Contents

CHAPTER 1 200-299 GENERAL PRINCIPLES AND RESPONSIBILITIES

SA-200 OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR & THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING

OBJECTIVES of SA-200

1) In conducting an audit of Financial Statement (FS), the **overall objectives** of the auditor are:
   a) **To obtain reasonable assurance** about whether the FS as a whole are **free from** material **misstatement**, whether due to **fraud or error**, thereby enabling the auditor to express an **opinion** on whether the FS are prepared, in all material respects**, in accordance with** an applicable financial reporting framework (FRF); and
   b) **To report** on the FS, and communicate as required by the SAs, in accordance with the auditor's findings.
2) In all cases when reasonable assurance cannot be obtained and a **qualified opinion** is **insufficient** then, he should either **disclaim an opinion** or **withdraw from the engagement**.

RESPONSIBILITIES OR REQUIREMENTS OF THE AUDITOR

1) Ethical Requirement
2) Professional Skepticism
3) Professional Judgment
4) Sufficient & Appropriate Audit Evidence & Audit Risk
5) Conduct of Audit in accordance with SAs.

1) Ethical Requirement:

- He shall **comply** with ethical requirements including independence.
- He is required to comply with code of ethics (issued by ICAI)
  • Integrity
  • Objectivity
  • Professional competence
  • Due care
  • Confidentiality and
  • Professional behavior.
- He shall be independent. Thus he can form an opinion without being affected by influences.

2) Professional Skepticism:

- He should recognize the circumstances indicating possible misstatement.
- It includes **being alert to**, for **example**:
  • Contradictory evidences
  • Conditions indicating possible frauds
  • Conditions questioning reliability.
- Moreover, it is necessary for critical assessment of audit evidences gathered.
- By maintaining professional skepticism, overall risk can be reduced.

3) Professional Judgment:

- It is necessary to **make proper decisions** during audit.
- For example decisions about:
  • Materiality
  • Audit Risk
  • Nature, Timing & Extent of Audit Procedure
  • Sufficiency & appropriateness of evidence etc.
- While making professional Judgment he considers level of Consultation if required.
- It also needs to be appropriately **documented**

4) Sufficient & Appropriate Audit Evidence & Audit Risk:

- '**Sufficiency**' refers to quantum of evidence, '**appropriateness**' refers to its quality.
- He should consider SA 500.
- It is required to reduce audit risk to an acceptable low level.

- Audit risk is a technical risk. It does not include business risk.
- It consists of risk of material misstatement and detection risk.
- However, due to inherent limitations of audit, audit risk cannot be reduced to **Zero.**

5) Conduct of Audit in accordance with SAs:

Complying with SAs Relevant to theaudit	- An SA is relevant if it is effective and **circumstances** stated in that SA **exist**. - The auditor shall understand entire SA to apply it properly. - He shall represent compliance with SAs in auditor's report only if he has complied with requirements of all relevant SAs
Objectives stated in individual SAs	- He shall determine whether any **additional audit procedure** is required to fulfill the objectives stated in SA. - He shall **evaluate** whether sufficient appropriate audit evidence has been obtained keeping in view the objectives stated in SA.
Complying with relevant requirement	- He shall comply with **each requirement** of a SA **unless** • Entire SA is not relevant or • Requirement is not relevant because it is conditional & the condition is not present. - However, in **exceptional circumstances**, he may depart from relevant requirement in SA. He shall perform **alternative procedures** in such case.
Failure to achieve an objective in relevant SAs	- In that case, he shall consider the need to • **modify** the audit report, or • **withdraw** from the engagement. - It is a significant matter requiring **documentation** as well.

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

OBJECTIVES of SA-210

The objective of the auditor is to **accept** or continue an audit engagement **only when** the basis upon which it is to be performed has been agreed, through:

a) Establishing whether the preconditions for an audit are present**;** and
b) Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement.

