

Chapter 1 "Quality Control and Engagement Standards"

SQC – 1 "Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements"

All firms to have system of quality control that provides reasonable assurance that: (a) Firm & personnel comply with professional standards, regulatory & legal requirements, and (b) Reports issued by firm or partners are appropriate in the circumstances.

Leadership Responsibilities for Q. C.	Ethical requirements	Independence	Client Acceptance/Continuance	Human Resources	Engagement Performance	Monitoring
<p>(a) Promote internal culture w.r.t.:</p> <ul style="list-style-type: none"> essential of quality in engagements. Compliance with professional standards, regulatory / legal requirements. Issue of reports appropriate in circumstances. <p>(b) Require CEO/ managing partner to assume ultimate responsibility for QC.</p> <p>(c) Recognise & reward high quality work.</p>	<p>Establish policies & procedures to reasonable assure that Firm & personnel comply with relevant ethical requirements of</p> <ol style="list-style-type: none"> Integrity. Objectivity. Professional competence & due care. Confidentiality. Professional behaviour. 	<p>Policies & procedures should enable:</p> <ul style="list-style-type: none"> Communication of independence requirements to personnel & others. Identification of circumstances threatening independence. Take appropriate action for elimination of threats / withdrawal from engagement. Resolution of breaches of independence. <p><u>Maintenance of independence of personnel</u></p> <ul style="list-style-type: none"> Engagement partners to provide firm with relevant information about client. Prompt notification of threats to independence. Accumulation & communication of relevant information to appropriate personnel. 	<p>Establish policies/ procedures to reasonable assure that clients are accepted/ continued only where:</p> <ul style="list-style-type: none"> Client integrity has been considered. Firm is competent to perform engagement w.r.t. capability, time & resources. firm can comply with ethical requirements. 	<p>Establish policies / procedures to reasonable assure that:</p> <ul style="list-style-type: none"> Firm has sufficient personnel with capabilities, competence & commitment to ethical principles & Responsibility of engagement partner clearly defined & communicated to him/ her. 	<p>Establish policies / procedures to reasonable assure w.r.t.:</p> <ul style="list-style-type: none"> Compliance with professional standards. Compliance with laws/ regulations. Engagement partner issues reports that are appropriate in the circumstances. <p>Important aspects of engagement performance</p> <ul style="list-style-type: none"> Supervision. Review. Consultation. Differences of opinion. Engagement Q. C. review. Engagement documentation. 	<p>Establish Policies & procedures to reasonable assure that QC policies/ procedures are:</p> <ul style="list-style-type: none"> Relevant. Adequate. Operating effectively. Complied with in practice.

SA 200 (Revised) "Overall Objectives of the Independent Auditor & Conduct of audit in accordance with SAs"

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- (a) To obtain reasonable assurance about whether the F. S. 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 F.S. are prepared, in all material respects, in accordance with an applicable FRF.

(b) To report on the F.S. and communicate as required by the SAs, in accordance with the auditor's findings.
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Aspects to be considered by Auditor while performing Audit					Other Explanation
Ethical Requirements	Professional Skepticism	Professional Judgement	Sufficient Appropriate audit Evidence	Conduct of Audit in accordance with SAs	
<ul style="list-style-type: none"> • Comprise Code of Ethics issued by ICAI including independence. • The fundamental principles are: <ol style="list-style-type: none"> 1. Integrity 2. Objectivity 3. Professional competence & due care 4. Confidentiality, & 5. Professional behavior • Independence comprises both independence of mind and independence of appearance. 	Attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.	<ul style="list-style-type: none"> • The application of relevant training, knowledge and experience, • within the context provided by auditing, accounting and ethical standards, • in making informed decisions about the courses of action • that are appropriate in the circumstances of the audit engagement. 	<ul style="list-style-type: none"> • Sufficiency refers to quantum and Appropriateness refers to quality. • Purpose: 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. • Audit Risk: Risk that the auditor expresses an inappropriate audit opinion when the F.S. are materially misstated. • Audit Risk is a function of the RMM and detection risk. 	<ul style="list-style-type: none"> • The auditor shall comply with All SAs relevant to the audit. • Compliance with SA is to be specified in Audit report only in case of actual compliance. • To achieve overall objectives of audit, use the objective stated in Individual SAs. • In case Entire SA is not relevant due to non existence of prescribed conditions, comply with relevant requirements. • In case of failure to achieve an objective determine the need of modified opinion or withdrawal. 	Scope of Audit
	Alertness is required w.r.t.				<ul style="list-style-type: none"> 1. Contradictory audit evidence. 2. Reliability of documents. 3. Conditions indicating possible frauds. 4. Circumstances requiring audit procedures in addition to those suggested in SAs.
					(a) Nature of Financial reporting: involves judgment by Mngt. based on facts and circumstances. (b) Nature of audit Procedures: directed towards obtaining reasonable assurance. (c) Balance between benefit and cost: user expectation to get AR within a reasonable period and at reasonable cost.

SA – 210 (Revised) – “Agreeing the Terms of Engagement”

Objective of Auditor: To accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed with the client.

Agreeing the terms of audit Engagement

At the Beginning of Audit

During the Course of Audit

Initial audit Engagement

Recurring Audit

Mngt. request for changes in terms

Limitations Imposed by mngt.

No Limitations Imposed by Mngt.

Determine requirements w.r.t.:

Determine its effect on Level of Assurance & reasonable Justification

Do not accept unless required by law

Ascertain existence of **Preconditions***

(a) Revision of terms of Engagement; &
(b) Remind the entity of existing terms

Preconditions for an audit

1. Determine whether the FRF is acceptable.
2. Obtain agreement of mngt that it understands its responsibilities for:
 - (a) Preparation of F.S.
 - (b) Exercising necessary Internal Controls to enable the preparation of F.S. that are free from material misstatements.
 - (c) To provide the auditor:
 - Access to all relevant info.
 - Additional info that auditor requests from mngt.
 - Unrestricted access to persons within the entity.

Exist

Not Exist

Required

Not Required

Auditor Satisfied

Not Satisfied

Accept Audit

Discuss matter with mngt.

Send New Engagement Letter

No Further Duty

Record New Terms in Engagement Letter

Do not accept the changes

Do not accept audit in case of:
(a) Unacceptable FRF
or
(b) Mngt. does not agree with responsibilities

CIRCUMSTANCES REQUIRING REVISION IN TERMS

- Indications that the entity misunderstands the objective and scope of the audit.
- Revised or special terms of engagement.
- Recent change of senior management.
- Significant change in ownership.
- Significant change in nature or size of the entity's business.
- Change in legal or regulatory requirements.
- Change in FRF adopted in the preparation of the F.S.
- A change in other reporting requirements.

Mngt. not permit the auditor to continue

Withdraw & Report to appropriate authority

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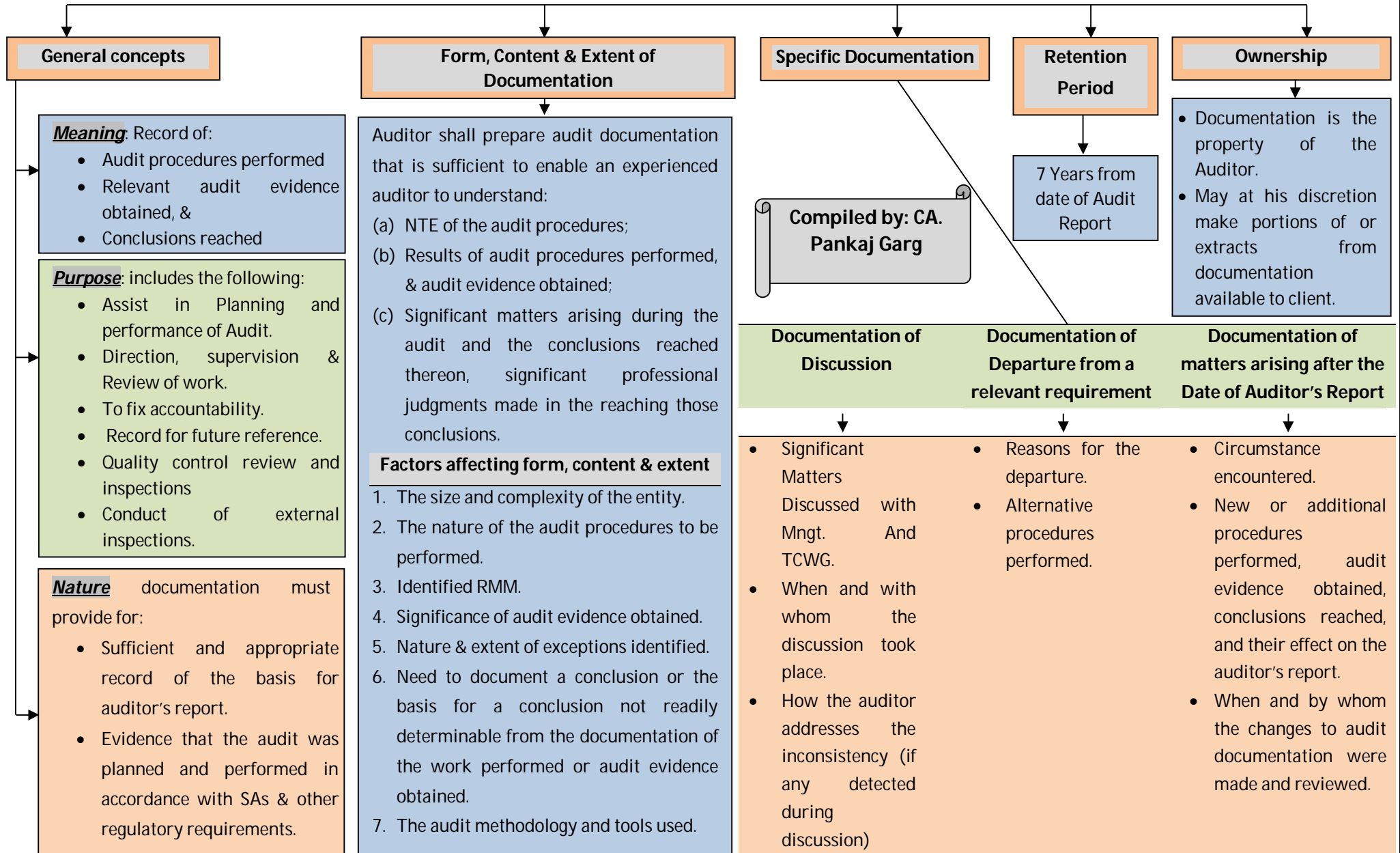
SA – 220 (revised) “Quality Control for an audit of F.S.”

Objective: Implement QC Policies that provide Reasonable Assurance that audit complies with professional standards and audit report issued is appropriate

