Standards on Auditing [i]([ii])

200 Basic Principals' Governing Audit of Financial Statements

1. Integrity, Objectivity and Independence
2. Confidentiality
3. Skill and competence
4. Documentation
5. Audit Planning
   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.
6. Audit Evidence

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

   a. Existence
   b. Effectiveness
   c. Continuity

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

   a. tests of details of transactions and balances;
   b. Analysis of significant ratios and trends including the resulting enquiry of unusual fluctuations and items.

7. Work performed by others
8. Accounting system and Internal Control
9. Audit report and conclusion
   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; and
   c. there is adequate disclosure of all material matters

200A Objective and Scope of Financial Statement

1. Objective of Audit
   - Audit doesn't give assurance as to future viability of the enterprise or its or efficiency or effectiveness with which its management has conducted the affairs of the enterprise.
2. Responsibility of financial statement
3. Scope of Audit
   a. The Terms of Engagement
   b. The requirement of relevant regulation
   c. Pronouncement of the Institute
   d. Judgments of various law
4. Organising of an Audit
5. Inherent limitation of Audit

210 Terms of Audit Engagement

1. The purpose of this Standard on Auditing (SA) is to establish standards on:
   a. agreeing the terms of the engagement with the client; and
   b. the auditor's response to a request by a client to change the terms of an

engagement to one that provides a lower level of assurance

2. The auditor and the client should agree on the terms of the engagement. The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.
3. Terms of audit engagement should be in writing and should be sent preferable before the start of the assignment in order to avoid any misunderstanding
4. Terms of Audit engagement
    a. The objective of the audit of financial statements.
    b. Management's responsibility for the financial statements.
    c. Management's responsibility for preparation of the financial statements on a going concern basis.
    d. The scope of Audit, including reference to the law, rules and regulation
    e. Unrestricted access to whatever records, documentation and other information requested in connection with the audit.
    f. The fact that the audit process may be subjected to a peer review under the Chartered Accountants Act, 1949.
5. Additional Points
    a. Planning an Audit
    b. Written confirmation with management in connection with audit
    c. Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
    d. Arrangements concerning the involvement of internal auditors and other staff of the client.
    e. Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit, i.e., when the financial statements for the preceding period were audited by another auditor.
    f. Any restriction of the auditor's liability when such possibility exists.
    g. Involvement of auditors and experts
    h. Involvement of internal audit and other staff of the enterprise
    i. A reference to any further agreements between the auditor and the client.
    j. In case of recurring audit, auditor has to use his professional knowledge in order to change/revise terms of engagement or not
6. Incase an auditor is requested to change in engagement to the one that offers lower level of assurance, before completion of the engagement, he should consider the appropriateness of doing so and should agree on the new terms. (He should assess and make a final decision, before making further changes)

220 Quality Control for Audit work

1. Essential factors for incorporating quality control
    a. Professional requirement
    b. Skills and competence
    c. Assignment
    d. Delegation
    e. Consultation
    f. Acceptance and retention of Clients
    g. Monitoring
1. Direction to Audit assistant
2. Supervision
3. Review
4. Matters to be reviewed on timely basis
    a. Overall audit plan and audit programme
    b. Assessment of inherent and control risk
    c. Changes to be made to audit plan and audit programme
    d. Analyze audit evidence obtained from substantive and compliance procedures
    e. Any other changes, if any

230 Audit Documentation

1. Documentation are work paper prepared or obtained from the client by the auditor and retained by him in connection with the performance of his duties
2. Objective:
    a. A sufficient and appropriate record for the basis for the audit report and,
    b. Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
3. Contents of Documentation
4. PAF file contents
5. Current File contents
6. Audit completion memorandum
   - Summary of significant matter that were identified during audit and how they were addressed. Sometimes, it is known as completion memorandum.
7. Audit completion assembly file with 60 days from the date of audit report
8. Ownership and custody of audit report
9. Retention of audit documentation/working papers for 7 years from the date of audit report or if later the date of group auditor report