PRECONDITIONS FOR AN AUDIT

In order to establish whether the preconditions for an audit are present, the auditor shall:

a) Determine whether the financial reporting framework to be applied in the preparation of the FS is acceptable; and
b) Obtain the agreement of management that it acknowledges and understands its responsibility**:**
   - For the preparation of the FS in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
   - For such internal control as management determines is necessary to enable the preparation of FS that are free from material misstatement, whether due to fraud or error;
   - To provide the auditor with:
     - ✓ Access to all information of which management is aware that is relevant to the preparation of the FS such as records, documentation and other matters;
     - ✓ Additional information that auditor may request management for purpose of audit;
     - ✓ Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

LIMITATION ON SCOPE PRIOR TO AUDIT ENGAGEMENT ACCEPTANCE

If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the FS, the auditor **shall not accept** such a limited an audit engagement.

OTHER FACTOR AFFECTING AUDIT ENGAGEMENT ACCEPTANCE

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

AGREEMENT ON AUDIT ENGAGEMENT ACCEPTANCE

1. The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate.
2. The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:
    a) The **objective and scope** of the audit of the FS;
    b) The **responsibilities** of the **auditor**;
    c) The responsibilities of **management**;
    d) Identification of the **financial reporting framework** for the preparation of FS;
    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.
3. If **law or regulation prescribes** in sufficient detail the terms of the audit engagement the auditor need **not record** them in a **written agreement**, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as above.

RECURRING AUDITS

1. On recurring audits, the auditor shall assess whether **circumstances** require the **terms** of the audit engagement to be **revised** and whether there is a need to remind the entity of the existing terms of the audit engagement.
2. The auditor may **decide not to send** a new audit engagement letter or other written agreement each period.
3. However, the **following factors** may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:
    a. Any indication that the entity **misunderstands** the objective and scope of the audit.
    b. Any revised or **special terms** of the audit engagement
    c. A recent **change** of senior **management.**
    d. A significant change in **ownership.**
    e. A significant change in nature or **size** of the **entity**'s business.
    f. A **change** in **legal** or regulatory requirements.
    g. A **change** in the financial **reporting framework** adopted in the preparation of the FS.
    h. A change in other **reporting requirements.**

ACCEPTANCE OF A CHANGE IN TERMS OF AUDIT ENGAGEMENT

1. The auditor shall **not agree** to a change in the terms of the audit engagement where there is **no reasonable justification** for doing so.
2. If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a **lower level of assurance**, the auditor shall determine whether there is **reasonable justification** for doing so.
3. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of **written agreement.**
4. If the auditor is **unable to agree** to a change of the terms of the audit engagement & is **not permitted by** management to continue the original audit engagement, auditor shall:
    - **Withdraw** from the audit engagement where possible under applicable law or regulation;
    - 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.

ADDITIONAL CONSIDERATION IN ENGAGEMENT ACCEPTANCE

Financial Reporting Standards Supplement by Law or Regulation.	1. If financial reporting standards established by an authorized or recognized standards setting organization are supplemented by law or regulation, the auditor shall determine whether there are any **conflicts** between the financial reporting standards and the

	additional requirements. 2. If such conflicts exist, the auditor shall discuss with management the nature of the additional requirements and shall agree whether: a) The additional requirements can be met through additional disclosures in the FS; b) The description of the applicable financial reporting framework in the FS can be amended accordingly. 3. If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the auditor's opinion in accordance with SA 705
Auditor's Report prescribed by Law or Regulation.	If the auditor has determined that the financial reporting framework prescribed by law or regulation would be **unacceptable** but for the fact that it is prescribed by law or regulation, the auditor shall **accept** the audit engagement only if the **following conditions** are present: a) **Management agrees** to provide **additional disclosures** in the FS required to avoid the FS being misleading; and b) It is **recognized** in the **terms** of the audit engagement that: - The auditor's report on the FS will incorporate **an Emphasis of Matter paragraph**, drawing users' attention to the additional disclosures**,** in accordance with SA 706 (Revised); - Unless the auditor is required by law or regulation to express the auditor's opinion on the FS by using the phrases "**present fairly**, in all material respects' or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion on the FS will **not include such phrases**

SA-220 (REVISED) QUALITY CONTROL FOR AN AUDIT FINANCIAL STATEMENTS

OBJECTIVES of SA-220

The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

a) The audit complies with professional standards and regulatory and legal requirements;
b) The auditor's report issued is appropriate in the circumstances.