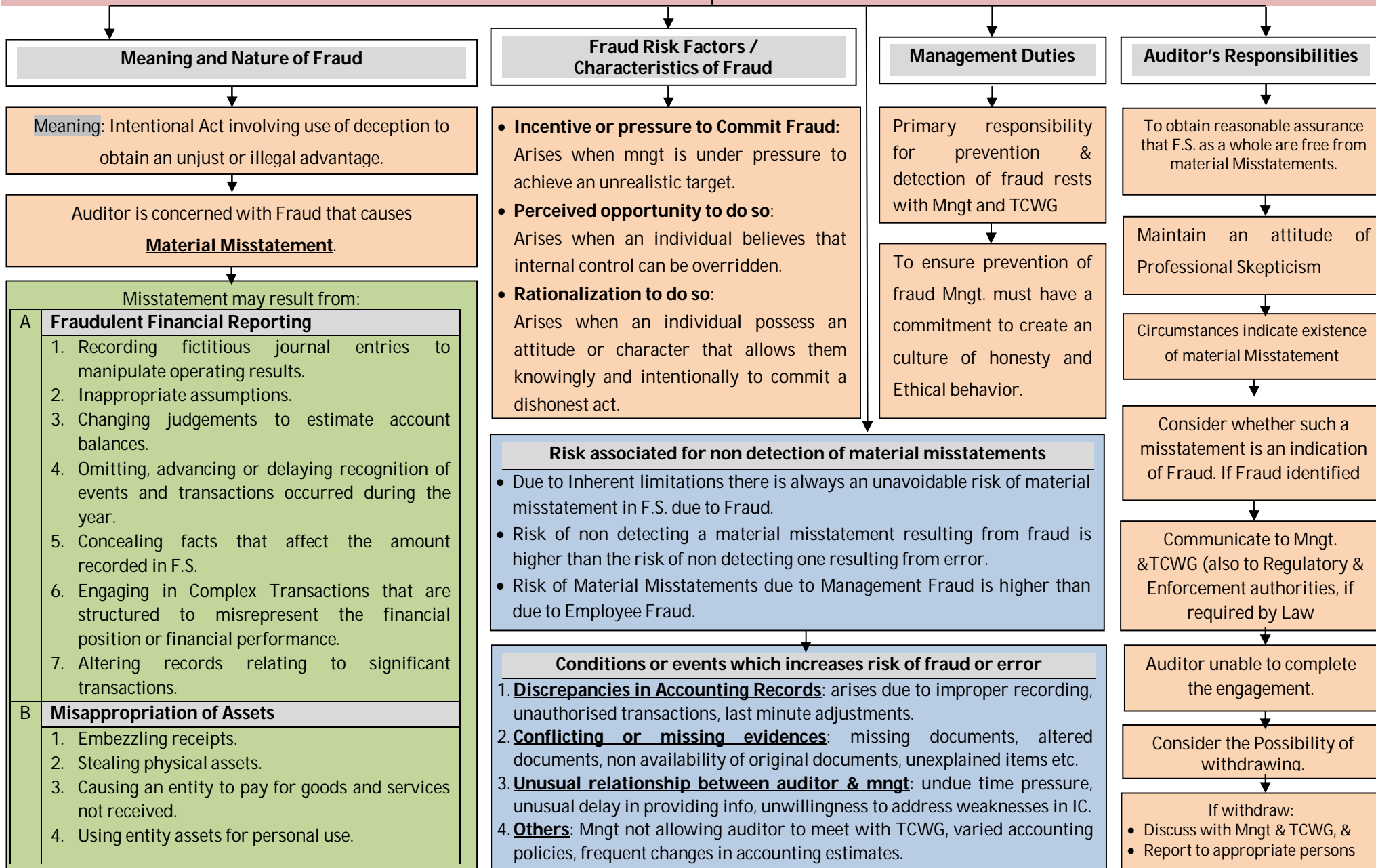
Leadership Responsibilities	Ethical Requirements	Independence	Acceptance / Continuance of Client relationship	Assignment of Engagement Team	Engagement Performance	Monitoring
<p>EP should emphasize the ET the following:</p> <ul style="list-style-type: none"> • Compliance with professional Standards and legal requirements. • Compliance with firm’s Q.C. Policies. • Issuance of appropriate audit report. • Ability to raise concerns without fear. • Quality is essential & indispensable in engagement performance. 	<p>EP to remain alert for evidence of non-compliance with relevant ethical requirements by ET through:</p> <ul style="list-style-type: none"> • Inquiry. • Observation. <p>If there is an indications of noncompliance with relevant ethical requirements, EP should:</p> <ul style="list-style-type: none"> • Consult others in the firm. • Determine appropriate action. 	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Form a conclusion on compliance with applicable independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Obtain relevant information from Firm</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Identify & Evaluate circumstances & Relationship that threatens independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Evaluate information on identified breaches.</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Determine if these threaten independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Take appropriate action to eliminate such threats</div> <p style="text-align: center;">or</p> <div style="border: 1px solid black; padding: 5px;">Promptly report inability to take appropriate action to</div>	<ul style="list-style-type: none"> • Be satisfied that appropriate procedures regarding client acceptance / continuance have been followed. • Determine whether conclusions reached are appropriate. <p style="text-align: center;">↓</p> <div style="border: 1px solid black; padding: 5px;">If EP obtains information that would have caused firm to withdraw the engagement, communicate information promptly to firm</div> <p style="text-align: center;">↓</p> <div style="background-color: #fce4d6; padding: 5px;"> <p style="text-align: center;">Examples of Information</p> <ol style="list-style-type: none"> 1. Integrity of Principal Owners, Mngt & TCWG 2. Competency of ET to perform engagement. 3. Availability of necessary capabilities, including time & resources. 4. Compliance with relevant ethical requirements. 5. Significant matters that arises during the current or previous audit engagement. </div>	<p>EP to be satisfied that ET & Auditor’s Expert not part of ET have appropriate competence & capabilities to:</p> <ul style="list-style-type: none"> ➢ Perform audit engagement in accordance with professional standards and regulatory or legal requirements, and ➢ Enable an AR that is appropriate in the circumstances. 	<p>1. Direction, Supervision and performance:</p> <ul style="list-style-type: none"> • EP shall take the responsibility for directions, supervision & performance of audit engagement in compliance with standards & regulatory requirements, & • to make an appropriate AR. <p>2. Reviews:</p> <p>EP shall take the following responsibilities:</p> <ol style="list-style-type: none"> a. Reviews are being performed in accordance with policies / procedures. b. Be Satisfied that SAAE has been obtained to support the conclusions reached and AR to be issued through <ul style="list-style-type: none"> • Review of Audit Documentation. • Discussion with ET <p>3. Consultation:</p> <p>EP shall undertake consultation</p> <ul style="list-style-type: none"> • wherever required. • Ensure its implementation <p>4. Engagement Quality Control Review: required in case of listed entities.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> <p style="text-align: center;">Matters to be evaluated by EQCR</p> <ul style="list-style-type: none"> • Discussion of significant matters with ET. • Review of FS & proposed audit report. • Review of selected audit documentation • Evaluation of conclusions reached. • Considering whether proposed audit report is <u>appropriate</u>. </div> <p>5. Differences of Opinion: follow the firm’s policies & procedures for dealing with and resolving differences of opinion.</p>	<p>Obtain reasonable assurance that firm’s policies / procedures relating to QC are relevant, adequate, and operating effectively.</p> <p>Consider:</p> <ul style="list-style-type: none"> • Results of firm’s monitoring process. • Whether deficiencies noted may affect the audit engagement.

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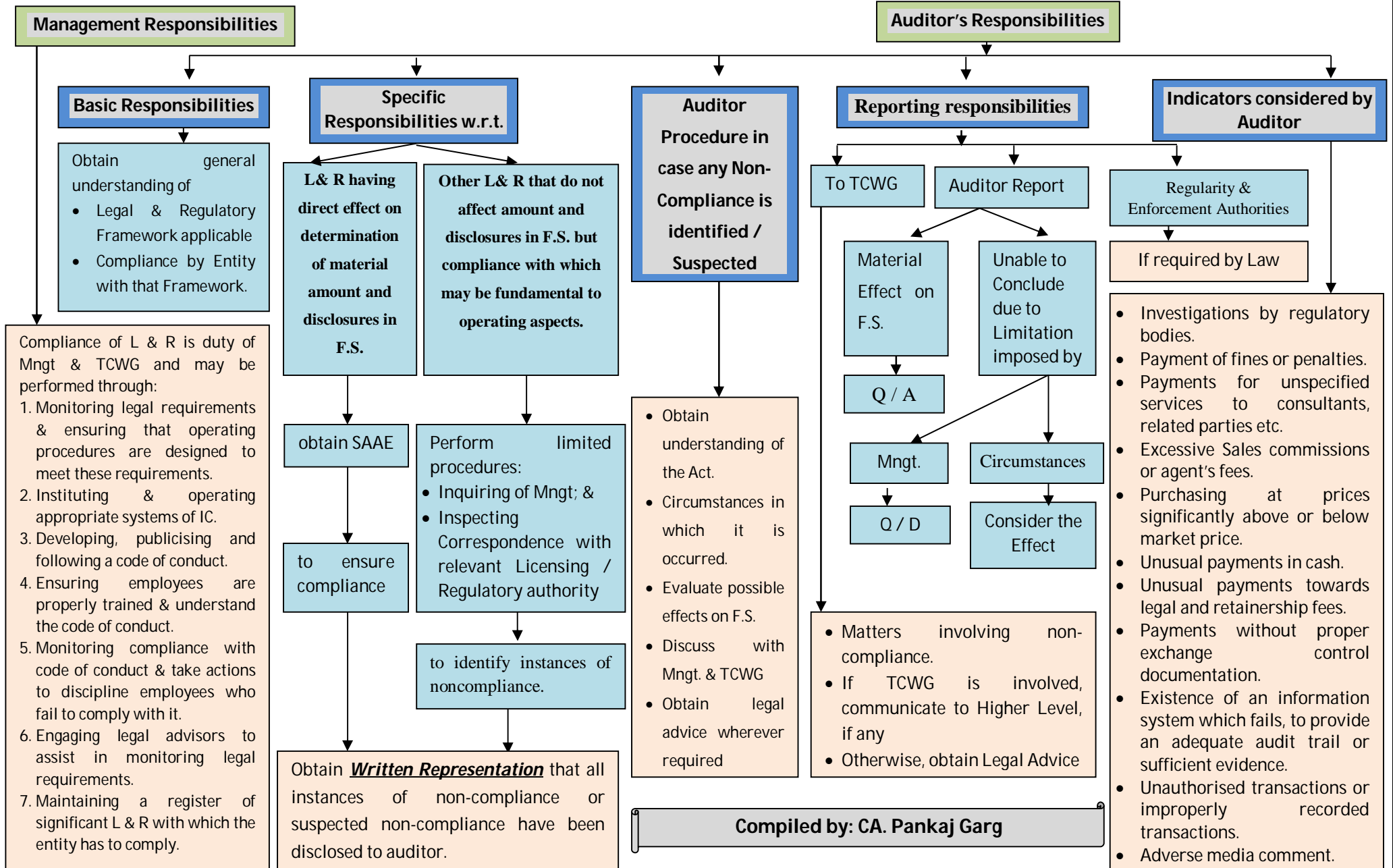
SA – 230 (Revised) – Audit Documentation



SA 240 (Revised) – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

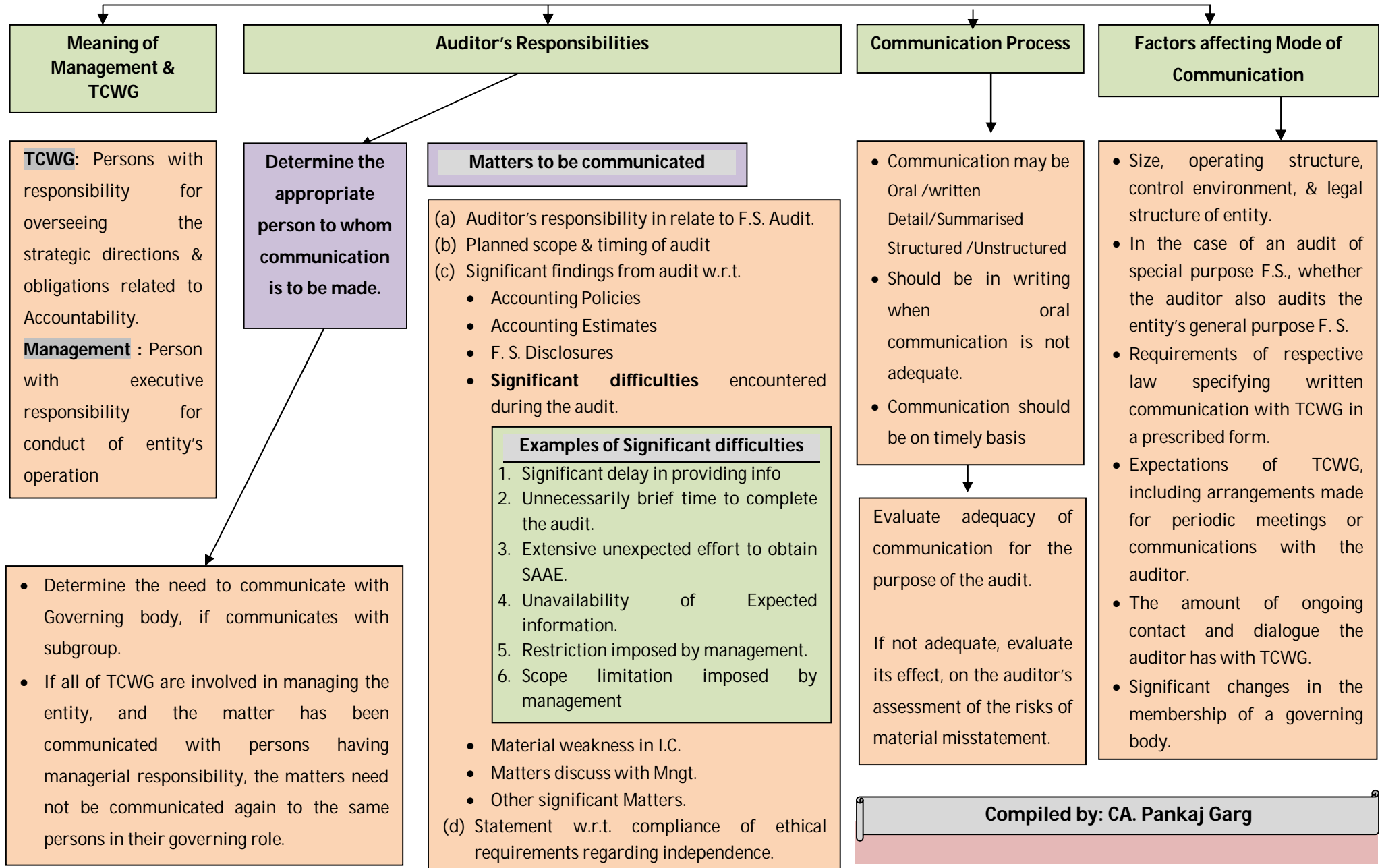


SA 250 (Revised) "Consideration of Laws and Regulations in an Audit of F.S."

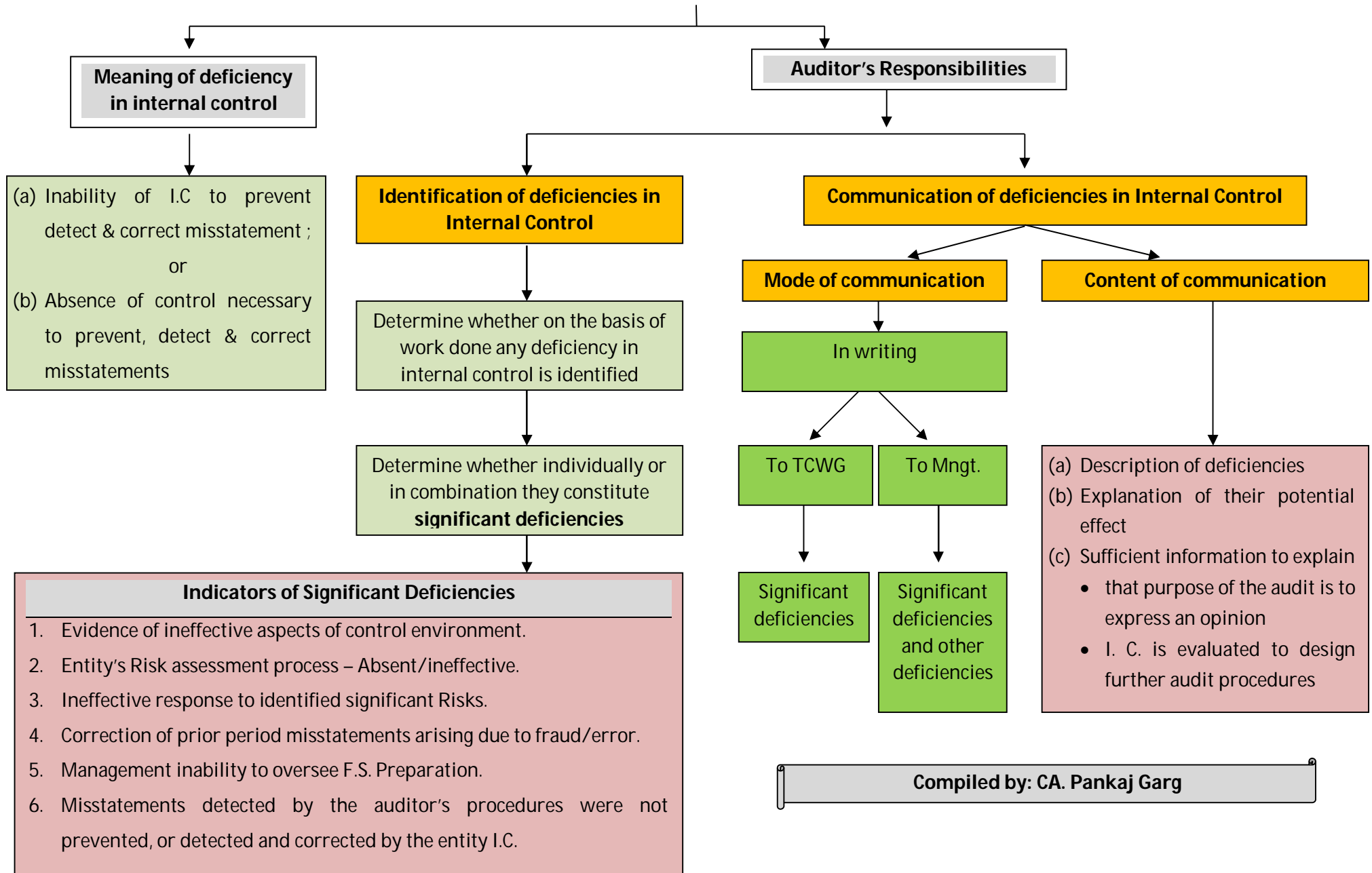


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SA 260 (Revised) – “Communication with TCWG”