240 The Auditors responsibility relating to fraud and error in an audit of financial statement

1. Objective:
    a. To identify and assess the risks of material misstatement in the financial statements due to fraud;
    b. To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
    c. to respond appropriately to identified or suspected fraud.
2. Fraud refers to intentional misrepresentation of financial information by one or more individuals among employees, mgmt, those charged with governance or third parties
3. Fraud of two types –Fraudulent financial reporting and misappropriation of assets

4. Errors refers to mathematical misstatement or unintentional misrepresentation of information or misapplication of accounting policies
5. Responsibilities of auditor 6 points
    a. Inherent limitation of audit
    b. Professional Skepticism
    c. Discussion with audit team
    d. Inquiry with mgmt
    e. Communication with those charged with governance
6. Audit Risk (Inherent Risk, Control Risk and Detection Risk)
7. Response to assessed risk of material misstatement due to fraud
    a. Professional Skepticism
    b. Assignment of personnel
    c. Accounting principals and procedures
    d. Control
8. The effect of fraud and error in FS and further its' impact on Auditor's Report
9. Documentation
10. Obtain Management Representation Letter
11. Communication with mgmt or those charged with governance
12. Communication with regulatory or legal authorities, if required
13. Auditor needs to decide whether he can continue as an auditor of the entity

250 Consideration of Laws and Regulation in an Audit of Financial Statement

1. Non-compliance refers to act of omission or commission by entity being audited either intentional or unintentional, which is contrary to prevailing laws and regulation
2. The SA doesn't apply to other engagements where the auditor is specifically engaged to report on non-compliance of specific rules and regulation
3. Management's responsibility to ensure compliance with laws and regulation and it should design proper and sound internal control to prevent non-compliance viz,
    a. Proper training and understanding of laws and regulation to the employees
    b. Maintaining records relating to compliance and non-compliance
    c. Establishment of legal department
    d. Maintaining register of significant laws with which entity has to comply (checklist)
    e. Reporting of non-compliance by internal auditor (track record)
    f. Reporting of non-compliance to audit committee
4. Audit Procedure:
    a. Inquire mgmt whether the entity has complied with concerned laws and regulation;
    b. Inspect correspondence with relevant licensing and regulatory authority
    c. Obtain written representation from mgmt that all known or possible non-compliance has been disclosed to the auditor
5. Effect of non-compliance on the financial statement: (Auditors responsibility to assess)
    a. Penalty, fines, litigation, or any threat arises due to non-compliance
    b. Possible effect on going concern
    c. Whether potential effect requires disclosure
    d. Whether potential effect has a bearing on true and fair view of the financial statement
6. Indication of non-compliance (several Indicators)
    a. Investigations by regulatory authority and government departments or payment of fines or penalties
    b. Payment without proper exchange control documentation
    c. Unusual payments towards legal and retainership fees
    d. Unauthorized transaction or improper recorded transaction
    e. Payments for unspecified services like loans to related parties or such transaction which are permitted.
    f. Adverse media comment
7. Documentation for the same
8. Reporting to users of financial statement, if auditor is of the view that the non-compliance has material impact on the financial then he may qualify or make adverse comments on the report. If the auditor is prevented by the entity from getting sufficient audit evidence then he make issue disclaimer of opinion.
9. Withdrawal from the engagement, in case if the non-compliance is so adverse, that forces auditor to seek remedy.

260 Communication with Those Charged With Governance

1. Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
2. Obtain from those charged with governance information relevant to the audit;
3. Provide those charged with governance with timely observations arising from the audit that are significant and relevant
4. Promote effective two-way communication between the auditor and those charged with governance
5. Meaning of those charged with governance: the person or organisation with responsibility to overseeing the strategic direction of the entity and obligation relation to accountability of the entity
6. Auditors responsibility states that auditor should consider matter of governance interest that arise from the audit of financial statement and communicate them with those charged with governance
7. Audit matters to be communicated

   a. The overall scope of the audit
   b. Significant accounting policies – changes and their selection
   c. Significant audit adjustment
   d. Material uncertainties casting doubt as to going concern
   e. Disagreements with management
   f. Difficulties encountered in conducting audit
   g. Expected modification in auditor's report

