

CA FINAL AUDIT

Following points must be quoted while answering questions on Auditing Standards.

SA 250-Consideration of laws and regulations in an audit of Financial Statements:

1. This SA deals with the responsibility of the auditor in considering the laws and regulation in performing an audit of the financial statement.
2. The effect of laws and regulation varies considerably. Those laws and regulation which are applicable to an entity constitute its legal and regulatory framework.
3. It is the responsibility of the management with the oversight of the TCWG to ensure that the operation of the entity are conducted according to the laws and regulations.
4. There are some laws and regulation which have a direct effect on the financial statement in determining its reportable amounts and disclosure in financial statements and management should also check compliance with the same.

Role of Auditor:

- Obtain an understanding of the legal and regulatory framework.
- Obtain sufficient and appropriate audit evidence that the company has complied with all the laws and regulation which have a direct effect on the financial statement in determining its reportable amounts and disclosure in financial statements including tax and labour laws
- Apply additional audit procedures to check any noncompliance if any
- Inquiry with the management and examining correspondence with the legal authority for noncompliance.
- Respond appropriately to noncompliance or suspected noncompliance.
- Obtaining written representation from the management about the possible noncompliance.

SA 240-Auditors responsibility relating to fraud in an audit of the financial Statements

1. Fraud is an intentional misstatement of information by employee, management, and TCWG or a third party in order to take advantage of the situation.
2. The primary responsibility of prevention and detection of fraud is that of the management and TCWG.
3. The auditor shall evaluate the information obtained from other risk assessment procedures and related activities performed to check one or more fraud risk factors are present.
4. If fraud risk factors are present then the auditor will apply procedures to check the risk of material misstatement due to fraud and the auditor will depute a person to conduct in depth verification and applying unpredictable audit procedures.
5. After confirming about the existence of fraud he should escalate to the management and get it rectified and disclose in the audit report if it's not rectified give a modified report.
6. Some laws require reporting of fraud directly to the legal authority.
7. The fraud may be
 - Fraudulent Financial Reporting.
 - Misappropriation of Assets.

SA-230 Audit Documentation

1. Audit Documentation refers to the working papers which are prepared by the auditor to show that the audit has been conducted in accordance with the SA on Auditing. It contains all the
 - Procedures applied
 - Evidences obtained
 - Response of the management
 - Conclusion drawn
2. They may be in physical and electronic form. The purpose of the working papers are
 - To plan the audit based on previous years working papers
 - It acts as an evidence that the auditor was not negligent

- Can be used to form conclusions
- To supervise the work of audit assistants
- 3. The auditor shall prepare the audit documentation in such a way the it enables an experienced auditor having no previous connection with the audit to understand
 - Nature, timing and extent of audit procedures
 - The results of the audit procedures
 - Significant matters arising during the audit, conclusions reached etc.,
- 4. The auditor is the owner of the working papers. They must be retained for a period of 7 years. Audit file must be prepared within 60 days from the date of audit report. He may at his discretion make portions or extracts of the audit working papers to the client. He will give access to his working papers to a third party only when it is required by any law.
- 5. Audit file is divided into permanent audit file and temporary audit file.

SA-210 Agreeing to the terms of the audit engagement

1. The objective of this standard is to accept an audit engagement only when the basis upon which it is to be performed has been agreed through
 - Establishing whether the precondition for the audit are present
 - Confirming through an audit engagement letter that there is a common understanding between the auditor and the management/TCWG of the terms of the engagement.
2. Audit Engagement letter is a letter written by the auditor to the client expressing what the scope of audit is and what the auditor tries to cover in the audit. This should be acknowledged by the client and sent back to the auditor.
3. In case of repetitive or recurring audit engagement letter will be sent again only when
 - Significant changes in senior management
 - Changes in Ownership
 - Changes in legal and regulatory framework
 - Revision in terms of engagement
 - Indication of any misunderstanding by the client.
 - Change in the nature and size of the business.

SA-600 Using work of another auditor

1. Another auditor means auditor of a subsidiary, associate, branch, JV, division
2. Principal auditor is an auditor who has the responsibility of expressing an opinion on the financial statements as a whole. He should consider the impact of work of another auditor.

SA-610 Using work of internal auditor

1. Internal audit is a management examination of financial, operational and administrative activities of the enterprise with a view to strengthen governance mechanism, risk management and improvement in internal control.
2. The external auditor will determine
 - Whether the work of internal auditor is likely to be adequate for the purpose of the audit.
 - If so, the planned effect of such work on the nature and timing of the audit procedures to be applied by the external auditor

In determine so the external auditor will consider the following factors

- The objectivity and scope of work of the internal audit function
 - The technical competence and skill of the internal auditors
 - Whether the work is conducted with
 - Due professional care and properly supervised.
 - Level of reporting
 - Evidences obtained and conclusions drawn thereon
 - Whether there is proper communication between the internal and external auditors.
 - Whether the work was properly supervised and documented.
2. The external auditor will perform audit procedures on the work of internal auditors to determine its adequacy. However an external auditor can rely on the work of internal auditor at his own discretion. He will be solely be responsible for his opinion on financial statement.