LEADERSHIP RESPONSIBILITIES FOR QUALITY ON AUDIT

The Engagement Partner (**EP**) shall take overall responsibility for the overall quality on each audit engagement to which that partner's is assigned.

RELEVANT ETHICAL REQUIREMENTS

1. Throughout the audit engagement, EP shall remain alert for non-compliance with relevant ethical requirement by members of the engagement team
2. If members of audit team do not comply, the EP, in consultation with others in the firm, shall determine the appropriate action**.**

INDEPENDENCE

1. The EP shall form a conclusion on compliance with independence requirements.
2. In doing so, the EP shall:
   a) Obtain relevant information to identify circumstances and relationship that create threats to independence**;**
   b) Evaluate information on identified breaches, of the firm's independence policies & procedures;
   c) Take appropriate action to eliminate such threats or reduce them to an acceptable level or to withdraw from audit engagement.

ACCEPTANCE & CONTINUANCE OF CLIENT RELATIONSHIP & AUDIT ENGAGEMENTS

1. The engagement partner shall be satisfied that appropriate **procedures** regarding the acceptance & continuance of client relationship & audit engagements have been **followed**.
2. If the EP obtains the **information** that would have caused the **firm to decline the audit engagement** had the information been available earlier, the EP shall **communicate** information promptly to the firm, so that the firm and EP can take necessary action.

ASSIGNMENT ENGAGEMENT TEAMS

The EP shall be satisfied that the engagement team, collectively have the appropriate competence & capabilities:

a) **Perform** the audit engagement in accordance with **professional standard** and regulatory and legal requirements and

b) **Enable** an auditor's report that is appropriate in the **circumstances** to be issued.

ENGAGEMENTS PERFORMANCE

1. Direction, Supervision & Performance
2. Reviews
3. Consultation
4. Engagement Quality Control Review
5. Differences of Opinion

1. Direction, Supervision & Performance:

The engagement partner shall take responsibility for:

- The direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements, and
- The auditor's report being appropriate in the circumstances.

2. Reviews:

a) The engagement partner shall take responsibility for reviews being performed in accordance with the **firm's review policies** and procedures.

b) On or before the date of the auditor's report, the engagement partner shall, be satisfied that sufficient appropriate **audit evidence has been obtained** to support the conclusions and the auditor's report

3. Consultation:

The engagement partner shall

a) Take responsibility for the engagement team undertaking appropriate consultation of **difficult matters**.

b) be satisfied that engagement team has undertaken consultation both within the engagement team and between the engagement team & others;

c) be satisfied that then nature & scope of & conclusions resulting form, such consultations are agreed with the party consulted; and

d) Determine that conclusions resulting from such consultations have been implemented.

4. Engagement Quality Control Review:

a) For audits of FS of **listed entities** and those **other audit engagement** for which the engagement quality control reviews is required, the **EP** shall

- **Determine** that an engagement quality control **reviewer** has been **appointed**.
- Discussion of **significant matters** with the Engagement control Reviewer.

b) The engagement quality control reviewer shall **evaluate** following:

- Discussion of **significant matters** with the EP
- Review of **selected audit documents**.
- Evaluation of **conclusions** reached.

c) For audits of FS of listed entities, the engagement quality control reviewer shall also consider the following:
   - The engagement team's evaluation of the firms' independence
   - Whether appropriate **consultations** has taken place and the conclusions arising from those consultations.

5. Differences of Opinion:

If differences of opinion arise within the engagement team with those consulted or between the engagement partner and the engagement quality control reviewer, the engagement team shall **follow the firm's policies and procedures** for dealing with and resolving differences of opinion.

MONITORING

1. A monitoring process is designed to provide the firm with reasonable assurance that its policies and procedures relating to quality control are relevant adequate and operating effectively.
2. The engagement partner shall consider the result of the firms monitoring process.

DOCUMENTATION

1. The auditors shall document
   a) Issues identified with respect to compliance with relevant ethical requirement and how they were resolved.
   b) Conclusions on compliance with independence requirements.
   c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
   d) The consultations undertaken during the course of the audit engagement.