8. Auditor should assess when to communicate this matter with those charged with governance
9. Documentation for the same
10. There are certain regulation which requires auditors to communicate the same with statutory body per say,
    a. LFAR under Bank audit to be presented to RBI
    b. Report in case of NBFC to RBI for compliance for prudential norms, etc

265 Communicating Deficiencies in Internal Control to Those Charged With Governance and Management

1. Deficiency in internal control – This exists when:
   a. A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
   b. A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.
2. Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance
3. Auditor shall communicate in writing with those charged with governance, pertaining to the above.
4. What constitutes significant internal control deficiencies factors are:
   a. susceptibility to loss or fraud of the related asset or liability
   b. financial statement amounts exposed to the deficiencies

   c. Absence of a risk assessment process within the entity where
   d. Disclosure of a material misstatement due to error or fraud as prior period items in the current year's Statement of Profit and Loss
   e. Evidence of management's inability to oversee the preparation of the financial statements, etc.

299 Responsibility of Joint Auditors

1. The statement doesn't deal with branch auditors under section 228 of companies act, 1956
2. Division of work: Region wise/ branch, Assetwise/Liabilitywise, Income and Expenditure wise or Plant wise
3. Documentation of division of work amongst auditor should be in writing, agreed by all the auditors and the division of work may also be communicated to the mgmt.
4. There are certain areas where responsibility of joint auditors are jointly and severally
5. Each joint auditor is responsible for drafting his own audit programme and decide on nature, timing and extent of his audit procedure
6. Each joint auditor is required is rely on the work performed by other joint auditor and it is not necessary to review work performed by other auditors.
7. Where the joint auditors are in disagreement, then the joint auditors should express his own opinion through a separate report.

300 Planning an Audit of Financial Statement

1. Audit Planning: It refers to planning by an auditor to enable him to conduct an effective in an efficient and timely manner. It consists of:
   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.
2. Preliminary engagement activity to be undertaken
3. Documentation:
   a. Audit strategy or audit programme/plan and;
   b. Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes
4. Additional consideration to be undertaken in initial engagement: Performing procedures required by:
   a) 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

6. Development of an overall audit plan

315 Identifying and Assessing Risk of Material Misstatement through Understanding Entity and Its Environment

1. Audit risk is a risk that monetary error is greater than tolerable limit will remain undetected and the auditor will give opinion which is not appropriate.
2. Business risk – A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its

strategies, or from the setting of inappropriate objectives and strategies

3. Internal control – The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations.
4. Types of Audit Risk: Inherent, Control and Detection
5. Misstatement can result from errors or frauds and may consist of the following:
   a. An inaccuracy in gathering or processing data from which financial statements are prepared
   b. The omission of financial statement element or account
   c. The omission of material information required to be disclosed
6. What are Risk assessment procedures:
   a. Inquires with mgmt and others within entity
   b. Analytical procedures
   c. Observation and Inspection
   d. Discussion with the engagement team
7. Entity's internal control components:
   a. Control environment
   b. Risk assessment
   c. Information system and communication
   d. Control activities: authorization, segregation of duties, safeguarding and asset accountability
   e. Monitoring
8. Identifying and assessing the risk of material misstatement at:
   a. Financial Statement level
   b. Relevant assertion level
9. Documentation for the same

320 Audit Materiality

1. It is - Qualitative and Quantitative
2. Any item in the FS is said to be material if it influences the mind of the reader of those financial statements
3. Materiality depends upon entities size, nature of business and complexities etc
4. Materiality is done at while deciding nature, timing and extent of audit procedures
5. There is inverse relationship between audit materiality and degree of audit risk
6. There is a direct relationship between materiality and audit risk
7. In the end, while forming his opinion the auditor should consider whether the aggregate of uncorrected misstatement on financial information is material.

