SA 200 - Basic Principles Governing an Audit

This Standard describes the basic principles which govern the auditor's professional responsibilities and which should be complied with whenever an independent audit is carried out.

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. In this Standard the term "financial information" encompasses financial statements.

Other Standards on Auditing to be issued by the Institute will elaborate on the principles set out herein to give guidance on auditing procedures and reporting practices.

Integrity, Objectivity and Independence: The auditor should be straightforward, honest and sincere, 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.

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 prepared with due professional care by persons who have adequate training, experience and competence (acquired through a combination of general education, technical knowledge obtained through study and formal courses concluded by a qualifying examination recognised for this purpose and practical experience under proper supervision) in auditing. Additionally, the auditor requires a continuing awareness of developments including pronouncements of ICAI on accounting and auditing matters, and relevant regulations and statutory requirements.

Work Performed by Others: When the auditor delegates work to assistants or uses work performed by other auditors/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.

Documentation: The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles.

Audit Plan: 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 knowledge of the client's business.

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.

Accounting System and Internal Control: Management is responsible for maintaining an adequate accounting system incorporating various internal controls and the auditor should reasonably assure himself for the same. This assurance will give him much relief.

Audit Conclusions and Reporting: The auditor should review and assess (regarding consistent application of acceptable accounting policies, relevant regulations and statutory requirements) 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. 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. When a qualified/adverse/disclaimer of opinion is to be given, the audit report should state the reasons thereof.

SA 200A - Objective and Scope of the Audit of Financial Statements

The objective of an audit of financial statements, prepared within a framework of recognised accounting policies and practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements.

The auditor's opinion helps determination of the true and fair view of the financial position and operating results of an enterprise. The user, however, should not assume that the auditor's opinion is an assurance as to the future viability of the enterprise or the efficiency or effectiveness with which management has conducted the affairs of the enterprise.

Responsibility for the Financial Statements

While the auditor is responsible for forming and expressing his opinion on the financial statements, the responsibility for their preparation and maintenance of adequate accounting records and internal controls, the selection and application of accounting policies and the safeguarding of the assets is that of the management of the enterprise. The audit of the financial statements does not relieve management of its responsibilities.

Scope of an Audit

The terms of the engagement, the requirements of relevant legislation and the pronouncements of the Institute determines audit scope and the first one (terms of engagement) cannot, however, restrict the scope of an audit in relation to matters which are prescribed by legislation or by the pronouncements of the Institute. Any constraints on the scope that impair the auditor's ability to express an unqualified opinion should be set out in his report, and a qualified/disclaimer of opinion should be expressed as appropriate. To form an opinion on the financial statements, the auditor should be reasonably satisfied (**in view of reliability and sufficiency**) as to the information content of the accounting records and other source data. .

The auditor determines whether the relevant information is properly disclosed in the financial statements as regards

(a) proper and summarised records

(b) the judgments that management has made in preparing the financial statements. This determines the selection and consistent application of accounting policies, the manner in which the information has been classified, and the adequacy of disclosure.

The auditor's work involves **exercise of judgment**, e.g. extent of audit procedures, assessing the reasonableness of the judgments and estimates made by management, evidence available, etc. Because of these factors, absolute certainty in auditing is rarely attainable.

The auditor follows procedures designed to satisfy himself that the financial statements reflect a true and fair view of the financial position and operating results of the enterprise. Because of the test nature and other inherent limitations of an audit and internal control, there is an unavoidable risk that some material misstatement may remain undiscovered. While in many situations the discovery of a material misstatement by management may often arise during the conduct of the audit, such **discovery is not the main objective of audit** nor is the auditor's programme of work specifically designed for such discovery. The audit cannot, therefore, be relied upon to ensure the discovery of all frauds or errors but where the auditor has any indication that some fraud or error may have occurred which could result in material misstatement, the auditor should extend his procedures to confirm or dispel his suspicions.

The auditor is not expected to perform duties which fall outside the scope of his competence.

SA 210 (REVISED) - AGREEING THE TERMS OF AUDIT ENGAGEMENTS

Scope of this SA: It deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management/ TCWG after finding facts about certain preconditions for an audit.

Objective: To accept or continue an audit engagement only when the preconditions of audit and common understanding between auditor and management/ TCWG exists.

Definitions:

Preconditions for an audit: The use by management of an acceptable FRF in the preparation of the F/S and the agreement of audit fundamentals.

