

NOTES ON STANDARDS OF AUDITING FOR CA-IPCC.

[APPLICABLE FOR NOVEMBER 2012 & ONWARDS]

BY A.AMOGH 09666460051.



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THIS BOOK CONTAINS 2 PARTS:

- I. PART A-
FLOWCHART PRESENTATION
OF SA.**
- II. PART B-
THEORY NOTES OF SA.**

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PART A:

FLOWCHART

PRESENTATION OF SA'S.

NOTES ON STANDARDS OF AUDITING FOR CA-IPCC.

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STANDARDS OF AUDITING (SA) ISSUED BY ICAI

SA 200: Basic Principles Governing An Audit.

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SA 250: Consideration Of Laws And Regulations In An Audit Of Financial Statements.

SA 260: Communication With Those Charged With Governance.

SA 265: Communication Deficiencies In Internal Control To Those Charged With Governance.

SA 299: Responsibility Of Joint Auditors.

SA 300: Planning An Audit Of Financial Statements.

SA 315: Understanding The Entity And Its Environment And Assessing The Risk Of Material Misstatement.

SA 320: Audit Materiality.

SA 330: The Auditor's Responses To Assessed Risks.

SA 402: Audit Considerations Relating To Entities Using Service Organizations.

SA 450: Evaluation Of Misstatement Identified During The Audit.

SA 500: Audit Evidence.

SA 501: Audit Evidence – Additional Consideration For Specific Items.
Part A: Attendance At Physical Inventory Counting.
Part B: Inquiry Regarding Litigation And Claims.

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Part C: Valuation And Disclosure Of Long Term Investments.

Part D: Segment Information.

SA 505: External Confirmations.

SA 510: Initial Audit Engagements – Opening Balances.

SA 520: Analytical Procedures.

SA 530: Audit Sampling.

SA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures.

SA 550: Related Parties.

SA 560: Subsequent Events.

SA 570: Going Concern.

SA 580: Written Representations.

SA 600: Using The Work Of Another Auditor.

SA 610: Relying Upon The Work Of An Internal Auditor.

SA 620: Using The Work Of An Expert.

SA 700: The Auditor's Report On Financial Statements.

SA 705: Modifications To The Opinion In The Independent Auditor's Report.

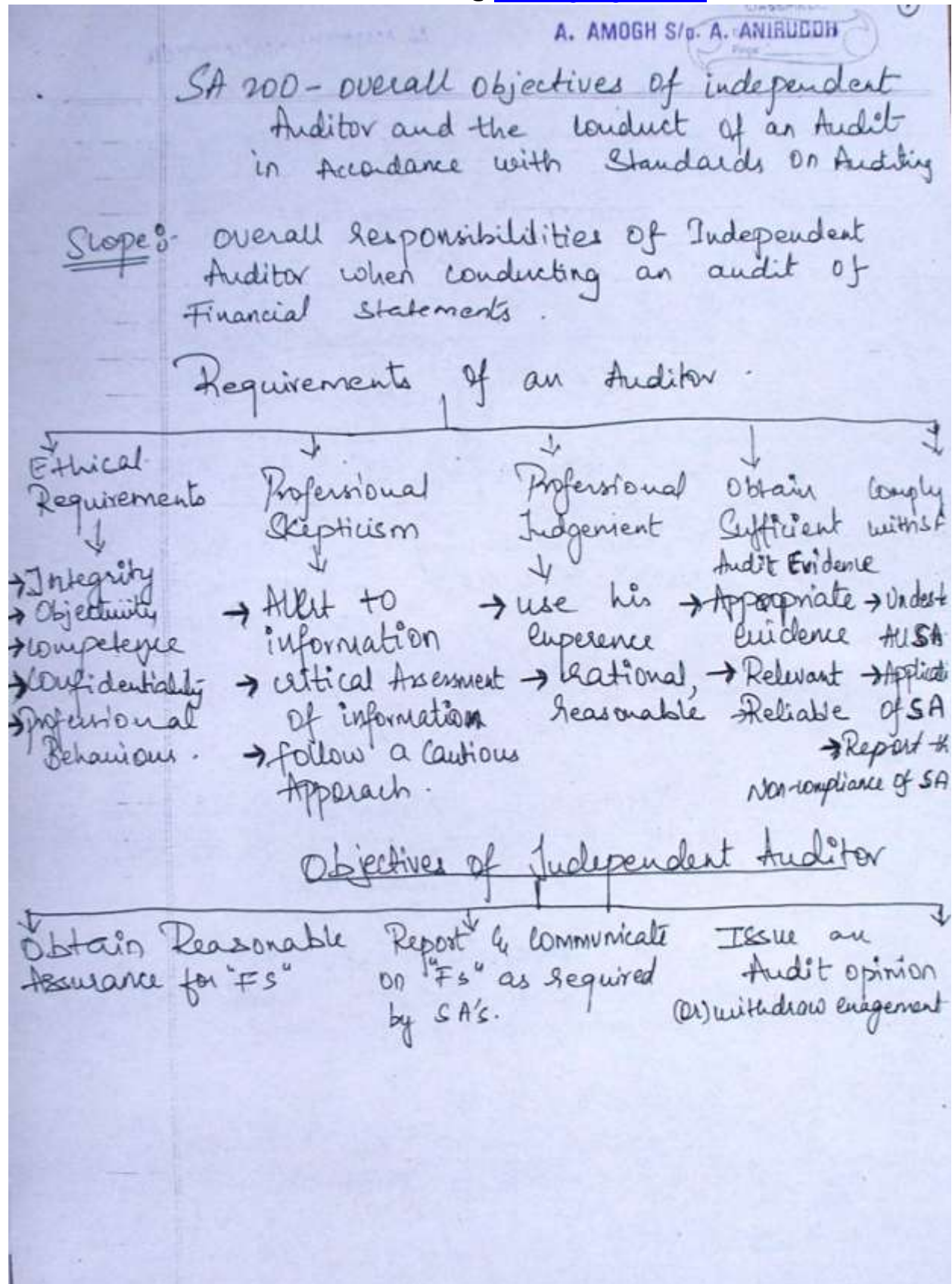
SA 706: Emphasis Of Matter Paragraphs And Other Matter In The Independent Auditor's Report.

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SA-210:-

Agreeing the terms of Audit Engagement

Terms of engagement

Law ICAI Client (with Restriction)

Slope of work.

Engagement letter By Auditor to mgt.

re-conditions of Audit common understanding b/w Auditor & mgt. Same Auditor appointed for subsequent years, then same engagement letter is valid.

New Engagement letter.

Circumstances Require Change of terms of engagement. Need to remind the entity of existing terms of Audit engagement.

Format of engagement letter.

Title:- Engagement letter for year ended 31/3/xx.

Addressee:- To (proprietor / mgt / BoD / Partner)

Intro paragraph:-

- (a) Introductory lines
- (b) management Responsibility / Pre-conditions
- (c) Auditor's Responsibility paragraph.
- (d) Scope paragraph:- (5 points):- Define Auditing, SA, Audit Evidence, Professional Judgement, Risk Assessment, Limitations, Applicable law.

Peer Review, Acknowledgement signature (Place, date, memb. no, PSF No. etc)

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FORMAT OF ENGAGEMENT LETTER

Engagement Letter For The Year Ended 31/3/12.

To, Board Of Directors

Reliance Industries Limited.

We Are Pleased To Conduct The Audit Of Financial Statements Of _____ Limited Comprising Of:

1. Balance Sheet As At 31st March 2012.
2. Profit And Loss Account For The Year Ended 2011 - 2012.
3. Cash Flow Statement For The Year Ended 2011 - 2012.

The Management Is Responsible:

1. To Prepare Financial Statements As Per Financial Reporting Framework
2. To Maintaining Books Of Accounts
3. To Maintain Internal Control
4. To Safe Guard The Assets
5. To Provide All Information And Explanation

Our Responsibility Is For Giving an Opinion on "Financial Statements".

Auditing Is Independent Examination Of Financial Statements, Whether The Firm Is Profit Oriented Or Not, Whether Artificial Or Legal Form, Where In Such Examination Is Conducted To Give An Opinion Thereon.

Audit Is Conducted As Per Standards On Auditing Applicable To The Company.

Auditing Involves Obtaining Sufficient And Appropriate Audit Evidences.

Audit Involves Professional Judgment And Professional Skepticism.

It Also Involves Evaluating Internal Control and Risk Assessment

There Are Inherent Limitation by Auditing Like Complex Internal Control, Undetected Fraud, Judgmental, Evidence Being Persuasive Not Conclusive

The Audit Is As per Companies Act, 1956.

Our Working Papers May Be Subjected To Peer Review By Institute Of Chartered Accountants Of India.

Our Fees Are Chargeable Rs. 5000 Per Hour.

If All The Terms And Conditions Are Acceptable, Please Sign. And Send Copy Back To Us.

Signature:

Membership Number:

Firm Registration Number:

Date:

Place:

Client Signature:

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SA-220. Quality control For Audit of Financial Statements.

Quality control For An Audit

Firm Level Quality control Individual Audit Level Quality control.

H E A L M E

H:- Human Resource :- proper staffing, proper training, Right person for Right job during the Audit.

E:- Engagement Performance :- proper direction to Audit team, proper instruction, guidance, Responsibilities Assigned to them, communicate the Audit plan.

A:- Acceptance & continuation of client :- evaluate the client, Risk associated before accepting & continuing the Audit.

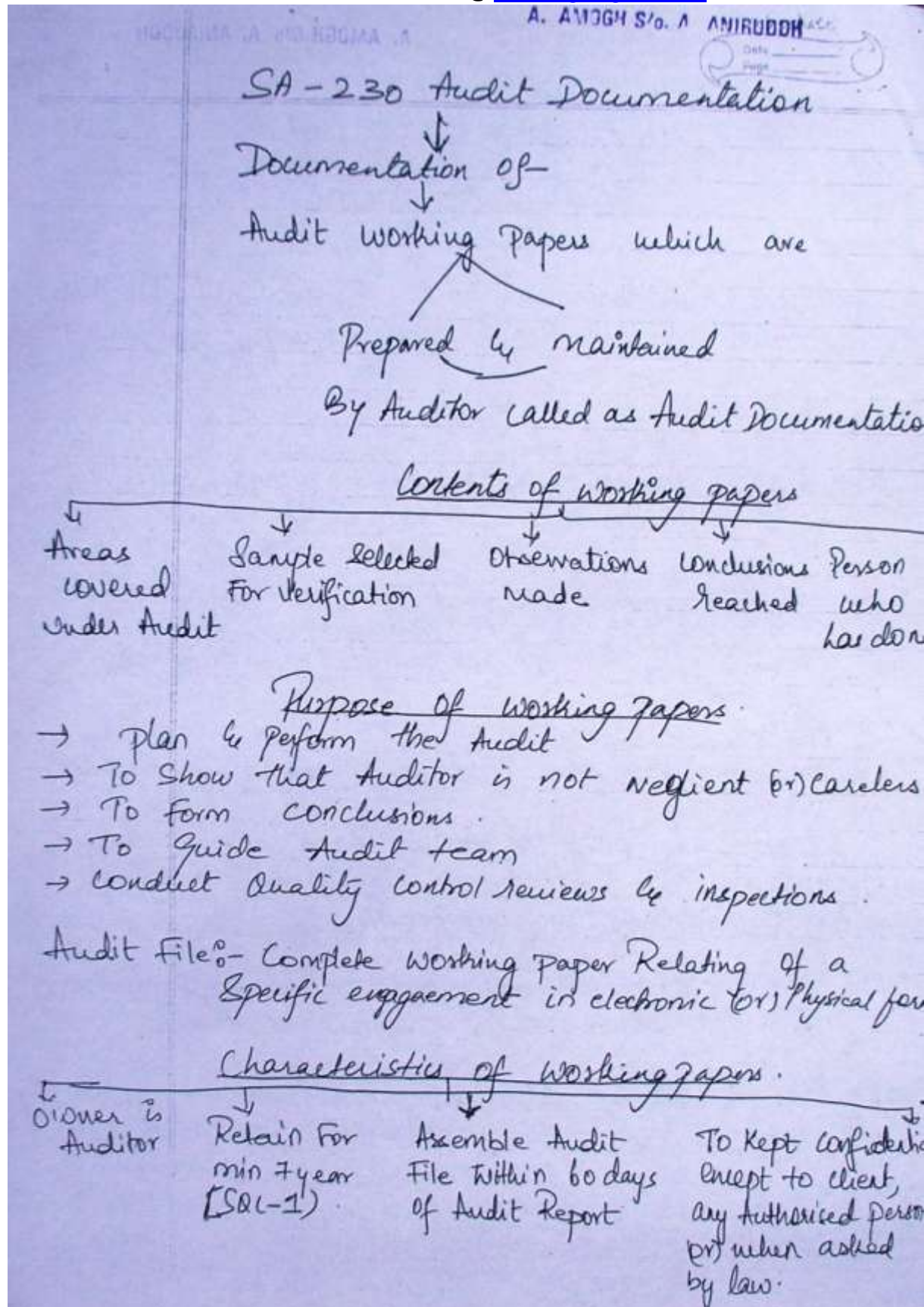
L:- Leadership :- Lead the Audit team, Resolve any differences B/w Audit team, Delegate the work, Assign according to competency.

M:- Monitor :- monitor policies & procedures, Supervise & Review the work, monitor progress of Audit.

E:- Ethical Requirements :- Independent, Integrity, Objectivity, Confidentiality, Professional Behaviour.