330 Auditors Response to Assessed Risk

1. The audit objective of this standard is to reduce audit risk to an acceptably low level by obtaining sufficient appropriate audit evidence.
2. Audit procedures: What is Nature, Timing and Extent of Audit procedures
3. Test of Controls (to test operating effectiveness)
4. Substantive procedures: Substantive procedures are performed at relevant assertion level and includes test of details or class of transaction and account balance and disclosure and substantive analytical procedures.
5. Evaluating sufficiency and appropriate audit evidence is purely an auditor's judgment.
6. Documentation for the same.

402 Audit Consideration Relation Entity Using Service Organisation

1. The auditor considers how a service organisation affects clients accounting and internal control system.
2. While planning the auditor should assess the significance of activities performed by service organisation
3. The auditor can request the auditor of service organisation to provide him information on specified areas.
4. when the auditor of the client uses the report of the service organisation, he should consider:
   a. Nature and content of the report
   b. The professional competence of the auditor
   c. Scope and work performed by the service organisation auditor
5. The auditor of service organisation may provide report on:
   a. Report on suitability on design
   b. Report on suitability of design and operating effectiveness

500 Audit Evidence

1. Audit Evidence means sufficient and appropriate audit evidence
2. Sufficient refers to the quantum whereas appropriate refers to the relevance and reliability
3. Audit evidence is obtained from compliance and substantive procedures.
4. Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed is in existence and the control is operating effective and the control has so operated through the period of intended reliance
   a. Existence
   b. Effectiveness
   c. Continuity
5. Substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system.
6. Check reliability of audit evidence i.e whether it is obtained from internal or external sources. And whether the reliance for the same can be placed.

7. Selecting items for audit evidence:
    a. Selecting 100% items
    b. Specific testing
    c. Audit sampling
8. Evidence are of two types: **source of evidence** (internal, internal-external, external, external-internal) and **means of collection** (inspection, observation, recalculation, reperformance, analytical procedures, inquiry and external confirmation)

501 Audit Evidence – Additional Consideration for Specific Items

1. Part A: Attendance regarding physical inventory counting
2. Part B: Inquiry regarding claims and litigation
3. Part C: Valuation and disclosure of long term investment
4. Part D: segment information
5. Each of the above factors are classified into three broad parameters viz Procedure, Management Representation and Audit conclusion and Reporting
6. All of the above require mgmt representation so as to completeness of information provided by the mgmt.

505 External Confirmation

1. It is the process of obtaining and evaluating evidence through direct communication from third party in response to a request for information about a particular item affecting assertions made by the management
2. Assessment whether external confirmation is necessary, by the auditor
3. Situation where external confirmation arise:
    a. Bank balances and other information from bankers.
    b. Accounts receivable balances.
    c. Stocks held by third parties.
    d. Property title deeds held by third parties.
    e. Investments purchased but delivery not taken.
    f. Loans from lenders.
    g. Accounts payable balances.
    h. Long outstanding share application money
4. Process of external confirmation
5. Auditor should check the reliability of external confirmation/evidence
6. Sometimes the Mgmt might request for not sending request, on some valid grounds, in such case the audit might accept or reject such plea made by the, management.
7. If the auditor agrees then:
    a. Should document the reasons for acceding to the management's request
    b. Apply alternative procedures to obtain appropriate evidence

510 Initial Engagement – Opening Balance

1. When financial statement are prepared for the first time or when another auditor audited financial statement for preceding financial year
2. Audit procedures (prepared for first time):
    a. Determining whether the prior period's closing balances have been correctly brought forward to the current period
    b. Determining whether the opening balances reflect the application of appropriate accounting policies;
    c. Accounting policies are followed consistently
3. If the auditor is unable to obtain sufficient appropriate audit evidence concerning opening balance then he shall make a relevant assessment on it's impact on FS and auditors report.