Management should be read hereafter as "management and, where appropriate, TCWG".

Preconditions for an Audit

(a) FRF applied in the preparation of the F/S is acceptable; and

(b) Management acknowledges and understands its responsibility of **preparation of the F/S**, establishment of **internal control** and provide the auditor with **access to all information and unrestricted access to persons** within the entity for proper and effective conduct of audit.

If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement.

The auditor shall agree the terms of the audit engagement with management and the same being agreed shall be recorded in an audit engagement letter or other suitable form of written agreement, unless law or regulation prescribes coverage of audit in detail, and shall include:

a) The **objective and scope** of the audit of the F/S;
b) The **responsibilities of the auditor as well as of management**;
c) **Identification of the applicable FRF** for the preparation of the F/S; and
d) **Reference to the expected form and content of any reports** to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

If management impose a limitation on the scope of the auditor's work that might result in the auditor disclaiming an opinion, the auditor shall not accept such a limited engagement as an audit engagement.

On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.

Acceptance of a Change in the Terms of the Audit Engagement: The auditor shall not agree to a change in the terms of the audit engagement unless there is no reasonable justification for doing so. If the terms of the audit engagement are changed, the auditor and management shall agree and record the new terms of the engagement else auditor will continue the original audit engagement, or withdraw from the audit engagement and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as TCWG, owners or regulators.

Financial Reporting Standards Supplemented by Law or Regulation: If financial reporting standards established by an authorised or recognized standards setting organization are supplemented by law or regulation, the auditor shall determine whether there are any conflicts between the financial reporting standards and the additional requirements. If such conflicts exist, the auditor shall discuss with management and agreed on the nature of the additional requirements through additional disclosures and modification in FRF else the auditor will modify the auditor's opinion.

Unless the auditor is required by law or regulation using the phrases **"present fairly, in all material respects", or "give a true and fair view" will not be included** in auditor's opinion on F/S.

If management disagrees regarding such additional disclosure or modification and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall evaluate the effect of the misleading nature of the F/S on the auditor's report and include appropriate reference to this matter in the terms of the audit engagement.

Auditor's Report Prescribed by Law or Regulation

Where the law or regulation applicable to the entity prescribes the layout or wording of the auditor's report significantly different from the requirements of SAs the auditor shall evaluate the effect on users (understandability/ misunderstandings) and any additional explanation in the auditor's report can mitigate such misunderstanding, if any required. If additional explanation cannot meet said purpose, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. When an audit conducted in accordance with such law or regulation does not comply with SAs, the auditor shall not include any reference within their report that the audit having been conducted in accordance with SAs.

SA 220 - Quality Control for Audit Work

Purpose: To establish standards on the quality control: (a) policies and procedures of an **audit firm** regarding audit work generally; and (b) procedures regarding the work delegated to assistants on an **individual audit**.

The auditor means the person with final responsibility for the audit

Audit firm means either the partners of a firm providing audit services or a sole practitioner providing audit services, as appropriate

Personnel means all partners and professional staff engaged in the audit practice of the firm

Assistants means personnel involved in an individual audit other than the auditor.

The audit firm should implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with Statements on Standard Auditing Practices (AASs).

The objectives of the quality control policies to be adopted by an audit firm will ordinarily incorporate the following: a) Professional Requirements. (b) Skills and Competence. (c) Assignment: Audit work is to be assigned to personnel who have the degree of technical training and proficiency required in the circumstances. (d) Delegation. (e) Consultation. (f) Acceptance and Retention of Clients and (g) Monitoring.

The firm's general quality control policies and procedures should be **communicated** to its personnel in a manner that provides reasonable assurance that the policies- procedures are **understood and implemented**. The auditor should implement those quality control procedures which are, in the context of the firm appropriate to the individual audit. The auditor and assistants will consider the professional competence of assistants deciding the extent of direction, supervision and review appropriate for each assistant.

The audit programme is an important tool for the communication of audit directions. Time budgets and the overall audit plan are also helpful in communicating audit directions.

Supervisors perform the following functions: (a) monitor the progress of the audit; (b) become informed of and address significant accounting and auditing questions raised during the audit, by assessing their significance and modifying the overall audit plan and the audit programme as appropriate; and (c) resolve any differences of professional judgement between personnel and consider the level of consultation that is appropriate.