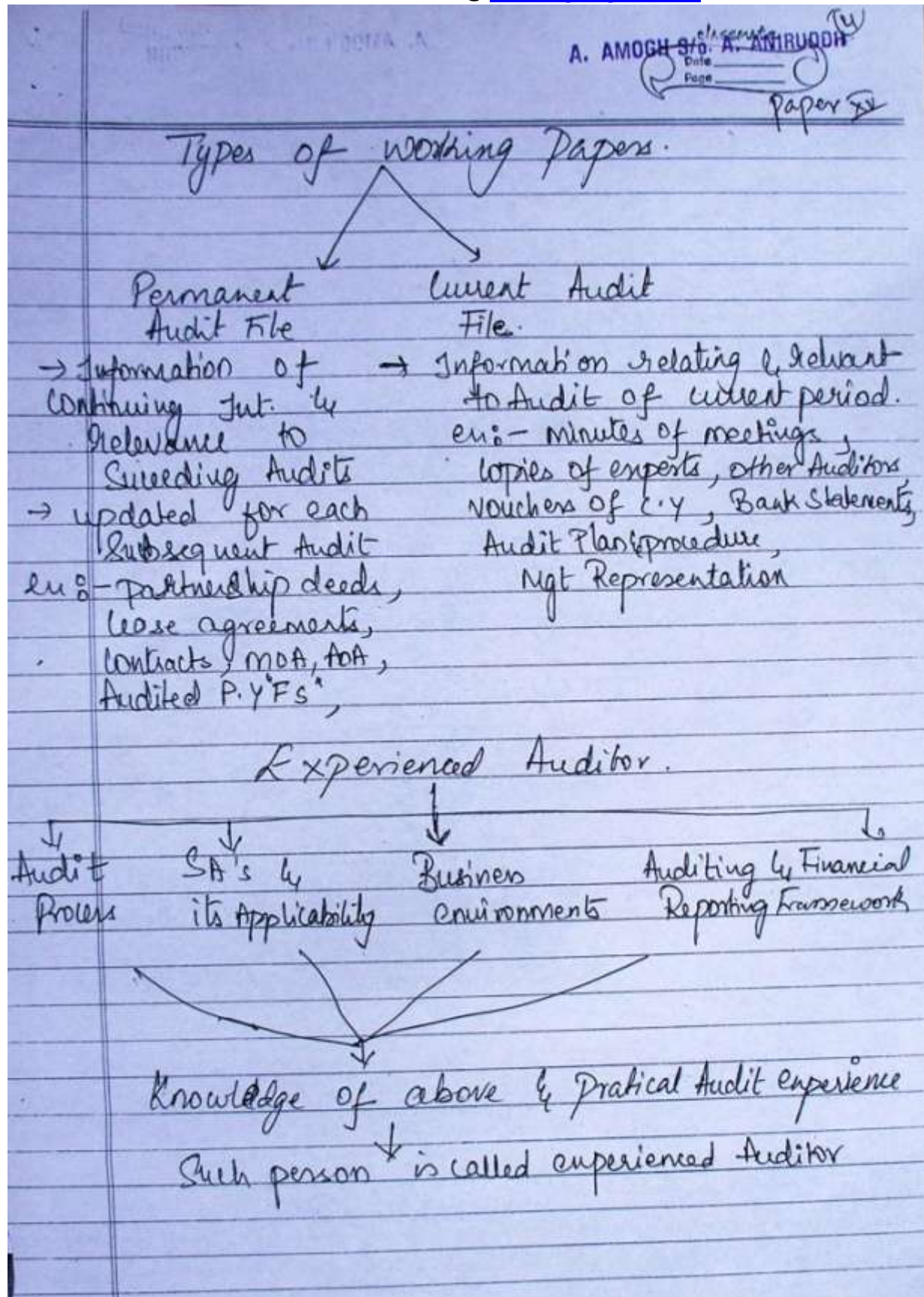
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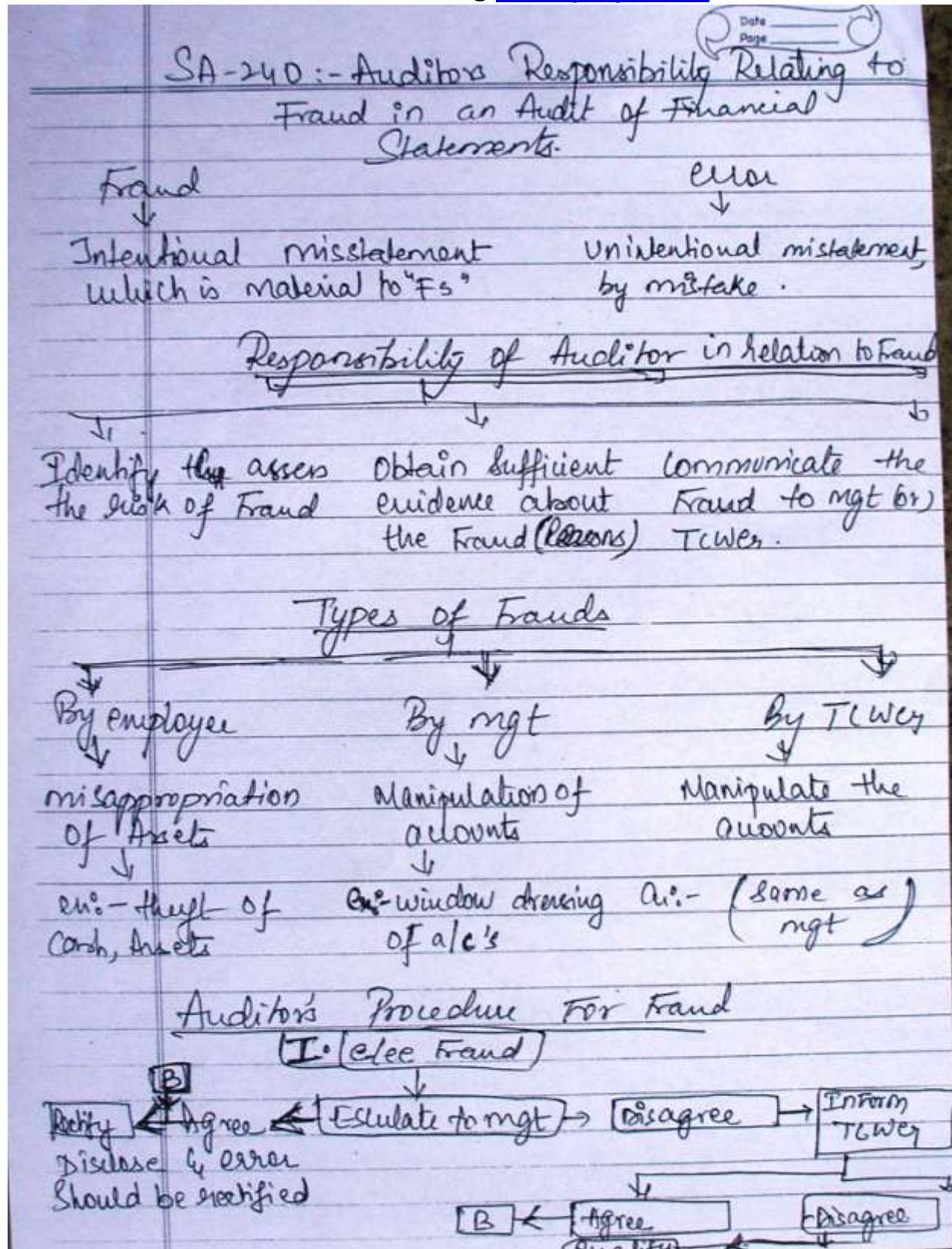
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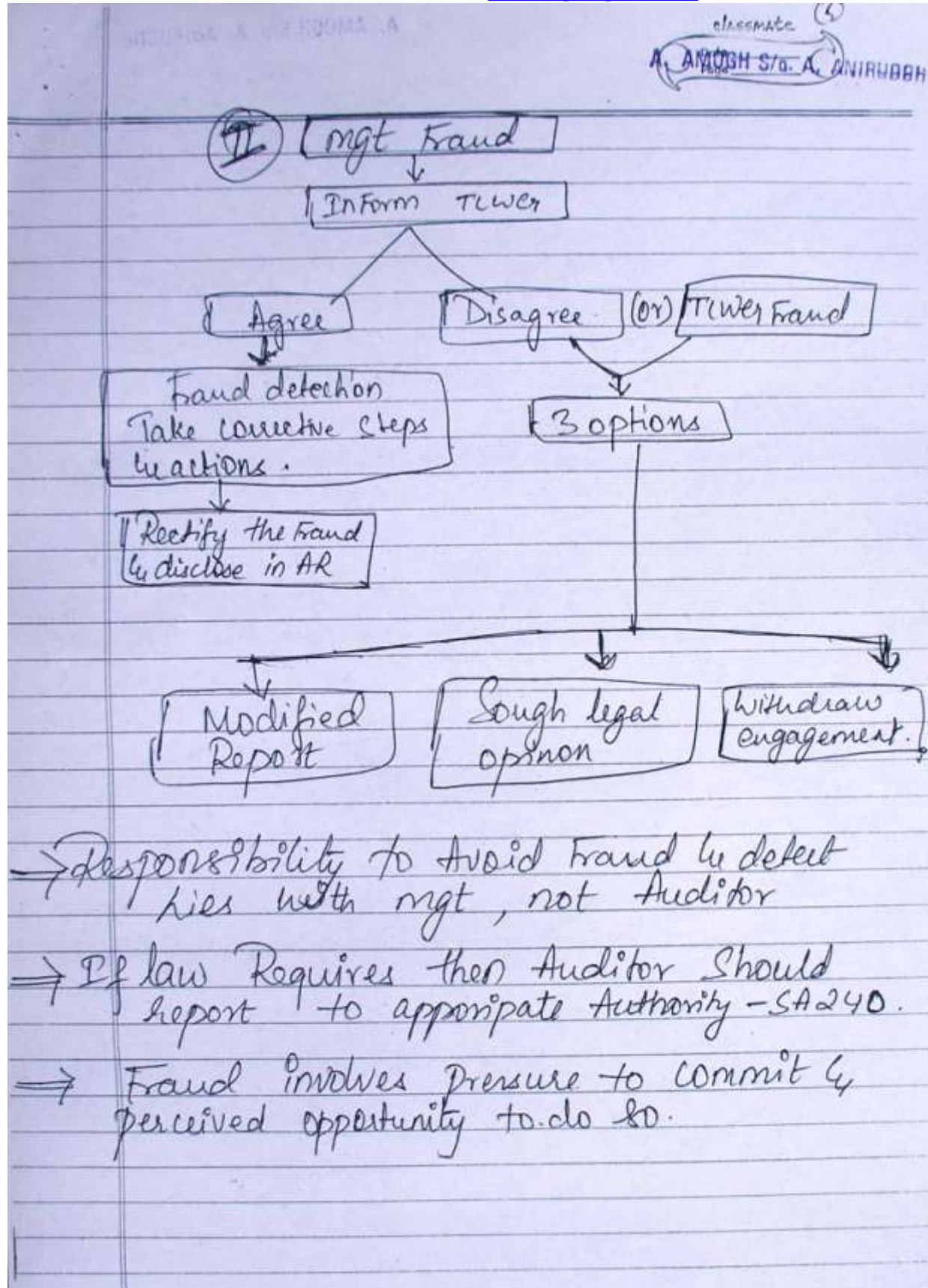
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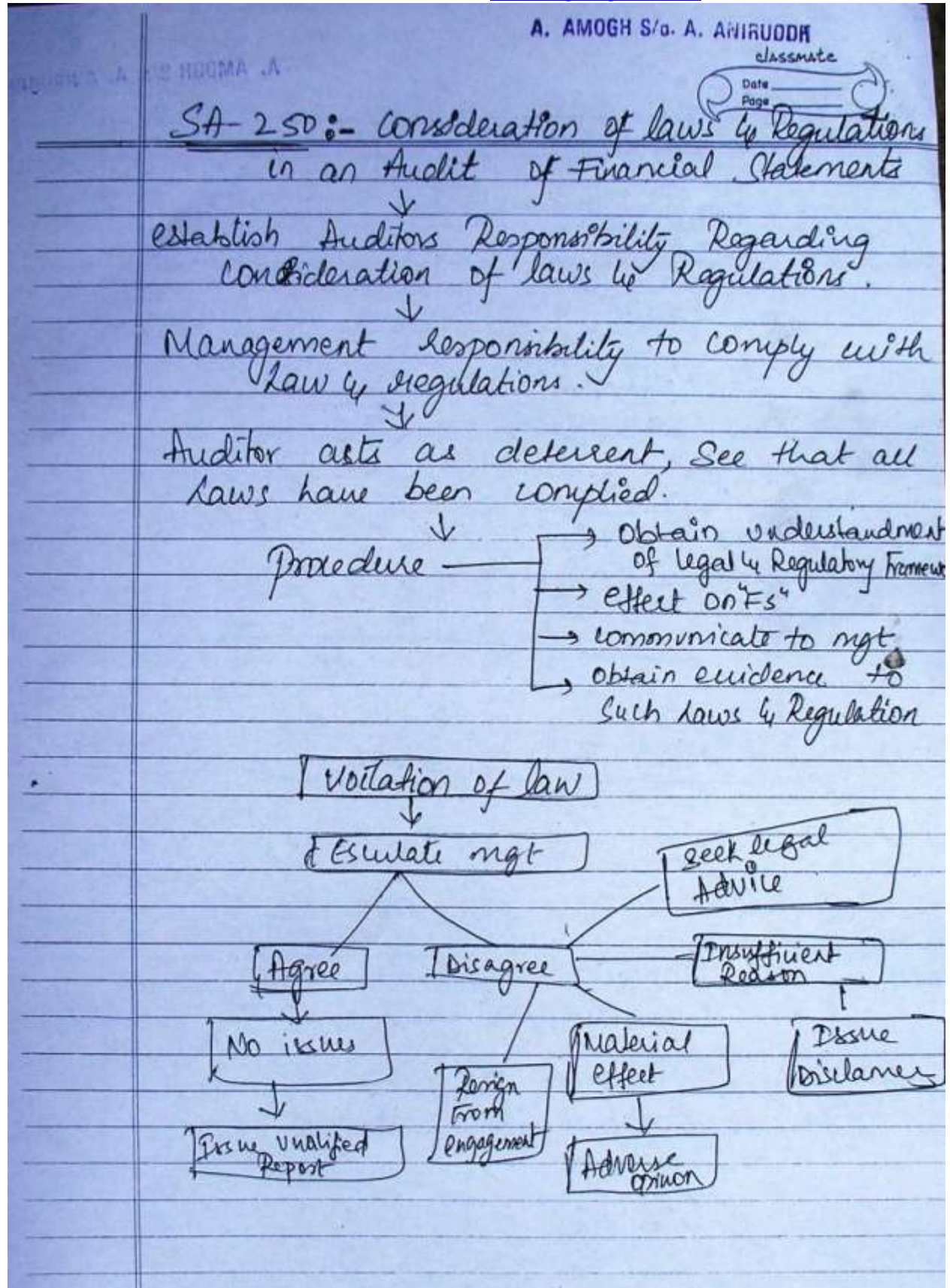
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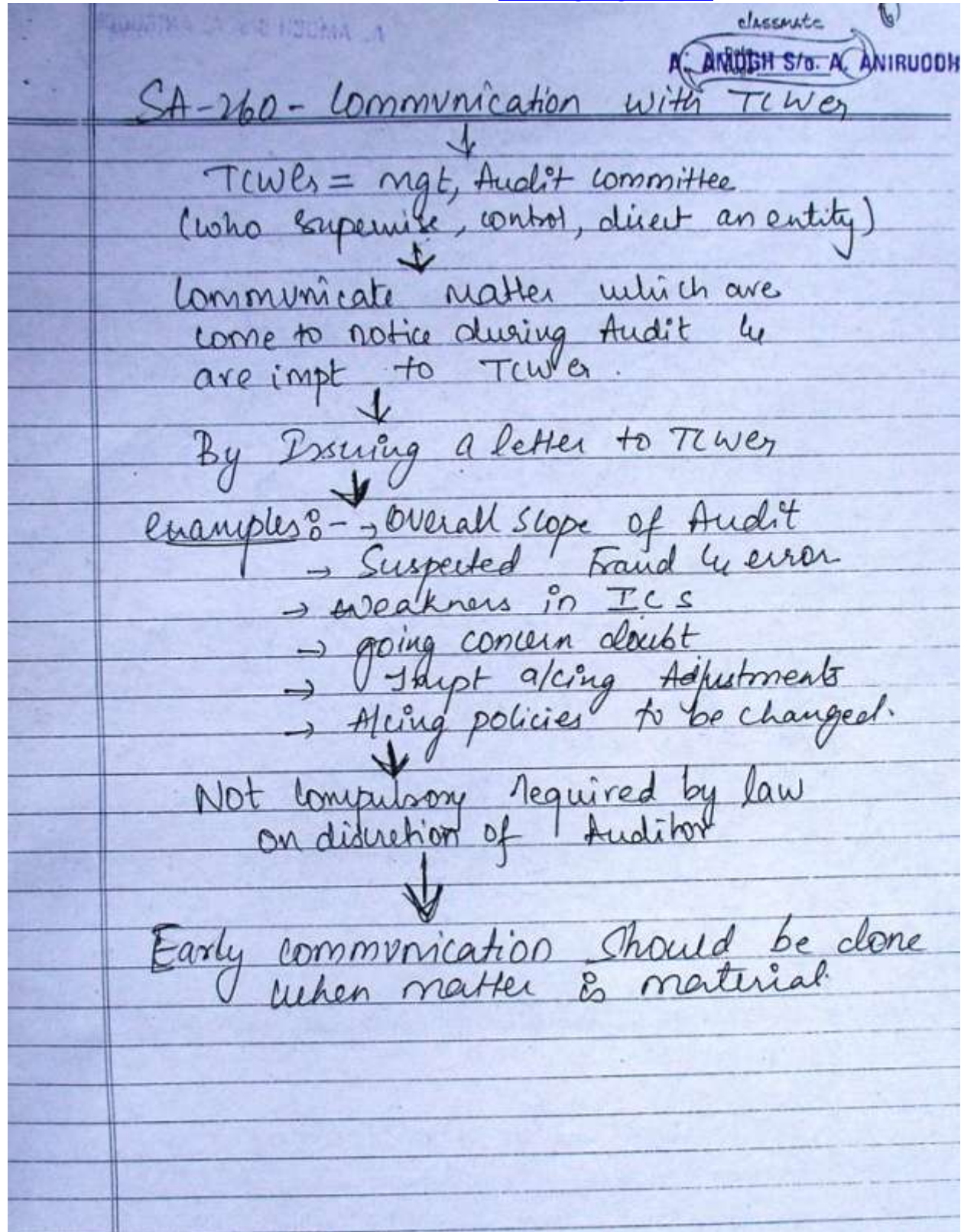
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265% - Communicating Deficiencies in IC to TCW

Deficiency in
IC
↓
unable to check the
misstatement

Significant deficiency
in IC
↓
New IC System is
needed

↓

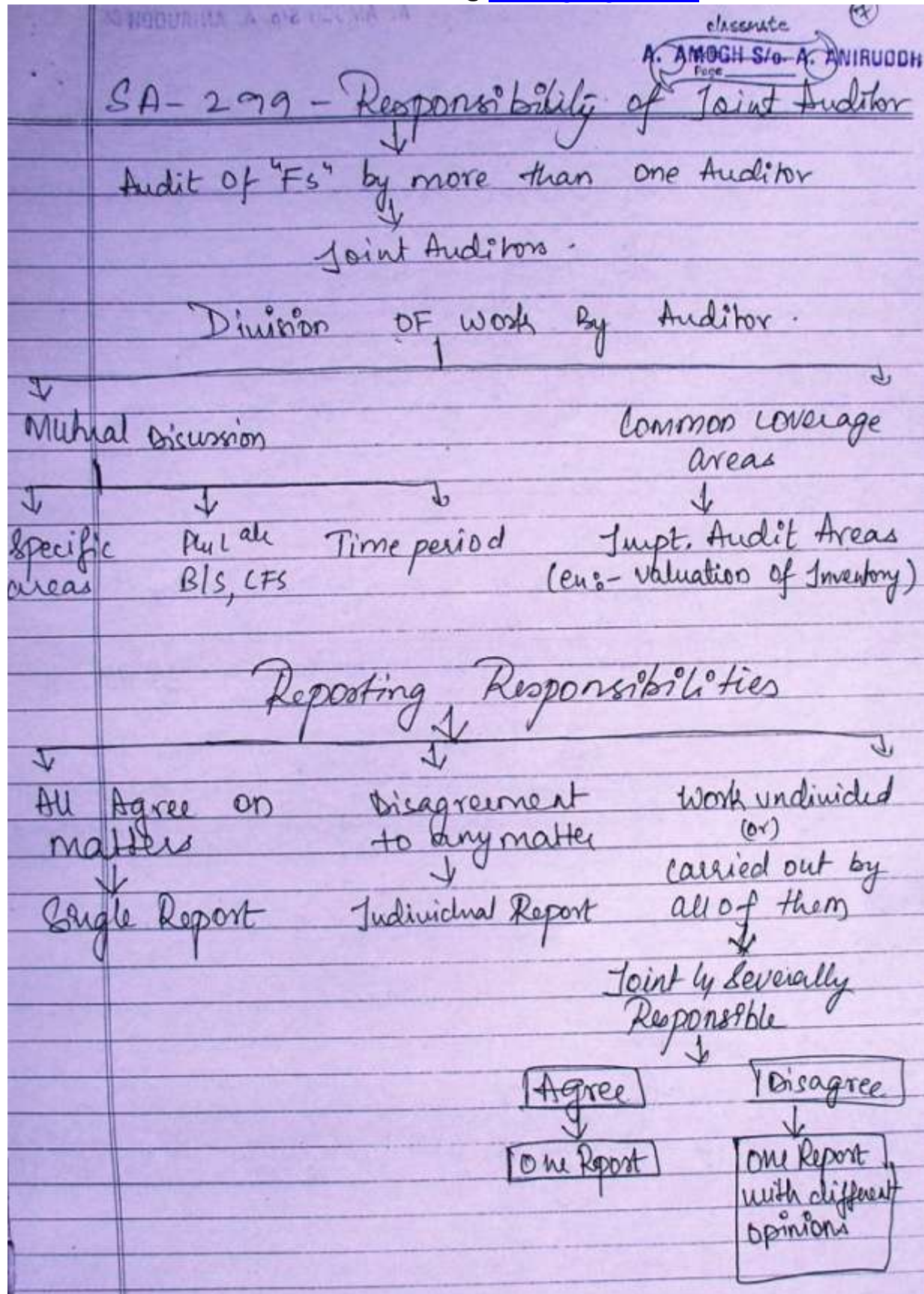
Communicate to TCW

DEMISE:-

- D → Disclosure of material misstatement due to fraud or error
- E → Evidence of ineffective Response
- m → mgt Failure to implement Remedial action
- I → Identification of Fraud
- S → Significance of transaction
- E - Evidence of ineffective Risk Assessment Procedures

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SA-300 Planning an Audit OF FS

↓
For an effective manner of Audit Performance

* Benefits of Planning an Audit

↓ ↓ ↓ ↓

Proper Attention to Imp't Areas	Identify Problems	proper organisation w.rgt of Audit programme	To facilitate direction, supervision, coordination of Audit team
------------------------------------	----------------------	---	--

* Procedure to be adopted by Auditor

↓

Identify the characteristics of engagement

↓

Ascertain the objectives

↓

Ascertain Factors Significant for Audit Team

↓

Ascertain Nature, timing & extent of Resources

* Factors For Planning

↓ ↓ ↓

Size & complexity of entity	Previous experience of Audit with entity	Changes in circumstances during Audit engagement
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SA 315:- Identifying & Assessing the risk of material misstatement through understanding & entity & its environment.