520 Analytical Procedures

1. The Analytical review procedures include both inter-firm and intra firm comparisons
2. Types:
    a. Comparable information for prior periods.
    b. Anticipated results of the entity, such as budgets or forecasts.
    c. Predictive estimates prepared by the auditor, such as an estimation of depreciation charge for the year.
    d. Similar industry information, such as a comparison of the entity's ratio of sales to trade debtors with industry averages, or with other entities of comparable size in the same industry.
3. At three stages:
    a. At planning stage
    b. As a means of substantiating the financial assertion relating to business transaction
    c. Overall review of the financial statements in the final review stage of the audit
4. Finally, assess the investigation of unusual items and extent of reliance to be placed on the Analytical procedures

530 Audit Sampling

1. 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 in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
2. Population – The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
3. 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.
4. Non-sampling risk – The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.
5. 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).
6. 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.

7. 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.
8. Steps in Audit sampling
    a. Specifying the audit objective to which it relates
    b. Defining the population and number of population items
    c. Specifying the sampling unit
    d. Selection the method of sampling
    e. Specifying sample parameters like precision level, coverage etc
    f. Determining the sample size
    g. Choosing a sample selecting technique
    h. Drawing a sample
    i. Evaluating the sample
    j. Evaluating any changes to sample
    k. Formulating the conclusion
9. Types of Sampling (Random, Systematic, Monetary Unit sampling, Haphazard sampling)
10. Sampling risk:
    a. Tests of Control:

(i) Risk of Under Reliance: The risk that, although the sample result does not support the auditor's assessment of control risk, the actual compliance rate would support such an assessment.

(ii) Risk of Over Reliance: The risk that, although the sample result supports the auditor's assessment to control risk, the actual compliance rate would not support such an assessment.

b. Substantive Procedures:

(i) Risk of Incorrect Rejection: The risk that, although the sample result supports the conclusion that a recorded amount balance or class of transactions is materially misstated, in fact it is not material misstated.

(ii) Risk of Incorrect Acceptance: The risk that, although the sample result supports the conclusion that a recorded amount balance or class of transactions is no materially misstated, in fact it is materially misstated.

540 Auditing Accounting Estimates, Including Fair Value Accounting Estimate and Related Disclosure

1. The risk of material misstatement is greater when accounting estimates are involved
2. Accounting estimates are the responsibility of the mgmt
3. Auditor's responsibility is to check whether mgmt has made proper accounting estimates i.e he can check prior year's estimates, his experience and if mgmt has estimates on certain formula he needs to review the formula and decide whether estimates are correct in his opinion. If the estimates are complex he may take the help of an expert in order to arrive at a reasonable estimate.
4. Auditor should follow risk assessment procedures in order to evaluate any material changes which might effect FS and in turn Auditors Report

550 Related Parties

1. Related party is mgmt, owner or any person or entity in a position to influence significantly mgmt or operating policies of either the reporting or other party to a transaction
2. Types:
    a. Holding & Subsidiary companies
    b. Joint ventures
    c. Associate companies
    d. Key mgmt personnel and relative of such person
    e. Individual directly or indirectly controlling the reporting enterprises
3. Related party audit procedures
    a. Review working papers years and auditors report
    b. Inquire management their internal control procedures inorder to detect RPT
    c. Review various records like shareholder records, review board minutes, or audit committee minutes inorder to find any RPT
    d. Review the papers or prospectus filed with SEBI
    e. Review major investment transaction during the year
    f. Review income-tax return and assessment proceeding
4. Disclosures
5. Mgmt Representation
6. Reporting on audit conclusion

560 Subsequent Events

1. Type I (where it requires adjustment): those events which provide evidence with respect to condition present at balance sheet date and estimation made in preparation of financial statement like debtors insolvent, became solvent after B/s date
2. Type II (disclosure): those events which provides evidence with respect to conditions that did not existed at the b/s date and arise subsequent to b/s date like amalgamation, purchase of business, sale of share and debentures etc
3. Auditors responsibility when the events arise after auditors report but before financial statements are issued
    a. Carry out audit procedures in relation to amendment
    b. The auditor needs to amend auditors report to include an additional date restricted to amendment and should indicate that the auditors report is restricted solely to the amendment of the f/s described in the relevant note
    c. Provide new audit report, in case
4. After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements.