Review: The work performed by each assistant needs to be reviewed to consider whether: (a) the work has been performed in accordance with the audit programme; (b) adequately documented; (c) all significant audit matters have been resolved or are reflected in audit conclusions; (d) the objectives have been achieved; and (e) the conclusions expressed are consistent with the results of the work performed and support the audit opinion.

The following need to be reviewed on a timely basis: (a) overall audit plan and the audit programme; (b) assessments of inherent and control risks; (c) documentation of the audit evidence obtained from substantive procedures.
The process of reviewing an audit may include, particularly in the case of large complex audits, requesting personnel not otherwise involved in the audit to perform certain additional procedures before issuing the auditor's report.

SA 230 (Revised) - Audit Documentation

Scope: The auditor's responsibility to prepare audit documentation for an audit of F/S.
Objectives of Audit Documentation: Audit documentation provides evidence of the auditor's basis for a conclusion and that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. It also serves in assisting the engagement team to plan and perform the audit, fixing accountability for its work, retaining a record of matters of continuing relevance to future audits.
Definitions
(a) **Audit documentation** – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "work papers" are also sometimes used).
(b) **Audit file** – One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
(c) **Experienced auditor** – An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of Audit processes, SAs and applicable legal and regulatory requirements, Business environment, and Auditing and financial reporting issues relevant to the entity.

Form, Content and Extent of Audit Documentation
Audit Documentation should be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
(a) The NTE of the audit procedures performed to comply with the SAs & applicable legal & regulatory requirements;
(b) The results of the audit procedures performed, and the audit evidence obtained; and
(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
In documenting, the auditor shall record specific items or matters tested, who and when of audit performance and review, discussions of significant matters with management (when and with whom).
If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.
Departure from a Relevant Requirement: If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, the auditor shall **document how the alternative audit procedures performed** achieve the aim of that requirement, and the reasons for the departure.
Matters Arising after the Date of the Auditor's Report
If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document:
(a) The circumstances encountered;
(b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
(c) When and by whom the resulting changes to audit documentation were made and reviewed.
Assembly of the Final Audit File

The auditor shall assemble the audit documentation in an audit file. The auditor shall complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report and thereafter **shall not delete or discard audit documentation** of any nature **before the end of its retention period** except for the reason of modification in existing audit documentation or adding new audit documentation and in which case the auditor shall document specific reasons and when and by whom they were made and reviewed.

SA 299 - Responsibility of Joint Auditors

Joint auditors, conduct the audit jointly and report on the financial statements of the entity. This statement deals with the professional responsibilities which the auditors undertake in accepting such appointments as joint auditors. Where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves. The division of work would usually be in terms of audit of identifiable units or specified areas, with reference to items of assets or liabilities or income or expenditure or with reference to periods of time. Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors.

The division of work among joint auditors as well as the areas of work to be covered by all of them should be adequately documented and preferably communicated to the entity.

Coordination: Where, in the course of his work, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention/disclosure/discussion or application of judgement, he should communicate the same to all the other joint auditors in writing. If any matters of this nature are brought to the attention of the entity or other joint auditors by an auditor after the audit report has been submitted, the other joint auditors would not be responsible for those matters.

Relationship among joint auditors: In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him. On the other hand, all the joint auditors are jointly and severally responsible: (a) in respect of the audit work which is not divided among the joint auditors and is carried out by all of them; (b) in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors; (c) in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors; (d) for examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and (e) for ensuring that the audit report complies with the requirements of the relevant statute.

It is the responsibility of each joint auditor to determine the nature, timing and extent of audit procedures to be applied in relation to the area of work allocated to him. It is the separate and specific responsibility of each joint auditor to study and evaluate the prevailing system of internal control relating to the work allocated to him. A significant part of the audit work involves obtaining and evaluating information and explanations from the management. This responsibility is shared by all the joint auditors unless they agree upon a specific pattern of distribution of this responsibility.

Each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work in accordance with the generally accepted audit procedures. Each joint auditor is entitled to rely upon the other joint auditors for bringing to his notice any departure from generally accepted accounting principles or any material error noticed in the course of the audit.

Reporting Responsibilities: Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report. A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement.

SA 300(REVISED) - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

Scope of this SA: This Standard on Auditing (SA) deals with the auditor's responsibility to plan an audit of F/S.

Objective: The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

Requirements

Involvement of Key Engagement Team Members

The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members.