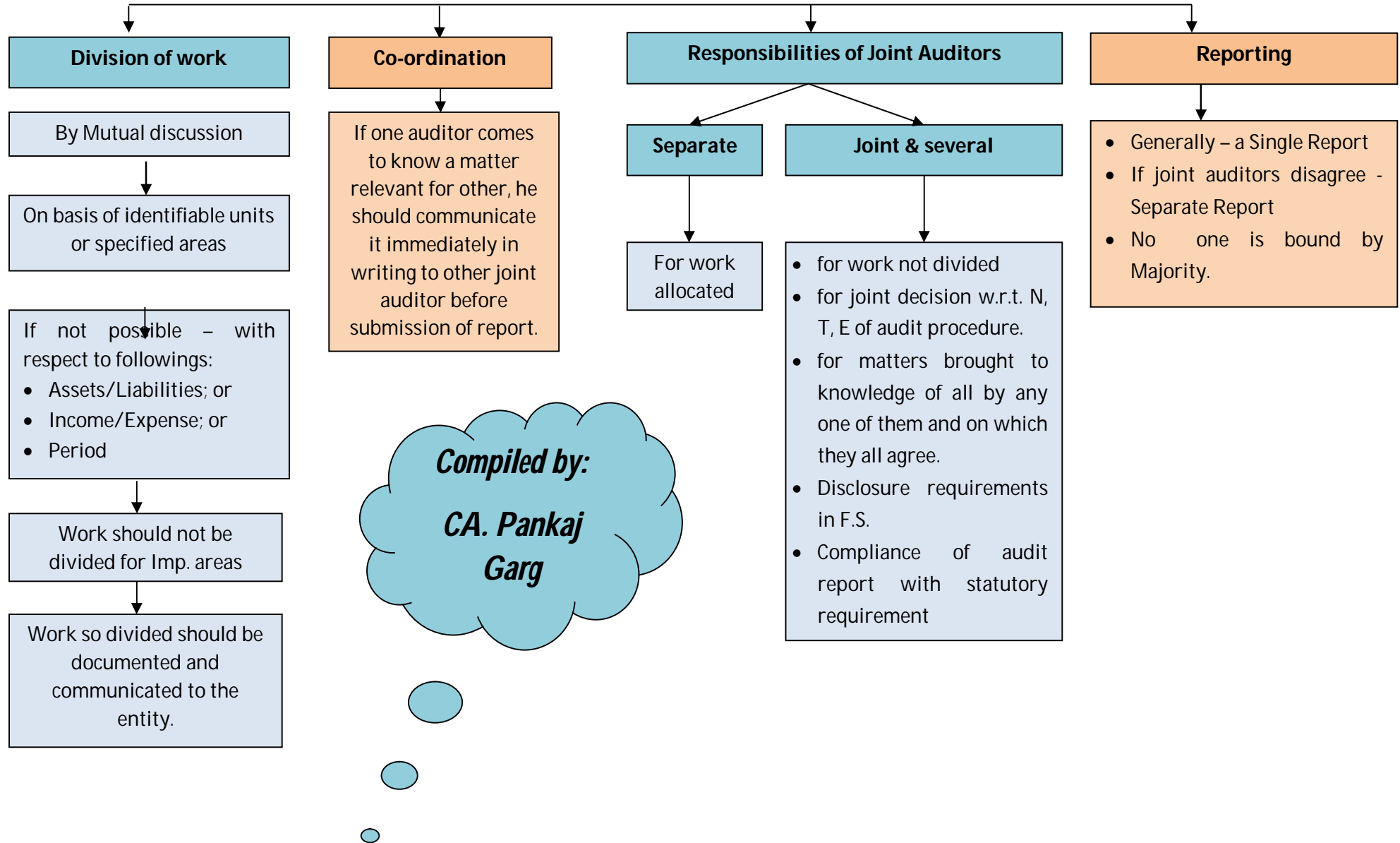


SA-265 "Communicating Deficiencies in Internal Control to TCWG & Management"

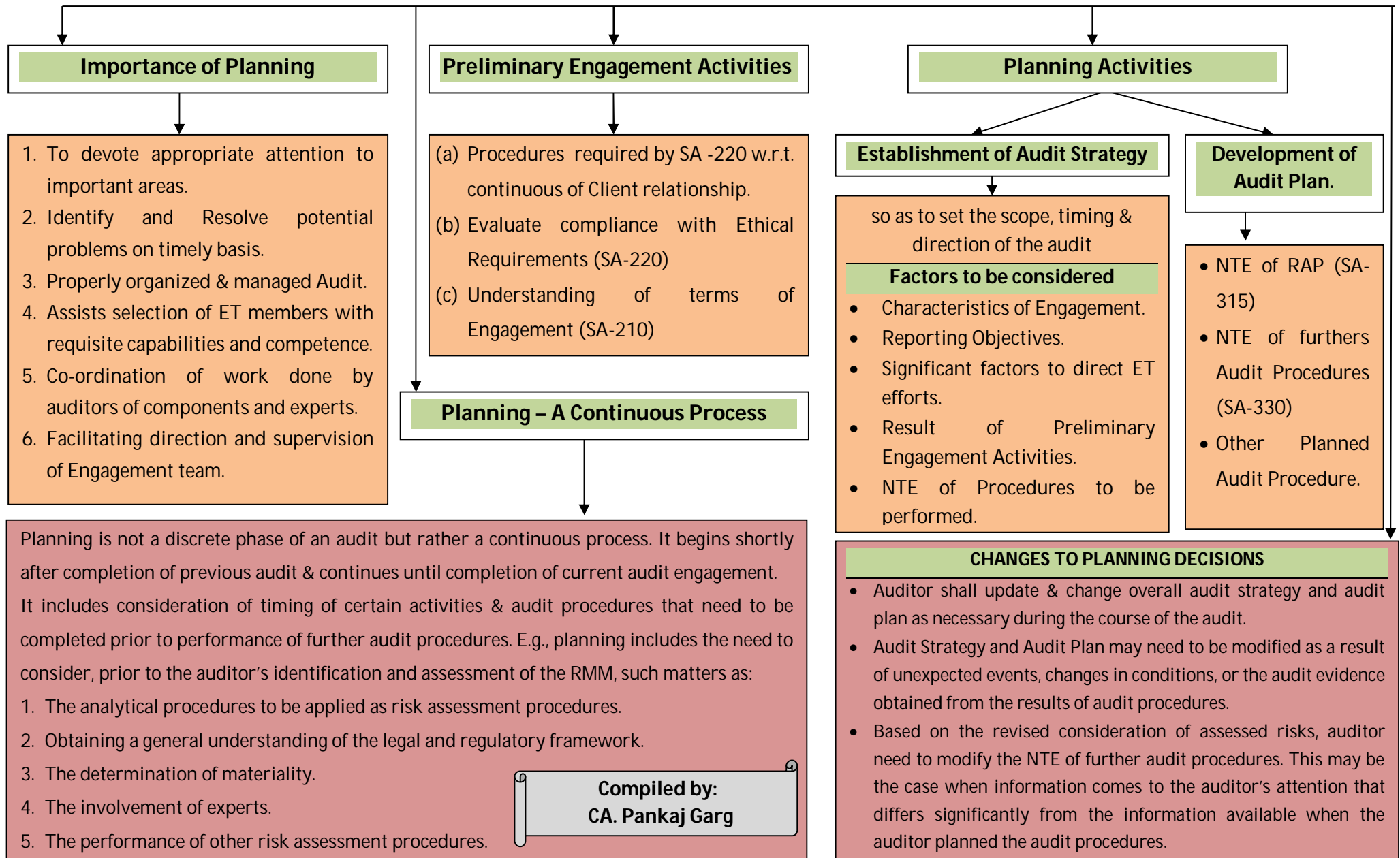


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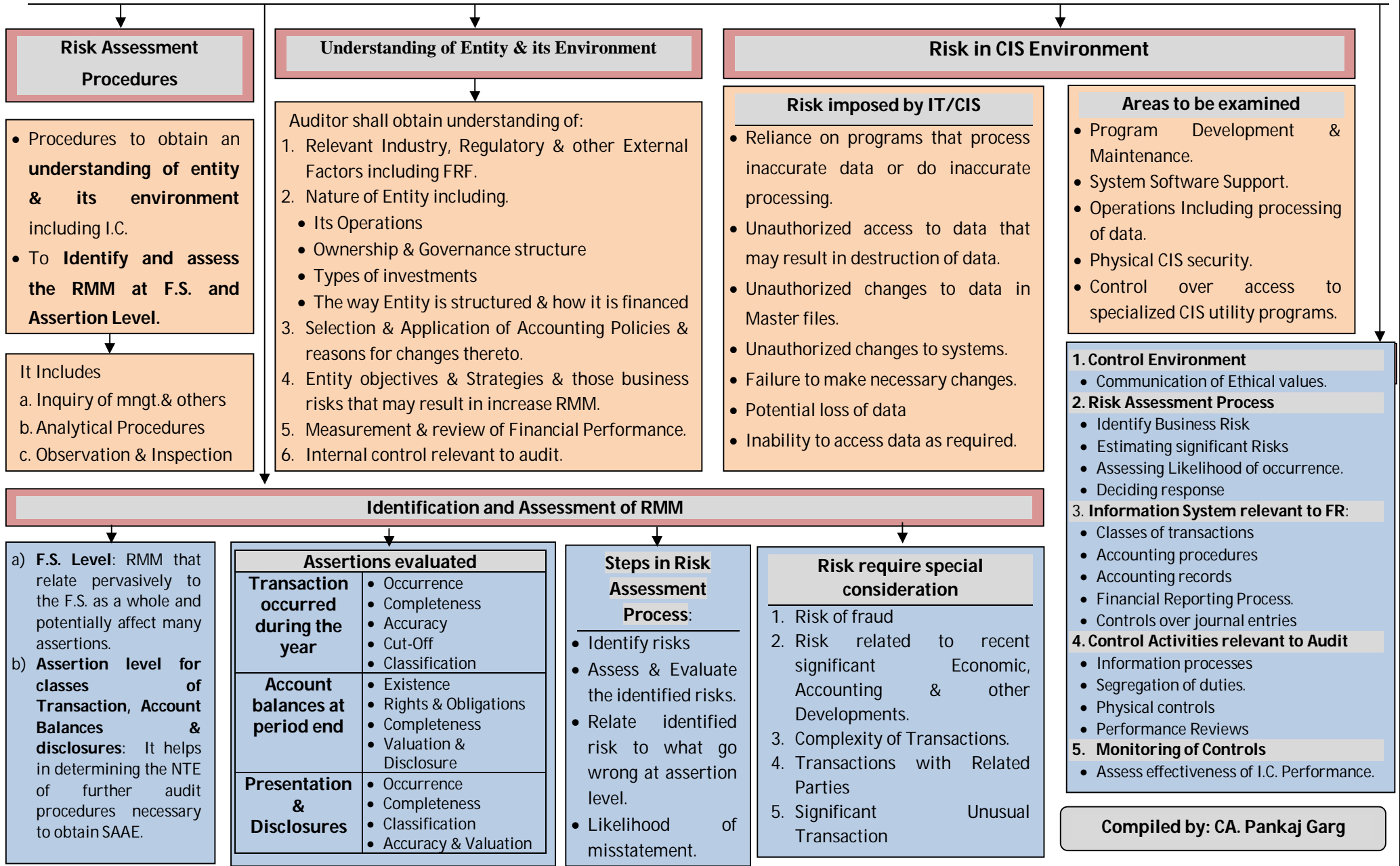
SA 299 "Responsibility of Joint Auditors"



SA 300 (Revised) – Planning in an audit of Financial Statements



SA 315 (Revised) – Identifying and Assessing the Risk of Material Misstatements through understanding the Entity and Its Environment.



Risk Assessment Procedures

- Procedures to obtain an **understanding of entity & its environment** including I.C.
- To **Identify and assess the RMM at F.S. and Assertion Level.**

It Includes

- Inquiry of mngt.& others
- Analytical Procedures
- Observation & Inspection

Understanding of Entity & its Environment

- Auditor shall obtain understanding of:
1. Relevant Industry, Regulatory & other External Factors including FRF.
 2. Nature of Entity including.
 - Its Operations
 - Ownership & Governance structure
 - Types of investments
 - The way Entity is structured & how it is financed
 3. Selection & Application of Accounting Policies & reasons for changes thereto.
 4. Entity objectives & Strategies & those business risks that may result in increase RMM.
 5. Measurement & review of Financial Performance.
 6. Internal control relevant to audit.

Risk in CIS Environment

- ### Risk imposed by IT/CIS
- Reliance on programs that process inaccurate data or do inaccurate processing.
 - Unauthorized access to data that may result in destruction of data.
 - Unauthorized changes to data in Master files.
 - Unauthorized changes to systems.
 - Failure to make necessary changes.
 - Potential loss of data
 - Inability to access data as required.

- ### Areas to be examined
- Program Development & Maintenance.
 - System Software Support.
 - Operations Including processing of data.
 - Physical CIS security.
 - Control over access to specialized CIS utility programs.

