintain working paper: source of information, basis of forecast, assumption audit plan, NTE,WR.**
- ✓ **OPINION (NEGATIVE ASSURANCE): forecast (PROJECTION):** *Based upon our examination and explanation given to us, nothing has come to our observation that causes us to believe that best estimate assumption (HYPOTHETICAL ASSUMPTION) which are basis for preparation of forecasted financial statement (PROJECTED FINANCIAL STATEMENT) are not realistic in nature. The forecasted FS (PROJECTED FINANCIAL STATEMENT) have been prepared as per financial reporting framework which is consistently followed from the previous period.*
This is neither audit nor review. Hence, no opinion or assurance is given on forecasted financial statement (PROJECTED FINANCIAL STATEMENT). We have only validated the best estimate assumption.

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SAE 3402.**1. TYPE 1 AND TYPE 2 REPORT OF SERVICE ORGANISATION'S AUDITOR**

TYPE 1 REPORT	TYPE 2 REPORT
<u>Description of IC are designed properly</u>	<u>Description of the IC are designed Properly and operating efficiently & effectively.</u>
Description of SO system prepared by mgt.	Description of SO system prepared by mgt.
Opinion of SO's auditor about the description of SO's system and suitability of design	Opinion of SO's auditor about the description of SO's system and suitability of design
At specified date.	Throughout the specified period
-----	<i>Description of operating effectiveness of IC.</i>
-----	<i>Description of TOC performed by SO's auditor.</i>

SAE 3420

Assurance engagement to report on compilation of pro forma financial information included in a prospectus.

1. Introduction

Proposed form of financial information shown together with the adjustments **to illustrate the impact of an event or transaction** on *unadjusted financial information* as if the event had occurred or the transaction had undertaken at earlier date.

2. Factor to be considered before accepting such assignment. **IPMC₃S**

- i. Initially evaluate wording of ALRR & Relevant law or regulation to determine expected form of opinion.
- ii. Practitioner his own capabilities & competence to perform the engagement.
- iii. Management accept its responsibilities. **CPT**
 - Compilation of proforma financial information
 - Providing the practitioner with
 - ✓ Access to all information
 - ✓ Additional information
 - ✓ Access to those with in the entity and entity's advisor.
 - To disclose and describe the applicable criteria.
- iv. Consideration of type of modified opinion expressed on AFS where UFI is extracted from AFS.
- v. Consider whether the sufficient understanding of **entity** and its accounting and financial reporting practice can be obtained if **entity's HFS** has never been audited.
- vi. Consider whether the sufficient understanding of **acquire** and its accounting and financial reporting practice can be obtain if **acquirer's HFS** has never been audited.
- vii. Suitability of applicable criteria.

3. HOW TO PLAN AND PERFORM SUCH ENGAGEMENT.

- a. Assessing the suitability of applied criteria.
- b. Understanding how responsible party has compiled the pro forma financial information.
- c. Obtaining evidence about appropriateness of source of information use to prepare PFI.
- d. Obtaining understanding appropriateness of Source from which it has been extracted.
- e. Obtain written representation.

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SRS 4400

Here auditor called accountant/ practitioner. No any independency required.

AUDIT PROCEDURE: *visualise following steps --- only CA & CA appointed to conduct agree upon procedure of ACCounts*

- 🚧 Client engages an auditor to perform agreed upon procedure on a particular area.
- 🚧 Auditor sends engagement letter to confirm scope of work.
- 🚧 Client approves engagement letter.
- 🚧 Auditor performs agreed upon procedure.
- 🚧 Auditor submits report on factual finding to client.
- 🚧 Client makes rectification in case of required.
- 🚧 Client then submits the financial statement to statutory auditor.

Reporting some extract

Title: report on factual finding.

Auditor's responsibility: Our responsibility is to apply agreed upon procedure and give observation.

Disclaimer: this is neither audit nor review; hence no any opinion or assurance will be given.

SRS 4410

Introduction

Here Chartered Accountant known as Practitioner or Accountant. Practitioner uses accounting expertise for compilation of financial information for that he collect, classify and summarise financial information as provided by client. Here independence is not required. While compiling financial information practitioner should comply with this SRS.

While compilation of financial information if practitioner comes to aware of the fact that information provided by management is incomplete, incorrect or unsatisfactory in nature, he should follow procedure as laid down below:-

- Inquiry of management
- Assess internal control
- Verify any matter
- Verify any explanation

If management refused to provide additional information then withdraws from engagement.

AUDIT PROCEDURE: visualise following steps----- **CP** hour is for **CP** (Ca in Practice)
*not for **IPC** students*

- 📌 Client engages a practitioner to compile financial statement.
- 📌 Practitioner sends engagement letter to confirm scope of work.
- 📌 Client approves the engagement letter.
- 📌 Practitioner collects, classify, summarise & compiles the financial statements based on books and records as per AFRF & ALRR.
- 📌 Inquiry of management to assess the reliability and completeness of information provided, assess the internal control prevailing in the entity, verification,
- 📌 Practitioner submits report on unaudited financial statements to the client.
- 📌 Client submits the financial statement to statutory auditor for the audit purpose.

If there is some non- compliance of ALRR, AS, Etc, then report to management to adjust, if management refused to adjust then report it to notes to account.

Practitioner Responsibilities **HEAL ME**

- **Human Resources** – ensure right person are appointed to right job.

By MD IMRAN, freebookmdimran@gmail.com

We are the great Indian of THE GREAT INDIA, We love unity in diversity, We proud to being a human and love humanity, unity, integrity, justice, liberty, equality, fraternity of INDIA.

- **Engagement performance – EQCR** properly supervised and reviews the audit work. Engagement is performed in accordance with RLR, LER, maintain proper working paper and documentation.
- **Acceptance and continuation of client relationship** – Consider integrity of client and competency of client to comply with applicable law and regulation, Relevant ethical requirement, etc.
- **Leadership responsibilities** – Engagement partner should take accountability and responsibility for engagement performance. Engagement quality control review should Plan, supervise, review the engagement performance. There should be adequate and timely communication from engagement partner to engagement team member and should resolve the conflict between team members.
- **Monitoring** – Work done by audit assistance should be properly monitored on regular basis to ensure policies procedure relating to quality control are adequate and operating effectively.
- **Ethical requirement** – complies with **IOPCP. (Integrity, Objectivity, Professional competence, Confidentiality, Professional behaviour)**

MANAGEMENT RESPONSIBILITIES: CMPSE

1. **Completeness and accuracy of underlying data and complete disclosure of all material and relevant information to the accountant.**
2. **Maintaining adequate accounting record and other record and internal control and selecting and applying appropriate accounting policies.**
3. **Preparation and presentation of financial statements in accordance with applicable law and regulation, in any.**
4. *Establishing control to* **Safeguard the assets of entity and preventing and detecting fraud or other irregularities.**
5. **Establishing control for ensuring that the activities of the entity are carried out in accordance with the applicable law and regulation and preventing and detecting and non-compliance.**