Preliminary Engagement Activities

At the beginning of the current audit engagement auditor shall ensure SA 220 as to continuance of the client relationship and the specific audit engagement, compliance with ethical requirements, and SA 210 as to understanding of the terms of the engagement.

Planning Activities

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan having regard to the characteristics of the engagement, reporting objectives and the nature of the communications required. Audit plan that shall include NTE of planned risk assessment procedures and further audit procedures at the assertion level.

The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit.

The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work.

Documentation: The auditor shall document the **overall audit strategy, audit plan; and any significant changes made therein during the audit engagement.**

Additional Considerations in Initial Audit Engagements

The auditor shall undertake the following activities prior to starting an initial audit:

(a) Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement; and

(b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

SA 320(REVISED) - MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

Scope of this SA: The auditor's responsibility to apply the concept of materiality in planning and performing an audit of F/S, further SA 450 explains materiality in case of identified/uncorrected misstatements.

Materiality in the Context of an Audit

Although FRF may discuss materiality in different terms, but they generally explain that Misstatements, including omissions, are material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of common users which is situational and effected by size, nature or both.

If prescribed in the applicable FRF, provides a frame of reference to the auditor in determining materiality for the audit.

The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the F/S. In this context, it is reasonable for the auditor to assume that users to have a reasonable knowledge of business, accounting, F/S, uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events, etc.

The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the F/S and in forming the opinion in the auditor's report.

Objective: The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.

Definition: For purposes of the SAs, performance materiality means the amount or amounts set by the auditor at less than materiality for the F/S as a whole or even for particular classes of transactions, account balances or disclosures to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the F/S as a whole.

The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement.

Revision as the Audit Progresses

The auditor shall revise materiality for the F/S as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially and if required will consider whether the nature, timing and extent of the further audit procedures remain appropriate.

Documentation

The audit documentation shall include the following amounts and the factors considered in their determination:

(a) Materiality for the F/S as a whole;

(b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;

(c) Performance materiality; and

(d) Any revision therein as the audit progressed.

SA 450 - EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

Scope of this SA: This Standard on Auditing (SA) deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the F/S.

Objective: The objective of the auditor is to evaluate:

(a) The **effect of identified misstatements** on the audit; and

(b) The **effect of uncorrected misstatements**, if any, on the F/S.

Definitions

(a) Misstatement – A difference between the amounts, classification, presentation, or disclosure and their adjustment between a reported F/S item and as is required for the item to be in accordance with the applicable FRF. Misstatements can arise from error or fraud.

(b) Uncorrected misstatements – Misstatements that the auditor has accumulated during the audit and that have not been corrected.

The auditor shall accumulate misstatements identified during the audit, other than those that are clearly insignificant.

Consideration of Identified Misstatements as the Audit Progresses

The auditor shall determine whether the overall audit strategy and audit plan need to be revised if the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material.

If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain.

Communication and Correction of Misstatements

The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation5.The auditor shall request management to correct those misstatements.

If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the F/S as a whole are free from material misstatement.

Written Representation

The auditor shall request a written representation from management and, where appropriate, TCWG whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the F/S as a whole. A summary of such items shall be included in or attached to the written representation.

Documentation

The audit documentation shall include:

(a) The amount below which misstatements would be regarded as clearly trivial;

(b) All misstatements accumulated during the audit and whether they have been corrected; and

(c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

SA 500 (Revised) - Audit Evidence

Scope of this SA: Explains what constitutes audit evidence in an audit of F/S, and deals with the auditor's responsibility to design and perform audit procedures to obtain **sufficient appropriate** audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Objective: To design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Definitions: For purposes of the SAs, the following terms have the meanings attributed below:

(a) **Accounting records:** The records of initial accounting entries and supporting records.

(b) **Appropriateness (of audit evidence)** – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

(c) **Audit evidence:** Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the F/S and other information.

(d) **Management's expert:** An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the F/S.

(e) **Sufficiency (of audit evidence):** The measure of the quantity of audit evidence depends upon auditor's assessment of the risks and also by the quality of such audit evidence.

Information to Be Used as Audit Evidence

When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.

When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:

(a) Evaluate the competence, capabilities and objectivity of that expert;

(b) Obtain an understanding of the work of that expert; and

(c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Inconsistency in, or Doubts over Reliability of, Audit Evidence

If audit evidence obtained from one source is inconsistent with that obtained from another or the auditor has doubts over the reliability of information to be used as audit evidence, the auditor shall determine the modifications or additions to audit procedures as are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.