SA 620 Using work of an Auditor's Expert

The Auditor should consider the following factors in using work of an auditor's expert

- Check the source data used by him whether it is reliable and accurate
- Check the assumption used by him whether they are appropriate
- Skill and competence of expert
- Methods used by the expert whether they are relevant
- Objectivity and scope of expert work
- Professional Qualification and licence
- Whether the findings are relevant
- Whether the expert is employed by the entity or outside agency
- The extent to which management has control over the expert

Permission of the expert is to be taken before using his name in the auditor's report.

SA-505 External Confirmation

1. The objective of the auditor in using external confirmation is to obtain sufficient and appropriate audit evidence as external evidence is more reliable than internal evidence.

2. External confirmation is directly obtained from the third party

- The auditor contacts the client to give him authorisation.
- Client gives authorisation.
- Auditor contacts third party for confirmation.
- Third party gives the confirmation.

3. Auditor can send positive or negative confirmation requests. If the managements asks the auditor to abstain from sending confirmation then the auditor must understand the reason for such refusal if it is a sensitive matter and evidence of such is available then the auditor must abstain and perform additional procedures.

SA-510 Initial Audit Engagement

1. This standard is applicable when an auditor is newly appointed for an existing entity.

2. The objective of the auditor is to obtain sufficient and appropriate audit evidence as whether the opening balances contain any misstatement which may affect current year financial statement and whether the accounting policies of previous year are carried forward in the current year.

3. If the previous year financial statement is unmodified then the closing balance of PY is to be taken as opening balance. If PY FS are modified and the error is not rectified then this year also the auditor shall express a modified opinion.

4. If the auditor is unable to obtain sufficient audit evidence that the opening balances are free from misstatements and that the accounting policies are consistently followed then the auditor shall express a modified opinion.

SA 500 Audit Evidence

1. The objective of the auditor is to design and perform audit procedures to obtain sufficient (Quantity of audit evidence) and appropriate audit evidence (Quality and Reliability)

2. Audit Techniques to obtain audit evidence

- Inquiry (Questioning the management)
- Inspection (Examining records or documents)
- Recalculation (Checking mathematical accuracy)
- Re-performance (Acts already done by management)
- Analytical procedure (Evaluation of financial information using financial and non-financial data.)
- External Confirmation
- Observation

3. Methods of evaluation of audit evidence.

SA-550 Related Parties

1. The auditor needs to have an understanding of the related party relationships and transactions

- To recognise fraud risk factors, if any arising from related party relationships and transactions that are relevant to the identification of the risk of material misstatement.
- To conclude that the financial statement are not misleading as a result of related party relationships and transactions and present a true and fair view.

2. It is the responsibility of the management to recognise the related party and the auditor needs to validate the procedure applied by them.

3. If the auditor identifies significant transactions outside the entities normal course of business when performing the audit procedures the auditor shall enquire with the management about the following

- Nature of transactions
- Whether related party could be involved.

4. The auditor may apply the following procedures for identification of related party transactions

- Life insurance policies acquired by the management.
- Obtain a written representation from the management about the completeness of the list of related parties.
- Verify register maintained under sec 301.
- Verify minutes of the board of directors.
- Having discussion with the management.
- Verify the financial statement of the previous year.
- Sales transactions with unusual discounts.
- Contracts whose terms are changed before expiry.

SA-570 Going Concern

1. Going concern is a fundamental accounting assumption that a company will continue in foreseeable future. Management is responsible to ascertain whether going concern is appropriate or not.

2. It is the duty of the auditor to apply procedures and obtain sufficient and appropriate audit evidence to check the appropriateness of the going concern.

3. To conclude based on the audit evidence whether a material uncertainty exists that casts doubt about the going concern assumption.

5. The auditor should apply the following procedures

- Verify the subsequent events after the balance sheet date if they effect the going concern
- Impact of the legal cases before the company should also be assessed
- The auditor may also check the interim financial statement
- Verify the cash flow if it is negative or short term borrowings used for long term purposes
- Examine the minutes of board meetings.