However, when, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the shall:

a. Discuss the matter with management and, where appropriate, those charged with governance.
b. Determine whether the financial statements need amendment and, if so,
c. Inquire how management intends to address the matter in the financial statements

570 Going Concern

1. General Purpose f/s are prepared with the going concerned assumption
2. Special Purpose f/s may or may not be prepared with the going concerned assumption
3. Objective:
    a. To obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements
    b. To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
    c. To determine the implications for the auditor's report.
4. If the going concerned assumption is not valid then the FS shall be prepared as assets on its disposal value and liabilities at its payment value.
5. Indicators of going concerned: Financial Indicators, Operating Indicators and Other indicators.
6. Auditor's prerogative to issue unqualified, qualified, adverse opinion for the same based on the assessment of the going concern assumption.

580 Written Representation

1. Written rep are requested from those who are responsible for preparation and presentation of f/s
2. Acknowledgement by mgmt of its responsibility for preparing FS
3. Mgmt representation cannot be substitute for other audit evidence
4. Auditor should check the reliability of the authority or else he may chose certain other audit procedures
5. Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
6. The written rep are issued before the date of audit report
7. Contents of the Management Representation Letter
    a. Accounting Policies
    b. Investment
    c. Fraud and Error
    d. Contingent Liabilities
    e. Legal matters
    f. Fixed Asset
    g. Company law matters
    h. Taxation etc.

600 Using the Work of another Auditor

1. The auditor should use his professional judgment whether he relies on the work done by another auditor
2. When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit
3. He should assess
    a. Professional competence of other auditor
    b. Scope of work of other auditor
    c. He should consider significant findings of other auditor
4. The auditor may ask the other auditor to perform such audit procedures which e think necessary
5. There should be sufficient liaison between the principal auditor and the other auditor.
6. The other auditor, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor
7. When the principal auditor concludes:
    a. based on his procedures, that the work of the other auditor cannot be used and
    b. the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor,
    c. the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.

610 Relying Upon the Work of Internal Auditor

1. CARO (2003) states that the auditor should comment on whether the existence of proper internal audit system is commensurate with the size and nature of the entity business (if entity has paid up capital and reserve above 50 lakhs at the commencement of the year or avg annual t/o is over 50 crore during 3 preceding F.Y)
2. Scope and objective of internal audit function
3. 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.
4. General evaluation of internal audit function
    a. Organisational status
    b. Scope of coverage
    c. Technical competence
    d. Professional care

620 Using the Work of an Expert

1. An expert is a person who has specialized skill, knowledge and experience in a particular field other than accounting and auditing.
2. Determining the need for the work of an expert
3. Skill and competence of an expert
4. Objectivity of expert, whether employed the client or related in other manner to the client

5. Evaluating the wok of an expert, check:
    a. the source data used,
    b. the assumptions and methods used and, if appropriate, their consistency with the prior period, and
    c. the results of the expert's work in the light of the auditor's overall
    a. knowledge of the business and of the results of his audit procedures.
6. Maintain adequate skill and care before relying the work on expert
7. Reference to expert report in case of qualified opinion (he may use the name of expert provided prior consent is obtained by the auditor)

700 The Audit Report On Financial Statement

1. The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole.
2. Contents of audit report
    a. Title
    b. Addressee
    c. Opening paragraph
        - identification of the financial statements audited;
        - a statement of the responsibility of the entity's management and the responsibility of the auditor;
    d. Scope paragraph
        - a reference to the auditing standards generally accepted in India;
        - a description of the work performed by the auditor;
    e. Opinion paragraph
        - a reference to the financial reporting framework used to prepare the financial statements; and
        - an expression of opinion on the financial statements;
    f. Date of the report
    g. Place of signature
    h. Auditors' signature
3. Types of report
    a. Matter that do not affect audit opinion (unqualified opinion)
    b. Matter that affect audit opinion (unqualified opinion, disclaimer of opinion and adverse opinion)