SA 520 - Analytical Procedures

"Analytical procedures" means the analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts.

Nature and Purpose of Analytical Procedures

Analytical procedures include the consideration of comparisons of the entity's financial information with: for prior periods; budgets or forecasts; and similar industry information. It also includes consideration of relationships among elements of financial information, between financial and relevant non-financial information. Analytical procedures are used for the following purposes: (a) to assist the auditor in <u>audit-plan</u>; (b) <u>as substantive procedures</u> when their use can be more effective or efficient than tests of details in reducing detection risk for specific financial statement assertions; and (c) as an overall review of the financial statements. The auditor should apply analytical procedures at the planning stage to assist in understanding the business and in identifying areas of potential risk.

When intending to perform analytical procedures as substantive procedures, the auditor will need to consider a number of factors such as the: Objectives of the analytical procedures and the extent to which their results can be relied upon; availability of information, both financial and non-financial; reliability and relevance of the information available; source of the information available, etc.

Analytical Procedures in the Overall Review at the End of the Audit

The auditor should apply analytical procedures at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's knowledge of the business.

Extent of Reliance on Analytical Procedures: The application of analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary. The extent of reliance that the auditor places on the results of analytical procedures depends on the following factors: (a) materiality of the items involved, (b) accuracy with which the expected results of analytical procedures can be predicted, and (d) assessments of inherent and control risks. The auditor will need to consider testing the controls over the preparation of information used in applying analytical procedures.

Investigating Unusual Items: When analytical procedures identify significant fluctuations or relationships that are inconsistent with other relevant information or that deviate from predicted amounts, the auditor should investigate and obtain adequate explanations and appropriate corroborative evidence.

SA 530 (Revised) - Audit Sampling

Scope of this SA

This Standard on Auditing (SA) applies when the auditor has decided to use audit sampling (statistical and non-statistical) in performing audit procedures.

Objective: The auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Definitions

(a) **Audit sampling (sampling):** The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection.

(b) **Population:** The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

(c) **Sampling risk:** The risk that the auditor’s conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure.

(d) **Non-sampling risk:** The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

(e) **Anomaly:** A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

(f) **Sampling unit:** The individual items constituting a population.

(g) **Statistical sampling:** An approach to sampling that has the following characteristics:

(i) Random selection of the sample items; and

(ii) The use of probability theory to evaluate sample results, including measurement of sampling risk.

(h) **Stratification:** The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).

(i) **Tolerable misstatement:** A monetary amount set by the auditor in respect of which the auditor seeks 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.

(j) **Tolerable rate of deviation:** A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

Sample Design, Size and Selection of Items for Testing

When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn and determine a sample size sufficient to reduce sampling risk to an acceptably low level and shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

Performing Audit Procedures

The auditor shall perform audit procedures, appropriate to the purpose, on each item selected and in case audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item.

If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected/replaced item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.

Nature and Cause of Deviations and Misstatements

The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect. The auditor shall obtain a high degree of certainty by performing additional audit procedures that such misstatement or deviation is not representative of the population and does not affect the remainder of the population.

Projecting Misstatements

The auditor shall project misstatements found in the sample to the population.

Evaluating Results of Audit Sampling

The auditor shall evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

SA 560 (Revised) - Subsequent Events

Scope of this SA: Deals with the auditor's responsibilities relating to subsequent events in an audit of F/S.

F/S may be affected by certain events that occur after the date of the F/S. Many FRF specifically refer to such events. Such FRF ordinarily identify two types of events:

(a) Those that provide evidence of conditions that **existed at the date of the F/S**; and

(b) Those that provide evidence of conditions that **arose after the date of the F/S**.

Objectives: The objectives of the auditor are to obtain sufficient appropriate audit evidence about whether events occurring between the date of the F/S and the date of the auditor's report that require adjustment of, or disclosure in, the F/S are appropriately reflected in those F/S; and respond appropriately to facts that become known to the auditor. **Definitions**

(a) **Date of the F/S:** The date of the end of the latest period covered by the F/S.

(b) **Date of approval of the F/S:** The date on which all the statements that comprise the F/S have been prepared and those with the recognised authority have asserted that they have taken responsibility for those F/S.