Identification and Assessment of RMM

- F.S. Level:** RMM that relate pervasively to the F.S. as a whole and potentially affect many assertions.
- Assertion level for classes of Transaction, Account Balances & disclosures:** It helps in determining the NTE of further audit procedures necessary to obtain SAAE.

Assertions evaluated	
Transaction occurred during the year	<ul style="list-style-type: none"> • Occurrence • Completeness • Accuracy • Cut-Off • Classification
Account balances at period end	<ul style="list-style-type: none"> • Existence • Rights & Obligations • Completeness • Valuation & Disclosure
Presentation & Disclosures	<ul style="list-style-type: none"> • Occurrence • Completeness • Classification • Accuracy & Valuation

- ### Steps in Risk Assessment Process:
- Identify risks
 - Assess & Evaluate the identified risks.
 - Relate identified risk to what go wrong at assertion level.
 - Likelihood of misstatement.

- ### Risk require special consideration
1. Risk of fraud
 2. Risk related to recent significant Economic, Accounting & other Developments.
 3. Complexity of Transactions.
 4. Transactions with Related Parties
 5. Significant Unusual Transaction

- 1. Control Environment**
 - Communication of Ethical values.
- 2. Risk Assessment Process**
 - Identify Business Risk
 - Estimating significant Risks
 - Assessing Likelihood of occurrence.
 - Deciding response
- 3. Information System relevant to FR:**
 - Classes of transactions
 - Accounting procedures
 - Accounting records
 - Financial Reporting Process.
 - Controls over journal entries
- 4. Control Activities relevant to Audit**
 - Information processes
 - Segregation of duties.
 - Physical controls
 - Performance Reviews
- 5. Monitoring of Controls**
 - Assess effectiveness of I.C. Performance.

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SA 320 (Revised) "Materiality in Planning and Performing an Audit"

Concept of Materiality

Materiality is a subject of professional judgment and discussion presented in FRF provides a reference to the auditor in determining materiality.

If FRF does not include a discussion, following can be referred:

- (a) Misstatements including omissions expected to influence the economic decision of users.
- (b) Size or nature of misstatement & the surrounding circumstances.
- (c) Common financial information needs of the users as a group.

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Judgment of materiality provides a basis for:

- (a) Determination of NTE of RAP
- (b) Identifying and assessing RMM.
- (c) NTE of further audit procedures.

Performance Materiality

- The amount set by auditor at
- less than materiality for F.S as a whole
- to reduce to an appropriately low level
- the probability that the aggregate of the uncorrected & undetected misstatement
- exceeds materiality for F. S. as a whole

Revision of Materiality

- In event of becoming aware of information that would have caused auditor to have determined a different amount initially, auditor shall revise materiality for the F.S. as a whole & if required, for particular classes of transactions, account balances or disclosures.
- If the auditor concludes that a lower materiality than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the NTE of the further audit procedures remain appropriate.

Auditor's Duties

- (a) Upon establishing the overall audit strategy, the auditor shall determine the materiality for the F. S. as a whole.
- (b) Determine the materiality level for specific transactions for which misstatements of lower amount be expected to influence the economic decisions of users.
- (c) Determine performance materiality for purpose of assessing the RMM and determining the NTE of further audit procedures.

Use of benchmark in determining Materiality

A %age is often applied to a chosen benchmark as a starting point in determining materiality for the F.S. as a whole.

Factors affecting identification of appropriate benchmark

1. The elements of the financial statements;
2. Items on which the attention of the users of the particular entity's financial statements tends to be focused;
3. The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
4. The entity's ownership structure and the way it is financed; and
5. The relative volatility of the benchmark.

SA – 330 “Responses to Assessed Risks”

Objective: To obtain Sufficient and Appropriate Audit Evidence about Assessed Risk of Material Misstatement through design and implementing Appropriate Responses

Tests of Controls

Procedures designed to evaluate the operating effectiveness of controls in preventing, detecting or correcting material misstatements at assertion level.

Obtain audit evidences w.r.t. (a) Application of controls (b) Consistency of application
(c) By whom & by what means they applied

Evaluate the audit evidences

Material weaknesses identified

Communicate to Mngt. & TCWG – on timely basis

Substantive Procedures

Procedures designed to detect material misstatements at assertion level.
It comprises of:

- a) Test of details (of classes of transactions, Account Balances and Disclosures); &
- b) Substantive Analytical Procedures

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External Confirmation (EC) procedures as substantive procedures	Auditor shall consider whether EC procedures are to be performed as substantive audit procedures. Factors that may assist the auditor are: 1. Confirming party knowledge of Subject Matter. 2. Ability or Willingness of intended confirming part to respond. 3. Objectivity of Intending Party.
Closing Process	<ul style="list-style-type: none"> • Reconciling F.S. with underlying A/cing Records • Examine Material Journal Entries & other adjustments made during the course of preparing the F.S.
Significant Risks	Procedures that are specifically responsive to that risk needs to be applied

Timing: When Substantive procedures are applied for interim period, the auditor shall cover remaining period by appropriate procedures

Special Considerations

Using Audit Evidence obtained in Interim Period:

- Obtain audit Evidence for significant changes subsequent to Interim Period.
- Determine the additional Evidence to be obtain for remaning period.

Using Audit Evidence obtained during previous audits: Establish Continuing relevance of that evidence by determining significant changes subsequent to previous audit

- Changes occurs: Test the controls in current audit
- No Change Occurs: Test the controls once in three audits

Factors warranting re-test of controls

1. Deficient control environment.
2. Deficient monitoring of controls.
3. Significant manual element to relevant controls.
4. Personnel changes that significantly affect the application of control.
5. Changing circumstances that indicate the need for changes in the control.
6. Deficient general IT-controls.

SA 402 (Revised) – Audit Considerations relating to an Entity Using a Service Organisation

Auditor's Objective

- Obtain an understanding of nature & significance of service provided by the S.O. and their effect on the user's entity internal control relevant to the audit, sufficient to identify and assess the RMM.
- To design and perform audit procedures responsive to those risks.

Obtaining understanding of services provided by service Organisation (S.O.)

The user auditor shall obtain an understanding of how user entity uses the services of a service organization in the user entity operation, including:

- (a) Nature of service provided by the S.O. and significance of services to user entity.
- (b) Nature and materiality of the transactions processed or financial reporting processes affected by service organizations.
- (c) Degree of interaction between activities of S.O. and those of the user entity.
- (d) The nature of relationship between user entity and the service organization.

Auditor's considerations

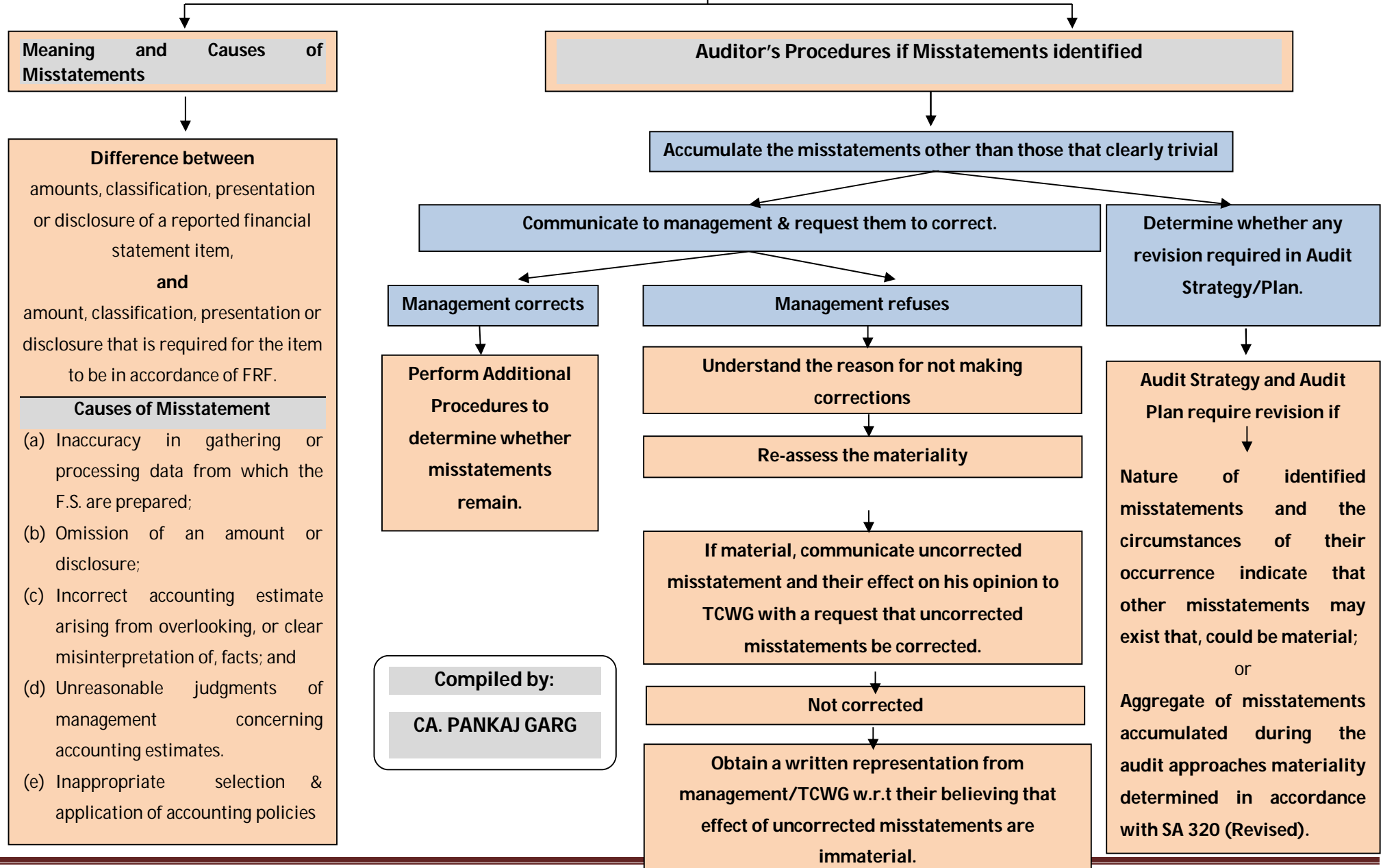
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- User auditor shall *evaluate the design and implementation of relevant controls of user entity* that relate to the services provided by service organization.
- User auditor shall *determine whether a sufficient understanding of nature and significance of services provided by service organization* and their effect on the user entity internal control relevant to the audit has been obtained.
- If user auditor is *unable to obtain a sufficient understanding from the user entity*, user auditor shall obtain that understanding from the following procedures:
 - (a) Obtaining a Type 1 or Type 2 Report, if available.
 - (b) Contacting the service organization, through the user entity.
 - (c) Visiting the service organization.
 - (d) Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the S.O.

- **If a S.O. uses subservice organisation, the service auditor's report may either include or exclude the subservice organisation's relevant control objectives & related controls in the service organisation's description of its system & in the scope of service auditor's engagement. These two methods of reporting are known as the inclusive method and the carve-out method, respectively.**
- **If Type 1 or Type 2 report excludes the controls at a subservice organisation, and the services provided by the subservice organisation are relevant to the audit of the user entity's financial statements, the user auditor is required to apply the requirements of this SA in respect of the subservice organisation.**
- **Nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organisation depend on the nature and significance of those services to the user entity and the relevance of those services to the audit.**

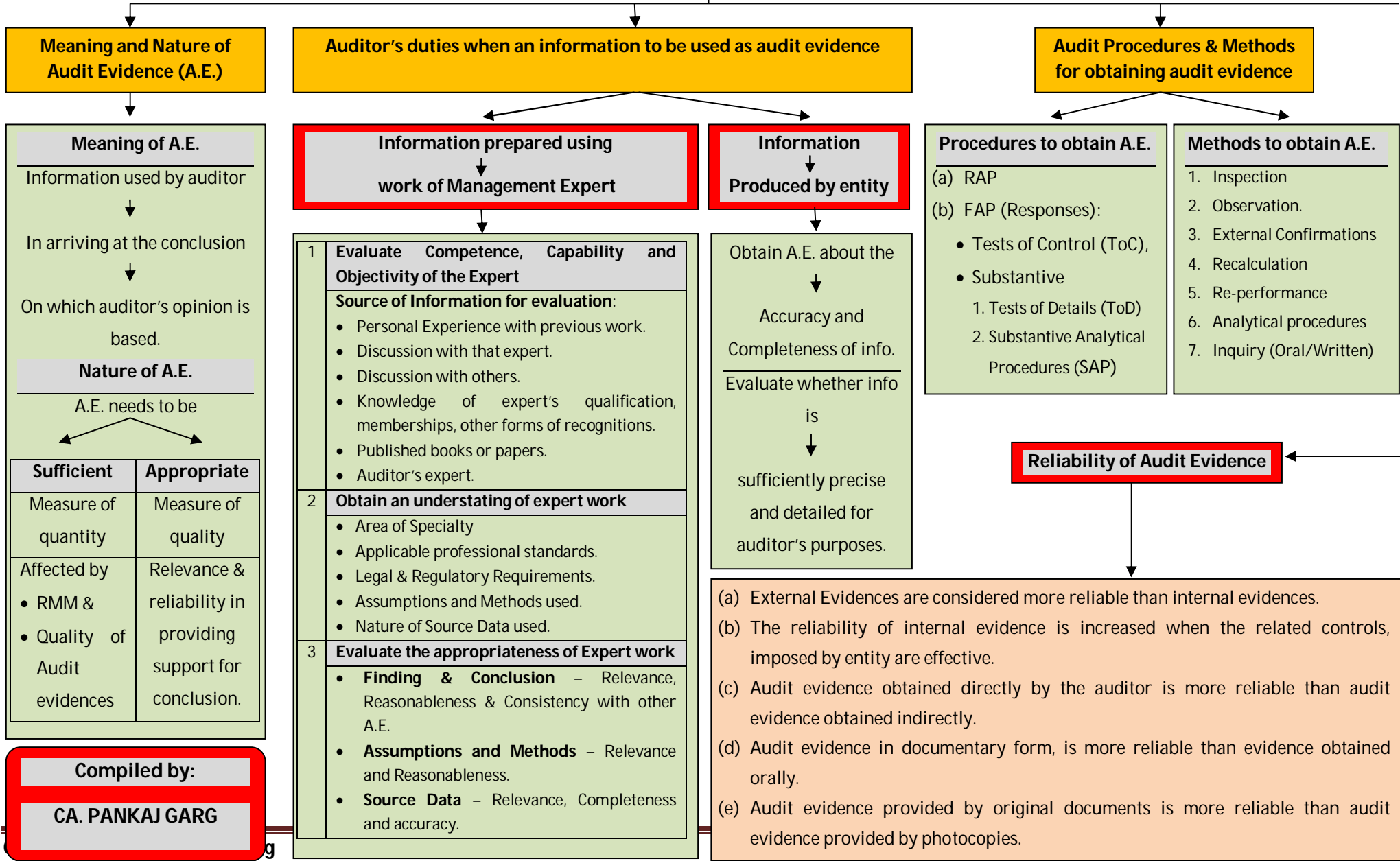
User Auditor: An auditor who audits and Reports on the financial statements of a user entity.
User Entity: An Entity that uses a service organization and whose financial statements are being audited.
Type 1 Report: Report on the description and design of internal controls at a service organization for a specified date.
Type 2 Report: Report on the description, design and operating effectiveness of controls at a service organisation for a specified period.

