AAS–1:BASIC PRINCIPLES GOVERNING AN AUDIT

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INTRODUCTION

1. AAS-1 describes the basic principles which govern the auditor's professional responsibilities and which should be complied with whenever an audit is carried out.
2. **An audit is the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon. The term "financial information" encompasses financial statements.**
3. Compliance with the basic principles requires the application of auditing procedures and reporting practices appropriate to the particular circumstances.

REQUIREMENTS OF AAS-1 FROM AUDITORS

- INTEGRITY, OBJECTIVITY AND INDEPENDENCE
- CONFIDENTIALITY
- SKILLS AND COMPETENCE
- ACCOUNTABILITY IN WORK PERFORMED BY OTHERS
- DOCUMENTATION
- PLANNING OF AUDIT WORK
- AUDIT EVIDENCE
- UNDESTANDING OF CLIENT'S ACCOUNTING SYSTEM AND INTERNAL CONTROL
- AUDIT CONCLUSIONS AND REPORTING

INTEGRITY, OBJECTIVITY AND INDEPENDENCE

The auditor should be **straightforward**, **honest** and **sincere** in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an **impartial attitude** and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

CONFIDENTIALITY

The auditor should respect the **confidentiality** of information acquired in the course of his work and should not disclose any such information to a third party without **specific authority** or unless there is a **legal** or **professional** duty to disclose.

SKILLS AND COMPETENCE

The **audit** should be performed and the **report** should be prepared with due **professional care** by persons who have **adequate training**, **experience** and **competence** in **auditing**. The **auditor** requires **specialized skills** and **competence** which are acquired through a combination of general education, technical knowledge obtained through study and formal courses concluded by a qualifying examination recognized for this purpose and practical experience under proper supervision. In addition, the auditor requires a continuing awareness of developments including **pronouncements of ICAI on accounting and auditing matters**, and **relevant regulations and statutory requirements**.

ACCOUNTABILITY IN WORK PERFORMED BY OTHERS

When the **auditor delegates** work to assistants or uses work performed by other **auditors** and **experts**, he will continue to be responsible for **forming** and **expressing** his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises **adequate skill** and **care** and is not aware of any reason to believe that he should not have so relied. In the case of any **independent statutory appointment** to perform the work on which the auditor has to rely in forming his opinion, such as in the case of the work of branch auditors appointed under the Companies Act, 1956, the auditor's report should expressly state the fact of such reliance. The auditor should **carefully direct**, **supervise** and **review work delegated to assistants**. The auditor should obtain reasonable assurance that work performed by other auditors or experts is **adequate** for his purpose.

DOCUMENTATION

The auditor should **document matters** (information & data) which are **important in providing evidence** that the audit was carried out in accordance with the **basic principles**.

PLANNING OF AUDIT WORK

The **auditor** should **plan** his work to enable him to conduct an **effective audit** in an **efficient** and **timely manner**. Plans should be based on a **knowledge** of the **client's business**.

Plans should be made to cover, among other things:

(a) acquiring knowledge of the **client's accounting system**, **policies** and **internal control procedures**;

(b) establishing the **expected degree of reliance** to be placed on **internal control**;

(c) determining and programming the **nature**, **timing**, and **extent** of the **audit procedures** to be performed; and

(d) coordinating the **work** to be performed.

Plans should be further **developed** and **revised** as **necessary** during the course of the audit.

AUDIT EVIDENCE

The **auditor** should obtain sufficient appropriate **audit evidence** through the performance of **compliance** and **substantive procedures** to enable him to draw **reasonable conclusions** there from on which to base his opinion on the **financial information**.

Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect.

Substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system.

<u>They are of two types:</u>

(i) tests of details of transactions and balances;

(ii) analysis of significant ratios and trends including the resulting enquiry of unusual fluctuations and items.

UNDESTANDING OF CLIENT'S ACCOUNTING SYSTEM AND INTERNAL CONTROL

Management is **responsible** for **maintaining** an **adequate accounting system** incorporating various **internal controls** to the extent appropriate to the size and nature of the business. The **auditor** should reasonably **assure** himself that the accounting system is **adequate** and that all the **accounting information** which should be recorded has in fact been recorded. Internal controls normally contribute to such assurance.

The auditor should gain an understanding of the **accounting system** and related **internal controls** and should study and evaluate the operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures.

Where the auditor **concludes** that he can rely on certain internal controls, his substantive procedures would normally be less extensive than would otherwise be required and may also differ as to their nature and timing.

AUDIT CONCLUSIONS AND REPORTING

The **auditor** should **review** and **assess** the **conclusions drawn** from the **audit evidence** obtained and from his knowledge of business of the entity as the basis for the expression of his **opinion** on the **financial information**. This review and assessment involves forming an overall conclusion as to whether:

(a) the financial information has been prepared using acceptable accounting policies, which have been consistently applied;

(b) the financial information complies with relevant regulations and statutory requirements;

(c) there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

The **audit report** should contain a **clear written expression** of opinion on the financial information and if the form or content of the report is laid down in or prescribed under any agreement or statute or regulation, the audit report should comply with such requirements. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters dealt with in paragraph 21 or as may be laid down or prescribed under the relevant agreement or statute or regulation, as the case may be.

When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons therefore.