(c) **Date of the auditor's report:** The date the auditor dates the report on the F/S.

(d) **Date the F/S are issued:** The date that the auditor's report and audited F/S are made available to third parties.

(e) **Subsequent events:** Events occurring between the date of the F/S and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the F/S and the date of the auditor's report that require adjustment of, or disclosure in, the F/S have been identified.

The auditor shall perform the procedures so that they cover the period from the date of the F/S to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment, which shall include obtaining an understanding of any procedures management has established to ensure that subsequent events are identified, inquiring of management/TCWG as to whether any subsequent events have occurred which might affect the F/S, reading minutes of the meetings after the date of the F/S and inquiring about matters discussed at any such meetings for which minutes are not yet available and reading the entity's latest subsequent interim F/S, if any.

When, as a result of the procedures performed, the auditor identifies events that require adjustment of, or disclosure in, the F/S, the auditor shall determine whether each such event is appropriately reflected in those F/S.

Written Representations

The auditor shall request management and, where appropriate, TCWG, to provide a written representation that all events occurring subsequent to the date of the F/S and for which the applicable FRF requires adjustment or disclosure have been adjusted or disclosed.

Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued or where the Auditor's Report has already been Issued

The auditor has no obligation to perform any audit procedures regarding the F/S after the date of the auditor's report or where it has already issued F/S. However, when, after the date of the auditor's report but before the date the F/S are issued or where it has already issued F/S, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report or before it has issued F/S, may have caused the auditor to amend the auditor's report, the auditor shall discuss the matter with management/TCWG, determine whether the F/S need amendment and, if so, inquire how management intends to address the matter in the F/S.

If management amends the F/S, the auditor shall carry out the audit procedures necessary in the circumstances on the amendment by extending the audit procedures to the date of the new auditor's report; and provide a new auditor's report on the amended F/S. The new auditor's report shall not be dated earlier than the date of approval of the amended F/S.

When law, regulation or the FRF does not prohibit management from restricting the amendment of the F/S to the effects of the subsequent events or events causing that amendments and those responsible for approving the F/S are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events to that amendment. In such cases, the auditor amend and issue the auditor's report to include an additional date.

Where amended F/S is issued after their previous issue review the steps taken by management to ensure that anyone in receipt of the previously issued F/S together with the auditor's report thereon is informed of the situation.

SA 580 (Revised) - Written Representations

Scope of this SA: It deals with the auditor's responsibility to obtain written representations from management/TCWG.

Written Representations as Audit Evidence

Similar to responses to inquiries, written representations are audit evidence.

Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence. The fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence.

Objectives

(a) To obtain written representations from management that management believes that it has fulfilled the fundamental responsibilities that constitute the premise on which an audit is conducted;

(b) To support other audit evidence relevant to the F/S or specific assertions in the F/S.

Definition: Written representations: A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. In this context it does not include F/S, the assertions therein, or supporting books and records.

Written Representations

The auditor shall request written representations from management with appropriate responsibilities as to preparation and presentation of the F/S. The auditor shall request management to provide a written representation that it has provided the auditor with all relevant information agreed in the terms of the audit engagement, and that all transactions have been recorded and are reflected in the F/S.

The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the F/S. The written representations shall be for all F/S and period(s) referred to in the auditor's report.

The written representations shall be in the form of a representation letter addressed to the auditor. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations, the relevant matters covered by such statements need not be included in the representation letter.

Doubt as to the Reliability of Written Representations

If the auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, the auditor shall determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general.

In particular, if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general. If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

Requested Written Representations Not Provided

If management does not provide one or more of the requested written representations, the auditor shall discuss the matter with management; re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

Written Representations about Management's Responsibilities

The auditor shall disclaim an opinion on the F/S if the auditor concludes that there is sufficient doubt about the integrity of management such that the written representations are not reliable; or Management does not provide the written representations.

SA 600 - Using the Work of Another Auditor

"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."

This Statement discusses the principal auditor's responsibility in relation to his use of the work of the other auditor. The Statement does not deal with those instances where two or more auditors are appointed as joint auditors nor does it deal with the auditor's relationship with a predecessor auditor.

When the principal auditor concludes that the financial statements of a component are immaterial, the procedures outlined in this Statement do not apply. When several components, immaterial in themselves, are together material in relation to the financial statements of the entity as a whole, the procedures outlined in this Statement should be considered.