710 Comparatives

1. The auditor should determine whether the comparatives comply, in all material respects, with the financial reporting framework relevant to the financial statements being audited.
2. When the comparatives are presented as corresponding figures, the auditor's report should not specifically identify comparatives because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures.
3. Corresponding previous year figures necessary
4. Sch VI in India also requires presenting previous years figures
5. There is no practice prevalent in India that comparative where amount of the previous year as well as other disclosures of the preceding F.Y are compared with the current period
6. The standard is only applicable to corresponding previous year figure and not comparatives
7. Three important matter:
    a. unresolved, and results in a modification of the auditor's report regarding the current period figures, the auditor's report should also be modified regarding the corresponding figures
    b. unresolved, but does not result in a modification of the auditor's report regarding the current period figures, the auditor's report should be modified regarding the corresponding figures.
    c. When the prior period financial statements are not audited, the incoming auditor should state in the auditor's report that the corresponding figures are unaudited.

2400 Engagement to Review Financial Statement[iii]

1. General Principals of RE
    a. Auditor should follow code of ethics issued by ICAI
    b. Auditor should obtain sufficient appropriate audit evidence primarily through inquiry and analytical procedures
2. Moderate Assurance: A review engagement provides a moderate level of assurance that the information subject to review is free of material misstatement; this is expressed in the form of negative assurance.
3. Terms of Engagement: The auditor and the client should agree on the terms of the engagement.
4. Procedures and evidence: - All such procedures performed by an auditor viz terms of engagement, planning an audit, work performed by others, documentation, audit evidence, deciding the nature timing and extent of audit procedures, conclusions, etc. shall apply.
5. The review report should contain a clear written expression of negative assurance.
6. Reporting
    a. Title
    b. Addressee
    c. Opening paragraph
        - identification of the financial statements audited;
        - a statement of the responsibility of the entity's management and the responsibility of the auditor;
    d. Scope paragraph

- a reference to the auditing standards generally accepted in India;
- a description of the work performed by the auditor;
- A statement that an audit has not been performed, that the procedures undertaken provide less assurance than an audit and that an audit opinion is not expressed

e. Statement on negative assurance
f. Date of the report
g. Place of the report
h. Auditors signatures

3400 Examination of Prospective Financial Information[iv]

1. Prospective financial information means financial information based on assumptions about events that may occur in the future and possible actions by an entity.
2. A forecast means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared.
3. Sufficient appropriate audit evidence
4. In an engagement to examine prospective financial information, the auditor should obtain sufficient appropriate evidence as to whether:
   a. management's best-estimate assumptions on which the prospective financial information is based are not unreasonable;
   b. the prospective financial information is properly prepared on the basis of the assumptions;
   c. the prospective financial information is properly presented and all material assumptions are adequately disclosed and
   d. the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.
5. Level of assurance (moderate assurance)
6. The following examination procedures should be performed:
   a. knowledge obtained during previous engagement,
   b. mgmt competence regarding preparation of prospective FS,
   c. likehood of material misstatement,
   d. stability of entity's business, extent to which prospective FS is affected by mgmt judgments,
   e. engagement team experience with the business and the industry in which the entity operates
7. The auditor should obtain written representations from management regarding the intended use of the prospective financial information, the completeness of significant management assumptions and management's acceptance of its responsibility for the prospective financial information.
8. Qualified, adverse opinion or disclaimer report can be given by the auditor in his report.
9. The report shall consists of:
   a. Title;
   b. Addressee;
   c. Identification of the prospective financial information;
   d. Reference to the SA applicable;
   e. Statement that management is responsible for the prospective financial information;
   f. Statement that the examination procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast or projection;
   g. Statement of negative assurance;
   h. Opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework;
   i. Appropriate caveats concerning the achievability of the results indicated by the prospective financial information;
   j. Date of report
   k. Signature.