2. The engagement quality control reviewer shall document for the audit engagement reviewed that
   a) The procedures for engagement quality control review have been performed.
   b) The engagement quality control review has been completed on or before the date of the auditors reports and
   c) The reviewer is not aware of any unresolved matters

SA-230 (REVISED) AUDIT DOCUMENTATION

OBJECTIVES of SA-230

The objective of the auditor is to prepare documentation that provides:

1. A sufficient and appropriate record of the basis for the auditor's report; and
2. Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements

REQUIREMENTS

1. **Timely Preparation of Audit Documentation:**

   The auditor should prepare audit documentation on timely basis to enhance the quality of audit and for effective review and evaluation of audit evidence obtained and conclusion reached.

2. **Documentation of the audit procedures performed and audit evidence obtained:**

Form, Content and Extent of Audit Documentation	1) The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor to understand: - The nature, timing, and extent of the audit procedures; - The results of the audit procedures performed, and the audit evidence obtained; and - Significant matters arising during the audit and the conclusions reached

	thereon. 2) **Auditor shall also record:** • The identifying characteristics of the specific items or matters tested, • **Who** performed **the** audit work and the date such work was completed; and • **Who** reviewed the audit work performed and the date and extent of such review? 3) If the auditor identified inconsistent information, the auditor shall document how he addressed the inconsistency.
Departure from a Relevant Requirement	If, in exceptional circumstances, he departs from SA, the auditor shall document the reasons for the departure and alternative audit procedures performed.
Matters Arising after the Date of the Auditor's Report	If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document: 1) The circumstances encountered; 2) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached and their effect on the auditor's report; and 3) When and by whom the changes to audit documentation were made and reviewed.
Assembly of the Final Audit File	• The auditor shall assemble the audit documentation in an audit file & complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. • After the assembly, the auditor shall not delete audit documentation before the end of its retention period.

OWNERSHIP OF DOCUMENTATION

- SQC 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of auditor.
- He may at his discretion**,** make portions or extracts from, audit documentation available to clients, **provided** such
  - Disclosure does not undermine the validity of the work performed, or,
  - In the case of assurance engagements, the independence of the auditor or of his personnel.

SA-240 (REVISED) THE AUDITOR 'S RESPONSIBILITIES RELATING TO FRAUD AN AUDIT OF FINANCIAL STATEMENTS

OBJECTIVES of SA-240

The objectives of the auditor are as follows:

- To identify and assess the risks of material misstatement in the FS due to fraud;
- To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud; and
- To respond appropriately to identified or suspected fraud.

RESPONSIBILITY FOR THE PREVENTION AND DETECTION OF FRAUD

1. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance (TCWG) of the entity and management.
2. Management and those charged with governance should place a strong emphasis in fraud prevention.
3. This involves a commitment to creating a culture of honesty and ethical behavior.

RESPONSIBILITIES OF THE AUDITOR

1. Auditors are responsible for obtaining reasonable assurance that the FS taken as a whole are free from material

misstatement.
2. As described in SA 200, due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the FS will not be detected, even though the audit is properly planned and performed in accordance with the SAs.
3. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.
4. This is because fraud involves carefully organized schemes designed to conceal it.
5. It is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error.
6. The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud as management can manipulate accounting records.
7. The auditor is responsible for maintaining an attitude of professional skepticism throughout the audit.

PROFESSIONAL SKEPTICISM

1. The auditor shall maintain an attitude of professional skepticism throughout the audit.
2. He should recognize the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.
3. Unless doubtful situations are present, the auditor may accept records and documents as genuine.
4. If conditions cause the auditor to believe that document may not be authentic or that terms in a document have been modified, the auditor shall investigate further.
5. Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.

DISCUSSION AMONG THE ENGAGEMENT TEAM

- They should discuss how and where the entity's FS may be susceptible to material misstatement due to fraud, including how fraud might occur.
- The discussion shall occur notwithstanding the engagement team members' beliefs that management and those charged with governance are honest and have integrity.

RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES

When performing risk assessment procedures, he shall perform the **following procedures:**

1. Enquiring Management and Others within the Entity
2. Enquiring Those Charged with Governance (TCWG)
3. Unusual or Unexpected Relationships Identified
4. Other Information
5. Evaluation of Fraud Risk Factors

1. Enquiring Management and Others within the Entity:

The auditor shall make inquiries of management regarding:

a) Management's assessment of the risk of material misstatement due to fraud;
b) Management's process for identifying & responding to the risks of fraud in the entity, including any specific risks of fraud;
c) Management's communication, if any, to those charged with governance; and
d) Management's communication, if any, to employees regarding its views on business practices and ethical behavior.