SA-560 Subsequent events

1. The objective of the auditor is to obtain sufficient audit evidence that the events which occur after the balance sheet date and before audit report that require adjustment or disclosure have been properly done.
2. Respond appropriately to the facts that come to the knowledge of the auditor after the date of auditors report and before AGM.
3. The auditor should understand the procedure applied by the management in determine the events that occurred after the balance sheet date, read minutes of board meeting, check interim financial results, ask TCWG.
4. The events that occur between the date of financial statement and auditors report are classified into two categories
 - Those that provide existence of conditions that existed on balance sheet date
 - Those that provide evidence of conditions that arose after the date of financial statement.
4. The facts which become known to the auditor after the date of audit report but before the financial statements are issued, then discuss with management or TCWG. Determine whether such fact needs amendment and if so how it will be done.

SA-520 Analytical Procedures

The objective of the auditor is to obtain sufficient and reliable evidence using analytical procedure and design and perform analytical procedure near the end of the audit that assist the auditor in forming an overall conclusion on the audit

1. Analytical procedure means evaluation of the financial information through anlysis of both financial and non financial data. Analytical process is anlysis of significant ratios and trends including investigation of fluctuation and figures which deviate from the predicted amounts.
2. AP is applied on the assumption that relationship among data exists and continue to exist.
3. The auditor while applying AP must be careful about the reliability of the data.
4. The auditor should determine the suitability of a particular analytical procedure

5. Develop an expectation of recorded amounts or ratios and evaluate whether such expectation is sufficient to identify a misstatement.

SA-530 Audit Sampling

1. This standard provide a reasonable basis to the auditor in determining the population from where sample is to be selected.
2. The objective of the auditor is to draw conclusions on the population by performing audit procedures on the sample selected.
3. Confidence level: It is the mathematical probability that the error rate in the sample will not differ from the error rate in the population by more than a stated amount. It is always expressed as a percentage.
4. Sampling risk: The risk that the auditor's conclusion based on sample may be different from the conclusion if the entire population was subjected to the same audit procedure. Higher the sample size lower the sampling risk. So the auditor selects and audit sample which will keep the audit risk to an acceptably low level.

Sampling Techniques

- Random Selection Technique
- Systematic selection technique
- Haphazard Selection Technique
- Block Selection technique
- Monetary unit (Q3c)

SA-580 Written Representations:

1. The auditor should obtain written representation from the management or TCWG that they believe that they have fulfilled their responsibility of preparation of financial statement and for completeness of information provided to the auditor.
2. To confirm certain matters and to support other audit evidence relevant to the financial statement, if required by the auditor or SA.
3. To respond appropriately to WR provided by the management.
4. WR is obtained from the management to confirm certain matters and to support other audit evidences. WR is obtained when audit evidence is not available or inappropriate.
5. WR is provided for all the period covered by the auditor
6. As far as practicable WR must be near the date of Audit report but not after that.

7.If the management refuses to provide WR then, discuss with management,reevaluate the integrity of management and effect of this on his opinion and give a disclaimer of opinion.

The auditor shall request WR from managemen with appropriate responsibilities for the financial statements.

SA-300 Planning an Audit of Financial Statements

Steps in Audit Planning

- Auditor drafts the audit plan
- Auditor will evolve and overall audit strategy
- He will draft an audit programme.
- Both audit plan and programme must be flexible in nature.

1.Audit planning is done to ensure that audit is conducted in an effective and efficient manner.

2.All critical areas are covered. All assistants are properly utilised and there is proper coordination among the members.

3.Audit plan is more detailed than audit strategy. It contains the nature, timings and extent of the audit procedures to be performed.Planning for audit procedures takes place during the course of audit.

4.Following things are to be considered before drafting and audit plan

- Determination of materiality
- Using work of expert, other auditor or internal auditor'
- Analytical procedure to be applied as risk assessment procedures
- Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the company follows such framework
- Nature and extent of the audit evidences to be obtained
- Degree of reliance to be placed on the internal control system and accounting system.

5. The auditor shall document the overall audit plan and audit strategy.It will become part of the Audit documentation.

SA-315: Identifying and assessing the risk of material misstatement

The objective of the auditor is to identify and assess the risk of misstatement at financial statement and assertion level through the following way

- The auditor should check the control activity i.e authorisation levels to significant class of transactions, A/c balance and disclosures in financial statement.
- Inquiry with management, In-house legal person, Employees
- Implication of records
- Analytical procedures
- Observation
- Discussion with the Audit team.
- Check the IT system for recording of transactions
- Obtain an understanding of the entity and its environment

Technique used

- Narrative Records
- Flowcharts
- Checklist
- Internal Control Questionnaire.

SA 220 Quality Control

This SA deals with responsibility of the auditor regarding quality control procedure for audit of Financial Statements. This SA requires that

1. Appointing right person for right job
2. Engagement partner and Engagement Quality control reviewer to see that proper policies are followed
3. Proper training to be given
4. Decide whether to continue the audit if the client is putting unnecessary pressure to complete the audit or reducing fees or doing illegal activity
5. Leadership responsibility
6. Ethical Requirements