Principal Auditor's Procedures

The following procedures are recommended on the part of principal auditor:

1. Advise the other auditor of the use that is to be made of his work and report.
2. The principal auditor should also inform the areas requiring special consideration and the timetable for completion of audit.
3. Advise the other auditor of the significant accounting, auditing and reporting requirements.
4. Ascertain from other auditors any limitation on the scope of his work by the terms of engagement.
5. Consider the significant findings of the other auditor.
6. The principle auditor is not required to evaluate the professional competence or independence of other auditor except in doubtful situation,
7. He may require the other auditor to submit responses to a questionnaire regarding the audit work performed.
8. He may discuss with the other auditor and concerned branch official the audit findings affecting the financial statements of the branches.
9. If necessary, he may require that supplementary tests be performed or he may himself perform such tests.
10. In case of foreign branch, the principal auditor should consider the qualification, experience and expertise of the foreign branch auditor.

Documentation:

1. The principal auditor should maintain in his working paper / files the financial statement of the branches, which are audited by other auditor. He should also document the manner in which he has applied the audit procedures and conclusions thereof.
2. When the other auditor has qualified his audit report, the principal auditor should refer in his working paper the manner in which he dealt with the same.

Coordination between Auditors:

1. There should be coordination between the principal auditor and branch auditor.
2. The other auditor should bring to the notice of principal auditor any of his significant findings, adhering

to the time scales, ensuring compliance with legal requirements, etc.

3. If the principal auditor requires a specific audit procedure to be carried out or to answer a detailed questionnaire, the other auditor should comply with the same.

Consideration of Report of Other Auditor

1. The principal auditor should qualify or disclaim his opinion when he concludes that he cannot use the work of the other auditor and has not been able to perform sufficient additional procedures with respect to the financial statements submitted by the branch auditor.
2. The principal auditor should consider the qualification of the branch auditor's report in relation to the financial statement of the entity as a whole.

Division of Responsibility:

1. The principal auditor is not responsible for work carried out by the other auditor unless there are doubtful circumstances.
2. The principal auditor's report should clearly state the division of responsibility by indicating the extent to which the financial statement of branches audited by other auditors have been included in the financial statement of the entity e.g. the number of branches / divisions audited by other auditors.

SA 610 (REVISED) - USING THEWORK OF INTERNAL AUDITORS

Scope of this SA: The external auditor’s responsibilities regarding the work of internal auditors when the internal audit function is likely to be relevant to the audit of external auditor. It does not deal with instances when individual internal auditors provide direct assistance to the external auditor.

Relationship between the Internal Audit Function and the External Auditor

Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is not independent of the entity as is required of the external auditor when expressing an opinion on F/S. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor’s use of the work of the internal auditors.

Objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are to determine whether, and to what extent, to use specific work of the internal auditors; and whether such work is adequate for the purposes of the audit.

Definitions

(a) **Internal audit function** – An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control. Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity’s strategic risk management and internal control system.

(b) **Internal auditors** – Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate:

(a) The **objectivity** of the internal audit function;

(b) The **technical competence** of the internal auditors;

(c) Whether the work of the internal auditors is likely to be carried out with **due professional care**; and

(d) Whether there is likely to be **effective communication between the internal auditors and the external auditor**.

When the external auditor uses specific work of the internal auditors, the external auditor shall document conclusions regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work.

SA 620 - Using the Work of an Expert

"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."

An **expert (or a specialist)**, for the purpose of this Statement, is a person, firm or other association of persons possessing special skill, knowledge and experience in a particular field other than accounting and auditing. An 'expert' may be: engaged by the client/auditor

Need to Use the Work of an Expert: During the audit the auditor may seek to obtain, in conjunction with the client or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert. When determining whether to use the work of an expert or not, the auditor should consider: the materiality of the item being examined in relation to the financial information as a whole, the nature and complexity of the item including the risk of error therein, and the other audit evidence available with respect to the item.

Skills and Competence of the Expert: When the auditor plans to use the expert's work as audit evidence, he should satisfy himself as to the expert's skills and competence by considering the expert's professional qualifications, license or membership in an appropriate professional body, and experience and reputation.

Objectivity of the Expert: The risk that an expert's objectivity will be impaired increases when the expert is employed by the client or related in some other manner to the client. Accordingly, in these circumstances, the auditor should consider performing more extensive procedures than would otherwise have been planned, or he might consider engaging another expert.