4400 Engagements to Perform Agreed Upon Procedures Regarding Financial [v]

1. The objective is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.
2. General Principals of RE
   a. Auditor should follow code of ethics issued by ICAI
   b. Auditor should obtain sufficient appropriate audit evidence primarily through inquiry and analytical procedures
3. Procedures and evidence: - All such procedures performed by an auditor viz terms of engagement, planning an audit, work performed by others, documentation, audit evidence, deciding the nature timing and extent of audit procedures, conclusions, etc. shall apply.
4. The report shall consists of:
   a. Title;
   b. Addressee (ordinarily, the appointing authority)
   c. Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied;
   d. A statement that the procedures performed were those agreed upon with the recipient;
   e. A statement that the engagement was performed in accordance with the Standard on Related Services applicable to agreed-upon procedures engagements;

f. A listing of the specific procedures performed;
g. A description of the auditor's factual findings including sufficient details of errors and exceptions found;
h. A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed;
i. A statement that had the auditor performed additional procedures, an audit or a review, other matters might have come to light that would have been reported;
j. A statement that the report is restricted to those parties that have agreed to the procedures to be performed;
l. Date of report
k. Signature.

4410 Engagements to Compile Financial Information[vi]

1. The objective of a compilation engagement is for an accountant to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarise financial information.
2. The auditor should comply with code of ethics issued by ICAI
3. Procedures and evidence: - All such procedures performed by an auditor viz terms of engagement, planning an audit, work performed by others, documentation, audit evidence, deciding the nature timing and extent of audit procedures, conclusions, etc. shall apply.
4. Auditor should assess the accounting estimates made by the mgmt and also if there is non-compliance with any accepted accounting standard is noted then the auditor should report the same.
5. The accountant should obtain a general knowledge of the business and operations of the entity and should be familiar with the accounting principles and practices of the industry in which the entity operates and with the form and content of the financial statements/ other financial information that is appropriate in the circumstances.
6. Generally under this statement accountant is not required to performed:
   a. make any inquiries of management to assess the reliability and completeness of the information provided;
   b. assess internal controls;
   c. verify any matters; or
   d. verify any explanations.
7. The financial statements or other financial information compiled should be approved by the client before the compilation report is signed by the accountant.
8. Accordingly, the word 'audit' should not be used in describing the nature of services involving compilation of financial statements or other financial information, nor the fee for these services be described as "auditors' fee", or remuneration in the accounts, correspondence or any other document.
9. The report shall consists of:
   a. Title: The title of the report should be "Accountant's Report on Compilation of Unaudited Financial Statements" (and not "Auditor's Report");
   b. Addressee: The report should ordinarily be addressed to the appointing authority;
   c. Identification of the financial information also noting that it is based on the information provided by the management;
   d. When relevant, a statement that the accountant is not independent of the entity;
   e. A statement that the management is responsible for: completeness and accuracy of the underlying data and complete disclosure of all material and relevant information to the accountant;
   f. maintaining adequate accounting and other records and internal controls and selecting and applying appropriate accounting policies;
   g. preparation and presentation of financial statements or other financial information in accordance with the applicable laws and regulations, if any;
   h. establishing controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities;
   i. establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any noncompliance;
   j. A statement that the engagement was performed in accordance with this Standard on Related Services ;
   k. A statement that neither an audit nor a review has been carried out and that accordingly no assurance is expressed on the financial information;
   l. A paragraph, when considered necessary, drawing attention to the disclosure of material departures from the identified financial reporting framework;
   m. Date of the report;
   n. Place of signature; and
   o. Accountant's signature:

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The above standards have been compiled from the statements issued by the Institute of Chartered Accountants of India (ICAI) and from reference book i.e V.K Agarwal.
The objective for preparation of these standards, in brief, is to help students in understanding these Standards, during examination.

These notes will help students to get the brief understanding about the Auditing Standards and this will inturn help them during their exam.
These standards are not in detail, so over reliance on the same is not encouraged.

[ii] The above guidance on Standards on Auditing is prepared by Jigar Shah, a final year student, in order to help peers and aspirants.

[iii]The above Standard on Review Engagement effective from 1 April 2005

[iv]The above Standard on Assurance Engagement effective from 1 April 2007

[v] The above Standard on Related Services effective from 1 April 2004

[vi]The above Standard on Related Services effective from 1 April 2004