SA 450 "Evaluation of Misstatements Identified during the Audit"



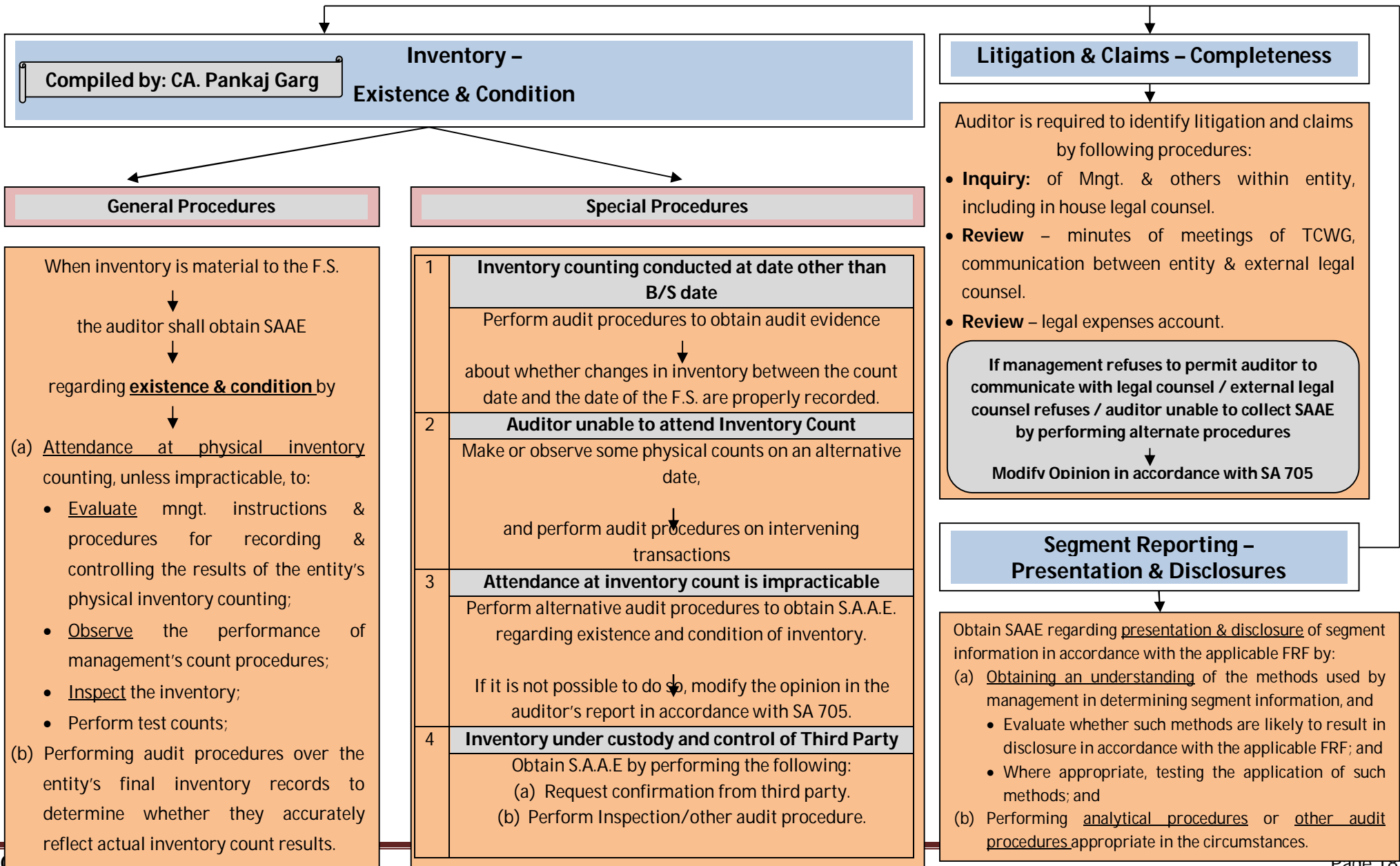
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SA 500 "Audit Evidence"



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SA 501 "Audit Evidence – Specific Considerations for Selected Items"



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Inventory – Existence & Condition

Litigation & Claims – Completeness

General Procedures

Special Procedures

When inventory is material to the F.S. the auditor shall obtain SAAE regarding **existence & condition** by

(a) Attendance at physical inventory counting, unless impracticable, to:

- Evaluate mngt. instructions & procedures for recording & controlling the results of the entity's physical inventory counting;
- Observe the performance of management's count procedures;
- Inspect the inventory;
- Perform test counts;

(b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

- Inventory counting conducted at date other than B/S date**
Perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the F.S. are properly recorded.
- Auditor unable to attend Inventory Count**
Make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions
- Attendance at inventory count is impracticable**
Perform alternative audit procedures to obtain S.A.A.E. regarding existence and condition of inventory.
If it is not possible to do so, modify the opinion in the auditor's report in accordance with SA 705.
- Inventory under custody and control of Third Party**
Obtain S.A.A.E by performing the following:
(a) Request confirmation from third party.
(b) Perform Inspection/other audit procedure.

Auditor is required to identify litigation and claims by following procedures:

- **Inquiry:** of Mngt. & others within entity, including in house legal counsel.
- **Review** – minutes of meetings of TCWG, communication between entity & external legal counsel.
- **Review** – legal expenses account.

If management refuses to permit auditor to communicate with legal counsel / external legal counsel refuses / auditor unable to collect SAAE by performing alternate procedures

Modifv Opinion in accordance with SA 705

Segment Reporting – Presentation & Disclosures

Obtain SAAE regarding presentation & disclosure of segment information in accordance with the applicable FRF by:

(a) Obtaining an understanding of the methods used by management in determining segment information, and

- Evaluate whether such methods are likely to result in disclosure in accordance with the applicable FRF; and
- Where appropriate, testing the application of such methods; and

(b) Performing analytical procedures or other audit procedures appropriate in the circumstances.

SA – 505 “External Confirmation”

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit

Meaning & Type of E.C.

Audit Evidence obtained as a direct written response to auditor from 3rd Party in Paper/Electronic/Other form.

2 Types

+ ve Request	- ve request
Request that 3 rd Party respond directly to auditor	Request that 3 rd Party respond directly to auditor
indicating whether it agrees or disagrees	only if it disagrees
With the info in request or providing requested info.	with the information in the request

Areas where External Confirmation may be obtained:

- (a) Bank balance & Other confirmation from bankers
- (b) Account Receivable/Account Payable Balances
- (c) Stock Lying with Third Parties
- (d) Property Title Deed held by third parties
- (e) Investments Purchased but delivery not taken.
- (f) Loan from Lenders
- (g) Terms of agreement or Transaction with Third Parties

External Confirmation Procedures

Determining the information to be confirmed.
↓
Selecting the Appropriate Third Party.
↓
Designing the confirmation request.
↓
Sending the request including follow up.

Factors to be considered while designing E.C. request:

- Assertions being addressed.
- Specific identified RMM.
- Layout and presentation of request.
- Prior Experience of audit.
- Method of Communication.
- Management Authorization.
- Ability of confirming party to provide the requested information

Audit Procedures in Special Circumstances

Mngt. refuses to allow the auditor to send request

- Inquire the reasons
 - Evaluate the implications on RMM
 - Perform Alternative Audit procedure.
- | | |
|--|---|
| <ul style="list-style-type: none"> • Refusal appears to be unreasonable • Unable to collect audit evidence | <ul style="list-style-type: none"> • Communicate to TCWG. • Determine its affect on Opinion |
|--|---|

Responses to E.C. request

• Creates Doubt	Obtain Further Evidences
• Not Reliable	Consider its affect on NTE of other procedures
• No Response	Perform Alternative procedure
• Unable to collect evidence	Determine its affect on Opinion
• Exception occurs	Investigate to determine misstatement

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Limited use of -ve Request

As it provides less persuasive evidence than the positive Confirmation request.

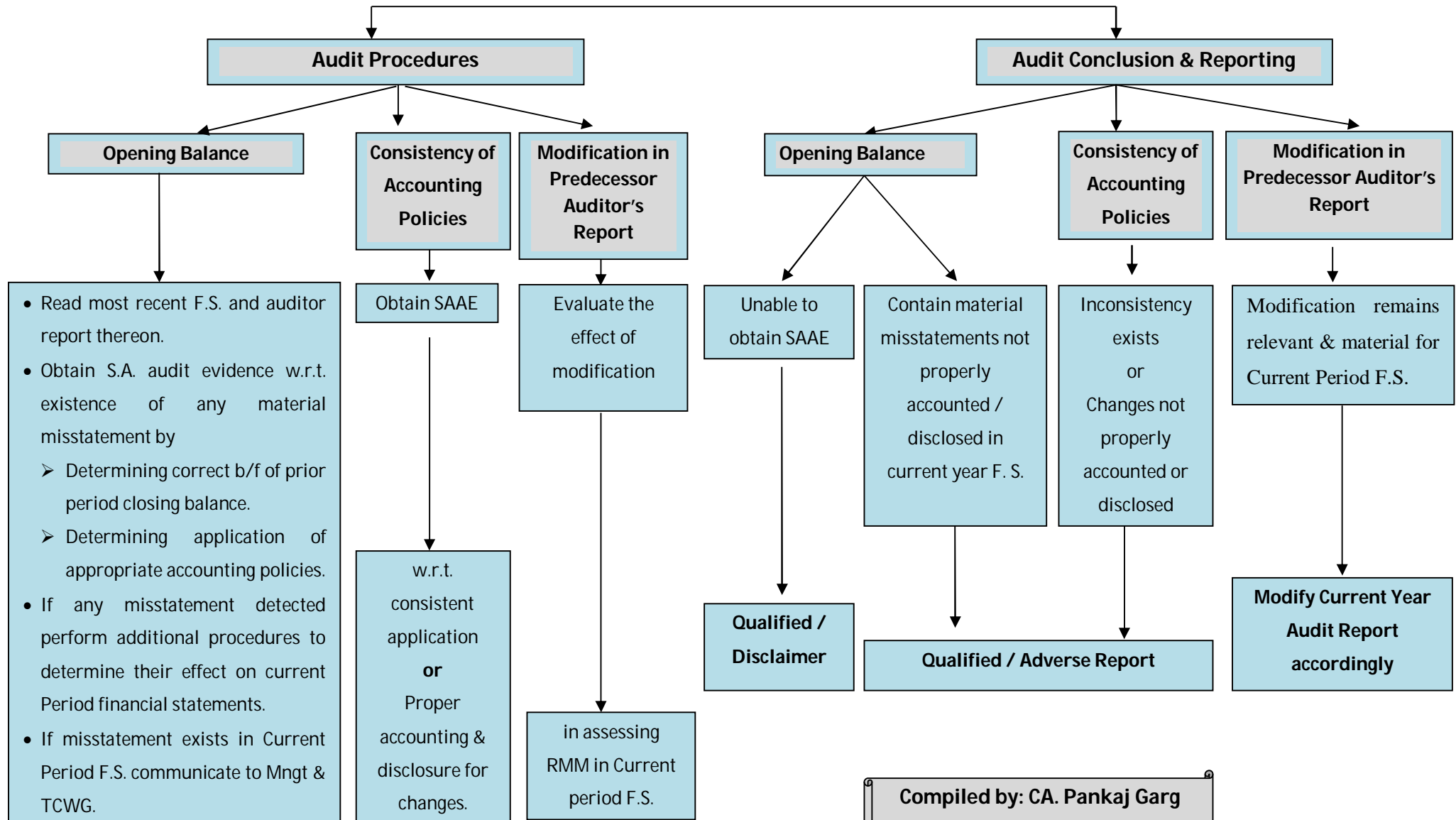
Circumstances in which negative request may be used as sole substantive procedure:

- Low RMM.
- Population consists of large no. of small, homogenous account balances.
- Expectation of low exception rate.
- Auditor not aware of circumstances that 3rd party disregard request.

SA – 510 “Initial Audit Engagements – Opening Balances”

Meaning of Initial Audit Engagement: An Engagement in which financial statements for prior period are not audited or were audited by predecessor auditor.