The auditor should seek reasonable assurance that the expert's work constitutes appropriate audit evidence in support of the financial information. The auditor should consider whether the expert has used source data which are appropriate in the circumstances. The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the expert. The auditor does not have the same expertise and, therefore, cannot always challenge the expert's assumptions and methods. Normally, completion of the above procedures will provide the auditor with reasonable assurance that he has obtained appropriate audit evidence in support of the financial information. In exceptional cases where the work of an expert does not support the related representations in the financial information, the auditor should attempt to resolve the inconsistency by discussions with the client and the expert. <u>If, after performing these procedures, the auditor concludes that: the work of the expert is inconsistent with the information in the financial statements, or that the work of the expert does not constitute sufficient appropriate audit evidence (e.g., where the work of the expert involves highly technical matters or where, on grounds of confidentiality, the expert refuses to make available to the auditor the source data used by him), he should express a qualified opinion, a disclaimer of opinion or an adverse opinion, as may be appropriate</u>.

Reference to an Expert in the Auditor's Report: When expressing an unqualified opinion, the auditor should not refer to the work of an expert in his report. If, as a result of the work of an expert, the auditor decides to express other than an unqualified opinion, it may in some circumstances benefit the reader of his report if the auditor, in explaining the nature of his reservation, refers to or describes the work of the expert. Where, in doing so, the auditor considers it appropriate to disclose the identity of the expert, he should obtain prior consent of the expert for such disclosure.

SA 700 - The Auditor's Report on Financial Statements

Basic elements of an Auditor's Report

a. **Title:** It may be appropriate to use the term "Auditor" to distinguish the auditor's report from report issued by others.
b. **Addressee:** The auditor's report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations.
c. **Opening or Introductory paragraph:** The report should identify the financial statements that have been audited including the date and period covered by the financial statements. The report should include a statement of responsibility of the entity's management and of the auditor.
d. **Scope paragraph:** The report should describe the scope of the audit by stating that the audit was conducted in accordance with the auditing standards generally accepted in India. The report should include a statement that the audit provides a reasonable basis for opinion.
e. **Opinion paragraph:** The report should clearly indicate the financial reporting framework used to prepare the financial statements and express an opinion on the true and fair view in accordance with that financial reporting framework and where appropriate the compliance with the statutory and /*or* regulatory requirements.
f. **Date of the report:** The report should be dated as of the completion date of the audit, which should not be earlier than the date on which the financial statements are signed or approved by the management.
g. **Place of signature:** The report should name the specific location which is ordinarily the city where the audit report is signed.
h. **Auditor's signature:** The report should be signed in the name of the firm, the personal name of the both as appropriate.

Auditor's Report

The auditor should incorporate in his report, the matters specified by a statute or regulator and/or report in the form prescribed by them in addition to the requirements prescribed above.

An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for preparation and presentation of the financial statements.

Under following situations auditor's report may have to be modified:

- Matters that do not affect the auditor's opinion.
- Matters that do affect the auditor's opinion including qualified opinion, disclaimer of opinion or adverse opinion.

In respect of matters that do not affect the auditor's opinion, the auditor should modify the report by adding a paragraph to highlight a matter for example some uncertainty regarding a going concern problem which is unresolved ,or a significant uncertainty the resolution of which is dependent on future events and which may significantly affect the financial statements and the same has already been incorporated by management in financial statement. In such matters, the opinion paragraph would refer to the fact that the auditor's opinion is not qualified in this respect.

Matters that do affect the auditor's opinion: The AAS specifies that in respect of matters that do affect the auditor's opinion

a. A ‘qualified opinion’ should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with the management is not so material and pervasive as to require a adverse opinion, or limitation on scope is not material and pervasive as to require a disclaimer of opinion.
b. A 'disclaimer' of opinion' should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor is unable to obtain sufficient appropriate audit evidence and is hence unable to express an opinion on the financial statements.
c. An 'adverse opinion' should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is inadequate to disclose the misleading or incomplete nature of the financial statements.

Opinion other than an unqualified opinion: Whenever the auditor requires an opinion other than unqualified, a description of all the substantive reasons should be included in the report and quantification of the possible effect(s), individually and in aggregate, on the financial statements should be mentioned in the report.

Limitation on Scope: The Standard also requires that in case there is a limitation on scope that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments that might have been necessary had the limitations not existed.