For those entities that have an internal audit function, the auditor shall make inquiries of internal auditor.

2. Enquiring Those Charged with Governance (TCWG):

- He shall obtain an understanding of how TCWG supervise management's processes.
- The auditor shall ask TCWG whether they have knowledge of any fraud affecting the entity.

3. Unusual Or Unexpected Relationships Identified:

The auditor shall **evaluate** whether unusual or unexpected relationships identified in performing **analytical procedures**, may indicate risks of material misstatement due to fraud.

4. **Other Information:**

The auditor shall consider whether other information obtained by the auditor indicates risks of material misstatement due to fraud

5. **Evaluation of Fraud Risk Factors:**

- The auditor shall evaluate whether the information obtained, indicates that one or more fraud risk factors are present.
- However, fraud risk factors may not necessarily indicate the existence of fraud.

IDENTIFICATION AND ASSESSMENT OF THE RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD

1. In accordance with SA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level **for classes of transactions, account balances** and disclosures.
2. The auditor shall, based on a **presumption** that there are **risks of fraud in revenue recognition**, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.
3. The auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

RESPONSES TO THE ASSESSED RISKS OF MATERIAL MISSTATEMENT DUE TO FRAUD

1. Overall Responses
2. Response to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level
3. Responses to Risks Related to Management Override of Controls

1. **Overall Responses:**- The auditor shall:

- Assign and supervise personnel as per their capability;
- Evaluate whether accounting policies adopted by the entity indicate fraudulent financial reporting resulting from management's effort to manage earnings; and
- Incorporate surprise element in the selection of the Nature Time Extent of audit procedures.

2. **Response to Assessed Risks of Material Misstatement Due to Fraud at the Assertion Level:**

The auditor shall **design and perform further audit procedures** whose nature, timing and extent re responsive to the assessed risks of material misstatement due to fraud at the assertion level.

3. **Responses to Risks Related to Management Override of Controls:**

- Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent FS by overriding controls.
- It is a risk of material misstatement due to fraud and thus a significant risk.
- The auditor shall determine whether the auditor needs to perform **extra audit procedures.**

EVALUATION OF AUDIT EVIDENCE

1. The auditor shall evaluate whether **analytical procedures** are **consistent** with the auditor's understanding of the entity and its environment.
2. When the auditor **identifies a misstatement**, the auditor shall evaluate whether such a misstatement is **indicative of fraud**.
3. If there is such an indication, the auditor shall **evaluate** the implications of the misstatement in relation to **other aspects** of the audit, particularly the reliability of management representations.
4. If auditor identifies a misstatement; the auditor shall **re-evaluate** the assessment of the risks of material misstatement due to fraud and its resulting impact on the nature, timing and extent of audit procedures.
5. When the auditor **confirms** that, or is **unable to conclude** whether, the FS are materially misstated as a result of

fraud the auditor shall **evaluate the implications for the audit**.

AUDITOR UNABLE TO CONTINUE THE ENGAGEMENT

The auditor shall:

1. Determine the **professional and legal responsibilities** applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
2. Consider whether it is appropriate to **withdraw** from the engagement; and
3. If the auditor withdraws:
   - **Discuss** with the appropriate level of **management** and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
   - **Determine** whether there is a **professional or legal requirement** to report to person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and the reasons for the withdrawal.

MANAGEMENT REPRESENTATIONS

Auditor should obtain written representations from management that:

1. Its **responsibility** for the design, implementation and maintenance of **internal control** to prevent and detect fraud;
2. It has **disclosed** to the auditor the **results** of its **assessment of the risk of fraud**.
3. It has **disclosed** to the auditor its **knowledge of fraud** or suspected fraud affecting the entity involving:
   - Management;
   - Employees who have significant roles in internal control; or
   - Others;
4. It has **disclosed** to the auditor its knowledge of any allegations of **fraud**, or suspected fraud, affecting the entity's FS.