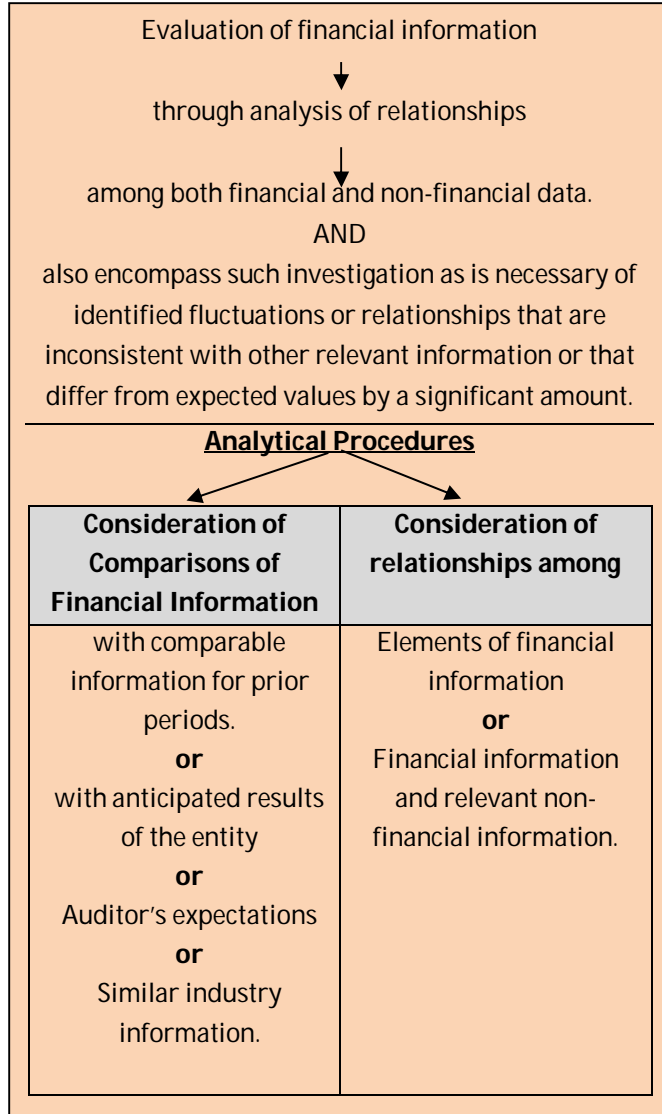
Meaning of Opening balance – A/c balance that exist at beginning of period & also includes disclosures exists at beginning of period.



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SA 520 "Analytical Procedures"

Meaning and Nature of Analytical Procedures



Auditor's Procedures

- 1 Determine the suitability of particular substantive analytical procedures (SAP)**
 Following factors requires consideration:
 1. SAPs more suitable to large volumes of transactions tending to be predictable over time.
 2. But suitability of AP influenced by:
 - Nature of assertion.
 - Auditor's assessment of APs effectiveness to identify material misstatement.
 3. In some cases unsophisticated predictive models may be useful.
 4. Different types of APs provide different levels of assurance.
 5. Particular SAP may be considered suitable when ToD are performed on same assertion.
- 2 Evaluate the reliability of data**
 Following factors affects the reliability:
 - Source of the information available.
 - Comparability of the information available.
 - Nature and relevance of the information available, and
 - Controls over the preparation of the information
- 3 Develop an expectation of recorded amounts or ratios** and evaluate whether the expectation is sufficiently precise to identify material misstatement.
- 4 Determine the amount of any difference of recorded amounts from expected values** that is acceptable without further investigation.
- 5 Investigating Results of Analytical Procedures**
 If auditor identified fluctuations or relationships that are inconsistent with other relevant information or differ from expected values by a significant amount, the auditor shall investigate such differences by:
 - (a) Inquiring of management; and
 - (b) Performing other audit procedures as necessary in the circumstances.

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SA – 530 (Revised) “AUDIT SAMPLING”

Meaning & Types of Audit Sampling

Application of audit procedures to < 100 % of items within a population.

Types of Sampling

- (a) **Statistical Sampling:** An approach to sampling that has the following characteristics:
- Random selection of the sample items; and
 - The use of probability theory to evaluate sample results, including measurement of sampling risk.
- (b) **Non Statistical Sampling:** A sampling approach that does not have characteristics of random selection and use of probability theory is considered non-statistical sampling.

Sampling risk

Risk that auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to same audit procedure.

Test of controls

Controls are more effective than they actually are

Controls are less effective than they actually are

Tests of details

Material misstatements does not exist when in fact it does.

Material misstatement exists when in fact it does not

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Affects **audit effectiveness** and is more likely to lead to an inappropriate audit opinion.

Affects **audit efficiency** as it would lead to additional work to establish that initial conclusions were incorrect.

Auditor's Duties

- | | |
|----------|--|
| 1 | <p>Sample design, size and selection of items</p> <p>(i) While designing, consider the purpose of the audit procedure and the characteristics of the population.</p> <p>(ii) Sample size should be sufficient to reduce sampling risk to an acceptably low level.</p> <p>(iii) Selection should be in such a way that each sampling unit in the population has a chance of selection.</p> |
| 2 | <p>Perform audit procedures</p> <p>(i) Perform audit procedures, appropriate to the purpose, on each item selected.</p> <p>(ii) If the audit procedure is not applicable to selected item, perform the procedure on a replacement item.</p> <p>(iii) If the auditor is unable to apply designed audit procedures/alternative procedure to a selected item, consider that item as a deviation.</p> |
| 3 | <p>Evaluation of results of audit sampling</p> <p>To determine whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.</p> |

SA – 540 (Revised) “Auditing Accounting Estimates(AE), including Fair Value Accounting Estimates and Related Disclosures”

Objective of Auditor: To obtain SAAE whether (a) AE including Fair Value AE are reasonable; and (b) related disclosures in the F.S. are adequate.

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Meaning & Nature of Accounting Estimates

- **Accounting estimate:**
“An approximation of a monetary amount in the absence of a precise means of measurement”. This term is used for an amount measured at fair value where there is estimation uncertainty.
- **Estimation Uncertainty:**
The susceptibility of an accounting estimate & related disclosures to an inherent risk of precision in its measurement.
- **Examples of Accounting Estimates**
 - Provision for Bad Debt,
 - Inventory loss,
 - Warranty Obligations,
 - Depreciation,
 - Provision against carrying amount of investments, etc.
- **Examples of Fair Value A.E.**
 - Share Based Payments,
 - Assets held for disposal,
 - Financial Instruments,
 - Assets acquired in business combinations

Auditor's Duties

Risk Assessment Procedures & Related Activities

1. Obtain an understating of:
 - Requirements of applicable FRF
 - How management identifies transactions, events and conditions that give rise to need for accounting estimates.
 - Estimation making process adopted by mngt. and data on which they are based.

Estimation making process

 - Methods/Model used in making Accounting estimates.
 - Relevant Controls
 - Use of Management Expert.
 - Changes in the methods from the prior period along with reasons.
 - Assessment of effect of estimation uncertainties.
2. Review of outcome of accounting estimates of prior period.

Responses to Assessed Risks

Based on assessed RMM, auditor shall determine:

- Whether management has appropriately applied the applicable FRF.
- Whether the methods are appropriate and have been applied consistently.

General Responses to Assessed RMM

1. Determine whether events occurring upto date of auditor's report provide audit evidence regarding AE.
2. Test how management made the accounting estimate and the data on which it is based.
3. Test the operating effectiveness of the controls.
4. Develop a point estimate or a range to evaluate management's point estimate.

Specific Responses to Significant Estimation Uncertainties

1. Evaluate the following:
 - How management has considered alternative assumptions or outcomes,
 - How management has addressed estimation uncertainty in making the accounting estimate.
 - Whether the significant assumptions used by management are reasonable.
 - Management's intent to carry out specific courses of action and its ability to do so.
2. If in auditor's judgement, management has not adequately addressed the effects of estimation uncertainty, the auditor shall develop a range with which to evaluate the reasonableness of the accounting estimates.

SA 550 "Related Parties"

Compiled by: CA. Pankaj Garg

Meaning of Related Party

EITHER

Related party as defined in applicable FRF (AS 18).

OR

Where applicable FRF establishes minimal or no RP requirements:

- a. A person/entity having control/ significant influence, over reporting entity;
- b. Entity over which reporting entity has control / significant influence, and
- c. Entity under common control with reporting entity, through:
 - Common controlling ownership
 - Owners who are close family members
 - Common key Mngt.

Auditor's responsibilities in relation to RP

General	Obtain an understanding of RP Relation and Transactions: <ol style="list-style-type: none"> a. To recognize Fraud Risk factors b. To conclude whether F.S. in so far as they are affected by those relations and transactions achieve <ul style="list-style-type: none"> • true and fair presentation and • not misleading.
Specific (FRF established accounting & Disclosure requirements)	<ul style="list-style-type: none"> • Perform audit procedures to Identify, Assess & Respond to RMM. • Evaluate whether Identified RP relationships & Transactions have been appropriately accounted for & disclosed as per FRF. • Obtain WR from Mngt./TCWG w.r.t. <ul style="list-style-type: none"> → Disclosure to auditor the identity of RP of which they are aware; and → Appropriate accounting & disclosure as per FRF.

Auditor's Duties

Risk Assessment procedures

1	Understanding the Entity's RP relationship and Transactions <ol style="list-style-type: none"> a. Auditor to inquire management regarding: <ul style="list-style-type: none"> • Identity of entity's RP, changes from prior period. • Nature of relationships between entity and RP. • Type & purpose of transactions with RP. b. Obtain understanding whether mngt has established controls to: <ul style="list-style-type: none"> • Identify, account for & disclose RP relationships & transactions. • Authorise & approve significant transactions with RP. • Authorise & approve significant transactions outside normal course of business. 																								
2	Maintaining Alertness for RP Information when Reviewing Records/Documents <ul style="list-style-type: none"> • Auditor to remain alert when inspecting records w.r.t. info indicating existence of RP relationships or transactions not previously identified or disclosed. • If auditor identifies significant transactions outside entity's normal course of business, inquire of mngt about (a) Nature of these transactions, and (b) Whether RP could be involved. <p>Possible Sources for identification of RP Information:</p> <table border="1" style="width: 100%;"> <tr> <td>1</td> <td>Income Tax Returns</td> <td>7</td> <td>Shareholder's Register</td> </tr> <tr> <td>2</td> <td>Internal Audit Report</td> <td>8</td> <td>Life insurance Polcies</td> </tr> <tr> <td>3</td> <td>Contracts with Mngt</td> <td>9</td> <td>Statement of conflict of interest</td> </tr> <tr> <td>4</td> <td>Contracts outside normal course of business</td> <td>10</td> <td>Information supplied to regulatory authorities</td> </tr> <tr> <td>5</td> <td>Contracts re-negotiated</td> <td>11</td> <td>Specific Invoices from advisors</td> </tr> <tr> <td>6</td> <td>Register of Investments</td> <td>12</td> <td></td> </tr> </table>	1	Income Tax Returns	7	Shareholder's Register	2	Internal Audit Report	8	Life insurance Polcies	3	Contracts with Mngt	9	Statement of conflict of interest	4	Contracts outside normal course of business	10	Information supplied to regulatory authorities	5	Contracts re-negotiated	11	Specific Invoices from advisors	6	Register of Investments	12	
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5	Contracts re-negotiated	11	Specific Invoices from advisors																						
6	Register of Investments	12																							
3	Identifying Fraud risk factors <p>Domination of mgmt by a single person or small group without compensating controls is a fraud risk factor.</p> <p>Indicators of dominant influence:</p> <ul style="list-style-type: none"> • RP has vetoed significant business decisions taken by mgmt or TCWG. • Significant transactions are referred to RP for final approval. • No/ little debate among mgmt or TCWG regarding business proposal initiated by RP. • Transactions involving the RP are rarely independently reviewed / approved. 																								

Responses to Assessed Risks

1	Identification of unidentified / undisclosed RP or RP transaction. <ul style="list-style-type: none"> • Communicate to other members of ET. • Request Mngt to identify the transactions with the newly identified RP. • Inquire reasons for mngt failure to identify RP or disclose RP relationship and transactions. • Reconsider the risk that other unidentified RP or undisclosed RP transactions may exist. • If non disclosure appears intentional, evaluate implications for audit.
2	Identified significant RP Transactions outside Entity's Normal course of Business. <ul style="list-style-type: none"> • Inspect underlying contracts to evaluate business rationale. • Examine the terms on which transactions takes place. • Collect evidences w.r.t. approval and authorisation of transaction. • Collect evidences for appropriate accounting & disclosure in compliance of FRF.
3	Assertions that RP Transactions were conducted on arm Length price. <ul style="list-style-type: none"> • Collect SAAE w.r.t. mngt assertion of Arm's length transaction. • Compare transaction prices with the prices for identical transactions prevailing in ordinary course of business. • Engage expert to determine market value.

SA 560 "Subsequent Events"

Meaning – Events occurring between the date of F.S. and the date of Auditor's Report AND Facts that become known to auditor after the date of Auditor's report.

Auditor's Duties

Compiled by: CA. Pankaj Garg

Events occurring between the date of F.S. and the date of Auditor's report

- (i) Perform procedures to obtain SAAE that all events which require adjustment / disclosure have been identified.
- (ii) For the purpose of determining nature and timing of procedures, auditor may:
 - (a) Obtain the **understanding of procedures** applied by mngt for identification of significant events.
 - (b) **Inquire the Management** as to Occurrence of subsequent events which may affect the F.S.
 - (c) Read the **Minutes of Meetings** that held after the B/S date.
 - (d) Study the **Interim Financial Statements**, if any.
- (iii) If auditor identifies any event which require any adjustment/disclosure, he should **ensure its appropriate treatment** in F.S.
- (iv) Obtain a **WR from the Mngt.** that all known events have been appropriately adjusted/disclosed, as the case may be.

Specific Inquiries to be made from management

1. Whether new commitments, borrowings or guarantees have been entered into.
2. Whether sales or acquisitions of assets have occurred or are planned.
3. Whether there have been increases in capital or issuance of debt instruments.
4. Whether any assets have been appropriated by government or destroyed.
5. Whether there have been any developments regarding contingencies.
6. Whether any unusual accounting adjustments have been made.
7. Whether any events have occurred that will bring into question the appropriateness of accounting policies used in the F.S..
8. Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the F.S.
9. Whether any events have occurred that are relevant to the recoverability of assets.

Facts that become known to Auditor after date of Auditor's report

Before issue of F.S.

1. In general Auditor has no obligation.
2. However, in case of significant matter
 - Discuss with Management
 - Determine need to amend F.S.
 - Inquire how mngt intends to address the matter in F.S.
3. If Mngt. amend the F.S. auditor shall
 - Extent procedures to date of new report, and
 - provide a new auditor report on amended F.S.

or

 - Amend the audit report to include an additional date restricted to that amendment and include an EOM/OMP.
4. If mngt refuses to amend the F.S.
 - Modify the report if not yet provided to entity.
 - If report already issued, notify to mngt and TCWG not to issue F.S. to third parties.
 - If mngt still issues F.S., take appropriate action to prevent reliance on auditor's report.