↓

Identify And Assess the risk of material misstatement by :-

- (i) Assessment of Risk of material misstatement at Financial Statement level & at Assertion level
- (ii) Entity's Selection & Application of accounting policies
- (iii) Objectives & strategies & Related Business Risk
- (iv) Measurement & Review of entity's Financial Performance

↓

It is Plan / Policy / Procedure of organization to

(i) To ensure that Business is conducted in effective & efficient manner

(ii) Assets are Safeguarded

(iii) Laws & Regulations prepared are complied as per Financial Reporting Framework

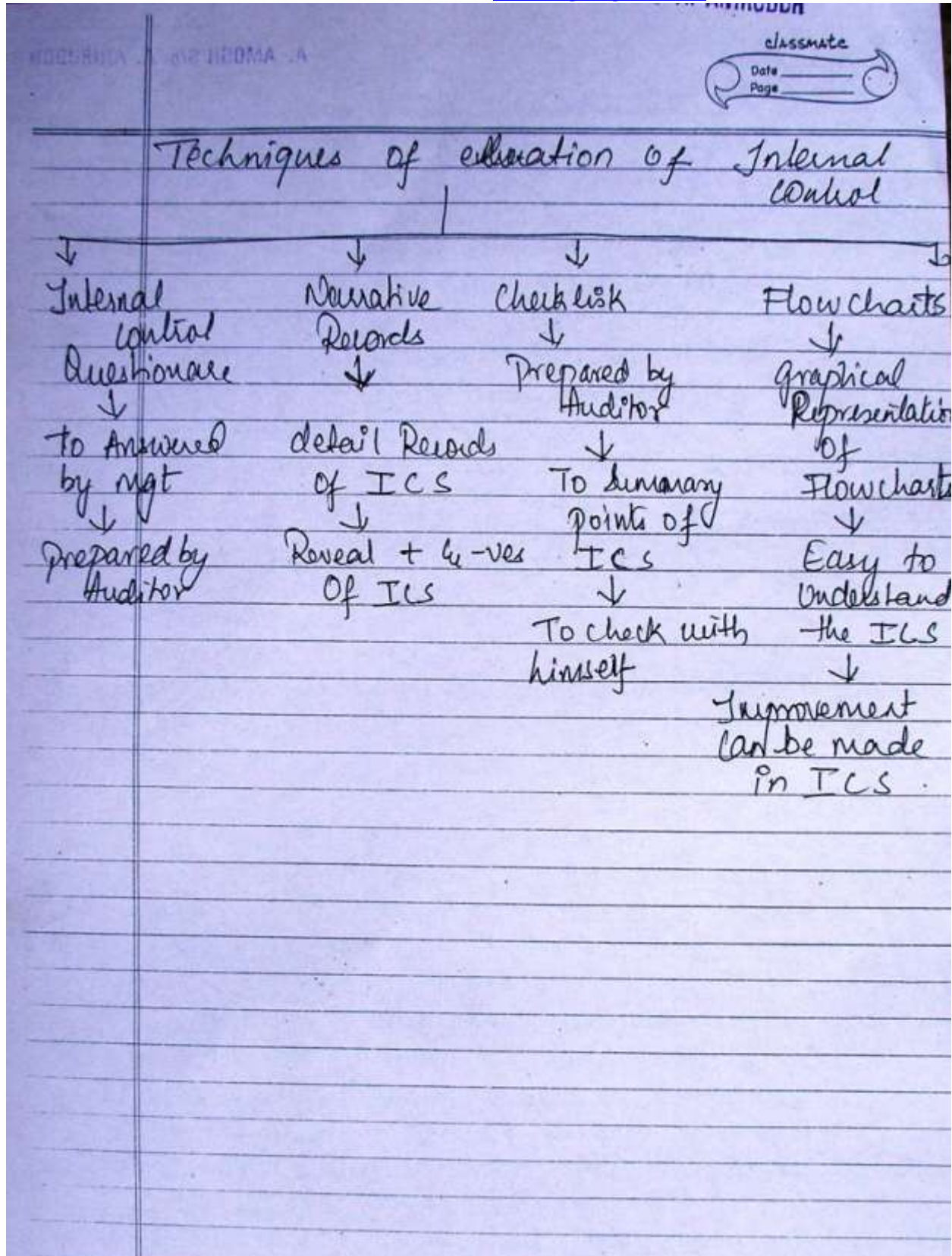
(iv) "F's"

Components of IC (CRIME)

- (i) Control Activity :- ethical values, org. Structure, Responsibility & Authority etc. - Transaction properly Authorised
- (ii) Risk Assessment :- changes in operating environment, New Personal, New Information system.
etc. - Auditor should identify the Risk.
- (iii) Information & Communication :- processing of data is proper, Properly Present & disclose
- (iv) Maintaining :- Performance Reviews, Physical control, Segregation of duties etc
- (v) Entity & Environment :- understand Business, org. Structure, nature of operations, its environment.

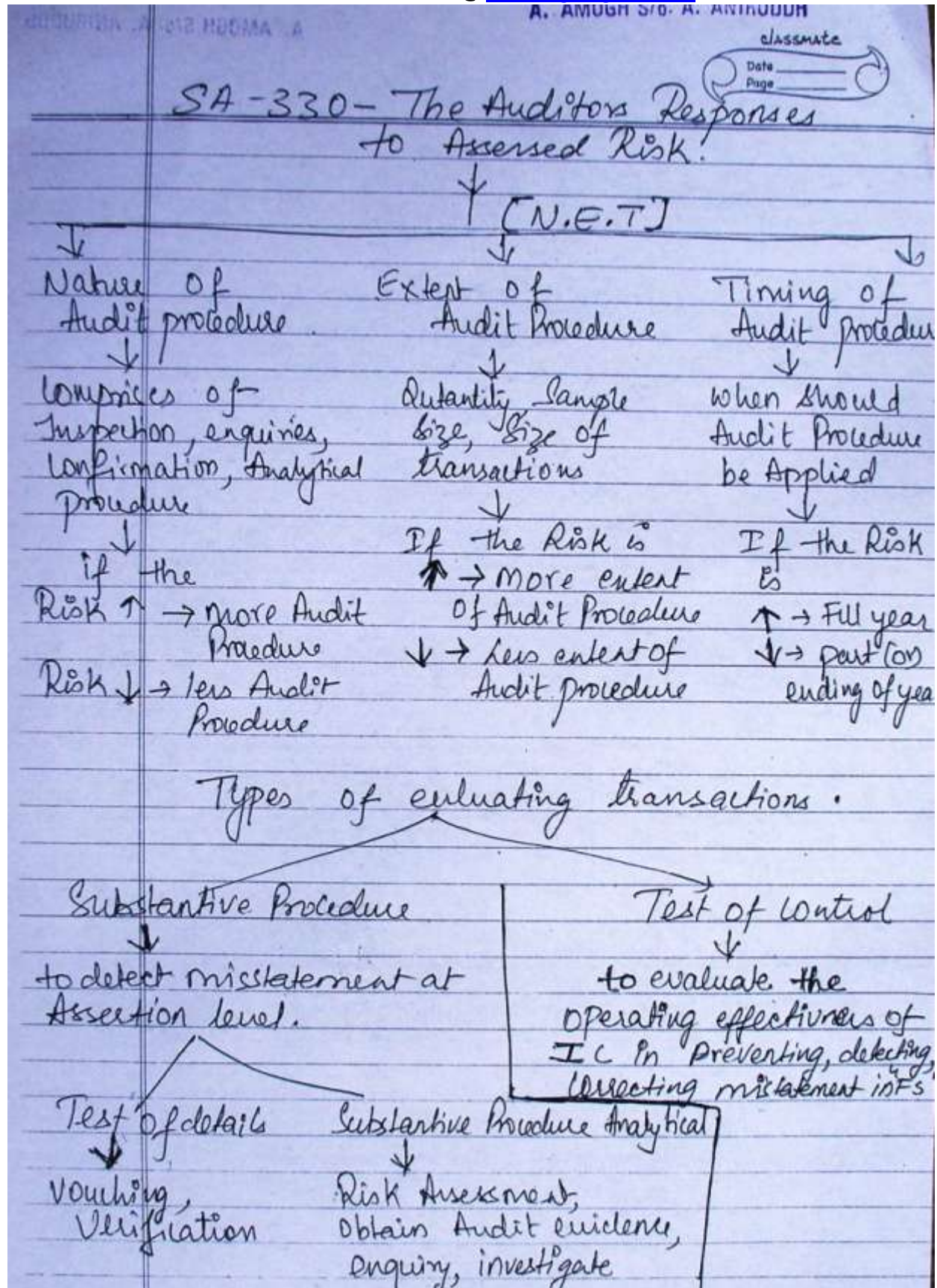
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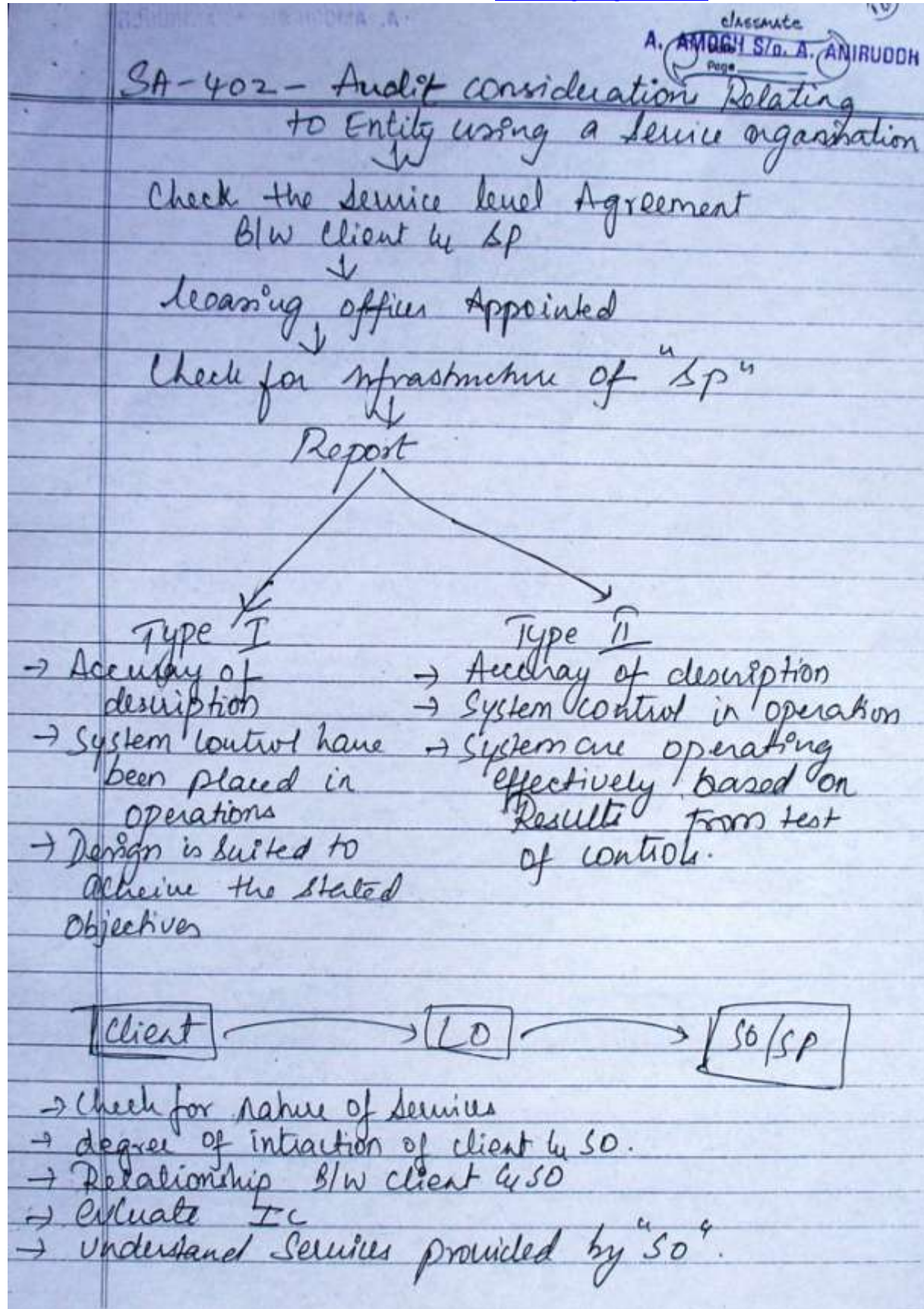
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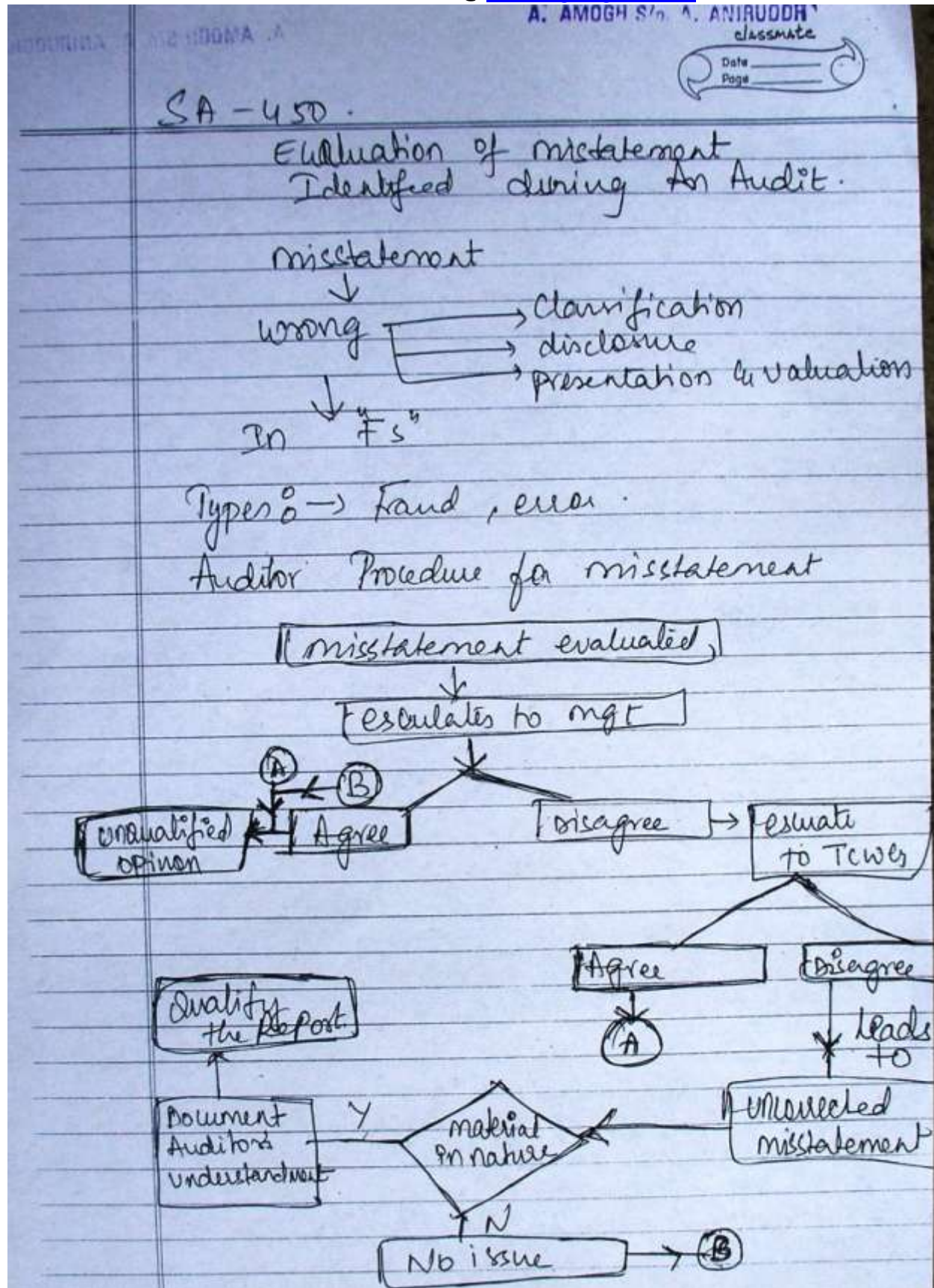
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SA- SOD - Audit Evidence

Audit Evidence :- Information used by the Auditor in arriving at conclusions on which opinion is based.

Audit Evidence :-

- Financial Evidence
- Non-Financial Evidence

Objective of Auditor :- to design & perform Audit procedures in a such a way as to enable the auditor to obtain sufficient appropriate audit Evidence to able to draw reasonable conclusions on which to base Auditor's Opinion

Significance of Audit Evidence (Purpose),

↓	↓	↓	↓
fundamental constituent of Audit Process	substantiate any assertion made in "Fs"	facilitate Audit Procedure	Helps in forming an opinion

Techniques of Audit Evidence

↓	↓	↓	↓	↓
Inspection	Observation	external confirmation	Recalculation	Reperformance
	Analytical procedures			Inquiry (or) Investigated

NOTES ON STANDARDS OF AUDITING FOR CA-IPCC.

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paper XV

Financial Statement Assertions

↓
Assets & liabilities.

- R: Rights
- O: ownership
- C: completeness
- E: Existence
- V: Valuation
- D: Disclosures

[ROCEVD]

↓
For Profit and Loss

- O: Occurrence
- O: Ownership
- V: Valuation
- D: Disclosure
- C: Completeness
- A: Accuracy
- M: Measurement

Others:-

- obligations
- Presentation

Reliability of Audit Evidence

- external source is more reliable than Internal source.
- reliability of Internal Evidence Increases, in existence of effective I.C.S.
- Audit Evidence Obtained directly by Auditor is more reliable than Audit Evidence Obtained by indirectly or by inference
- written evidence more reliable than oral.

NOTES ON STANDARDS OF AUDITING FOR CA-IPCC.

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SA-501 Audit Evidence -

Specific considerations for Selected Items

Auditor to obtain Sufficient Audit Evidence regarding:-

- Inventory
- Litigation & claim.
- Segment information
- Long term Investment.

Inventory	Litigation & claims	Segment Reporting
→ mgt does the physical Inventory Verification	→ Inquiry the mgt, TCW, lawyers	→ Based on
→ check for non-moving item	→ Review minutes	(i) Product wise
→ Check costing records	→ Review legal exp etc	(ii) Location wise
→ Auditor is an observer of mgt count procedures inspect the inventory, perform test control.	→ W/R should be obtained from TCW/mgt	(iii) Geographical Segment.
	→ Proper disclosures must be made	→ Auditor should obtain evidence about segment Asset, Revenue, P&L etc
		→ Perform Analytical Procedure

Long term Investments Valuation

→ Investment upto maturity } They are Long term Investment
(or) more than 1 year

→ Valued at cost

Quoted
listed

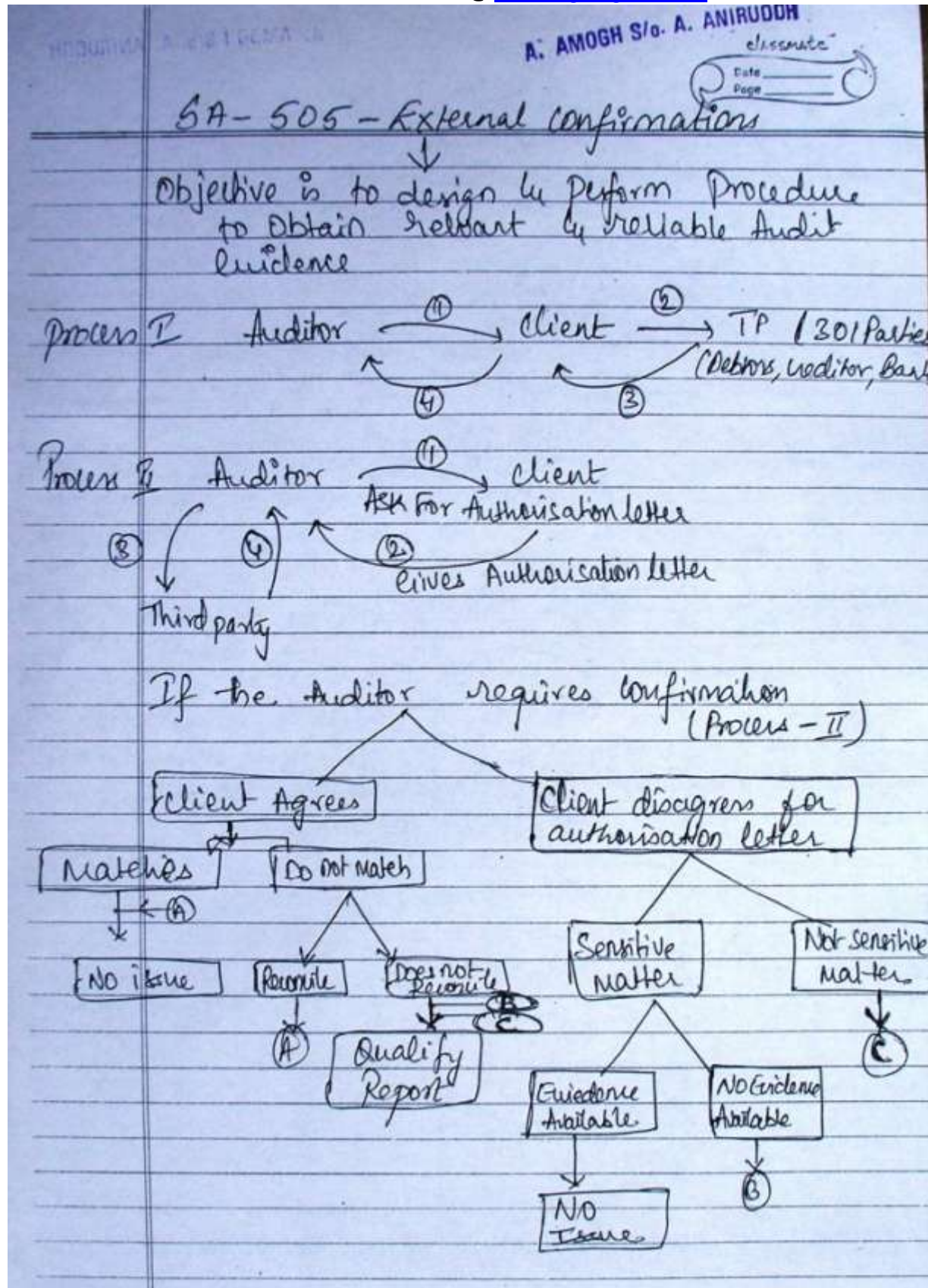
Method market price.

Unquoted
unlisted

Method:- yield, Networth method

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- Date _____
Page _____
- P - Prior experience in Audit
 - L - Layout & presentation of Confirmation
 - A → Assertion to be Addressed
 - S → Specified identification of risk of material misstatement
 - T → The method of communication.
 - I → Information on which confirmation is required
 - C - class of transaction which will covered.

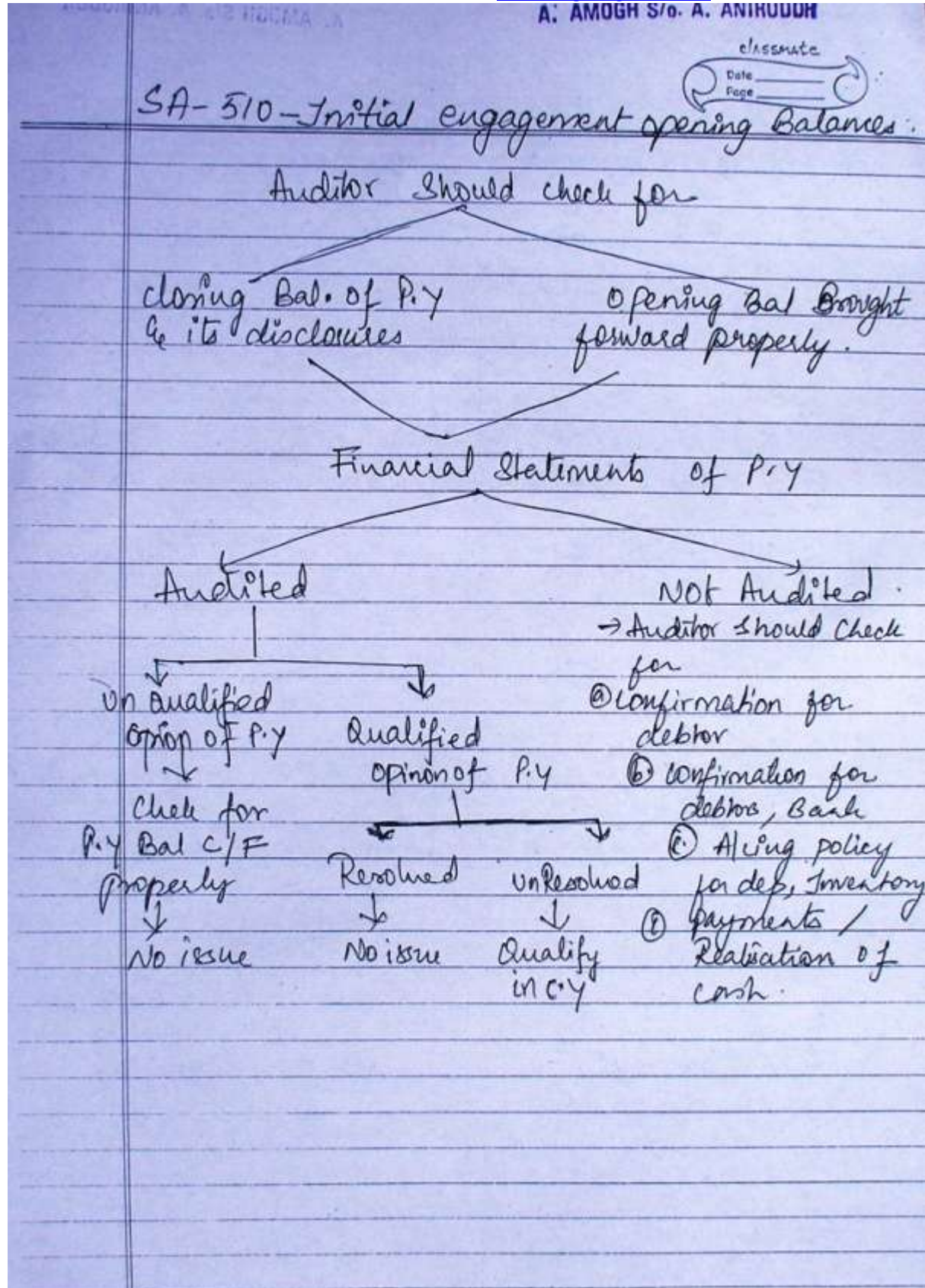
Method of communication

+ve Confirmation
↓
Ask TP to confirm
if Bal. match

-ve Negative Confirmation
↓
Ask TP to confirm
if Bal. do not
match.

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SA- 520 Analytical Procedures

↓

Analysis of Financial & Non-financial information

↓

To ascertain deviation & reasons.

Types of Analytical Procedures :-

- I Trend Analysis :- compare "Fs" of prior period
- II Comparative data Analysis :- compare "Fs" with anticipated results (Budgets / forecast)
- III Predictive estimate Analysis :- compare "Fs" with estimates of Auditor e.g. depreciation etc...
- IV Inter-firm Analysis :- compare Financial ratios with other firms of similar nature.
- V Key Financial Ratio :- compare Ratio & Relationship
- VI Key Non-Financial Ratio :- e.g. Sale per e/ee etc....

Purpose of Analytical procedures

- Helps to determine Audit plan
- Indicates aspects of Business that are important
- directs attention to potential risk areas
- Accumulate evidences for Audit.
- Help to identify possible oversights in an Audit & unusual transactions.
- Helps to corroborate conclusions
- Helps in determining sufficiency & reliability of evidence
- Helps to reduce risk

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SA-530 - Audit Sampling.

where less 100% of Audit population are examined by Audit Procedures.
Stratification etc.

* Process of Selecting Sample

Based on Nature

Random Sample technique

↓

Every item has possibility of selecting

Systematic S.T

↓

Selection on Rule

Haphazard S.T

↓

Divide population into 2

↓

Apply Random S.T

Based on Statistics

Statistical S.T

↓

Use of Regression line etc

Non-Statistical S.T

↓

Use of Probability

→ Greater the sample size, Less the Audit risk.

* Procedure for Audit Sampling

Design and Select Audit Sample

Perform Audit → Investigate nature & cause of deviation & misstatement

→ Projecting misstatement

↓

Evaluate the Results

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SA - Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures SA - 540.

Accounting Estimate:- An approximation of a monetary amount in the absence of a precise means of measurement

Fair Value Accounting Estimate:- means where the measurement objective is expressed in terms of the value of a current transaction or "Fs" item based on conditions prevalent at the measurement date, such as estimated market price for a particular type of asset or liability.

Ex:- FV of Inventory, Share-based payments.

Every accounting estimate other than FVAE is a other estimate.

Ex:- P.B.D, Depreciation etc...

* Auditor's Procedure [TREAT MICRO]

T:- To understand the method

R:- Review & Test followed by mgt

E:- Environment under which estimates are made

A:- Assumptions taken

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T :- Testing the calculations

M :- make or obtain Independent estimate

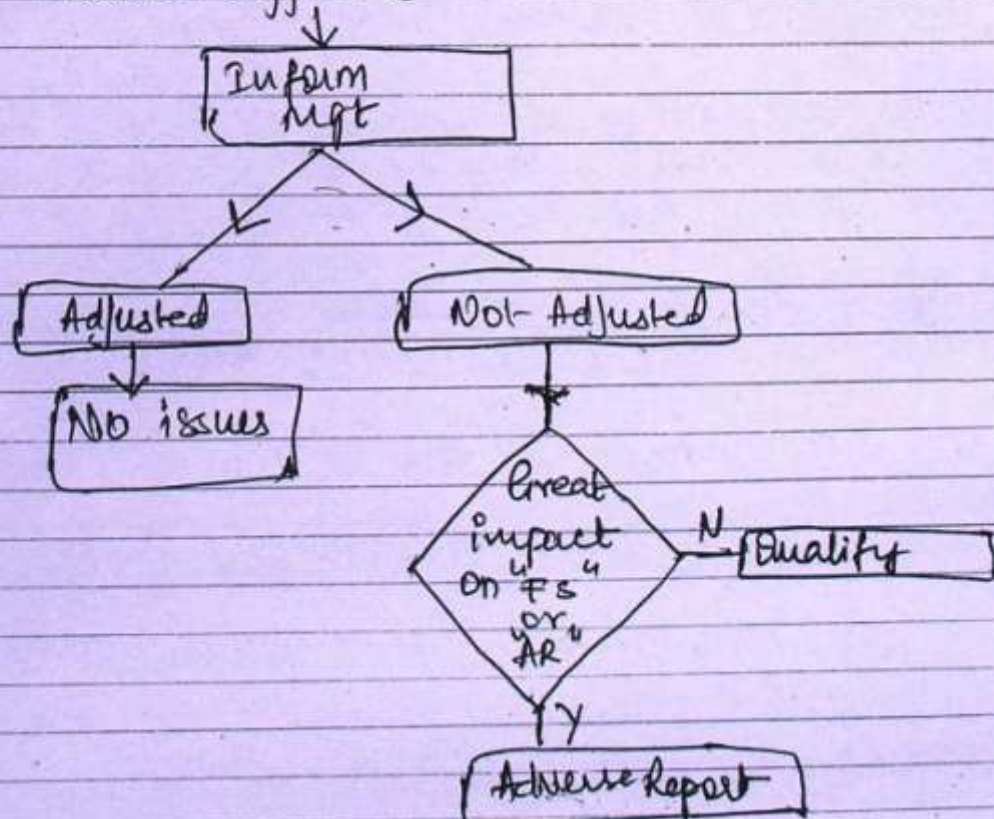
I → In case of complexity, expert helps

C - Consider Data for estimate

R :- Review & consider EABSD.

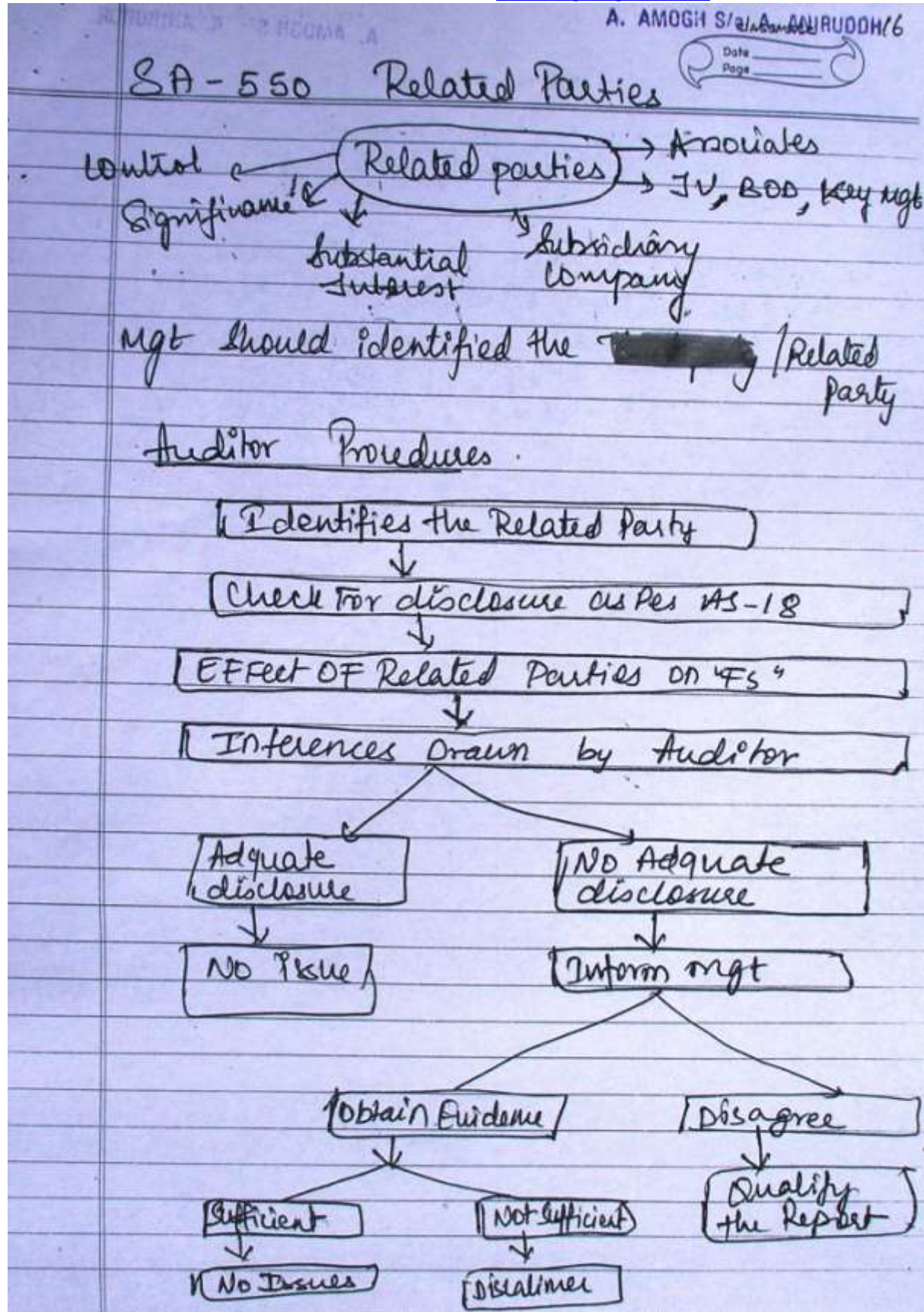
O - Obtain the understanding of the Applicable FRIT

If material difference



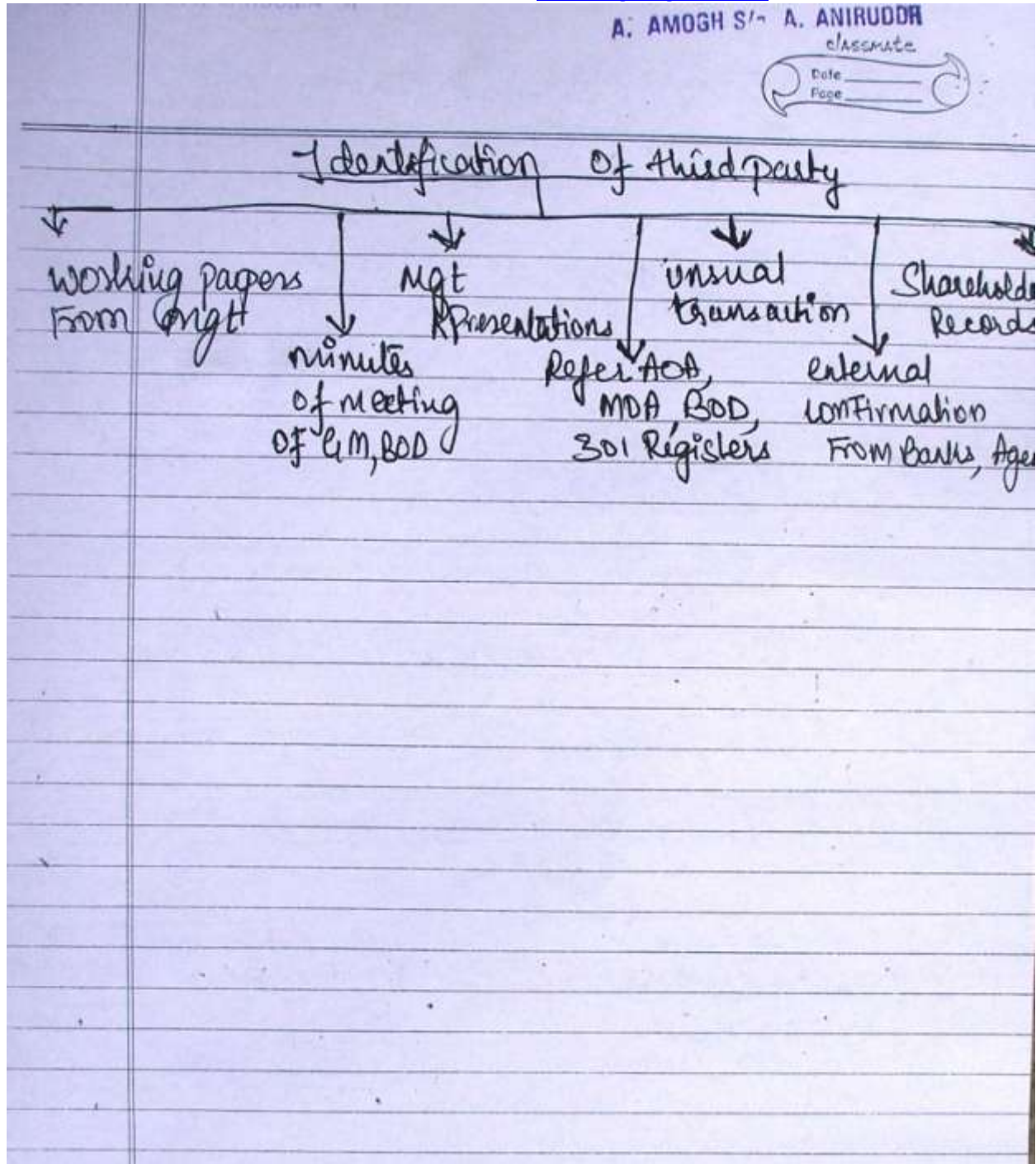
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SA-560 Subsequent Events

Subsequent Events

Events from
B/s date to "AR"

Facts known to Auditor
after date of "AR"

→ mgt has to identify the "SE".

Auditing Procedure [ROAR]

R:- Read the minutes of meeting of
BOD, E.M's after B/s date

O - Obtain an understanding of procedures
that mgt has undertaken to identify
"SE".

A- Ask mgt & TCWen (Inquire)

R:- Read the entity's late Subsequent
Interim "Fs"

Types of SE

SE Requires Adjustment

↓

Passing entries, change
in A/L's

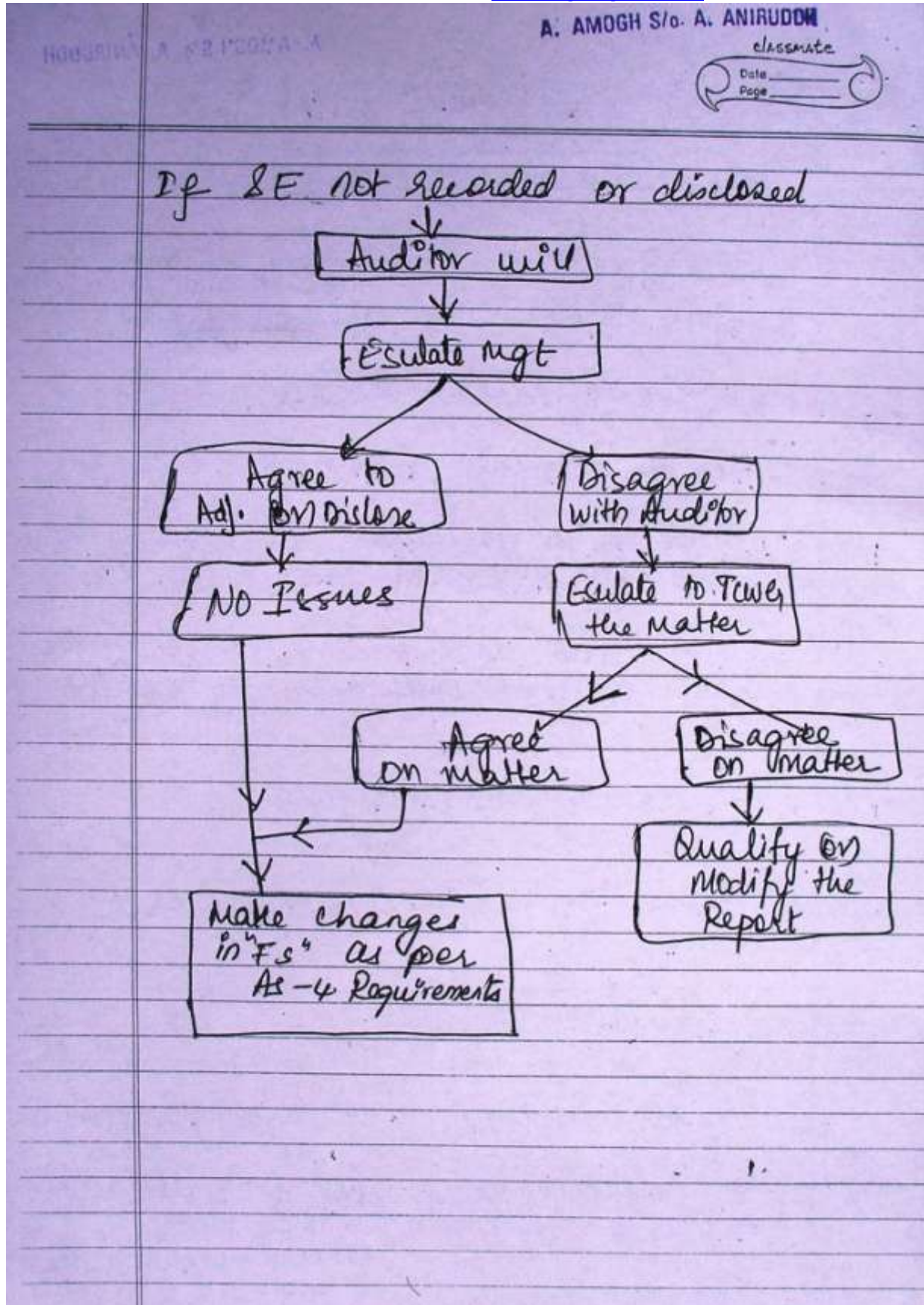
SE Requiring disclosure

↓

Just make disclosures
as notes, Note,
Other information etc

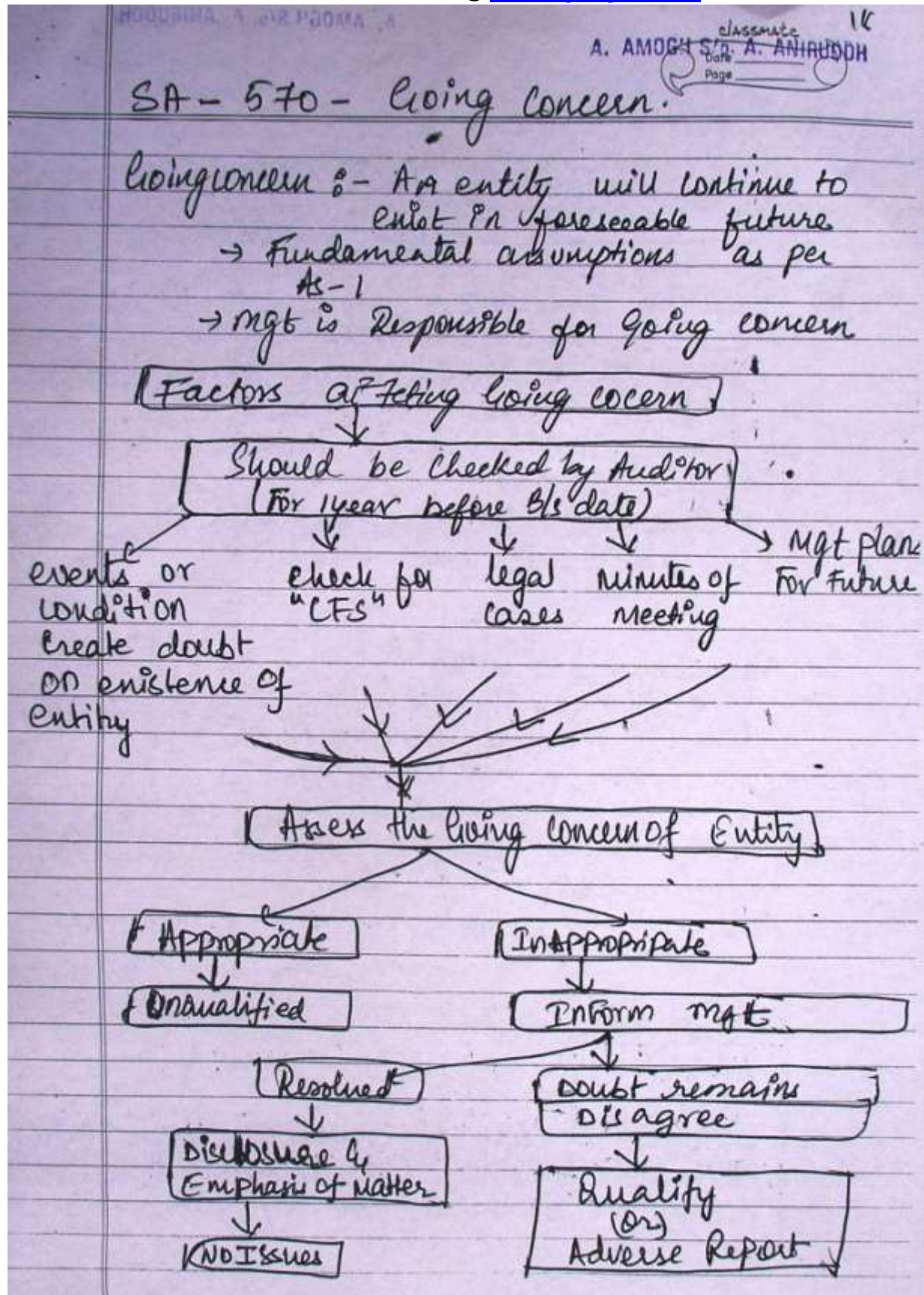
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Indicators of Potential Going concern problems

Ⓐ Financial Indicators :-

- Current liability position
- Surrender of dividend
- Defaults of loan, Interest
- Adverse Key Financial Ratios
 - Negative CFS
 - Sale of Assets for cash generation
 - Inability to pay creditors

Ⓑ Operating Indicators :-

- Lack of RM, Supplies
- Loss of market, customers, licenses
- To stop (or) reduce operations
- Labour difficulties
- Competitors
- Strike, lockouts of labour
- Loss of key mgt without replacement

Ⓒ Other Indicators :-

- Illegal Activities, Non-compliance of law
- Pending legal cases
- Change in law & Regulations to affect entity
- Natural disasters, catastrophes
- Enquiries by govt, Statutory authorities

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SA-580 written Representation

A "WR" is a Statement by mgt provided by mgt to Auditor to confirm certain matters or to support other Audit Evidence.

- Does not include "Fs" & not a substitute for Audit Evidence.
- Mgt Responsibility to prepare & Present "Fs" as per "FRF".

"why WR"

- No Audit Evidence
- Insufficient Audit Evidence

→ WR issued by Authorised person (M.O, BOB, WTD etc)

Procedure:-

```
graph TD
    A[NO Audit Evidence] --> B[WR From client]
    B --> C[Agree]
    B --> D[Disagree]
    C --> E[No issue]
    D --> F[Document the Auditors understandings]
    F --> G[Send to client]
    G --> H[Accept]
    G --> I[Rejects]
    H --> J[Disclose & Emphasis of matter]
    I --> K[modified Report]
```


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SA-600 : Using work of Another Auditor

Other Auditor

↓

Auditor of

Branch

Joint venture

Subsidiary.

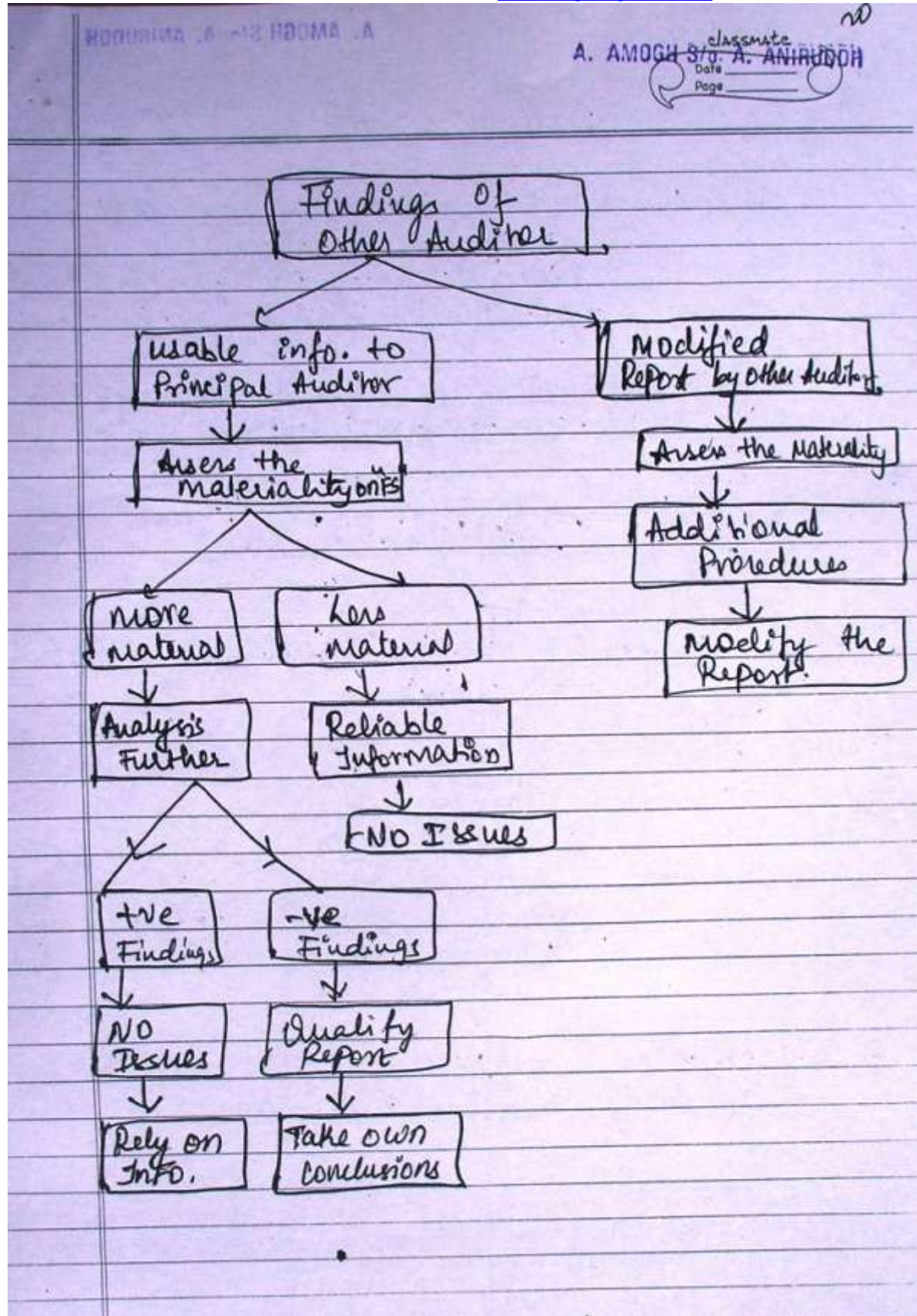
→ Reporting :- Principal Auditor → His area
Other Auditor → His area.

Procedure

- ① → Advise the other auditor about the use to be made of his work
- ② → Intimate the other Auditor about impt areas of Auditing, spl. considerations
- ③ → Co-ordination B/w Both
- ④ → Advise the other Auditor about significant Auditing, Report, accounting requirements
- ⑤ → Ascertain Difficulties of other Auditor
- ⑥ → Consider the significant Findings of other Auditor to Assess it

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SA-610 using work of Internal Auditor.

Internal Auditor - Appointed by BOD, mgt to monitor ICS effectiveness, Examination of financial and operating information, Risk Assessment.

→ External Auditor is responsible for opinion on "Fs" not Internal Auditor.

Factor for relying work of Internal Auditor

Level of Reporting

more
↓
Reliable

less
↓
Less Reliable

Slope of Internal Audit

larger scope
↓
High Reliance

lesser slope
↓
low Reliance

Skill, Experience Qualification

good
↓
more Reliable

lesser
↓
less Reliable

→ Auditor may/may not use the work of Internal Auditor.

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SA-620 :- using the work of expert.

Experts :- Specialists in a field (persons, group)
(firm, company etc)

- engaged by client or Auditor
- employed by client or Auditor

The name of expert should be disclosed with his consent.

Valuation of Assets (e.g. L&B, Pym) $\leftrightarrow$ **Areas of experts info. required**

Measurement of work on long-term contract	Legal cases, disputes	Actuarial Advises (Pension Plans, gratuity etc)

Qualities of expert $\leftrightarrow$ **experienced.**

competence	professional Qualification	unbiased Objectivity
↳ Focused attitude		

Audit Procedure

```
graph TD
    AP[Audit Procedure] --> WE[Work of expert]
    WE --> A[A]
    WE --> R[Reliable]
    WE --> NR[Not Reliable]
    R --> C[Consistent]
    R --> I[Inconsistent]
    C --> NI[NO issues]
    I --> QD[Quality/ disclaimer]
    NR --> GST[Go For Supplementary test.]
    GST --> A2[A]
```


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SA-700 Forming opinion and Reporting on "Fs"

Slope of SA :- To give an opinion & report on "Fs"

Objectivity of SA :- To ensure that the "Fs" are prepared & presented as per FRF.

Considerations for forming an opinion on Financial statements

⑥ check whether "Fs" are prepared in accordance with FRF

- i. Adequate disclosures of Acc Policy
- ii consistency in Acc policy
- iii Reasonableness of estimates by mgmt
- iv Info. in "Fs" is relevant, reliable, Understandable.

⑦ Obtain Assurance about whether "Fs" as whole are free from material misstatement

To Form an opinion

unmodified
or
unqualified

↓

SA 700

modified opinion

↓

Adverse
opinion

Disclaimer
opinion

SA-705

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SA-705 - modifications to opinion in Independent Auditor Report

This SA establishes 3 types of modified Opinions

↓ A Qualified opinion → Limitation to Scope → Disagree with mgt for disclosures, ii) Accounting policy, iii) Law compliance → Uncertainty → Not a true & fair view	↓ An Adverse opinion → Scope of Audit is restricted → NO Access to Books of Acc's → Sized by IT Authority → Far off distant places.	↓ An disclaimer opinion. → Insufficient Audit Evidence → Inappropriate Audit Evidence → No Audit Evidence
--	---	---

Form & Content of Auditor's Report

- ① → Include paragraph for opinion
- ② → Quantify & indicate the effect on "Fs"
- ③ → Reasons for such opinion
- ④ → Indicate opinion without any confusion to users.

NOTES ON STANDARDS OF AUDITING FOR CA-IPCC.

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Format Of Independent Auditors Report

To Members Of The Company,

We Have Examined The Financial Statements Comprising Of

- Balance Sheet As At 31st March 2009
- Profit And Loss Account For The Year Ended 31st March 2012
- Cash Flow Statement For The Year Ended 31st March 2012

Of The Ltd.

MANAGEMENT RESPONSIBILITY TO FINANCIAL STATEMENTS

The Management Is Responsible For

1. Preparation Of Financial Statements
2. Maintenance Of Books Of Accounts
3. Maintenance Of Internal Control
4. Safeguard Of Assets
5. To Provide All Information And Explanation

AUDITOR'S RESPONSIBILITY

1. Our Responsibility Is To Give An Opinion On Financial Statements.
2. We Have Conducted An Official Financial Examination Of The Organization's Accounts And Conducted A Systematic Review Of Financial Statements.
3. We Have Obtained Sufficient And Appropriate Audit Evidence.
4. With Professional Skepticism And Professional Judgment.
5. We Have Evaluated Of Internal Control.
6. We Have Checked The Risk Of Misstatement.
7. With Reference To Companies Act, 1956 The Audit Has Been Done.

OPINION PARAGRAPH

Based Upon Our Examination And Also Explanation Of The Financial Statements Given To Us Comprising Of

- Balance Sheet.
- Profit And Loss Account.
- Cash Flow Statement.

The Above Presented A True And Fair View.

LAWS AND REGULATIONS APPLICABLE

- a) Report Under CARO 2003 Is As Attached
- b) Report Under Section 227(3) Is As Follows:
 1. All Explanation And Information Has Been Obtained
 2. Financial Statements Is Prepared As Per Accounting Standards.
 3. As Per Books Of Accounts
 4. Balance Sheet Show True And Fair View
 5. Profit And Loss Account Shows True And Fair View
 6. Director Is Not Disqualified U/S 274(1) (G).

EMPHASIS OF MATTER PARAGRAPH

Without Qualifying, We Would Have To Bring To Your Attention That While Auditing Current Year's Financial Statements, There Was A Need To Refer 2005-2006 Books Of Accounts As Per The Instruction Of MD They Are Already Destroyed.

OTHER MATTER PARAGRAPH

.....
.....
.....

SIGNATURE: _____

MEMBERSHIP NO.:

FIRM NO.:

DATE:

PLACE:

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SA-706: Emphasis of matter paragraph by other matter paragraphs in Independent Auditor's Report

Emphasis of matter :- Impt. matter that Auditor feels the users must know about it.

Other matter :- relevant to users Understand the matter of Audit.

Format

↓

Include it immediately after opinion para.

↓

Heading :- Emphasis of matter

↓

Indicate clear reference to paragraph in "Fs"

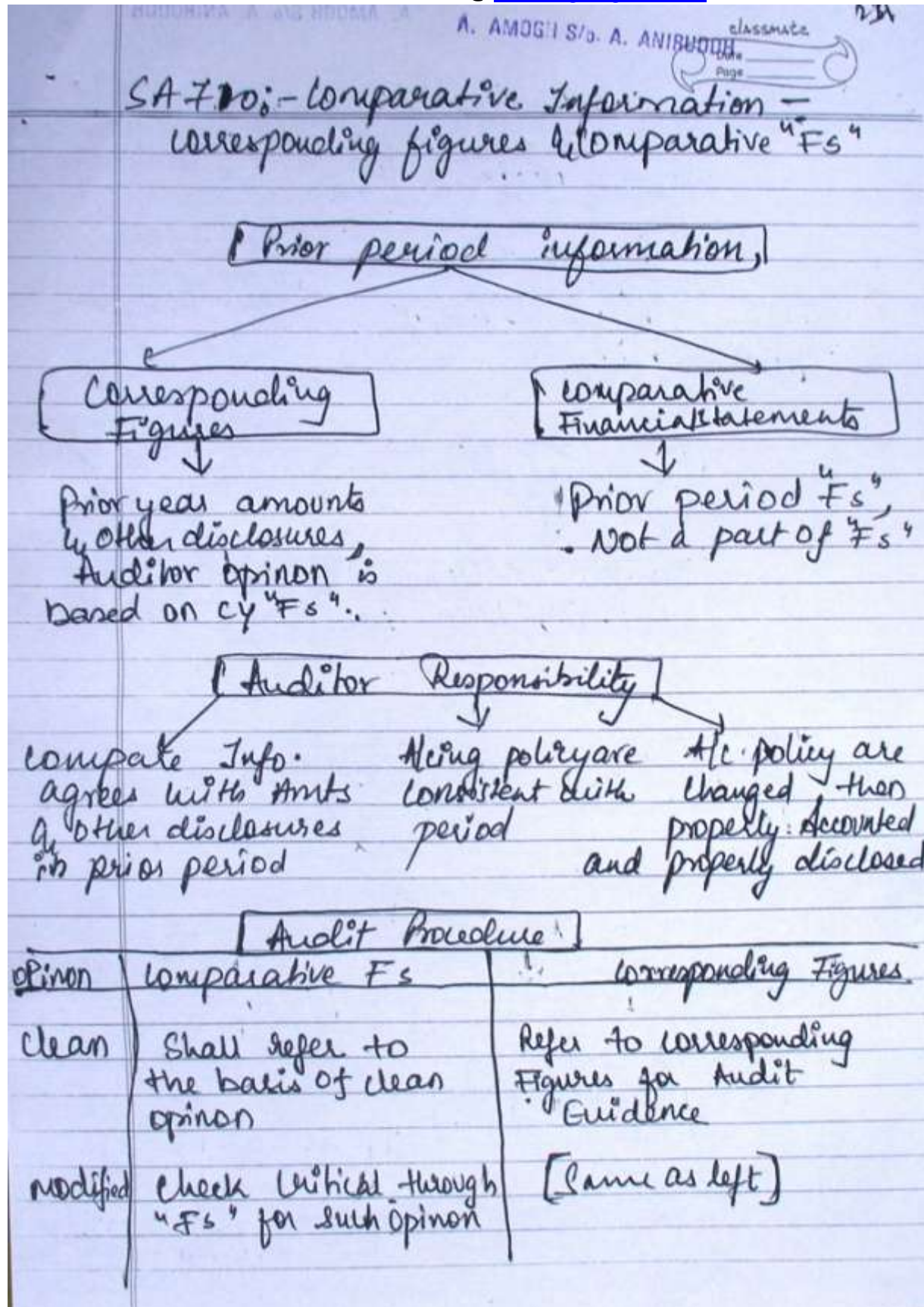
↓

Indicate the Auditor's opinion

→ Other matters paragraph should be included after matter of emphasis paragraph.

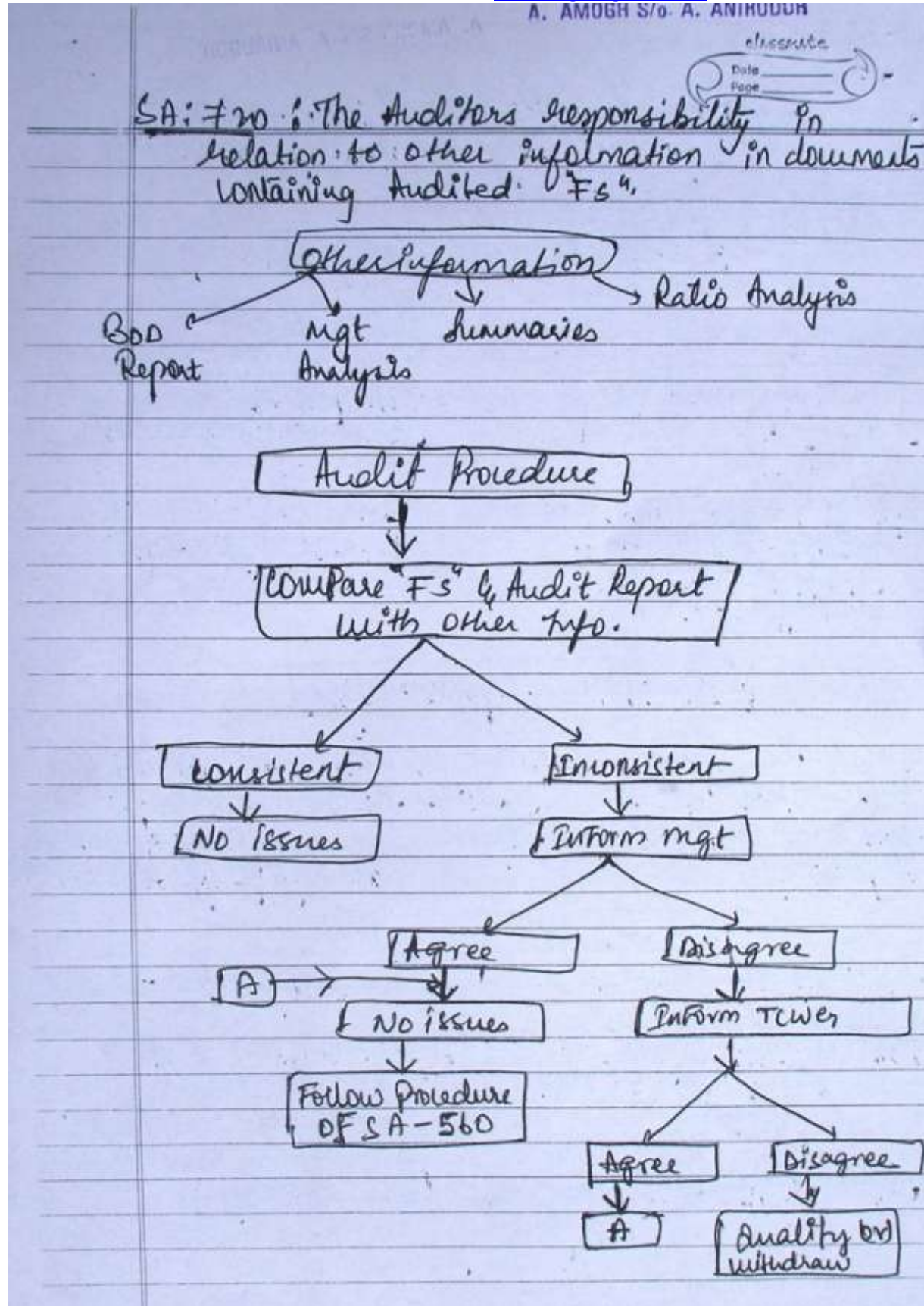
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A. How to Answer A Practical Question?

(Ans):- THE ANSWER SHOULD HAVE 4 FOLLOWING SUBHEADINGS:-

- I. **FACTS OF THE CASE:-** [write in 2-3 lines the information given in the content.]
- II. **PROVISION OF LAW:-** [write the applicable law to the Above CASE like companies Act, banking ACT, IRDA Rules ETC...]
- III. **COMMENTS:-** [write about the Observations made in the answer like the Violation or non-compliance of Any SA (or) ANY SECTION of COMPANIES ACT (or) OF ANY AS]
- IV. **CONCLUSION:-** [conclude your answer by giving suitable solution or how to rectify the problems identify in the comments paragraph above.]

B. How To Answer A SA Related Question?

(ANS):- THE ANSWER SHOULD HAVE 5 FOLLOWING SUBHEADINGS:-

- I. **SA NAME:-** [write the SA name completely without any omissions (or) wrong heading of SA]
- II. **SCOPE & OBJECTIVE OF SA:-** [write the scope and the objective of the Above mentioned SA in 5-6 lines (or) as required]
- III. **AUDIT PROCEDURES :** [write the AUDIT PROCEDURES as given in this SA]
- IV. **REPORTING ON FINANCIAL STATEMENTS :-** [write about how the auditor will report on “FS” from above procedures and findings]
- V. **OTHER INFORMATION:-** [write about any other information which is present in that SA]

PART B:

THEORY NOTES OF SA.

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SUMMARY OF STANDARDS OF AUDITING (SA) APPLICABLE FOR THE FINANCIAL YEAR 2011-12

A. STANDARDS ON QUALITY CONTROL (SQCS)

1. SQC 1: Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements

Objective of SQC–1 is to provide the firm with reasonable assurance that its personnel comply with applicable professional standards as well as regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances

Elements of System of Quality Control

1 Leadership responsibilities for quality within the firm

- The firm should establish policies and procedures designed to promote an internal culture based on recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing partners (or equivalent), to assume ultimate responsibility for the system of quality control
- Any person or persons assigned operational responsibility for the firm's quality control system by the chief executive officer or managing board of partners should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility

2 Ethical requirements

- The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements
- The firm's policies and procedures should emphasize the fundamental principles, which are reinforced in particular by (a) the leadership of the firm, (b) education and training, (c) monitoring, and (d) a process for dealing with non-compliance

3 Acceptance and continuance of client relationships and specific engagements

- The acceptance and continuance of Quality Control policies are designed to provide the firm with reasonable assurance that it will undertake or continue relationships and engagements only where it: (a) has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity; (b) is competent to perform the engagement and has the capabilities, time and resources to do so (c) can comply with the ethical requirements. The Firm should obtain such information as it considers necessary before accepting an engagement with a new client; when deciding whether to continue an existing client relationship and/or engagement; and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved

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- Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should be considered

4 Human resources

- The Firm's policies and procedures should be designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements to enable the Firm or engagement partners to issue reports that are appropriate in the circumstances
- Policies and procedures related to human resources normally address the personnel issues like Recruitment, Performance evaluation, Capabilities, Competence, Career development, Promotion, Compensation, the estimation of personnel needs, Engagement performance

5 Monitoring

- The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements. The purpose of monitoring compliance with quality control policies and procedures is to ensure
 - Adherence to professional standards and regulatory and legal requirements
 - Appropriate designing and effective implementation of quality control system
 - That the firm's quality control policies and procedures have been appropriately applied

B. STANDARDS FOR AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION

1. SA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

This Standard establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs

- **Ethical Requirements Relating to an Audit of Financial Statements** — The auditor should apply the following fundamental principles of professional ethics relevant when conducting an audit of financial statements; (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior
- **Professional Skepticism**— Professional skepticism includes being alert to, for example; (a) Audit evidence that contradicts other audit evidence obtained; (b) Information that brings into question the reliability of documents and responses to inquiries to

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be used as audit evidence; (c) Conditions that may indicate possible fraud; (d) Circumstances that suggest the need for audit procedures in addition to those required by the SAs

- **Professional Judgment**— Professional judgment is necessary in particular regarding decisions about:
(a) Materiality and audit risk; (b) The nature, timing, and extent of audit procedures used to meet the requirements of the SAs and gather audit evidence; (c) Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the SAs and thereby, the overall objectives of the auditor; (d) The evaluation of management's judgments in applying the entity's applicable financial reporting framework; (e) The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements
- **Sufficient Appropriate Audit Evidence and Audit Risk**— To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion

Ø Sufficiency and Appropriateness of Audit Evidence — Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. Sufficiency is the measure of quantity of audit evidence whereas appropriateness is the measure of quality of audit evidence

Ø Audit Risk — Audit risk is a function of the risks of material misstatement and detection risk. The risks of material misstatement may exist at two levels:

(a) The overall financial statement level; and (b) The assertion level for classes of transactions, account balances, and disclosures. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level

- **Conduct of an Audit in Accordance with SAs** — The auditor shall comply with all SAs relevant to the audit. An SA is relevant to the audit when the SA is in effect and the circumstances addressed by the SA exist. The auditor shall have an understanding of the entire text of an SA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. The auditor shall not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of this SA and all other SAs relevant to the audit

2. SA 210: Agreeing the Terms of Audit Engagements

- Auditor and client should agree on terms of engagement. Agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract
- The form and content of audit engagement letter may vary for each client, but would generally include reference to (a) objective and scope of the audit of financial statements; (b) responsibilities of the auditor; (c) responsibilities of management; (d) Identification of applicable financial reporting framework for the preparation of financial statements; and (e) 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. Other matters as per the circumstances should also be included
- In case of recurring audits, auditor should consider whether circumstances require the terms of engagement to be revised

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- Where the terms of engagement are changed, auditor and client should agree on the new terms. If auditor is unable to agree to a change of engagement and is not permitted to continue the original engagement, the auditor should consider withdrawing from the engagement and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators

3. SA 220: Quality Control for an Audit of Financial Statements

- Quality control policies and procedures should be implemented at both level — of audit firm and on individual audits
- To implement quality control policies and procedures designed to ensure that all audits are conducted in accordance with Standards of Auditing
- Objectives of quality control policies to be adopted will incorporate Professional Requirements, Skills and Competence, Assignment, Delegation, Consultation, Acceptance and Retention of Clients, Monitoring
- To be communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented
- To implement those quality control procedures which are, in the context of policies and procedures of the firm, appropriate to individual audit. To consider professional competence of assistants performing work delegated to them when deciding extent of direction, supervision and review appropriate for each assistant. Assistants to whom work is delegated need appropriate direction, supervision and review of audit work performed by them

4. SA 230: Audit Documentation

- Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides (a) evidence of auditor's basis for a conclusion about the achievement of overall objective of audit; and (b) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements
- Audit Documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of audit and facilitates effective review and evaluation of audit evidence obtained and conclusions reached before finalizing auditor's report
- To document discussions of significant matters with management, those charged with governance, and others, including the nature of significant matters discussed and when and with whom the discussions took place
- Auditor may consider preparing and retaining a summary (Completion Memorandum) that describes significant matters identified during the audit and how they were addressed. SA 220 requires auditor to review audit work performed through review of audit documentation. Standards on Quality Control (SQC) 1 require firms to establish policies and procedures for timely completion of assembly of audit files. An appropriate time limit within which to complete the assembly of final audit file is ordinarily not more than 60 days after the date of auditor's report. SQC 1 requires firms to establish policies and procedures for retention of engagement documentation
- Retention period for audit engagements ordinarily is no shorter than ten years from the date of auditor's report, or, if later, the date of group auditor's report

NOTES ON STANDARDS OF AUDITING FOR CA-IPCC.

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5. SA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

- Auditor is concerned with fraud that causes a material misstatement in financial statements
- Two types of intentional misstatements are relevant — misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets
- Primary responsibility of prevention and detection of frauds is of the management as well as those charged with governance. It is important that management, with oversight of those charged with governance; place a strong emphasis on fraud prevention which may reduce opportunities for fraud to take place and act as a deterrent
- Auditor is responsible for obtaining reasonable assurance that financial statement taken as a whole are free from material misstatement, whether caused by fraud or error. While auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for him to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error
- Risk of auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees. Auditor is responsible for maintaining an attitude of professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud
- Auditor shall identify and assess risks of material misstatement due to fraud at financial statement level, and at assertion level for classes of transactions, account balances and disclosures. Auditor must make appropriate inquiries of the management. Auditor must discuss with those charged with governance as they have oversight responsibility for systems for accounting risk, financial control and compliance with the law
- When auditor identifies a misstatement, s/he should consider whether such a misstatement may be indicative of fraud and if there is such an indication, s/he should consider the implications of misstatement in relation to other aspects of the audit, particularly the reliability of management representations
- When the auditor identifies a misstatement resulting from fraud, or a suspected fraud, s/he should consider auditor's responsibility to communicate that information to management, those charged with governance and, in some circumstances, when so required by laws and regulations, to regulatory and enforcement authorities also
- To obtain written representations from management
- To document the understanding of entity and its environment and the assessment of risks of material misstatement, responses to assessed risks of material misstatement and communications about fraud made to management, those charged with governance, regulators and others

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6. SA 250: Consideration of Laws and Regulations in an Audit of Financial Statements

- To recognize that non-compliance by entity with laws and regulations may materially affect financial statements. It is management's responsibility to ensure that entity's operations are conducted in accordance with laws and regulations
- Auditor is not responsible for preventing non-compliance. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error
- Risk of non detection of material misstatements is higher with regard to material misstatements resulting from non-compliance with laws and regulations due to various factors. To obtain a general understanding of legal and regulatory framework applicable to the entity and how it is complying with that framework
- After obtaining general understanding, auditor should perform procedures to identify instances of non-compliance with these laws and regulations where non-compliance should be considered when preparing financial statements. Further, auditor should obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognized by Auditor to have an effect on determination of material amounts and disclosures in financial statements
- To obtain written representations that management has disclosed all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements. This SA does not apply to other assurance engagements in which auditor is specifically engaged to test and report separately on compliance with specific laws and regulations. Whether an act constitutes a non-compliance can be determined only by a court of law
- The Standard envisages "engaging a legal advisor to assist in monitoring legal requirements" instead of "establishing a legal department" as one of the policies to ensure compliance with laws and regulations. The Standard, in larger entities, also envisages existence of a separate "compliance function" in addition to internal audit function and audit committee to supplement policies and procedures for ensuring compliance with laws and regulations

7. SA 260: Communication with those Charged with Governance

- To communicate with those charged with governance, auditor's responsibilities in relation to financial statements audit, an overview of planned scope and timing of audit and significant findings from the audit
- Such matters include: Overall scope of audit; selection of/ changes in significant accounting policies; potential effect on financial statements of any significant risks and exposures, such as pending litigation; adjustments to financial statements arising out of audit that have a significant effect on entity's financial statements; material uncertainties related to events and conditions that may cast significant doubt on entity's ability to continue as a going concern, disagreements with management about matters that could be significant to entity's financial statements or auditor's report; expected modifications to auditor's report. Auditors should communicate matters of governance interest on timely basis
- Auditor's communication may be made orally or in writing. In case of oral communication, auditor should document their oral communications and response thereof

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8. SA 265: Communicating Deficiencies in Internal Control to those Charged with Governance and Management

- The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions
- The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control. If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.

9. SA 299 (AAS 12): Responsibility of Joint Auditors

- Joint auditors should, by mutual discussion, divide audit work. Division of work would usually be in terms of audit of identifiable units or specified areas. Division of work may be with reference to items of assets or liabilities or income or expenditure or with reference to periods of time
- If a Joint auditor comes across matters which are relevant to areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or discussion with, or application of judgment by, other joint auditors, he should communicate the same to all other joint auditors in writing prior to finalization of audit
- Certain areas of work, owing to their importance or owing to the nature of work involved, would often not be divided and would have to be covered by all joint auditors
- Each joint auditor is responsible only for the work allocated to them, whether or not s/he has prepared a separate report on work performed by them
- All joint auditors are jointly and severally responsible in respect of the audit work which is not divided amongst them, for the appropriateness of decisions taken by them concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors, for examining that the financial statements of the entity comply with disclosure requirements of relevant statute, for ensuring that audit report complies with the requirements of relevant statute and in respect of matters which are brought to the notice of joint auditors by any one of them and on which there is an agreement among joint auditors
- Each joint auditor is entitled to assume that other joint auditors have carried out their part of audit work in accordance with generally accepted audit procedures. Normally, 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

10. SA 300: Planning an Audit of Financial Statements

- Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. The objective of auditor is to plan the audit so that it will be performed in an effective manner
- Once the overall audit strategy has been established, an audit plan can be developed to address various matters identified in the overall audit strategy, considering the need to achieve the audit objectives through efficient use of auditor's resources

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- To consider various matters in developing the overall plan like: terms of engagement; nature and timing of reports; applicable legal or statutory requirements; accounting policies adopted by the client; identification of significant audit areas; setting of materiality levels, etc.
- To obtain a level of knowledge of client's business that will enable them to identify events, transactions and practices that, in their judgment, may have a significant effect on financial information. Audit plan is more detailed than overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members
- Engagement partner and other key members of engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members so as to enhance effectiveness and efficiency of planning process
- To plan the nature, timing and extent of direction and supervision of engagement team members and review of their work. Auditor shall document overall audit strategy, audit plan and any significant changes made during audit engagement to the overall audit strategy or audit plan, and reasons for such changes
- Audit planning ideally commences at the conclusion of previous year's audit, and along with related programme, it should be reconsidered for modification as the audit of their compliance and substantive procedures progress. For an initial audit, auditor may need to expand the planning activities because the auditor does not ordinarily have previous experience with the entity that is considered when planning recurring engagements

11. SA 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

- To provide a basis for identification and assessment of risks of material misstatement at the financial statement and assertion levels, the auditor shall perform risk assessment procedures. Thus procedures shall include: Inquiries with management; Analytical Procedures; Observation and Inspection
- Where Auditor has performed other engagements with the entity, auditor shall consider whether information obtained is relevant for identifying the risk of material misstatement. If Auditor intends to use his/her previous experiences with the entity, he shall determine whether changes have occurred since previous audit that may affect its relevance on current audit
- To obtain an understanding of the following: Industry, regulatory and other external factors; Nature of entity; Selection and application of accounting policies; Objectives and strategies and related business risks; Measurement and review of entity's financial performance; Internal control
- SA 315 sets out five components of Internal control: Control environment; Entity's risk assessment process; the information system, including related business processes, relevant to financial reporting and communication; Control activities relevant to audit; Monitoring of controls
- Usually, those controls which pertain to entity's objective of preparing financial statements are subject to risk assessment procedures
- Obtaining an understanding of entity and its environment including entity's internal control is a continuous, dynamic process of gathering, updating and analyzing information throughout the audit
- To identify and assess risks of material misstatement at financial statement level, and at assertion level for classes of transactions, account balances and disclosures

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- Auditors are required to: Relate identified risks to what can go wrong at assertion level; Consider potential magnitude of risks in the context of financial statements; Consider the likelihood that risks could result in a material misstatement of financial statements
- Documentation should cover: Discussion among engagement team; Key elements of understanding obtained; Sources of information; Risk assessment process; the identified and assessed risks; Significant risks evaluated; Risks evaluated for which substantive procedures done
- Auditor uses professional judgment to determine the extent of understanding required. Auditors primary consideration is whether the understanding that has been obtained is sufficient to meet the objective stated in the SA

12. SA 320: Materiality in Planning and Performing an Audit

- SA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements
- In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material
- These judgments provide a basis for:
 - Determining the nature, timing and extent of risk assessment procedures;
 - Identifying and assessing the risks of material misstatement; and
 - Determining the nature, timing and extent of further audit procedures
- For purposes of the SAs, performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures
- The auditor shall revise materiality for the financial statements 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
- The audit documentation shall include the following amounts and the factors considered in their determination:
 - Materiality for the financial statements as a whole
 - If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures
 - Performance materiality and
 - Any revision of above as the audit progressed

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13. SA 330: The Auditor's Responses to Assessed Risks

- The objective is to obtain sufficient appropriate audit evidence about assessed risks of material misstatement, through designing and implementing appropriate responses to those risks
- Auditor shall design and implement overall responses to address assessed risks of material misstatement at financial statement level. To design and perform further audit procedures whose nature, timing and extent are based on and are responsive to assessed risks of material misstatement at assertion level
- In designing further audit procedures to be performed, the auditor shall:

a) Consider reasons for the assessment given to risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure

b) Obtain more persuasive audit evidence – the higher the auditor's assessment of risk

- When the auditor obtains audit evidence about operating effectiveness of controls during an interim period, the auditor shall:

a) Obtain audit evidence about significant changes to those controls subsequent to the interim period; and

b) Determine additional audit evidence to be obtained for the remaining period

- Based on the audit procedures performed and audit evidence obtained, auditor shall evaluate before conclusion of audit whether assessments of risks of material misstatement at assertion level remain appropriate
- Auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or contradict assertions in financial statements
- If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, auditor shall express a qualified opinion or a disclaimer of opinion
- If Auditor plans to use audit evidence about operating effectiveness of controls obtained in previous audits, auditor shall document conclusion reached about relying on such controls that were tested in a previous audit

14. SA 402: Audit Considerations Relating to an Entity Using a Service Organization

- This SA specifically expands on how the user auditor applies SA 315 and SA 330
- The objectives of the auditor are (a) To obtain an understanding of the nature and significance of services provided by the service organization and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and (b) To design and perform audit procedures responsive to those risks
- The user auditor should obtain an understanding of the services provided by a service organization, including internal control

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- The user auditor shall modify the opinion in the user auditor's report in accordance with SA 705 if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organization relevant to the audit of the user entity's financial statements
- The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion
- If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion

15. SA 450: Evaluation of Misstatements Identified during the Audit

- The objective of the auditor is to evaluate the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements
- To accumulate misstatements identified during the audit, other than those that are clearly trivial
- To 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 or the aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320 (Revised)
- To communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulations. To request management to correct those misstatements
- Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320, to confirm whether it remains appropriate in the context of the entity's actual financial results
- To communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in auditor's report, unless prohibited by law or regulation. Auditor's communication shall identify material uncorrected misstatements individually. Auditor shall request correction of uncorrected misstatements. Auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole
- To request a written representation from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation
- The audit documentation shall include the amount below which misstatements would be regarded as clearly trivial, all misstatements accumulated during the audit and whether they have been corrected and the auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion

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16. SA 500: Audit Evidence

- Auditor is required to obtain sufficient appropriate audit evidence to enable them to draw reasonable conclusions on which they can base their opinion on financial information
- Auditor normally relies on evidence that is persuasive rather than conclusive in nature. Auditor may obtain evidence on a selective basis by way of either judgmental or statistical sampling procedures. Evidence is obtained through performance of compliance and substantive procedures
- Compliance procedures are tests designed to obtain reasonable assurance that internal controls on which audit reliance is placed are in effect. Substantive procedures are designed to obtain evidence as to completeness, accuracy and validity of data produced by accounting system
- Obtaining audit evidence from compliance procedures is intended to reasonably assure the auditor in respect of assertions of existence, effectiveness and continuity. Obtaining audit evidence from substantive procedures is intended to reasonably assure the auditor in respect of assertions of existence, rights and obligations, occurrence, completeness, valuation, measurement, presentation and disclosure
- To test the reliability, few generalizations are useful such as external evidence is more reliable than internal evidence, written evidence is more reliable than oral evidence and self obtained evidence is more reliable than obtained through the entity
- Auditor gains increased assurance when audit evidence obtained from different sources is consistent. Various methods for obtaining audit evidence include inspection, observation, inquiry and confirmation, computation and analytical review
- Emphasis is to be laid on considering relevance and reliability of audit evidence obtained during the course of audit, and focus is to be laid on designing and performing audit procedures to obtain relevant and reliable audit evidence

17. SA 501: Audit Evidence — Specific Considerations for Selected Items

- This Standard on Auditing (SA) deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with SA 330, SA 500 (Revised) and other relevant SAs, with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements
- **Inventories:** Management ordinarily establishes procedures under which inventory is physically counted at least once in a year to serve as a basis for preparation of financial statements or to ascertain reliability of perpetual inventory system. When inventory is material to financial statements, auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable. If unable to attend physical inventory count on the date planned due to unforeseen circumstances, auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether changes in inventory between date of physical count and period end date are correctly recorded
- **Litigation and Claims:** The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:

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(a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;

(b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel;

(c) Reviewing legal expense accounts

- **Segment Information:** Auditor considers segment information in relation to financial statements taken as a whole, and is not required to apply auditing procedures that would be necessary to express an opinion on segment information standing alone. Audit procedures regarding segment information ordinarily consist of obtaining an understanding of the methods used by management in determining segment information and performing analytical procedures and other audit tests appropriate in the circumstances

18. SA 505: External Confirmations

- External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item
- Before making use of external confirmations, auditor should consider materiality, the assessed level of inherent and control risk, and how the evidence from other planned audit procedures will reduce audit risk to an acceptably low level
- To employ external confirmation procedures in consultation with the management. External confirmations are mostly sought for account balances and their components but they are not to be restricted to these items only
- The use of confirmation procedures may be effective in providing sufficient appropriate audit evidence when auditor determines higher level of assessed inherent and control risk
- The request for confirmations is to be made either at the date of financial statements or at a date close to it. Requests are to be designed to specific audit objectives
- Auditor's understanding of client's arrangements and transactions with third parties is important in determining the information to be confirmed. Auditor may use positive or negative external confirmation requests or a combination of both
- To consider whether there is any indication that external confirmations received may not be reliable. To evaluate the conformity between results of external confirmation process together with results from any other procedures performed. If Auditor seeks for an external confirmation and management requests the auditor not to do so, auditor should consider whether there are valid grounds for such a request and obtain evidence to support validity of management's requests

19. SA 510: Initial Audit Engagements – Opening Balances

- In conducting an initial audit engagement, the auditor should obtain sufficient appropriate audit evidence that closing balances of preceding period have been correctly brought forward to current period or when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss, the opening balances do not contain misstatements that materially affect financial statements for the current period and appropriate accounting policies are consistently applied

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- To consider whether accounting policies followed in preceding period, based on which opening balances have been arrived at, were appropriate and that those policies are consistently applied. If the auditor concludes that the accounting policies have not been consistently applied or properly accounted for, the auditor has to express either a qualified or adverse opinion, as may be appropriate
- Ordinarily, current auditor can place reliance on closing balances contained in financial statements for preceding period, except when during performance of audit procedures for current period the possibility of misstatements in opening balances is indicated
- When financial statements of preceding period were not audited, auditor must adopt other procedures such as for current assets and liabilities. Some audit evidence can ordinarily be obtained as part of audit procedures performed during the current period and for non-current assets and liabilities such as fixed assets, investments and long-term debt, the auditor could ordinarily examine records underlying the opening balances
- To evaluate matters giving rise to modifications in prior periods financial statements for assessing the risk of material misstatement. If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements in accordance with SA 315

20. SA 520: Analytical Procedures

- The objectives of the auditor are: (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and (b) To design and perform analytical procedures near the end of audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with auditor's understanding of the entity
- Auditor should apply analytical procedures at overall review stages of audit as well as while applying substantive procedures
- Application of analytical procedures is based on the expectation that relationships among data exist and continue in absence of known conditions to the contrary. Presence of these relationships provides audit evidence as to completeness, accuracy and validity of data produced by the accounting system. However, reliance on results of analytical procedures will depend on auditor's assessment of the risk that analytical procedures may identify relationships as expected when, in fact, a material misstatement exists
- 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

21. SA 530: Audit Sampling

- The auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence
- The objective of the auditor when using audit sampling is to provide a reasonable basis to draw conclusions about the population from which the sample is selected
- When designing an audit sample, auditor should consider the objectives of the audit procedure and characteristics of the population when designing an audit sample. To assist in efficient and effective design of sample, stratification may be appropriate. Stratification is the process of dividing a population into sub-populations

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- When determining sample size, auditor should consider sampling risk, tolerable error, and expected error. Tolerable error is the maximum error in population that the auditor would be willing to accept and still conclude that the result from sample has achieved audit objective
- If Auditor expects error to be present in the population, a larger sample needs to be examined to conclude that actual error in the population is not greater than planned tolerable error. Auditor should select sample items in such a way that the sample can be expected to be representative of the population
- This requires that all items in the population have an opportunity of being selected. After having carried out those audit procedures on each sample item that are appropriate to particular audit objective, auditor should analyze any errors detected in the sample, project the errors found in the sample to the population and reassess sampling risk
- Auditor should investigate the nature and cause of any deviations or misstatements identified, and their possible effect on the objective of the particular audit procedure or other areas of audit. In order to conclude that a misstatement or deviation is an anomaly, the auditor is required to obtain a high degree of certainty that the misstatement or deviation is not representative of the population

22. SA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

- Auditor should obtain sufficient appropriate audit evidence regarding reasonableness of accounting estimates including fair value accounting estimate and related disclosure in financial statements are adequate
- Accounting estimate means an approximation of a monetary amount in absence of a precise means of measurement. Determination of an accounting estimate may be simple or complex, depending upon the nature of item. Auditor should adopt one or a combination of following approaches in the audit of an accounting estimate:
 - (a) review and test process used by management to develop the estimate;
 - (b) use an independent estimate for comparison with that prepared by management; or
 - (c) review subsequent events which confirm the estimate made
- Auditor should make a final assessment of reasonableness of estimate based on auditor's knowledge of the business and whether the estimate is consistent with other audit evidence obtained during audit. When there is a difference between auditor's estimate of the amount best supported by available audit evidence and the estimated amount included in financial statements, auditor should consider whether the amount requires adjustment and report accordingly
- Auditor should adopt a risk-based approach to the responsibilities regarding accounting estimates, including fair value accounting estimates and related disclosures. A difference between the outcome of an accounting estimate and amount originally recognized or disclosed in financial statements does not necessarily represent a misstatement of financial statements
- Auditor should review the outcome of accounting estimates included in prior period financial statements. Auditor should obtain written representations from management whether management believes significant assumptions used by it in making accounting estimates are reasonable

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- Audit documentation should include the basis for auditor's conclusions about reasonableness of accounting estimates and their disclosure that give rise to significant risks; and Indicators of possible management bias, if any

23. SA 550: Related Parties

This Standard on Auditing (SA) deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements

- Auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the framework
- To perform procedures to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions
- The auditor shall inquire of management regarding: (a) The identity of entity's related parties, including changes from prior period (b) The nature of relationships between the entity and these related parties; and (c) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions
- To maintain alertness for related party information when reviewing records or documents
- To respond to the risks of material misstatement associated with related party relationships and transactions
- To Identify significant related party transactions outside the Entity's normal course of business
- To evaluate that related party transactions were conducted on terms equivalent to those prevailing in an Arm's Length Transaction
- To ensure that the accounting and disclosure of identified related party relationships and transactions are correct
- To obtain written representation from management for related party transactions
- Auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties
- Auditor shall include in the audit documentation, names of identified related parties and nature of related party relationships

24. SA 560: Subsequent Events

- Subsequent events are significant events occurring between balance sheet date and the date of auditor's report. Auditor should consider effect of subsequent events on financial statements and on auditor's report. Auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of auditor's report that may require adjustment of, or disclosure in financial statements have been identified

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- Procedures to identify events that may require adjustment of, or disclosure in financial statements would be performed as near as practicable to the date of auditor's report
- When Auditor becomes aware of events which materially affect financial statements, the auditor should consider whether such events are properly accounted for in financial statements
- When the management does not account for such events that auditor believes should be accounted for, auditor should express a qualified opinion or an adverse opinion, as appropriate

25. SA 570: Going Concern

- Going concern assumption is a fundamental principle in the preparation of financial statements. Management should assess entity's ability to continue as a going concern even if the applicable financial reporting framework does not include an explicit requirement
- Auditor should evaluate appropriateness of management's use of going concern assumption in preparation of financial statements and conclude whether there is a material uncertainty about entity's ability to continue as a going concern that need to be disclosed in financial statements
- When planning and performing audit procedures and in evaluating the results thereof, auditor should perform further audit procedures when events or conditions are identified that cast significant doubt on the entity's ability to continue as a going concern. Indications of risk that continuance as a going concern may be questionable could come from financial statements, operational activities or from other sources
- These may be financial indicators, operating indicators or other indicators. If, on the presence of such indication, a question arises regarding appropriateness of going concern assumption, auditor should gather sufficient appropriate audit evidence to attempt to resolve, to the auditor's satisfaction, the question regarding entity's ability to continue in operation for foreseeable future
- After procedures considered necessary have been carried out, all information required has been obtained, and effect of any plans of management and other mitigating factors have been considered, auditor should decide whether the question raised regarding going concern assumption has been satisfactorily resolved
- Auditor, on the basis of his/her judgment and audit evidence will report, as deemed appropriate. In case where use of going concern assumption is appropriate but a material uncertainty exists, then (i) if adequate disclosure is made in financial statements, auditor should express an unmodified opinion but include an Emphasis of Matter paragraph in the auditor's report; (ii) if adequate disclosure is not made in financial statements, auditor should express a qualified or adverse opinion, as appropriate. In case where entity will not be able to continue as a going concern, auditor should express an adverse opinion if financial statements have been prepared on a going concern basis
- Auditor should communicate with those charged with governance when there are identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

26. SA 580: Written Representations

- Written representations are written statements used to corroborate the validity of the premises, relating to management's responsibilities, on which an audit is conducted; and other audit evidence obtained with regard to specific assertions in financial statements

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- Written representations in this context do not include financial statements, the assertions therein, or supporting books and records
- To request written representations from management with appropriate responsibilities for financial statements and knowledge of matters concerned
- To request management to provide a written representation that it has fulfilled its responsibility for the preparation and presentation of financial statements as set out in the terms of the audit engagement; and in accordance with applicable financial reporting framework; designing, implementing and maintaining of adequate internal control system; and completeness of information made available to the auditor
- To determine relevant parties from whom general and specific written representations are to be requested
- To evaluate the reliability of written representations and in case of doubt should reconsider the reliability of other written representations and, take appropriate action. A management representation letter should be addressed to the auditor containing relevant information and be appropriately dated and signed
- A management representation letter should ordinarily be signed by members of management who have primary responsibility for the entity and its financial aspects, e.g., Managing Director, Finance Director. Auditor should disclaim an opinion on financial statements when the requested general written representations are not provided or are unreliable, and the auditor is unable to obtain sufficient appropriate audit evidence