COMMUNICATIONS TO MANAGEMENT AND TCWG

1. If the auditor has **identified a fraud** or has indication of fraud; the auditor shall communicate these matters on a timely basis to the appropriate level of management.
2. The auditor shall communicate with those charged with governance other matters related to fraud that are **relevant** to their responsibilities.

COMMUNICATIONS TO REGULATORY AUTHORITIES

The auditor's **legal responsibilities** may **override the duty of confidentiality** in some circumstances.

DOCUMENTATION

1. He shall maintain documentation as per SA 315 and SA 330.
2. The auditor shall document, **communications** about fraud made to **management**, those charged with governance, regulators and others.
3. When the auditor has concluded that **presumption** that there is a risk of material misstatement due to **fraud related to revenue recognition** is not applicable in the circumstances of the engagement, the auditor shall document the **reasons** for that conclusion.

SA-250 (REVISED) CONSIDERATION OF LAWS & REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

OBJECTIVES OF SA-250

The objectives of the auditor are:

1. To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws & regulations generally recognized to have a direct effect on the determination of material amounts and

disclosures in the FS;
2. To perform specified audit procedures to help identify instances of non-compliance with other laws & regulations that may have a material effect on the FS; and
3. To respond appropriately to non-compliance or suspected non-compliance with laws & regulations identified during the audit.

RESPONSIBILITY OF MANAGEMENT FOR COMPLIANCE WITH LAWS & REGULATIONS

It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of **laws and regulations,** including compliance with the provisions of laws & regulations that determine the reported amounts and disclosures in an entity's FS.

RESPONSIBILITY OF AUDITOR

1. The requirements in this SA are designed to assist the auditor in identifying material misstatement of the FS due to non-compliance with laws and regulations.
2. However, the auditor is **not responsible for preventing** non-compliance and cannot be expected to detect non-compliance with all laws and regulations.
3. In the context of laws and regulations, the potential effects of **inherent limitations** on the auditor's ability to detect material misstatements are greater.
4. This SA distinguishes the auditor's responsibilities in relation to compliance with **two different categories** of laws and regulations as follows:
   a) The provisions of those laws and regulations having a **direct effect** on the determination of material amounts and disclosures in the FS such as tax and labour laws;
   b) Other laws and regulations that do **not have a direct effect** on the determination of the amounts and disclosures in the FS, but compliance with which may be fundamental to the operating aspects of the business.

5. In this SA, different requirements are specified for each of the above categories of laws and regulations. For the category referred to in **(a)** above, the auditor's responsibility is to **obtain sufficient appropriate audit evidence** about compliance with the provisions of those laws and regulations. For the category referred to in **(b)** the auditor's responsibility is **limited to undertaking specified audit procedures** to help **identify** non-compliance with those Laws and regulations that may have a material effect on the FS.

THE AUDITOR'S CONSIDERATION OF COMPLIANCE WITH LAWS & REGULATIONS

1. The auditor shall obtain a **general understanding** of:
   a) The **legal and regulatory framework** applicable to the entity and the industry or sector in which the entity operates; and
   b) **How the entity is complying** with that framework.
2. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a **direct effect** on the determination of material amounts and **disclosures** in the FS.
3. The auditor shall perform the **following audit procedures** to identify instances of non-compliance with other laws and regulations that may have a material effect on the F.S.:
   a. **Inquiring** of management; and
   b. **Inspecting** correspondence, if any, with the relevant licensing or regulatory authorities.
4. During the audit, the auditor shall **remain alert** to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention.
5. **Obtain written representation** that all known instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to the auditor.

AUDIT PROCEDURES WHEN NON- COMPLIANCE IS IDENTIFIED OR SUSPECTED

1. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:
   a. An understanding of the nature of the **act** and the **circumstances** in which it has occurred;
   b. Further information to evaluate the **possible effect** on the FS.
2. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and those charged with governance.

3. If management or those charged with governance **do not provide sufficient information** the auditor shall consider the need to obtain **legal advice.**
4. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall **evaluate the effect** of the lack of sufficient appropriate audit evidence on the auditor's opinion.