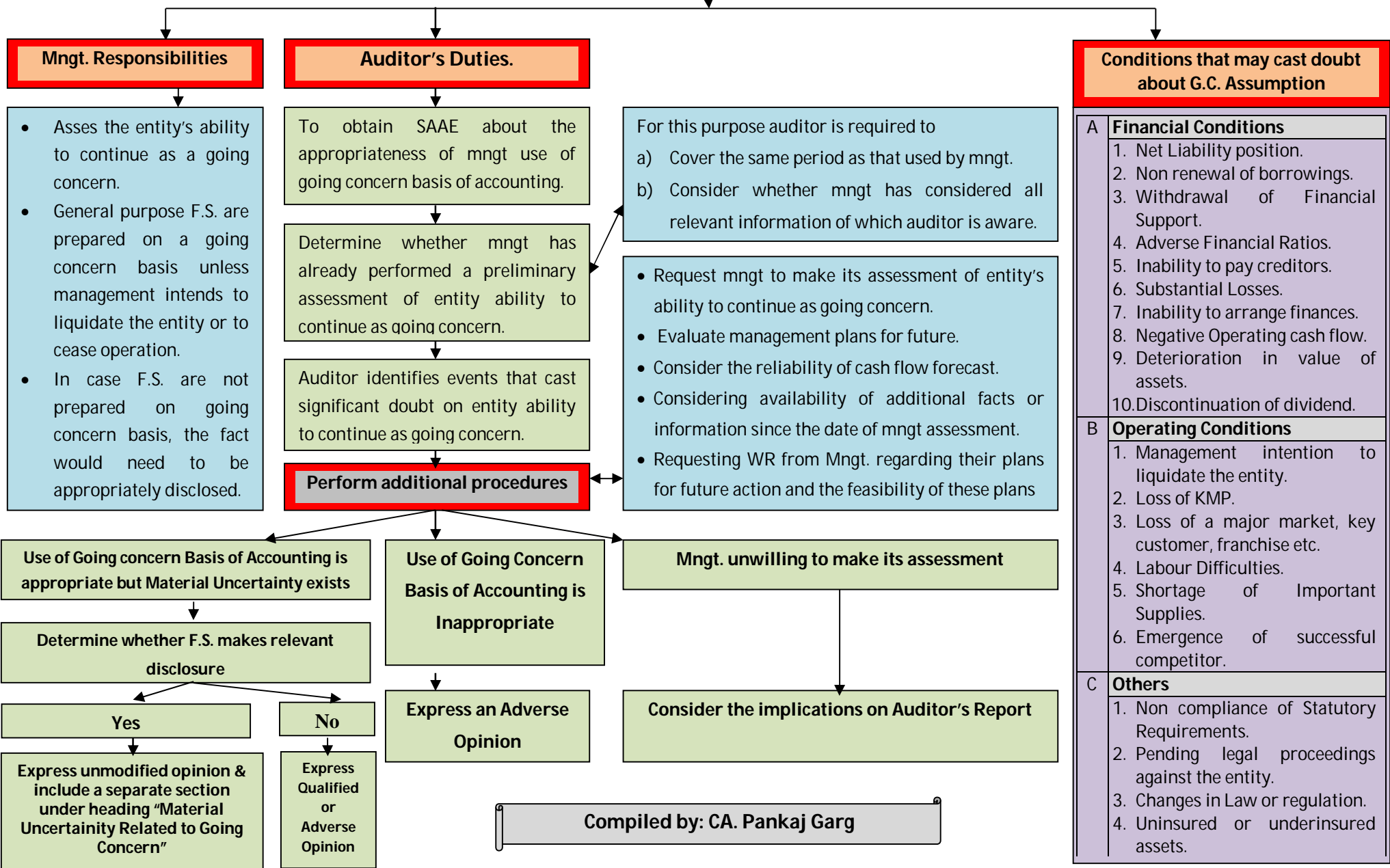
After issue of F.S.

1. In general Auditor has no obligation.
2. However, in case of significant matter
 - Discuss with Management
 - Determine need to amend F.S.
 - Inquire how mngt intends to address the matter in F.S.
3. If Mngt. amend the F.S. auditor shall
 - Carry out procedures on amended F.S.
 - Review the steps taken by mngt to ensure that recipient of F.S. are informed of the situation.
 - provide a new auditor report on amended F.S.

or

 - Amend the audit report to include an additional date restricted to that amendment and include an EOM/OMP.
4. If mngt refuses to amend the F.S.
 - Notify to mngt and TCWG, that the auditor will seek to prevent reliance on Auditor's Report.
 - If mngt/TCWG does not take necessary steps, take appropriate action to prevent reliance on auditor's report.

SA – 570 (Revised) “Going Concern”



Compiled by: CA. Pankaj Garg

SA 580 "Written Representation"

Meaning and Nature of WR

A written statement by Management
↓
provided to auditor
↓
to confirm certain matters
or
to support other audit evidence.

- WR recognized as audit evidence as a response to inquiries.
- WR do not provide SAAE
- WR should be in the form of a representation letter addressed to Auditor.
- WR shall be obtained for all financial statements and period(s) referred in Auditor's Report.
- Date of WR shall be as near as practicable to the date of the Auditor's report.

Requirements of SA 580

Matters for which WR may be obtained

1	Management responsibilities	<p>(a) Preparation and presentation of Financial Statements: In accordance with applicable FRF.</p> <p>(b) Information provided to Auditor: as agreed in terms of engagement</p> <p>(c) Description of management Responsibilities: In the manner as described in terms of engagement</p>
2	Others	<p>As required by other SA Or Where auditor determines that it is necessary to obtain one or more WR.</p>

Auditor Responses in different Situations

Management refuses to provide WR

- Discuss the matter with management
- Re-evaluate the reliability and integrity of management.
- Determine possible effect on the opinion.
- Issue disclaimer of opinion.

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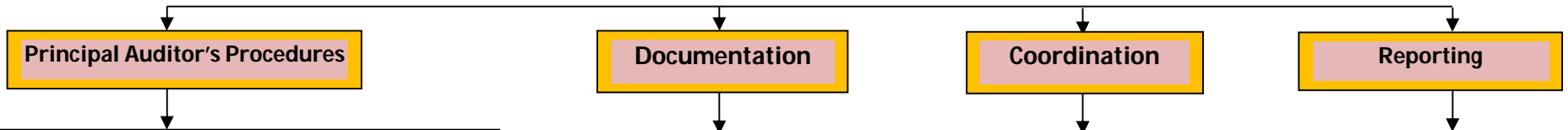
Reliability of WR is doubtful

- In case of having concerns about competence and integrity of mngt, determine their effect in reliability of WR and other audit evidence in general.
- IF WR inconsistent with other evidences, perform additional procedures.
- If conclude that WR is not reliable, determine possible effect on audit opinion.
- In case of sufficient doubt over integrity of management, issue a disclaimer of opinion.

SA – 600 “Using the Work of Another Auditor”

Applicability: In situation where an auditor (principal auditor - PA), reporting on the financial information of an entity, uses the work of another auditor (other auditor - OA) w.r.t. to the financial information of one/more components (Division, Branch subsidiary, J. V. etc.), included in the financial information of the entity.

Non applicability: (a) Joint auditors (b) Auditor’s relationship with a predecessor auditor.



1. Consider the professional competence of Other Auditor, if Other Auditor is not a member of ICAI.
2. Visit component and examine books of account, if essential.
3. Obtain sufficient appropriate evidence, that work of Other Auditor is adequate for Principal Auditor's purposes.
4. Discuss audit procedures applied by Other Auditor.
5. Review a written summary of Other Auditor's procedures and findings through questionnaires/checklist.
6. Consider significant findings of Other Auditor:
 - Discuss audit findings with OA and Mgt. of component.
 - Perform supplemental tests if necessary.
7. In case Other Auditor is not a professionally qualified auditor - for instance, where a component is situated in foreign country:
 - Procedures mentioned above assume added importance.

1. Components whose FS are audited by Other Auditor and their significance to the financial information of the entity as a whole.
2. Names of the other auditors.
3. Any conclusions reached that individual components are not material.
4. Procedures performed regarding components.
5. Conclusions reached.
6. Manner of dealing with Modified Report of Other Auditor while finalising Principal Auditor's Report.

1. Sufficient liaison/co-ordination between Principal and Other auditor.
2. Principal auditor may require Other Auditor to answer a detailed questionnaire.
3. Other Auditor should coordinate with Principal Auditor:
 - Adhering to time-table.
 - Bringing to the attention of PA any significant finding.
 - Compliance with relevant statutory requirements.
 - Respond to detailed questionnaire.

1. Express a **qualified / disclaimer of opinion** because of scope limitation:
 - If Principal Auditor concludes that he cannot use the work of Other Auditor;
 - PA unable to perform sufficient additional procedures regarding FI of the component audited by OA.
2. Report should state clearly **division of responsibility** between PA and OA.

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SA 610 (Revised) "Using the Work of Internal Auditors"

Meaning & scope of Internal Audit Function

Meaning

A function of an entity that performs assurance & consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

Scope of Internal Audit

1	Activities relating to governance.
2	Activities relating to Risk Management
3	Activities relating to Internal Control <ul style="list-style-type: none"> • Evaluation of Internal Control • Examination of Financial and operating information • Review of Operating Activities • Review of Compliance with Laws and Regulations

External Auditor's Procedures w.r.t. Evaluation of Internal Audit Function

Determine Adequacy of Internal Audit Work for External Auditor's Purpose

by evaluating the following

- Objectivity of the internal auditors;
- Level of competency;
- Application of Systematic & disciplined approach

If Not Satisfactory

Do not use the work of internal Audit function.

If Satisfactory

Determine the Nature and extent of work of internal audit function that can be used.

Use the work of internal Audit Function

1. Discuss the planned use of work of internal Auditor.
2. Read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.
3. Perform sufficient audit procedures on work of internal audit function as a whole that external auditor plans to use to determine its adequacy for purposes of the audit.
4. Evaluate whether external auditor's conclusions regarding internal audit function and the determination of the nature and extent of use of the work of the function for purposes of the audit remain appropriate.

Using Direct Assistance (DA) of Internal Auditors (IA)

1 Determining whether IA can be used to provide DA

If not prohibited by law or regulation, external auditor may use an internal auditor to provide direct assistance if:

- (a) There are no significant threats to objectivity of internal auditor; &
- (b) Internal auditor is sufficiently competent to perform proposed work.

2 Determining Nature & Extent of Work that can be assigned to IA

IA shall not be used to provide DA to perform procedures that:

- (a) Involve making **significant judgments** in the audit;

Significant judgments include the following:

 - Assessing the risks of material misstatement;
 - Evaluating the sufficiency of tests performed;
 - Evaluating appropriateness of management's use of going concern assumption;
 - Evaluating significant accounting estimates; and
 - Evaluating the adequacy of disclosures in the F.S., and other matters affecting the auditor's report
- (b) Relate to higher assessed risks of material misstatement;
- (c) Relate to work with which internal auditors have been involved; or
- (d) Relate to decisions, external auditor makes in accordance with this SA w.r.t. internal audit function & use of its work or direct assistance.

3 Using Direct Assistance of Internal Auditor

1. Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:
 - (a) Obtain written agreement from entity that the IA will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the IA performs; and
 - (b) Obtain written agreement from the IA that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.
2. The external auditor shall direct, supervise and review the work performed by IA on the engagement in accordance with SA 220.
3. The direction, supervision and review by the external auditor of the work performed by the IA shall be sufficient in order for the external auditor to be satisfied that the IA have obtained sufficient appropriate audit evidence to support the conclusions based on that work.

Compiled by: CA. Pankaj Garg

SA 620 "Using the Work of Auditor's Expert"

Meaning of Auditor's Expert

- An individual or organisation
- possessing expertise in field other than accounting/auditing,
- whose work is used by the auditor
- to assist the auditor in obtaining SAAE.

Areas where work of AE can be used

- Valuation of complex financial instruments, L & B, P & M, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
- Actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
- Estimation of oil and gas reserves.
- Valuation of environmental liabilities, and site clean-up costs.
- Interpretation of contracts, laws and regulations.
- Analysis of complex or unusual tax compliance issues.

Procedures to be followed while using the work of auditor's expert

<p>1 Determining need for an Auditor's Expert</p> <p>An auditor's expert may be needed to assist the auditor for the followings:</p> <ul style="list-style-type: none"> • Obtaining an understanding of entity & its environment, including IC. • Identifying and assessing the risks of material misstatement. • Determining & implementing overall responses to assessed risks. • Designing and performing further audit procedures to respond to assessed risks. • Evaluating the sufficiency and appropriateness of audit evidence obtained. 	<p>4 Agreement with Auditor's Expert</p> <p>Need to be in writing and cover the followings:</p> <ul style="list-style-type: none"> • Nature, scope and Objectives of Auditor's Expert work. • Respective Role and Responsibilities of Auditor and auditor's Expert. • NTE of Communication including form of report. • Confidentiality requirements to be observed by Auditor's Expert.
<p>2 Evaluate Competence, Capability and Objectivity of the Expert</p> <p>Source of Information for evaluation:</p> <ul style="list-style-type: none"> • Personal Experience with previous work. • Discussion with that expert. • Discussion with other Auditors. • Knowledge of expert's qualification, memberships, other forms of recognitions. • Published books or papers. • Auditor's firm Q. C. Policies and Procedures. 	<p>5 Evaluate appropriateness of Expert work</p> <ul style="list-style-type: none"> • Finding & Conclusion – Relevance, Reasonableness & Consistency with other A.E. • Assumptions and Methods – Relevance and Reasonableness. • Source Data – Relevance, Completeness and accuracy.
<p>3 Obtain an understating of expert work</p> <ul style="list-style-type: none"> • To enable the auditor to determine the nature, scope and objectives of that expert's work for auditor's purposes. • Evaluate the adequacy of that work for the auditor's purposes. 	<p>6 Expert work not adequate for audit purposes</p> <ul style="list-style-type: none"> • If Auditor concludes that work of auditor's expert is not adequate for the auditor's purposes and • auditor cannot resolve the matter through the additional audit procedures, • it may be necessary to express a modified opinion.