27. SA 600 (AAS 10): Using the work of Another Auditor

(Revised SA 600 on Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) is under consideration of the Board)

- When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of other auditor will affect the audit
- Auditor should consider professional competence of other auditor in the context of specific assignment if the other auditor is not a Chartered Accountant. Auditor should inform other auditor of matters such as areas requiring special consideration, procedures for identification of inter-component transactions and significant accounting, auditing and reporting requirements
- Auditor should consider significant findings of other auditor. There should be proper co-ordination and communication between the two auditors
- When the principal auditor concludes that work of other auditor cannot be used and s/he has not been able to perform sufficient additional procedures regarding financial information of the component audited by other auditor, s/he should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit
- The principal auditor would not be responsible in respect of the work entrusted to other auditors

28. SA 610: Using the work of Internal Auditors

- This SA deals with the external auditor's responsibilities regarding the work of internal auditors when the external auditor has determined, in accordance with SA 315, that the internal audit function is likely to be relevant to the audit

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- The 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 if so, whether such work is adequate for the purposes of the audit
- External auditor should determine whether and to what extent to use the work of the internal auditors. In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate the objectivity of the internal audit function, the technical competence of the internal auditors, whether the work of the internal auditors is likely to be carried out with due professional care and whether there is likely to be effective communication between the internal auditors and the external auditor
- In order for the external auditor to use specific work of the internal auditors, the external auditor shall evaluate and perform audit procedures on that work to determine its adequacy for the external auditor's purposes
- To determine the adequacy of specific work performed by the internal auditors for the external auditor's purposes, the external auditor shall evaluate whether the work was performed by internal auditors having adequate technical training and proficiency, the work was properly supervised, reviewed and documented, adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions, conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed and any exceptions or unusual matters disclosed by the internal auditors are properly resolved
- 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

29. SA 620: Using the Work of an Auditor's Expert

- This SA deals with the auditor's responsibilities regarding the use of an individual or organization's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence
- The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert
- The objectives of the auditor are to determine whether to use the work of an auditor's expert and if using the work of an auditor's expert, to determine whether that work is adequate for the auditor's purposes
- If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert
- The nature, timing and extent of the auditor's procedures with respect to the requirement of this SA will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including the nature of the matter to which that expert's work relates, the risks of material misstatement in the matter to which that expert's work relates, the significance of that expert's work in the context of the audit, the auditor's knowledge of and experience with previous work performed by that expert and whether that expert is subject to the auditor's firm's quality control policies and procedures

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- The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity
- The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:
 - The nature, scope and objectives of that expert's work;
 - The respective roles and responsibilities of the auditor and that expert;
 - The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and
 - The need for the auditor's expert to observe confidentiality requirements
- The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including:
 - The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;
 - If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
 - If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data
- The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion

30. SA 700 (Revised): Forming an Opinion and Reporting on Financial Statements (April 1, 2011)

- Auditor should form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and express clearly that opinion through a written report that also describes the basis for the opinion
- The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework
- If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with SA 705
- Auditor's report includes basic elements such as Title, Addressee, Opening or introductory paragraph, Management's Responsibility for the Financial Statements, Auditor's Responsibility, Auditor's Opinion, Other Reporting Responsibilities, Signature of the Auditor, Date of the Auditor's

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Report and Place of Signature. If the auditor is required by any law or regulation to use a specific layout or wording of the auditor's report, the auditor's report shall refer to SA only if the auditor's report includes, at a minimum, each of the elements prescribed in this SA

- If an auditor is required to conduct an audit in accordance with the SAs issued by the ICAI, but may additionally have complied with the International Standards on Auditing (ISAs) in the conduct of the audit, the auditor's report may refer to ISAs in addition to the national auditing standards only if conditions specified in this SA are complied with

31. SA 705 (Issued): Modification to the opinion in the Independent Auditor's Report (April 1, 2011)

- Auditor is responsible to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary
- The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when the auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement
- The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive
- The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements
- The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive
- When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised), include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification
- When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification

32. SA 706 (Issued): Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (April 01, 2011)

- The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users'

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understanding of the financial statements; or as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report

- If the matter refers to information presented or disclosed in the financial statements, the auditor shall include an Emphasis of Matter paragraph (immediately after the Opinion paragraph) in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements
- If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor's report, with the heading "Other Matter", or other appropriate heading
- If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph

33. SA 710 (Revised): Comparative Information– Corresponding Figures and Comparative Financial Statements (April 1, 2011)

- The objectives of the auditor are to obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and to report in accordance with the auditor's reporting responsibilities
- The frameworks and methods of presentation that are referred to in this SA are corresponding figures where amounts and other disclosures for preceding period are included as an integral part of current period financial statements and Comparative Financial Statements where amounts and other disclosures for preceding period are included for comparison with financial statements of current period
- Auditor should obtain sufficient appropriate audit evidence that the comparative information meet the requirements of relevant financial reporting framework. This involves verifying whether accounting policies used for corresponding figures are consistent with those of current period and whether corresponding figures agree with amounts and other disclosures presented in prior period
- If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report that the financial statements of the prior period were audited by the predecessor auditor; the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and the date of that report. When auditor's report on prior period, as previously issued, included a qualified opinion or a disclaimer of opinion or an adverse opinion and concerned matter is not resolved, auditor's report should also be modified regarding corresponding figures
- When prior period financial statements are not audited, incoming auditor should state the fact in auditor's report in an Other Matter paragraph
- When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed

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34. SA 720: The Auditor's Responsibility in Relation to Other Information in Documents containing Audited Financial Statements

- The objective of the auditor is to respond appropriately when documents containing audited financial statements and auditor's report thereon include other information that could undermine the credibility of those financial statements and auditor's report
- The auditor is not required to give his/ her opinion on other information, not having any responsibility of determining whether or not other information is properly stated, if there is no separate requirement in particular circumstance of the engagement. However, the auditor reads other information because the credibility of audited financial statements may be undermined by material inconsistencies between audited financial statements and other information and if found, to determine whether the audited financial statements or other information needs to be revised
- To make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If material inconsistencies are identified prior to the date of the auditor's report, and the revision of audited financial statement is necessary and the management refuses to make the revision, auditor is required to modify his/ her opinion. Further, if revision of other information is necessary, and management refuses to make the revision, auditor is required to communicate the matter to those charged with governance and also provide paragraph in the auditor's report on other matter; or withdraw from the engagement, if permitted by laws or regulations
- If material inconsistencies are identified subsequent to the date of the auditor's report, and revision of audited financial statement is necessary, the auditor is required to perform the procedures given in SA 560, "Subsequent Events". If, on reading other information for the purpose of identifying material inconsistencies, auditor becomes aware of an apparent material misstatement of fact, auditor should discuss the matter with management and if the management refuse to correct it, communicate the same to those charged with governance and take further appropriate actions

35. SA 800: Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks (April 1, 2011)

- The objective of the auditor, when applying SAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to: (a) The acceptance of the engagement; (b) The planning and performance of that engagement; and (c) Forming an opinion and reporting on the financial statements
- In an audit of special purpose financial statements, the auditor shall obtain an understanding of: (a) The purpose for which the financial statements are prepared; (b) The intended users; and (c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances
- The auditor shall determine whether application of other SAs requires special consideration in the circumstances of the engagement. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements

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- In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based
- The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose

36. SA 805: Special Considerations– Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement (April 1, 2011)

- The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to: (a) acceptance of the engagement; (b) planning and performance of that engagement; and (c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of financial statement
- SA 200 requires the auditor to comply with all SAs relevant to the audit. If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SAs is practicable
- SA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. This shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element
- The auditor shall consider whether the expected form of opinion is appropriate in the circumstances
- The auditor shall apply the requirements in SA 700, adapted as necessary in the circumstances of the engagement
- If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement. If the opinion in the auditor's report on an entity's complete set of financial statements is modified, or that report includes an Emphasis of Matter paragraph or an Other Matter paragraph, the auditor shall determine the effect that this may have on the auditor's report on a single financial statement or on a specific element of those financial statements

37. SA 810: Engagements to Report on Summary Financial Statements (April 1, 2011)

- SA 810 deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor
- The objectives of the auditor are to: (a) Determine whether it is appropriate to accept the engagement to report on summary financial statements; (b) Form an opinion on the summary

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financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and (c) Express clearly that opinion through a written report that also describes the basis for that opinion

- The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived
- Before accepting an engagement to report on summary financial statements, the auditor shall: (a) Determine whether the applied criteria are acceptable; (b) Obtain the agreement of management that it acknowledges and understands its responsibility
- The auditor shall perform the prescribed procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements
- When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the phrases enumerated in this SA
- The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements that may require adjustment of, or disclosure in, the audited financial statements
- If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements
- If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement
- If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document

C. STANDARDS ON REVIEW ENGAGEMENTS (SRES)

1. SRE 2400: Engagements to Review Financial Statements

- To establish standards and provide guidance on the practitioner's professional responsibilities when a practitioner, who is not the auditor of an entity, undertakes an engagement to review financial statements and on the form and content of the report that the practitioner issues in connection with such a review
- The objective of a review of financial statements is to enable a practitioner to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit,

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anything has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework (negative assurance)

- The practitioner should comply with the *Code of Ethics* issued by the ICAI
- The procedures required to conduct a review of financial statements should be determined by the practitioner having regard to the requirements of this SRE, relevant professional bodies, legislation, regulation and, where appropriate, the terms of the review engagement and reporting requirements
- 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. For the purpose of expressing negative assurance in the review report, the practitioner should obtain sufficient appropriate evidence primarily through inquiry and analytical procedures to be able to draw conclusions
- The practitioner and the client should agree on the terms of the engagement
- When using work performed by another practitioner or an expert, the practitioner should be satisfied that such work is adequate for the purposes of the review
- The practitioner should document matters which are important in providing evidence to support the review report, and evidence that the review was carried out in accordance with this SRE
- The practitioner should apply judgment in determining the specific nature, timing and extent of review procedures. The practitioner should apply the same materiality considerations as would be applied if an audit opinion on the financial statements were being given
- Based on the work performed, the practitioner should assess whether any information obtained during the review indicates that the financial statements do not give a true and fair view in accordance with the applicable financial reporting framework

2. SRE 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity

- To establish standards and provide guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report
- The auditor should comply with the ethical requirements relevant to the audit of the annual financial statements of the entity. The auditor should implement quality control procedures that are applicable to the individual engagement. The auditor should plan and perform the review with an attitude of professional skepticism
- The objective is to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework
- The auditor and the client should agree on the terms of the engagement

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- The auditor should have an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both annual and interim financial information, sufficient to plan and conduct the engagement
- The auditor should make inquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework
- The auditor should obtain evidence that the interim financial information agrees or reconciles with the underlying accounting records and should inquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the interim financial information
- The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. If adequate disclosure is made in the interim financial information, the auditor should add an emphasis of matter paragraph to the review report to highlight a material uncertainty relating to an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If a material uncertainty that casts significant doubt about the entity's ability to continue as a going concern is not adequately disclosed in the interim financial information, the auditor should express a qualified or adverse conclusion, as appropriate. The report should include specific reference to the fact that there is such a material uncertainty
- When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made, the auditor should make additional inquiries or perform other procedures to enable the auditor to express a conclusion in the review report
- The auditor should evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the interim financial information
- The auditor should obtain written representations from management
- The auditor should read the other information that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information. If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management
- When, as a result of performing the review of interim financial information, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the interim financial information, the auditor should communicate this matter as soon as practicable to the appropriate level of management. When, in the auditor's judgment, management does not respond appropriately within a reasonable period of time, the auditor should inform those charged with governance
- The auditor should issue a written report that contains the nature, extent and results of the review of interim financial information
- The auditor should express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the interim financial information for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework

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- When the auditor is unable to complete the review, the auditor should communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a report
- The auditor should consider modifying the review report by adding a paragraph to highlight a significant uncertainty (other than a going concern problem) that came to the auditor's attention, the resolution of which is dependent upon future events and which may affect the interim financial information
- The auditor should prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this SRE and applicable legal and regulatory requirements

D. STANDARDS ON ASSURANCE ENGAGEMENTS (SAE) — Other than Audits (or) Reviews of Historical Financial Information

1. SAE 3400 (AAS 35): The Examination of Prospective Financial Information

- In an engagement to examine prospective financial information, auditor should obtain sufficient appropriate evidence as to whether:
 - a. management's best-estimate assumptions are not unreasonable and, in the case of hypothetical assumptions such assumptions are consistent with the purpose of information
 - b. prospective financial information is properly prepared on the basis of assumptions
 - c. prospective financial information is properly presented and all material assumptions are adequately disclosed, including whether they are best-estimate assumptions or hypothetical assumptions
 - and
 - d. prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles
- While evidence may be available to support assumptions on which prospective financial information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from evidence ordinarily available in examination of historical financial information. Auditor is, therefore, not in a position to express an opinion as to whether the results shown in prospective financial information will be achieved

Auditor should:

- not accept, or should withdraw from, an engagement when assumptions are clearly unrealistic or when s/he believes that prospective financial information will be inappropriate for its intended use

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- obtain a sufficient level of knowledge of business and become familiar with entity's process to be able to evaluate whether all significant assumptions required for preparation of prospective financial information have been identified
 - consider extent to which reliance on entity's historical financial information is justified. Auditor should consider period of time covered by prospective financial information. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources
 - would consider whether, when hypothetical assumptions are used, all significant implications of such assumptions have been taken into consideration
 - should obtain written representations from management regarding intended use of prospective financial information, completeness of significant management assumptions and management's acceptance of its responsibility for prospective financial information
 - should assess the presentation and disclosures in prospective financial statement are adequate
 - should document matters, which are important in providing evidence to support his/ her report on examination of prospective financial information, and evidence that such examination was carried out in accordance with this SA
- When auditor believes that presentation and disclosure of prospective financial information is not adequate, the auditor should express a qualified or adverse opinion in the report on prospective financial information, or withdraw from engagement as appropriate
 - When auditor believes that one or more significant assumptions do not provide a reasonable basis for prospective financial information prepared on basis of best-estimate assumptions or that one or more significant assumptions do not provide a reasonable basis for prospective financial information given the hypothetical assumptions, the auditor should either express an adverse opinion setting out reasons in the report on prospective financial information, or withdraw from engagement
 - When examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, auditor should either withdraw from engagement or disclaim the opinion and describe the scope limitation in the report on prospective financial information

2. SAE 3402: Assurance Reports on Controls at a Service Organization

- This SAE deals with assurance engagements undertaken by a professional accountant in public practice to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting
- The objectives of the service auditor are: (a) To obtain reasonable assurance about whether, in all material respects, based on suitable criteria: (i) The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period; (ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; (iii) Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved throughout the specified period; (b) To report on the matters in (a) above in accordance with the service auditor's findings

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- The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements
- Where this SAE requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with the service organization, the service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact
- If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change
- The service auditor shall assess whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 report, in evaluating whether controls are operating effectively
- When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls
- The service auditor shall obtain an understanding of the service organization's system, including controls that are included in the scope of engagement
- The service auditor shall obtain and read the service organization's description of its system, and evaluate whether those aspects of the description included in the scope of engagement are fairly presented
- The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization's description of its system, and shall assess whether those controls were suitably designed
- If the service organization has an internal audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement
- In order for the service auditor to use specific work of the internal auditors, the service auditor shall evaluate and perform procedures on that work to determine its adequacy for the service auditor's purposes
- The service auditor shall request the service organization to provide written representations
- The service auditor shall inquire whether the service organization is aware of any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report
- The service auditor's assurance report shall include the basic elements prescribed by this SAE

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E. STANDARDS ON RELATED SERVICES (SRS)

1. SRS 4400 (AAS 32): Engagements to Perform Agreed-upon Procedures Regarding Financial Information

- In an engagement to perform agreed-upon procedures, auditor is engaged by client to issue a report of factual findings, based on specified procedures performed on specified matters of a financial statement. As the auditor simply provides a report of factual findings of agreed-upon procedures, no assurance is expressed by them in the report. Report is restricted to those parties that have agreed to procedures to be performed since others, unaware of reasons for the procedures, may misinterpret results
- To comply with *Code of Ethics*, issued by ICAI
- Where Auditor is not independent, a statement to that effect should be made in the report of factual findings. Terms of engagement should be well defined so as to avoid any misunderstandings
- To plan the work so that an effective engagement will be performed and documentation of important matters to be done which provides evidence to support the report of factual findings
- The report describes the purpose and agreed-upon procedures of engagement in sufficient detail to enable the reader to understand the nature and extent of work performed. The report should also clearly mention that no audit or review has been performed

2. SRS 4410 (AAS 31): Engagements to Compile Financial Information

- In such types of engagements, accountant uses accounting expertise as against auditing expertise to collect, classify and summaries financial information
- The accountant should comply with the "Code of Ethics", issued by ICAI. However, where accountant is not independent, a statement to that effect should be made in the accountant's report. It should be ensured that there is a clear understanding between the client and accountant regarding terms of engagement by means of an engagement letter or such other suitable form of contract
- To obtain an acknowledgement from management of its responsibility for appropriate preparation and presentation of financial statements or other information and of its approval of such information to be compiled
- Accountant should also obtain an acknowledgement from management of its responsibility for accuracy and completeness of underlying accounting data and complete disclosure of all material and relevant information
- To plan the work so that an effective engagement will be performed. Accountant should obtain a general knowledge of business and operations of the entity and should be familiar with accounting principles. Accountant should request management representation letter covering significant information or explanations given orally on which they consider representations are required
- There are few special considerations which the accountant has to take care of i.e. s/he should ensure that financial statements or other financial information compiled, comply with requirements of identified financial reporting framework & where there is no specific financial reporting framework, client may specify that accounts should be compiled on, for example, based on

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requirements of Income Tax Act. If any accounting standard is not complied with, the fact should be disclosed in the notes to accounts

If accountant becomes aware of any material misstatement, s/he must report this to management or must withdraw from engagement if management doesn't act. Financial information compiled should be approved by client before compilation report is signed by accountant.

ACKNOWLEDEMENT

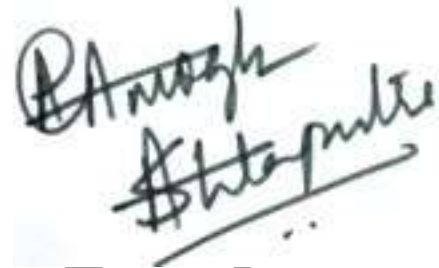
I Would Like To Thank Everyone Who Has Inspired Me To Compile This Book. I Would Like To Extend My Regards To My SIR, CA. Vikas Oswal Who Has Guided Me To Compile This Book And Make It Available To My Friends And Students.

Due Care Has Been Taken To Make This A Student Friendly Book And Any Errors & Omissions Have Been Rectified.

Tho, If Any Error Is Found By Anyone They Can Kindly Communicate The Same To My Email (Or) Other Communication Means Given Below.

I Thank My Family For Supporting For Writing This Book.

Thank You,



A.Amogh. 19/06/2012.

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