REPORTING OF IDENTIFIED OR SUSPECTED NON- COMPLIANCE

1. Reporting Non- Compliance to Those Charged with Governance
2. Reporting Non- Compliance in the Auditor's Report on the FS
3. Reporting Non- Compliance to Regulatory and Enforcement Authorities

1. Reporting Non- Compliance to Those Charged with Governance:

- Unless all of those charged with governance are involved in management of the entity, the auditor shall **communicate** with those charged with governance matters involving noncompliance with laws and regulations that come to the auditor's attention.
- If in the auditor's judgment, the non-compliance is believed to be **intentional and material**; the auditor shall communicate the matter to those charged with governance as soon as practicable.
- If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the **next higher level of authority** at the entity, if it exists, such as an audit committee or supervisory board.
- Where **no higher authority** exists, or if the auditor believes that the communication may not be acted upon, the auditor shall consider the need to obtain **legal advice**.

2. Reporting Non- Compliance in the Auditor's Report on the FS:

- If the auditor concludes that the non-compliance has a **material effect** on the FS, and has **not been adequately reflected** in the F.S., the auditor shall, express **a qualified or adverse opinion** on the FS.
- If the auditor is **precluded by management** or those charged with governance from obtaining sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion.
- If the auditor is unable to determine whether non- compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall **evaluate the effect** on the auditor's opinion.

3. Reporting Non- Compliance to Regulatory and Enforcement Authorities:

If the auditor has identified or suspect's non-compliance with laws and regulations, the auditor shall **determine** whether the auditor has a **responsibility to report** the identified or suspected non-compliance to parties **outside the entity.**

DOCUMENTATION

The auditor shall document identified or suspected non-compliance with laws and regulations and the results of **discussion with management** and those charged with governance and other parties outside the entity

SA-260 (REVISED) COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

OBJECTIVE OF SA 260

The objectives of the auditor are to:
1. Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
2. Obtain from those charged with governance information relevant to the audit;
3. Provide those charged with governance with timely observations arising from the audit that are significant and

relevant to their responsibility to oversee the financial reporting process; and
4. Promote effective two-way communication between auditor and those charged with governance.

WHEN ALL OF THOSE CHARGED WITH GOVERNANCE ARE INVOLVED IN MANAGING THE ENTITY

1. In some cases, all of those charged with governance are involved in managing the entity, for example, a **small business** where a single owner manages the entity and no one else has a governance role.
2. In these cases, if matters required by this SA are communicated with person(s) with management responsibilities, and those person(s) also have governance Responsibilities, the matters **need not be communicated" again** with those same person(s) in their governance role.

THOSE CHARGED WITH GOVERNANCE

The auditor shall **determine the appropriate person** within the entity's governance structure with whom to **communicate.**

MATTERS TO BE COMMUNICATED

1. The Auditor's Responsibilities in Relation to the Financial Statement Audit
2. Planned Scope and Timing of the Audit
3. Significant Findings from the Audit
4. Auditor Independence

1. The Auditor's Responsibilities in Relation to the Financial Statement Audit:

The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:

a. The auditor is responsible for **forming and expressing an opinion** on the F.S.
b. The audit of the F.S. does **not relieve management** or those charged with governance of their responsibilities.

2. Planned Scope and Timing of the Audit:

The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit.

3. Significant Findings from the Audit:

The auditor shall communicate with those charged with governance:

a. The auditor's **views** about **significant qualitative aspects** of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
b. **Significant difficulties**, if any, encountered during the audit;
c. Unless all of those charged with governance are involved in managing the entity:
   - **Material weaknesses**, if any, in the design, implementation or operating effectiveness of internal control that have come to the auditor's attention and have been communicated to management;
   - **Significant matters**, if any, arising from the audit that were discussed, or subject to correspondence with management; and
   - **Written representations** the auditor is requesting; and other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

4. Auditor Independence:

In the case of **listed entities**, the auditor shall communicate with those charged with governance:

a. A **statement** that the engagement team and others in the firm as appropriate, have complied with relevant **ethical requirements** regarding independence; and
b. All **relationships** and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence.
c. The **related safeguards** that have been applied to **eliminate identified threats** to independence or reduce them to an acceptable level.