Compiled by:

CA. PANKAJ GARG

Reference to the Auditor's Expert in the Auditor's Report

- No reference required in case of unmodified Audit Report unless required by L & R.
- In case of modified reports, it may be appropriate to refer to the auditor's expert, to explain the nature of the modification. In such case, auditor may need the permission of the auditor's expert before making such a reference.

SA 700 (Revised) – Forming an Opinion and reporting on Financial Statements (w.e.f. 01.04.2018)

Meaning & Types of Audit Reports

Meaning	<p>Reports in which auditor expresses his opinion on financial statements.</p> <ul style="list-style-type: none"> For General purpose F.S. – SA 700, 701, 705 & 706 will apply. For Special Purpose F.S. – SA 800 along with 700, 701, 705 & 706 will apply.
Types	A. Unmodified reports
	Reports issued when auditor concludes that F.S. are prepared in all material respects in accordance with applicable FRF.
	B. Modified Reports
	B.1 – Matters that affect Audit Opinion.
	B.1.1 – Qualified Opinion
	B.1.2 – Adverse Opinion
	B.1.3 – Disclaimer of Opinion
	Details of B.1 is dealt by SA 705.
	B.2 – Matters that do not affect Audit opinion
	B.2.1 – With EOM Para
B.2.1 – With OM Para	
Details of B.2 is dealt by SA 706.	

Elements of an Unmodified Audit Report

1	Title	“Independent Auditor’s Report” – so as to distinguish from reports issued by others.				
2	Addressee	Auditor’s Report shall be addressed as appropriate. Generally, it is addressed to those for whom it is prepared.				
3	Opinion Section	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Fair Presentation Framework</td> <td>In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____ in accordance with [applicable FRF]</td> </tr> <tr> <td style="text-align: center;">Compliance Framework</td> <td>In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]</td> </tr> </table>	Fair Presentation Framework	In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____ in accordance with [applicable FRF]	Compliance Framework	In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]
		Fair Presentation Framework	In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____ in accordance with [applicable FRF]			
		Compliance Framework	In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]			
Opinion Para shall also cover the following: <ul style="list-style-type: none"> Identify the Entity. Identify the title of each financial statement. Specify the period/date covered by each F.S. State that F.S. have been audited. 						
4	Basis for Opinion	<ul style="list-style-type: none"> States that audit was conducted in accordance with SAs. Refer to Section of Auditor’s report that describes the auditor’s responsibilities. Compliance of Ethical requirements including independence. Auditor’s believing that they had obtained sufficient and appropriate audit evidence to provide a basis for the opinion. 				
5	Going Concern	Where applicable, auditor shall report in accordance with SA 570.				
6	Key Audit Matter	In case of Listed Entity, auditor shall communicate Key Audit Matters in Auditor’s Report in accordance with SA 701.				
7	Management Responsibilities for the F.S.	<ul style="list-style-type: none"> To prepare F.S. in accordance with applicable FRF. Maintenance of adequate records for safeguarding of assets and prevention and detection of fraud. Making reasonable and prudent judgements and estimates. Design, Implementation and maintenance of Internal Control. Assessing the appropriateness of Going Concern basis of accounting. Overseeing the financial reporting process. 				
8	Auditor’s responsibilities for the Audit of F.S.					
9	Other Reporting responsibilities	<ul style="list-style-type: none"> Heading: “Reporting on Other Legal and Regulatory Requirements”. Will include reporting of CARO, 2016, reporting u/s 143(3) of Companies Act, 2013, Rule 11 of CAAR, 2014. 				
10	Signature	In personal name and name of firm, along with the membership number and firm registration number.				
11	Place	The city where audit report is signed.				
12	Date	It should not be earlier than date on which audit evidences are collected.				

1. State the objective of auditor to obtain reasonable assurance that F.S. as a whole are free from material misstatements & issue the auditor’s report that includes an auditor’s opinion.
2. Explanation w.r.t. reasonable assurance and application of concept of materiality.
3. Statement that auditor exercises professional judgement and maintain professional skepticism throughout audit.
4. State auditor’s responsibilities w.r.t.
 - Identifying & assessing the RMM.
 - Design & perform audit procedures responsive to assessed risks.
 - Obtain SAAE.
 - Understanding of Internal Control.
 - Expressing opinion on adequacy and operating effectiveness of Internal Financial Control.
 - Evaluation of appropriateness of A/cing policies & reasonableness of accounting estimates.
 - Conclude on appropriateness of management use of Going Concern basis of accounting.
 - Evaluate overall presentation, structure & content of F.S.
5. State Auditor’s responsibilities w.r.t.:
 - Matters communicated to TCWG.
 - Providing statement to TCWG on compliance of Ethical requirements.
 - Determining Key Audit matters out of matters communicated to TCWG.

**Compiled by:
CA. PANKAJ GARG**

SA 701 "Communicating Key Audit Matters in the Independent Auditor's Report" (w.e.f. 01.04.2018)

Applicability

- SA 701 applies to audit of complete set of general purpose financial statements of listed entities and circumstances when auditor decides to communicate key audit matter in the auditor's report.
- SA 705 prohibits the auditor from communicating key audit matters when the auditor disclaims the opinion on the

Meaning and Purpose of Key Audit Matters

Meaning: Those matters that in the auditor's judgment were of most significance in audit of financial statement of current period. These are selected from matters communicated with TCWG.

Purpose:

- (a) To enhance the communicative value of the auditor's report by providing greater transparency.
- (b) To provide additional information to intended users of F.S. to assist them in understating those matters that in auditor's judgment were of most significance.
- (c) To assist intended users in understanding the entity & areas of significant management judgment.
- (d) To provide a basis to further engage with management and TCWG about certain matters relating to the entity.

Considerations for determining Key Audit Matters

Key audit Matters are to be determined from the matters communicated to TCWG, Considering the following:

- (a) Areas of higher assessed RMM.
- (b) Significant auditor judgment relating to financial statement that involved management judgment for Ex. Accounting estimates having high estimation uncertainty.
- (c) Effect of significant event or transactions occurred during the year.

Manner of Reporting

- Use separate section titled as "Key audit Matter's."
- Use introductory language in this section as – "Key audit Matters are those matters that in the auditor's judgement, were of most significance in the audit of financial statements of current period and these matters were addressed in the context of audit of financial statements as a whole and auditor does not provide a separate opinion on these matters".
- Description of each key audit matter shall follow the introduction.
- Description of key audit matter shall address the reason why the matter was considered as key audit matter.

Circumstances in which a matter determined to be key audit matter is not communicated

- Law or regulation precludes public disclosure about the matter; or.
- Audit determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.
- It will not be applied if entity has publicly disclosed information about the matter.

Modified opinion Vs. Going concern Vs. Key Audit Matters

- Key audit matter is not a substitute for modified opinion under SA 705 or reporting required under SA 570 w.r.t. existence of material uncertainty as to events that cast significant doubt on an entity ability to continue as Going Concern.
- Auditor shall report modification / Going concern in accordance with applicable SA, and include a reference to basis for Qualified (Adverse) opinion or the material ascertaining related to going concern section in the Key Audit Matters Section.

Compiled by: CA. PANKAJ GARG

SA 705 – Modifications to the Opinion in the Independent Auditor’s Report

Types of modified Opinion

Qualified	Issued when: F.S. are misstated having material but not pervasive effect. Or Auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material but not pervasive effect.
Adverse	Issued when F.S. are misstated having material and pervasive effect.
Disclaimer	Issued when auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material and pervasive effect.

	Pervasive	Not Pervasive
Material Misstatement	ADVERSE	QUALIFIED
SAAE not obtained for material Transactions	DISCLAIMER	QUALIFIED

Considerations while issuing modified Opinion

Opinion Section

Use the heading –

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion.

Wordings of Opinion:

Qualified

Except for the effects of matters prescribed in “Basis of Qualified Opinion” section, the F.S. have been prescribed fairly in all material respects in accordance with [applicable FRF]

Adverse

In auditor’s opinion, because of significance of the matters described in “Basis of Adverse Opinion” section, the F.S. does not give a true and fair view of _____ in accordance with [applicable FRF].

Disclaimer

Because of significance of matters described in the “Basis for Disclaimer of Opinion” section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinion on F.S.

Basis for Opinion Section

Amend the heading – Basis for Qualified Opinion
 Basis for Adverse Opinion
 Basis for Disclaimer of Opinion.

- Include a description of matter giving rise to modification.

Cause of Modification	Description
Material Misstatement in Amount	<ul style="list-style-type: none"> Description of Misstatement. Quantification of financial effect, if determinable. If not determinable, state the fact.
Material Misstatement in Disclosure	Explanation how the disclosures are misstated.
Material Misstatement due to non-disclosure of required information	Describe nature of omitted information. And Include the omitted disclosure provided it is practicable.
Inability to obtain SAAE	State the reason for inability.

- Amend the statement w.r.t. auditor believing that audit evidences are sufficient and appropriate to provide a basis for “Qualified Opinion” or “Adverse Opinion”.
- In case of disclaimer, auditor’s report shall not include the reference to section of auditor’s report that describes the auditor’s responsibilities and statement w.r.t. auditor’s believing that sufficient appropriate audit evidence obtained.

Auditor’s Responsibility Section

When an auditor disclaims the opinion, the auditor shall amend the description of auditor’s responsibilities to include only the following:

- Statement that the auditor’s responsibility is to conduct an audit in accordance with Standard on Auditing and to issue Auditor’s Report.
- Statement that because of significance of matters described in basis for disclaimer of opinion section, auditor was not able to obtain SAAE to provide a basis for an audit opinion.
- Statement about auditor’s independence and other ethical requirements.

**Compiled by:
CA. PANKAJ GARG**

SA 706 "Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor's Report" (w.e.f. 01.04.2018)

Emphasis of Matter Para

1	Meaning A Para included in the Auditor's report that refers to a matter appropriately reflected/ disclosed in the financial statement that in the auditor's judgment is of such significance that it is fundamental to the user's understanding of financial statement.
2	Requirements <ul style="list-style-type: none"> • EOM Para is not a substitute of Key Audit Matter or Modified Opinion. • EOM should be included within a separate section titled as "Emphasis of Matter". • EOM should refer only to information presented/disclosed in the financial statements. • It must be indicated that auditor's opinion is not modified in respect of this matter.
3	Circumstance when EOM Para can be issued <ol style="list-style-type: none"> (a) Uncertain situation as to future outcome of an exceptional litigation. (b) Significant subsequent events. (c) Early application of new AS in advance of its effective date. (d) Occurrence of major catastrophe that may have a significant effect on entity financial position.
4	Location in Audit Reports Immediately following the "Basis of Opinion Section".

Other Matter Para

1	Meaning A Para included in Auditors Report that refers to a matter other than presented/ disclosed in financial statement that in the auditors judgment is relevant for users understanding of audit auditors responsibilities or auditor's report.
2	Requirements <ul style="list-style-type: none"> • OM Para is not a substitute of Key Audit Matter. • OM Para should be included in the audit report in a separate section termed as "Other Matter". • Differentiate "Other Matter" with Key Audit Matter".
3	Location in Audit Reports <ul style="list-style-type: none"> • Immediately after the "Key Audit Matter" section. • If other matter is related with other legal and regulatory requirements, it needs to be placed in "Reporting on other legal and Regulatory requirements" Section.

**Compiled by:
CA. Pankaj Garg**

SA 710 "Comparative Information – Corresponding Figures and Comparative Financial Statements"

Meaning & Types of Comparative Information

1	Comparative Information
	The amounts and disclosures included in the F.S. in respect of one or more prior periods in accordance with applicable FRF.
2	Corresponding Figures
	Comparative information where amounts and other disclosures for the prior period, are included as an <u>integral part of current period F.S.</u> , and are intended to be read only in relation to the amounts and other disclosures relating to the current period.
3	Comparative F.S.
	Comparative information where amounts and other disclosures for the prior period, are included for <u>comparison with the F.S. of the current period</u> but, if audited, are referred to in the auditor's opinion.

Audit Procedures

1	Determine
	(a) Whether F.S. include Comparative information required by FRF, & (b) Whether such information is classified appropriately.
2	Evaluate
	(a) Whether the comparative information agrees with the amounts and other disclosures presented in the prior period; and (b) Whether the accounting policies reflected in the comparative information are consistent with those applied in the current period. (c) Whether, changes in accounting policies, if any, have been properly accounted for and adequately presented and disclosed.
3	Doubt over existence of misstatement
	Perform additional audit procedures to obtain sufficient appropriate audit evidence to determine existence of material misstatement. Note: SA 560 "Subsequent Event" also applies if auditor had audited the prior period F.S.
4	Obtain WR
	From management to re-affirm that the WR it previously made with respect to the prior period remain appropriate.

Compiled by: CA. Pankaj Garg

Audit Reporting

Comparative F.S.

1. Audit opinion to refer to each period for which F.S. are presented and on which opinion is expressed.
2. If opinion on prior period FS expressed in current period differs from opinion expressed in the relevant prior period, give substantive reason for difference in Other Matter Para.

Corresponding Figures

- Audit opinion not to refer to corresponding figures, EXCEPT:
- **Auditor's report in prior period FS was modified and the subject matter is still unresolved:** Modify current audit report also.
 - **Auditor obtains audit evidence w.r.t. existence of material misstatement in prior period F.S. on which unmodified opinion was issued:** Express qualified/adverse opinion on current F.S. w.r.t. Corresponding figures if misstatement has not been dealt as required by applicable FRF.

1	Prior Period F.S. Audited by Another Auditor
	Audit report to also contain Other Matter para, stating that: <ul style="list-style-type: none"> • FS of prior period were audited by predecessor auditor. • Type of opinion expressed by him (reasons for modifications, if any). • Date of that report.
2	Prior Period F.S. are Unaudited
	Include Other Matters para: <ul style="list-style-type: none"> • That corresponding FS are unaudited. • But, this does not relieve the auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current FS

SA 720 (Revised) - The Auditor's Responsibility in relation to Other Information in Documents containing Audited F.S.

Purpose: Auditor is not required to express an opinion on other information in documents containing audited F.S. (Ex. Annual Report), however, auditor reads the other information because credibility of F.S. may be undermined by Material inconsistencies between the audited financial statements and other information.

Auditor's Procedures:

Make appropriate arrangements with Mngt & TCWG to obtain the other information prior to the date of auditor report & Read the information so obtained. If Information is not available prior to date of auditors report, read the other information as soon as practicable.