THE COMMUNICATION PROCESS

1) Establishing the Communication Process
2) Forms of Communication
3) Timing of Communications
4) Adequacy of the Communication Process

1) Establishing the Communication Process:

The auditor shall communicate with those charged with governance the form, timing and expected general content of communications.

2) Forms of Communication:

- The auditor shall communicate in **writing** with those charged with governance regarding **significant matters**.
- The auditor shall communicate in writing with those charged with governance regarding auditor independence.

3) Timing of Communications:

The auditor shall communicate with those charged with governance on a **timely basis.**

4) Adequacy of the Communication Process:

- The auditor shall **evaluate** whether the **two-way communication** between the auditor and those charged with governance has been **adequate** for the purpose of the audit.
- **If it has not**, the auditor shall evaluate the **effect** on the auditor's assessment of the risks of material misstatement.

DOCUMENTATION

- Where matters required by this SA to be communicated are communicated **orally**, the auditor shall document them, and **when and to whom** they were communicated.
- Where matters have been communicated **in writing**, the auditor shall **retain a copy** of the communication as part of the audit documentation.

SA-265 COMMUNICATION DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

OBJECTIVE OF SA 265

Objective of the auditor is to communicate to TCWG & management deficiencies in IC that auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.

REQUIREMENTS

1) The auditor shall **determine** whether, on the basis of the audit work performed, the auditor has **identified one or more deficiencies** in IC.
2) If the auditor has identified one or more deficiencies in IC, the auditor shall determine they constitute **significant deficiencies**.
3) The auditor shall **communicate in writing** significant deficiencies in IC identified during the audit to TCWG on a timely basis.
4) The auditor shall also communicate **to management** at an appropriate level of responsibility on a timely basis:
    a) In writing, **significant deficiencies** in IC that the auditor has communicated to TCWG.
    b) **Other deficiencies** in IC identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.
5) The auditor shall include in the **written communication** of significant deficiencies in IC:
    a) A **description** of the deficiencies and an explanation of their potential effects; and

b) **Sufficient information** to enable TCWG and management to understand the context of the communication. In particular, the auditor shall **explain** that:
   - The **purpose** of the audit was for the auditor to express an opinion on the F.S.;
   - The audit included consideration of IC relevant to the preparation of the F.S. in order to design audit procedures that are appropriate in the circumstances, but **not for** the purpose of expressing an **opinion on the effectiveness of IC**; and
   - The **matters** being reported are **limited to** those **deficiencies** that the auditor has **identified** during the audit and that the auditor has concluded are of sufficient importance.

SA-299 RESPONSIBILITY OF JOINT AUDITORS

JOINT AUDITORS

When two or more practicing units are appointed to conduct audit of an entity

DIVISION OF WORK

1. Where Joint Auditors (JA) are appointed, they should, **by mutual discussion, divide** the audit works among them.
2. The division of work would **usually** be in **terms of audit** of identifiable Units or specified areas.
3. In some cases, due to nature of the business of entity under audits such a division of work may **not be possible**.
   a) In such situations, division of work may be with reference to items of **assets or liabilities or income or expenditure or** with reference to periods of **time**.
   b) The division of work among JA as well as the areas of work to be covered by all of them should be adequately **documented** and preferably **communicated to the entity**.

CO-ORDINATION

1. If some JA comes to know a **matter, relevant for other JA**, then he should **communicate** it immediately in writing to other JA.
2. The **date** of such communication should be **before** date of **audit report**.

RESPONSIBILITY AMONG JAs

1. Separate Responsibility of each JA
2. Joint & Several Responsibility of all JAs.

1. Separate Responsibility of each JA:

- For **Work** allocated to him.
- For Drafting his own audit **Program**
- For keeping appropriate **documentation**
- For **Components** allocated to him in case of large entities having many components.

2. Joint & Several Responsibility of all JAs:

- Audit work **not divided**.
- Collective decision w.r.t. NTE of audit **Procedure**
- **Matters** brought to knowledge of all by any one of them and on which they all agree.
- **Disclosure** requirements in FS.
- Compliance of **Audit Report** whit statutory requirement.

REPORTING RESPONSIBILITIES

1. Normally, the JAs are able to arrive at an **agreed report**.
2. However, where the JAs 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.**
3. A JA is **not bound by** the views of the **majority** of the JAs regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement.