



**Siddharth Agarwal Classes**

# **Standards on Auditing**

**AUDITING & ASSURANCE**

FOR ALL INTER STUDENTS

**CA, CS, CMA**

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**COMPACT BOOK**

**CA Siddharth Agarwal, CS  
CA Vikash Agarwal**

# Contents-SA

There are total 27 Standards in CA Intermediate Syllabus as announced by the ICAI.

| No.      | SA             | Name of the Standard   |
|----------|----------------|--|
|          | 1              | Introduction to Standards  |
|          |                | <b>Standards on Quality Control</b>  |
| 1        | SQC 1          | Quality Control for Firms that perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements. |
|          | <b>200-299</b> | <b>General Principles and Responsibilities</b>   |
| 2        | SA 200         | Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing                               |
| 3        | SA 210         | Agreeing the Terms of Audit Engagements  |
| 4        | SA 220         | Quality Control for an Audit of Financial Statements   |
| 5        | SA 230         | Audit Documentation  |
| 6        | SA 240         | The Auditor's Responsibilities relating Fraud in an Audit of Financial Statements  |
| 7        | SA 250         | Consideration of Laws and Regulations in an Audit of Financial Statements  |
| Excluded | SA 260         | Communication with Those Charged with Governance (Revised)   |
| Excluded | SA 265         | Communicating Deficiencies in Internal Control to Those charged with Governance & Management   |
| 8        | SA 299         | Joint Audit of Financial Statements  |
|          |                |  |
|          | <b>300-499</b> | <b>Risk Assessing and Response to Assessed Risks</b>   |
| 9        | SA 300         | Planning an Audit of Financial Statements  |
| 10       | SA 315         | Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity & its Environment                                   |
| 11       | SA 320         | Materiality in Planning & Performing an Audit  |
| Excluded | SA 330         | The Auditor's response to Assessed Risk  |
| Excluded | SA 402         | Audit Considerations relating to Entities using Service Organization   |
| Excluded | SA 450         | Evaluation of Misstatement identified during the Audit.  |
|          |                |  |
|          | <b>500-599</b> | <b>Audit Evidence</b>  |
| 12       | SA 500         | Audit Evidence   |
| 13       | SA 501         | Audit Evidence – Specific Considerations for Selected Items  |
| 14       | SA 505         | External Confirmation  |
| 15       | SA 510         | Initial Audit Engagements – Opening Balances   |
| 16       | SA 520         | Analytical Procedures  |
| 17       | SA 530         | Audit Sampling   |
| Excluded | SA 540         | Auditing Accounting Estimates, Including Fair Value Accounting Estimates & Related Disclosure  |
| 18       | SA 550         | Related Parties  |

# Standards on Auditing – Compact Book



| No.      | SA             | Name of the Standard  |
|----------|----------------|---|
| 19       | SA 560         | Subsequent Events   |
| 20       | SA 570         | Going Concern (Revised)   |
| 21       | SA 580         | Written Representation  |
|          |                |   |
|          | <b>600-699</b> | <b>Using Work of Others</b>   |
| Excluded | SA 600         | Using the Work of another Auditor   |
| 22       | SA 610         | Using the Work of an Internal Auditor (Revised)   |
| Excluded | SA 620         | Using the Work of an Expert   |
|          |                |   |
|          | <b>700-799</b> | <b>Audit Conclusions &amp; Reporting</b>  |
| 23       | SA 700         | Forming an Opinion and Reporting on Financial Statements  |
| 24       | SA 701         | Communicating Key Audit Matters in the Independent Auditor's Report   |
| 25       | SA 705         | Modifications to the opinion in the Independent Auditor's Report  |
| 26       | SA 706         | Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report                     |
| 27       | SA 710         | Comparatives  |
| Excluded | SA 720         | The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statement |
|          |                |   |
|          | GN             | Guidance Notes on Audit   |

**SA 700, 701, 705 and 706 are studied in the chapter “Audit Report & CARO” and hence not included here.**



## 1 - Audit Vocabulary

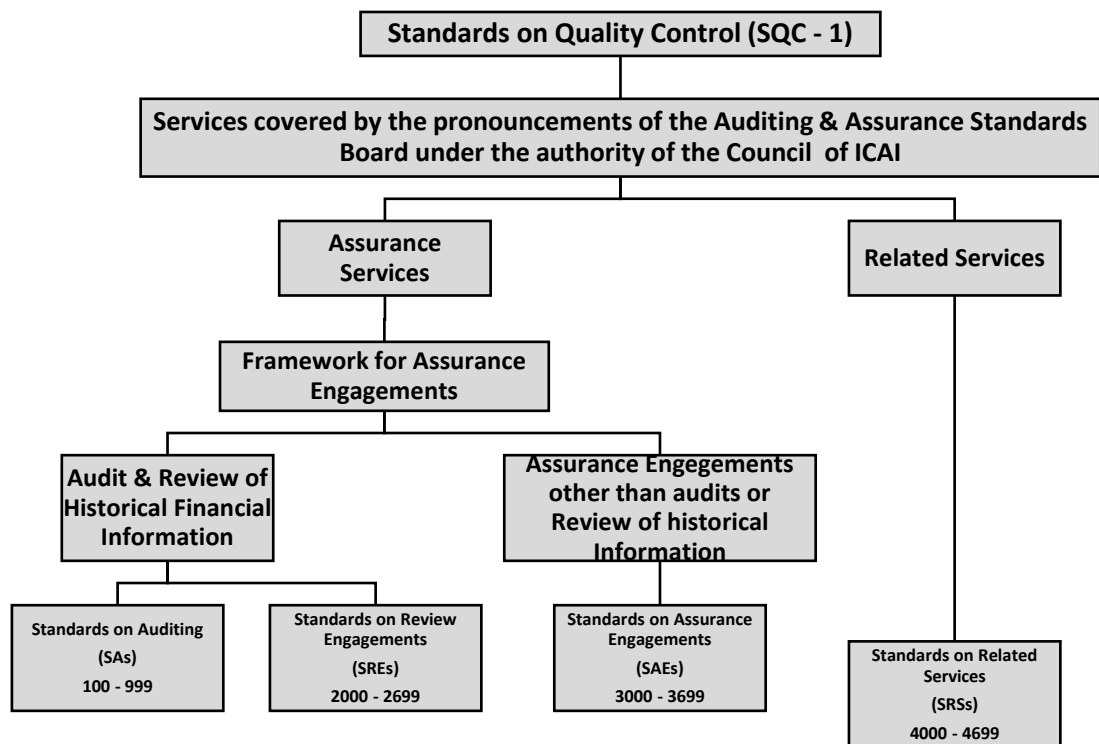
| Short | Long  |
|-------|---|
| ABCD  | <u>A</u> ccount <u>B</u> alance, <u>C</u> lass of transactions and <u>D</u> isclosures. |
| AE    | Accounting Estimate (SA 540)  |
| AE    | Auditor's Expert (SA 620)   |
| AO    | Adverse Opinion (SA 705)  |
| CAAT  | Computer Assisted Audit Technique   |
| DO    | Disclaimer of Opinion (SA 705)  |
| EMP   | Emphasis of Matter Paragraph (SA 705)   |
| EP    | Engagement Partner (SA 220)   |
| EQC   | Engagement Quality Control (SA 220)   |
| EQCR  | Engagement Quality Control Review (SA 220)  |
| ET    | Engagement Team (SA 220)  |
| FRF   | Fraud Risk Factors (SA 240)   |
| FRF   | Financial Reporting Framework (SA 200)  |
| FS    | Financial Statements.   |
| IA    | Internal Auditor (SA 610)   |
| IC    | Internal Control  |
| L & R | Laws & Regulations (SA 250).  |
| LOE   | Letter of Engagement (SA 210)   |
| LOR   | Letter of Representation (SA 580)   |
| ME    | Management's Expert (SA 500)  |
| MS    | Mis-Statements  |
| MMS   | Material Mis-Statements   |
| MO    | Modified Opinion (SA 705)   |
| NTE   | Nature, Timing & Extent   |
| OA    | Other Auditor (SA 600)  |
| OB    | Opening Balances (SA 510)   |
| OMP   | Other Matter Paragraph (SA 705)   |
| PA    | Principal Auditor (SA 600)  |
| QC    | Quality Control (SA 220)  |
| QO    | Qualified Opinion (SA 705)  |
| RAP   | Risk Assessment Procedures  |
| Re    | Regarding   |
| ROMM  | Risk of Material Mis-Statement  |
| SA    | Standards on Auditing   |
| SAAE  | Sufficient Appropriate Audit Evidence   |
| STD   | Scope, Timing and Direction   |
| TCWG  | TCWG  |
| ToAE  | Terms of Audit Engagement (SA 210)  |
| WR    | Written Representation (SA 580)   |

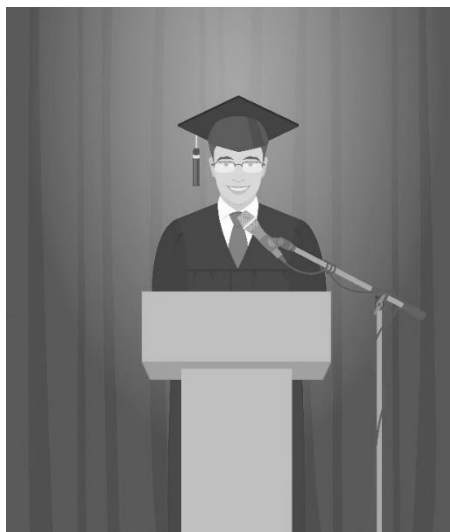


## 2 – Introduction to Standards

### Statements & Guidance Notes of ICAI – Whether Mandatory or Recommendatory in Nature?

| Topic Heading         | Detailed Explanation   |
|-----------------------|--|
| <b>Statements</b>     | The 'Statements' have been issued with a view to securing compliance by members on matters which, in the opinion of the Council, are critical for the proper discharge of their functions. 'Statements' therefore are mandatory.   |
| <b>Guidance Notes</b> | 'Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. |





## 200 Series 200 – 299 General Principles & Responsibilities

|                     |  |
|---------------------|--|
| SA 200              | Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing |
| SA 210              | Agreeing the Terms of Audit Engagements  |
| SA 220              | Quality Control for an Audit of Financial Statements   |
| SA 230              | Audit Documentation  |
| SA 240              | The Auditor's Responsibilities relating Fraud in an Audit of Financial Statements                                  |
| SA 250              | Consideration of Laws and Regulations in an Audit of Financial Statements  |
| SA 260<br>(Revised) | Communication with TCWG (Excluded)   |
| SA 265              | Communicating Deficiencies in Internal Control to TCWG & Management (Excluded)                                     |
| SA 299              | Responsibility of Joint Auditors   |

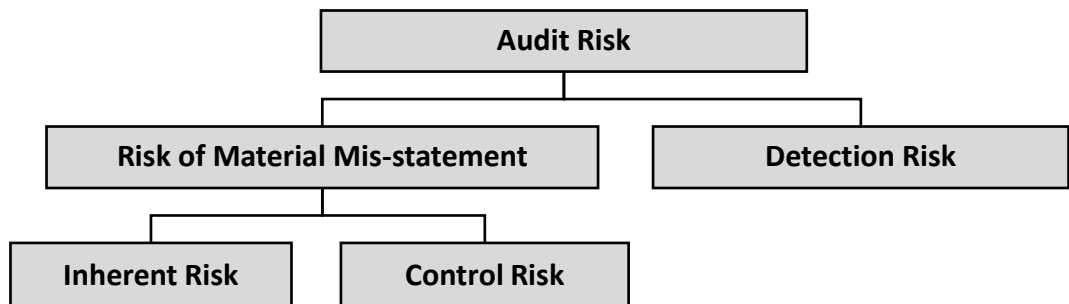


**SA  
200**

## Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

| Topic Heading   | Detailed Explanation   |
|---|--|
| <b>Overall Objective of the Auditor</b>               | Auditor should obtain reasonable assurance whether FS as a whole are free from material misstatement whether due to fraud or error.  |
| <b>Applicable Financial Reporting Framework (FRF)</b> | <p><b>There are 2 types of Financial Reporting Framework:</b></p> <ol style="list-style-type: none"> <li>1. <b>Fair presentation framework</b> – FRF that contains the 2 acknowledgements for flexibility and better presentation of FS :-                             <ol style="list-style-type: none"> <li>a) Management may provide disclosures beyond the framework; or</li> <li>b) Management may depart from the framework.</li> </ol> </li> <li>1. <b>Compliance framework</b> – FRF that does not contain the 2 acknowledgements as mentioned above.</li> </ol> |

### Audit Risk & Its Components



| Topic Heading         | Detailed Explanation   |
|-----------------------|--|
| <b>Audit Risk</b>     | Audit risk is the risk that an auditor may give an inappropriate opinion on financial information which is materially misstated.   |
| <b>Inherent risk</b>  | It is the susceptibility of ABCD to MMS, assuming that there were no related internal controls.  |
| <b>Control Risk</b>   | It is the risk that a MS will not be prevented, or detected and corrected, by the entity's INTERNAL CONTROL.   |
| <b>Detection Risk</b> | It is the risk that AUDIT PROCEDURES will fail to detect a MMS.<br>Detection risk relates to the NTE of AP that are determined by the auditor to reduce audit risk to an acceptably low level. |



## Requirements of SA 200

| Topic Heading  | Detailed Explanation  |
|--|---|
| <b>Ethical requirements relating to an audit of FS</b> | (a) Integrity;<br>(b) Objectivity;<br>(c) Professional competence and due care;<br>(d) Confidentiality; and<br>(e) Professional behaviour.<br><b>Independence comprises both independence of mind and independence of appearance.</b>   |
| <b>Professional Skepticism</b>                         | (1) Professional skepticism in simple words means having a questioning and alert mind.<br>(2) Professional skepticism involves being alert to: <ol style="list-style-type: none"> <li>Fraud Risk Factors (Conditions indicating possible frauds).</li> <li>Contradictory audit evidence.</li> <li>Reliability of documents.</li> </ol>  |
| <b>Professional Judgement</b>                          | The application of relevant training, knowledge and experience in making informed decisions about the courses of action that are appropriate <i>in the</i> audit.   |
| <b>Inherent Limitations of an Audit</b>                | <b><u>Auditor seeks persuasive evidence rather than conclusive evidence.</u></b><br><b>The inherent limitations of an audit arise from:</b> <ol style="list-style-type: none"> <li><b>The nature of financial reporting:</b> The preparation of FS involves judgment by management in applying the requirements of the applicable FRF.</li> <li><b>The nature of audit procedures:</b> <ol style="list-style-type: none"> <li>Management &amp; others do not provide complete information intentionally/unintentionally.</li> <li>Audit is not an official investigation.</li> </ol> </li> <li><b>Balance between benefit and cost:</b> <ol style="list-style-type: none"> <li>User expectation that the auditor will form an opinion on the FS within a reasonable period of time and at reasonable cost.</li> <li>It results into use of Test Checking.</li> </ol> </li> <li><b>Other Matters that Affect the Limitations of an Audit</b> <ol style="list-style-type: none"> <li>Fraud, particularly fraud involving senior management or collusion.</li> <li>The occurrence of non-compliance with laws and regulations.</li> <li>Future events or conditions that may cause an entity to cease to continue as a going concern.</li> </ol> </li> </ol> |

## Conduct of an Audit In Accordance with SA

| S. No. | Detailed Explanation   |
|--------|--|
| 1      | The auditor need not comply with the SA that are not relevant to the circumstances of the audit.                                       |
| 2      | Objectives of SA are more important than the Procedures in the SA.   |
| 3      | Entire SA is not relevant. Follow only relevant portions of the SA.  |
| 4      | If the auditor fails to achieve the overall objectives, then he should express modified audit opinion or withdraw from the engagement. |





**SA  
210**

## Agreeing the Terms of Audit Engagements

| Topic Heading   | Detailed Explanation  |
|---|---|
| <b>Premises or Pre-conditions for Accepting an Audit.</b> | <p>Management and TCWG have the following fundamental responsibilities:</p> <ol style="list-style-type: none"> <li>1. Preparation and presentation of FS in accordance with the applicable FRF.</li> <li>2. Design, implementation and maintenance of Internal Controls;</li> <li>3. To provide the auditor with:                             <ol style="list-style-type: none"> <li>a) All relevant information for the preparation and presentation of the FS;</li> <li>b) Any additional information requested by the auditor; and</li> <li>c) Unrestricted access within the entity.</li> </ol> </li> </ol>   |
| <b>Form and Content of the Engagement Letter</b>          | <p><b><u>The form and content of the audit engagement letter may vary for each entity.</u></b></p> <p><b>General Form and Contents of LOE:</b></p> <ol style="list-style-type: none"> <li>1. Scope of the audit, including reference to laws, SA, Code of ethics .</li> <li>2. Letter of Weakness in Internal Control.</li> <li>3. Inherent limitations of an audit.</li> <li>4. Management will provide Written Representations.</li> <li>5. Premises or Pre-conditions for accepting an Audit.</li> <li>6. The basis on which fees are computed and any billing arrangements.</li> <li>7. Audit may be subjected to a Peer Review under the CA Act, 1949.</li> <li>8. A request to acknowledge receipt of the engagement letter.</li> </ol> |

### Recurring Engagement

| Topic Heading  | Detailed Explanation  |
|--|---|
| <b>Circumstances when an auditor needs to revise LOE in recurring Audit engagements.</b> | <p><b>Following factors may make it appropriate to revise the terms or to remind the existing terms to the entity:</b></p> <ol style="list-style-type: none"> <li>(a) Entity misunderstands scope of the audit.</li> <li>(b) Δ Terms of the audit engagement.</li> <li>(c) Δ management.</li> <li>(d) Δ ownership.</li> <li>(e) Δ size of the entity's business.</li> <li>(f) Δ Laws.</li> <li>(g) Δ FRF.</li> <li>(h) Δ Audit report.</li> </ol> |



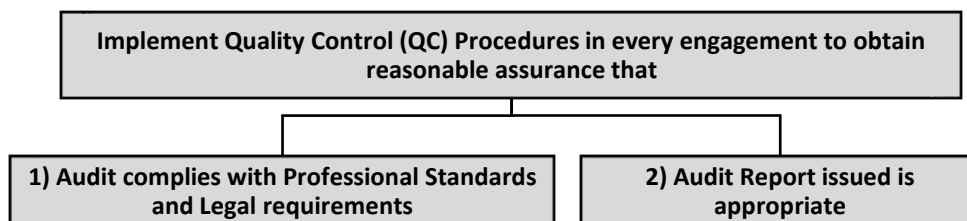
## Change of Letter of Engagement

| Topic Heading  | Detailed Explanation   |
|--|--|
| <b>Auditors Duty when management requests change in TOAE</b> | <p><b>Step 1:</b> Obtain Reasons for change in ToAE.</p> <p><b>Step 2:</b> If reasonable justification is given, the auditor should do the following:</p> <ol style="list-style-type: none"> <li>Auditor may accept the change and document the reasons.</li> <li>Enter into a Revised LOE.</li> </ol> <p><b>Step 3:</b> If no reasonable justification is given, auditor should refuse to accept the change. If management does not permit to continue, the auditor should do the following:</p> <ol style="list-style-type: none"> <li>Auditor should withdraw (resign).</li> <li>Communicate the matter to TCWG.</li> <li>Communicated to the shareholders &amp; regulatory authorities.</li> </ol> |

**SA  
220**

## Quality Control for an Audit of Financial Statements

### Auditor's Objective Under SA 220



### Client Acceptance /Continuation Formalities

The following information would assist the auditor in accepting and continuing of relationship with the client:

- Integrity of the KMP & TCWG;
- Whether the engagement team has the necessary capabilities, including time and resources;
- Whether the engagement team can comply with relevant ethical requirements; and
- Significant matters that have arisen during audit engagement, and their implications for continuing the relationship.

### Engagement Partner's Responsibility regarding Delegation

| Topic Heading                                   | Detailed Explanation  |
|---|---|
| <b>Engagement Partner's (EP) responsibility</b> | <p><b>A) Directions</b></p> <p>Partner should inform Team members regarding:</p> <ol style="list-style-type: none"> <li>Problems that may arise.</li> <li>Audit Plan</li> </ol> |

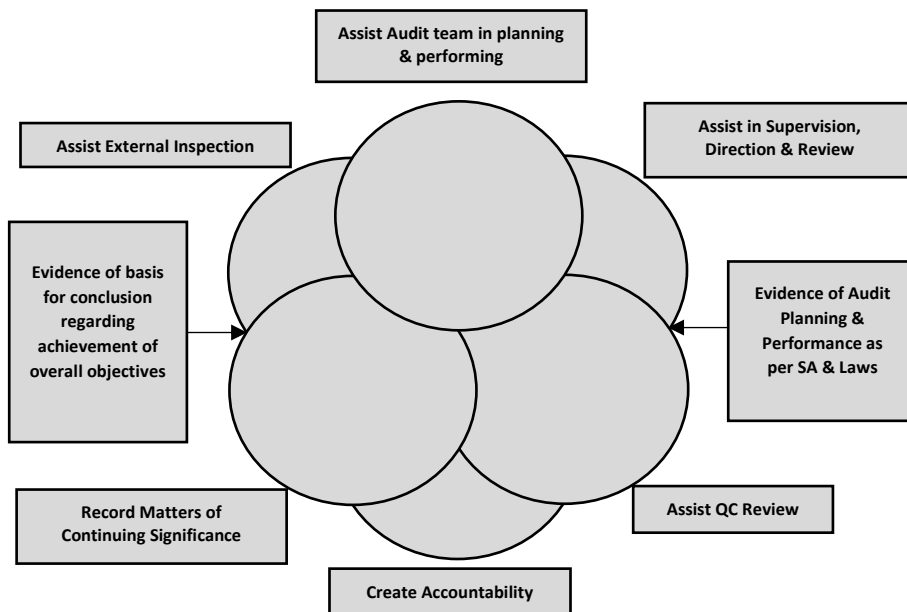
# Standards on Auditing – Compact Book



| Topic Heading  | Detailed Explanation  |   |
|--|---|---|
| regarding Engagement performance and delegation:<br>(1) Direction<br>(2) Supervision<br>(3) Review | (1) Nature of entity's business.  | (5) Allocation of staff.                  |
|  | (2) Risk-related issues.  |   |
|  | <b>B) Supervision</b>   |   |
|  | (1) Tracking progress of audit.   | (4) Need to modify audit plan.            |
|  | (2) Work is carried out as planned.   | (5) Co-ordination among Team.             |
|  | (3) Addressing significant matters.   | (6) Identifying matters for consultation. |
|  | <b>C) Reviews</b>   |   |
|  | A review consists of consideration whether, for example:  |   |
|  | a) The work has been performed in accordance with professional standards and regulatory and legal requirements;   |   |
|  | b) Significant matters have been raised for further consideration;  |   |
|  | c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented; |   |
|  | d) There is a need to revise the nature, timing and extent of work performed;                                     |   |
|  | e) The work performed supports the conclusions reached and is appropriately documented;                           |   |
|  | f) The evidence obtained is sufficient and appropriate to support the auditor's report; and                       |   |
|  | g) The objectives of the engagement procedures have been achieved.  |   |

SA  
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## Audit Documentation



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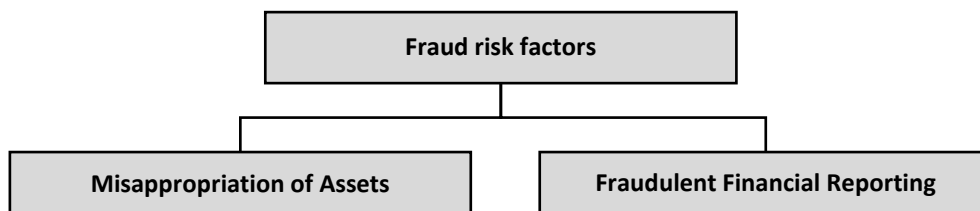


| Topic Heading  | Detailed Explanation   |
|--|--|
| <b>Meaning of Audit Documentation</b>                                      | Record of<br>(1) Audit procedures performed<br>(2) Audit evidence obtained<br>(3) Audit Conclusions reached.   |
| <b>Factors effecting "Form, content and extent of audit documentation"</b> | (a) The size and complexity of the entity.<br>(b) The nature of the audit procedures to be performed.<br>(c) The identified risks of material misstatement (ROMM).<br>(d) The significance of the audit evidence obtained.<br>(e) The nature and extent of exceptions identified.<br>(f) The audit methodology and tools used. |
| <b>Ownership of Documentation</b>  | 1) Unless otherwise specified by law or regulation, audit documentation is the PROPERTY of the Auditor.<br>2) Auditor may at his discretion, make portions of, or extracts from, audit documentation available to CLIENTS.   |
| <b>Retention period</b>  | 7 years from date of audit report.   |

**SA  
240**

## The Auditor's Responsibilities relating Fraud in an Audit of Financial Statements

| Topic Heading              | Detailed Explanation   |
|----------------------------|--|
| <b>Definition of Fraud</b> | Fraud may be defined as an <b>intentional act</b> by one or more individuals among management, TCWG, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. |
| <b>Fraud Risk Factors</b>  | Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.   |



### I. Fraud Risk Factors Relating to Misstatements Resulting from Misappropriation of Assets:

- (1) Recent or anticipated changes to employee compensation or benefit plans.
- (2) Inventory items that are small in size, of high value, or in high demand.

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- (3) Fixed assets which are small in size, marketable, or lacking observable identification of ownership.
- (4) Inadequate internal control over assets may increase the susceptibility of misappropriation of those assets.
- (5) Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee.

## Cash Defalcation (Misappropriation of Assets)

| Topic Heading  | Detailed Explanation   |
|--|--|
| <b>Cash Defalcation by inflating cash payments.</b>  | <ol style="list-style-type: none"> <li>1. Making payments against fictitious vouchers.</li> <li>2. Making payments against inflated vouchers.</li> <li>3. Manipulating totals of wage rolls by including dummy workers.</li> <li>4. Casting a larger totals for petty cash expenditure.</li> </ol>   |
| <b>Cash Defalcation by suppressing cash receipts</b> | <ol style="list-style-type: none"> <li>1. Teeming and Lading.</li> <li>2. Adjusting unauthorised or fictitious discounts etc. to customer' accounts.</li> <li>3. Writing off as bad debts, cash which has already been received.</li> <li>4. Not accounting for cash sales fully.</li> <li>5. Not accounting for miscellaneous receipts.</li> <li>6. Writing down asset values in entirety, selling them and misappropriating the proceeds.</li> </ol> |

## I. Fraud Risk Factors Relating to Misstatements Resulting from Fraudulent Financial Reporting:

1. A significant portion of management's compensation depends on net profits.
2. There is a high turnover of management or board members.
3. Frequent disputes with the auditor.
4. Unreasonable time constraints on the auditor to complete audit.
5. Significant pressure to obtain additional capital.

## Ways of manipulation of accounts:-

1. Recording fictitious sales or omission of sales.
2. Recording fictitious purchases or suppression of purchases.
3. Over valuation or under valuation of stock.
4. Recording fictitious expenses or omission of expenses.
5. Taking credit for accrued income not likely to be received or omission of income.
6. Revenue expenses changed to capital and vice-versa.

## Auditor's Responsibility for FRAUD

| Topic Heading                            | Detailed Explanation  |
|--|---|
| <b>What is Auditor's responsibility?</b> | <ol style="list-style-type: none"> <li>1. Owing to the inherent limitations of an audit, there is a risk that auditor will not be able to detect all MMS.</li> <li>2. Risk due to Fraud is harder to detect than risk due to Error.</li> <li>3. Risk due to Management Fraud is harder to detect than risk due to Employee Fraud.</li> <li>4. Auditor is responsible for maintaining an attitude of professional skepticism throughout the audit, considering the potential for management override of controls.</li> </ol> |



# Siddharth Agarwal Classes

| Topic Heading | Detailed Explanation   |
|---------------|--|
|               | 5. <b>Conclusion</b> - Detection of fraud and error is not the duty of the auditor provided that he complies with the requirements given in SA, maintains professional skepticism and is not grossly negligent in the performance of his duties. |

## Risk Assessment Procedures (RAP) for Frauds

- A) Professional Skepticism
- B) Discussion Among the Engagement Team
- C) Inquiry of others

## Response to Assessed risks for Frauds

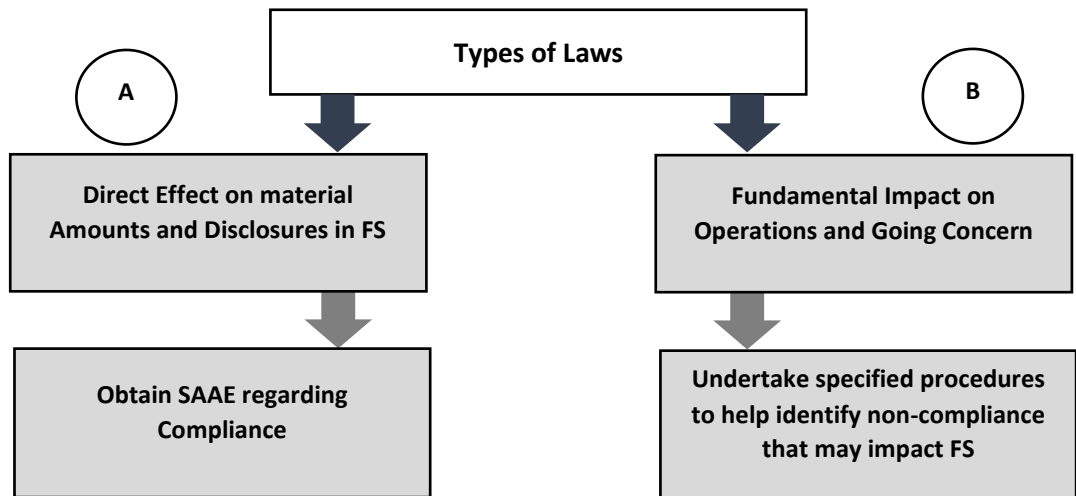
| Topic Heading  | Detailed Explanation  |
|--|---|
| <b>A) Overall responses</b>  | <ol style="list-style-type: none"><li>1. Increase professional skepticism.</li><li>2. Assign proper audit personnel.</li><li>3. Evaluate selection &amp; application of accounting policies:</li><li>4. Special attention to complex transactions.</li><li>5. Incorporating Unpredictability in audit procedures.</li></ol>   |
| <b>B) Audit procedures responsive to assessed risk at assertion level.</b> | Change in nature, timing and extent of audit procedures: <ol style="list-style-type: none"><li>1. <u>Δ NATURE</u>.<ol style="list-style-type: none"><li>a) Physical observation/ inspection of certain assets.</li><li>b) Use more CAAT.</li></ol></li><li>2. <u>Δ TIMING</u> - perform near the year end.</li><li>3. <u>Δ EXTENT</u>.<ol style="list-style-type: none"><li>a) Increase sample size.</li><li>b) Perform analytical procedures at more detailed level.</li></ol></li></ol> |
| <b>C) Management override of controls.</b>                                 | Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent FS by overriding controls.   |



**SA  
250**

**Consideration of Laws and Regulations in an Audit of  
Financial Statements**

**What are the types of Law & Regulations (L & R) that the Auditor should consider in an Audit of FS?**



**Management is responsible for compliance with laws and regulations**

The following are the procedures MANAGEMENT may implement to assist in the prevention and detection of non-compliance with laws and regulations-

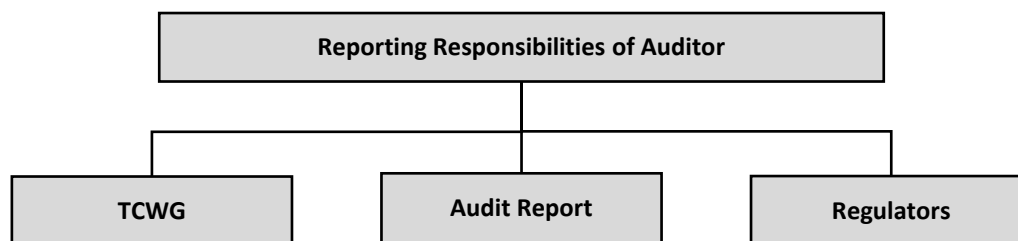
- a) Monitoring legal requirements.
- b) Instituting and operating appropriate systems of internal control.
- c) Developing, publicising and following a code of conduct.
- d) Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
- e) Engaging legal advisors to assist in monitoring legal requirements.
- f) Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.
- g) Ensuring employees are properly trained and understand the code of conduct.



## Auditor's Responsibility & Procedures

| Topic Heading  | Detailed Explanation   |  |
|--|--|--|
| <b>Auditor's Consideration of Compliance with Laws and Regulations</b> | <b>For Laws that directly affect FS</b>  | <b>For Laws that don't affect FS but GC</b>  |
|  | The auditor shall obtain SAAE regarding compliance with such laws.   | The auditor shall perform following audit procedures to identify non-compliance with other laws: <ol style="list-style-type: none"> <li>Inquiring of management; and;</li> <li>Inspecting correspondence with regulatory authorities.</li> </ol> |
|  | <ol style="list-style-type: none"> <li>The auditor shall obtain a general understanding of the legal and regulatory framework applicable to the entity;</li> <li>Exercise Professional Skepticism.</li> <li>Obtain written representation.</li> </ol>  |  |
| <b>Indicators for verifying compliance with laws and regulations</b>   | <ol style="list-style-type: none"> <li>Investigation by regulatory organizations.</li> <li>Payment of fines, additional taxes or penalties.</li> <li>Unusual payments in cash.</li> <li>Unusual payments towards legal fees.</li> <li>Unusual transactions with companies registered in tax havens.</li> <li>Adverse Media Comment.</li> </ol> |  |

## Reporting Responsibilities of Auditors



| Topic Heading                    | Detailed Explanation   |                                   |
|----------------------------------|--|-----------------------------------|
| <b>Reporting to TCWG</b>         | The auditor shall communicate with TCWG matters involving non-compliance with laws and regulations that come to the auditor's attention.   |                                   |
| <b>Reporting in Audit Report</b> | <b>Inadequately reflected in FS</b>  | <b>Adequately reflected in FS</b> |
|                                  | Qualified opinion/ Adverse Opinion   | Emphasis of Matter paragraph      |
| <b>Reporting to Regulators</b>   | <ol style="list-style-type: none"> <li>Client confidentiality may be an issue but law may override confidentiality requirements.</li> <li>Consider the need to seek legal advice.</li> </ol> |                                   |





**SA  
299**

**Responsibility of Joint Auditors**

| Topic Heading                       | Detailed Explanation   |
|-------------------------------------|--|
| <b>Advantages of Joint Audit</b>    | <ol style="list-style-type: none"> <li>1. Pooling and sharing of expertise.</li> <li>2. Advantage of mutual consultation.</li> <li>3. Lower work load.</li> <li>4. A sense of healthy competition towards a better performance.</li> </ol>   |
| <b>Disadvantages of Joint Audit</b> | <ol style="list-style-type: none"> <li>1. The fees being shared.</li> <li>2. Psychological problem where firms of different standing are associated in the joint audit.</li> <li>3. Problems of coordination of the work.</li> <li>4. Lack of clear division of responsibility.</li> </ol> |

**Division of Work and Co-ordination**

| Topic Heading           | Detailed Explanation  |
|-------------------------|---|
| <b>Division of Work</b> | <ol style="list-style-type: none"> <li>1. By mutual discussion:                         <ol style="list-style-type: none"> <li>a. Usually in terms of audit of identifiable units/ specified areas.</li> <li>b. Sometimes, in terms of assets/ liabilities/ income/ expenditure, etc.</li> <li>c. Critical areas covered by all auditors.</li> </ol> </li> <li>2. Document the division &amp; communicate to client.</li> </ol> |
| <b>Coordination</b>     | <ol style="list-style-type: none"> <li>1. Share significant information with other joint auditors which :                         <ol style="list-style-type: none"> <li>a. Deserve their attention.</li> <li>b. Require disclosure.</li> <li>c. Require mutual discussion.</li> <li>d. Application of judgment by others auditors.</li> </ol> </li> <li>2. Before finalization of audit.</li> </ol>                            |

**Responsibilities of Joint Auditors**

| Topic Heading                              | Detailed Explanation  |
|--|---|
| <b>Responsibilities of Joint Auditors.</b> | <ol style="list-style-type: none"> <li>1. Each Joint Auditor responsible only for work allocated, whether or not separate report therefor is made.</li> <li>2. It is the separate and specific responsibility of each joint auditor to study and evaluate the prevailing IC relating to the work allocated to him.</li> <li>3. Each Joint Auditor jointly and severally responsible for:                         <ol style="list-style-type: none"> <li>a. Audit work which is not divided among them.</li> <li>b. Decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors.</li> <li>c. Matters which are brought to the notice of the joint auditors by any one of them.</li> </ol> </li> </ol> |



| Topic Heading | Detailed Explanation  |
|---------------|---|
|               | <ul style="list-style-type: none"><li>d. Examining that fs complies with the disclosure requirements of the relevant statute.</li><li>e. Ensuring that the audit report complies with the requirements of the relevant statute.</li><li>f. Each joint auditor is entitled to assume that the other joint auditors have carried out their work in accordance with the GAPA.</li><li>g. For obtaining and evaluating information and explanation from the management.</li></ul> |

## Reporting by Joint Auditors

| Topic Heading | Detailed Explanation   |
|---------------|--|
| Reporting     | <ul style="list-style-type: none"><li>1. Normally, joint auditors are able to arrive at an agreed report.</li><li>2. If disagreement, then:<ul style="list-style-type: none"><li>a. each one of them should express his opinion through a separate report.</li><li>b. a joint auditor is not bound by majority view.</li></ul></li></ul> |



## **300 Series**

**300 – 499**  
**Risk Assessment &  
Response to Assessed Risk**

|        |  |
|--------|--|
| SA 300 | Planning an Audit of Financial Statements  |
| SA 315 | Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity & its Environment |
| SA 320 | Materiality in Planning & Performing an Audit  |
| SA 330 | The Auditor's response to Assessed Risk (Excluded)   |
| SA 402 | Audit Considerations relating to Entities using Service Organization (Excluded)                                |
| SA 450 | Evaluation of Misstatement identified during the Audit. (Excluded)   |

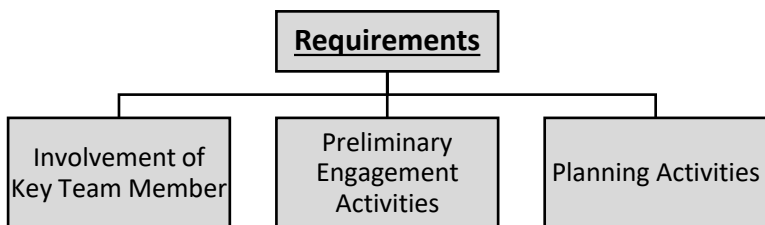


**SA  
300**

## Planning an Audit of Financial Statements

| Topic Heading                   | Detailed Explanation  |
|---------------------------------|---|
| <b>Advantages of Audit Plan</b> | <p><b>Adequate planning helps the auditor:</b></p> <ol style="list-style-type: none"> <li>To devote attention to important areas.</li> <li>Resolve potential problems on timely basis.</li> <li>Properly organise and manage the audit.</li> <li>Assists Selection of engagement team members with requisite capabilities.</li> <li>Co-ordination of the work done by auditors of components and experts.</li> <li>Facilitating direction and supervision of engagement team.</li> <li>Provides Base for Billing the Clients for the Time &amp; Manpower involved.</li> </ol> |

### Requirements



| Topic Heading                               | Detailed Explanation   |
|---|--|
| <b>A) Involvement of Team</b>               | <ol style="list-style-type: none"> <li>Participate in discussion with audit team.</li> <li>Benefit of their experience &amp; insight.</li> <li>Increases effectiveness &amp; efficiency of planning.</li> </ol>  |
| <b>B) Preliminary Engagement Activities</b> | <ol style="list-style-type: none"> <li>Perform CAF/CCF procedures required under SA 220.</li> <li>Evaluate compliance with ethical requirements including independence.</li> <li>Enter into LOE as per SA 210.</li> </ol>  |
| <b>C) Planning Activities</b>               | <ol style="list-style-type: none"> <li>Contents of Audit Plan:             <ol style="list-style-type: none"> <li>Planning of the auditor's RAP occurs early in the audit process.</li> <li>Planning the nature, timing and extent of SAP depends on the outcome of RAP.</li> <li>Auditor may begin the execution of SAP for some classes of transactions, account balances and disclosures before planning all remaining SAP.</li> </ol> </li> <li>Δ Audit Strategy &amp; Δ Audit Plan due to.             <ol style="list-style-type: none"> <li>Unexpected events,</li> <li>New Information comes to the auditor's attention.</li> </ol> </li> <li>Plan direction, supervision &amp; review of team members.</li> </ol> |



## Audit Strategy Vs. Audit Plan

| Topic Heading                      | Detailed Explanation   |
|------------------------------------|--|
| <b>Establishing Audit Strategy</b> | <ol style="list-style-type: none"> <li>1. The auditor shall establish an overall audit strategy that sets the <b>SCOPE, TIMING AND DIRECTION (STD)</b> of the audit, and that guides the development of the audit plan.</li> <li>2. In establishing the overall audit strategy, the auditor shall:                             <ol style="list-style-type: none"> <li>a. Identify the characteristics of the engagement that define its scope;</li> <li>b. Ascertain the reporting objectives of the engagement;</li> <li>c. Consider the factors that are significant in directing the team's efforts;</li> <li>d. Consider the results of preliminary engagement activities; and</li> <li>e. Ascertain the Nature, Timing &amp; Extent (NTE) of procedures.</li> </ol> </li> </ol> |
| <b>Developing an Audit plan</b>    | <p>The audit plan shall include a description of:</p> <ol style="list-style-type: none"> <li>1. The nature, timing and extent of RAP, as determined under SA 315.</li> <li>2. The nature, timing and extent of SAP, as determined under SA 330.</li> <li>3. Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.</li> </ol>  |

**SA  
315**

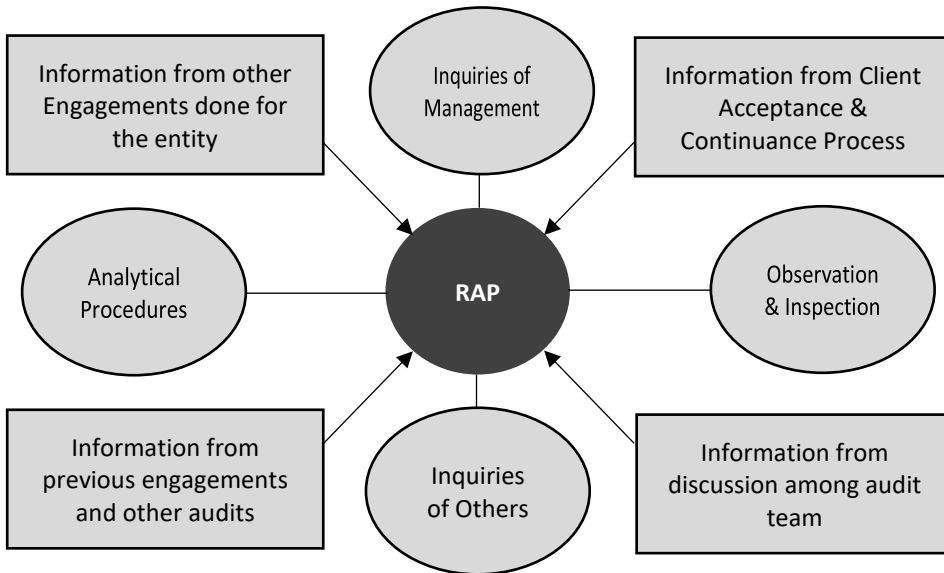
## Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity & its Environment

### Assertions & Risk Assessment Procedure

| Topic Heading                                       | Detailed Explanation  |
|---|---|
| <b>Assertions</b>                                   | <b>Assertions means the Representations by management embodied in financial statements used by the Auditor to assess potential misstatements.</b>   |
| <b>RAP</b>  | <ol style="list-style-type: none"> <li>1. Procedures to understand entity &amp; its environment (ICs also).</li> <li>2. To identify &amp; assess ROMM due to fraud/error @ FS Level &amp; Assertion level.</li> </ol>   |
| <b>Understanding the Entity and its Environment</b> | <ol style="list-style-type: none"> <li>1. Relevant industry, regulatory factors including applicable FRF.</li> <li>2. The nature of the entity, including:                             <ol style="list-style-type: none"> <li>(a) its operations;</li> <li>(b) its ownership and governance structures;</li> <li>(c) the types of investments that the entity is making; and</li> <li>(d) the way that the entity is structured;</li> </ol> </li> <li>3. The entity's selection and application of accounting policies.</li> <li>4. The entity's objectives and strategies and related business risks.</li> </ol> |

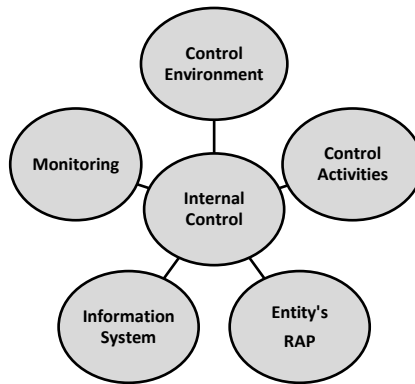


## Risk Assessment Procedures (RAP)



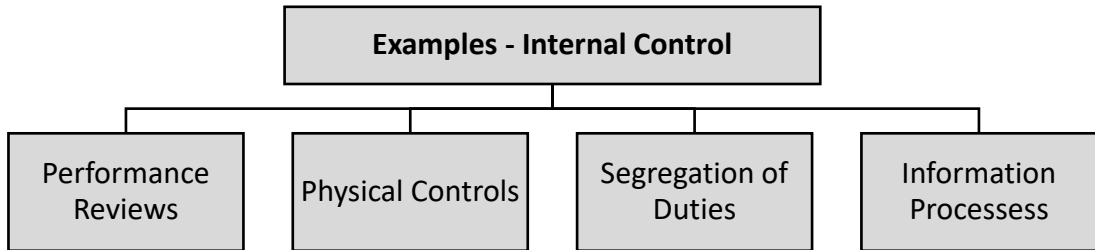
## Internal Control

| Topic Heading                         | Detailed Explanation  |
|---------------------------------------|---|
| <b>Definition of Internal Control</b> | <ul style="list-style-type: none"> <li>(i) The process designed, implemented and maintained</li> <li>(ii) By TCWG, management and other personnel</li> <li>(iii) To provide reasonable assurance</li> <li>(iv) About the achievement of an entity's objectives with regard to               <ul style="list-style-type: none"> <li>a. reliability of financial reporting,</li> <li>b. effectiveness and efficiency of operations,</li> <li>c. safeguarding of assets, and</li> <li>d. compliance with applicable laws and regulations.</li> </ul> </li> </ul> |

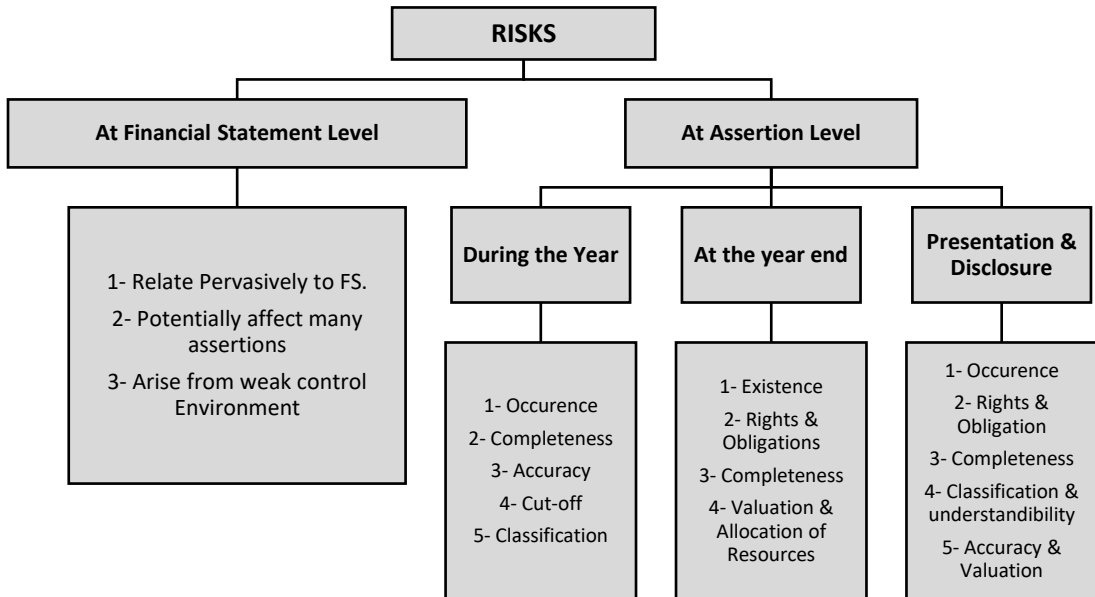




## Examples - Internal Control



## Identifying & Assessing Risks of Material Misstatement





**SA  
320**

## Materiality in Planning & Performing an Audit

| Topic Heading   | Detailed Explanation   |
|---|--|
| <b>Concept of Materiality</b>                               | SA 320 defines material items as relatively important and relevant items, i.e., items the knowledge of which would influence the decision of the user of financial statements. Financial statements materially affect if such statement is erroneously stated or omitted to be stated there in and economic decision of the users taken on the basis of such information is influenced by such misstatements or omissions.   |
| <b>Audit Risk is inversely proportional to Materiality</b>  | There is an inverse relationship between materiality and the degree of audit risk. The higher the materiality level, the lower the audit risk and vice versa. For example, the risk that a particular account balance or class of transactions could be misstated by an extremely large amount might be very low but the risk that it could be misstated by an extremely small amount might be very high.<br>$\text{Audit Risk} \propto \frac{1}{\text{Materiality}}$  |
| <b>Factors to be considered for determining materiality</b> | <ol style="list-style-type: none"><li>1. Item of materiality may be determined individually or in aggregate.</li><li>2. Materiality has both quantitative &amp; qualitative dimensions.</li><li>3. Even insignificant items in terms of quality may be material in special circumstances.</li><li>4. Sometimes the materiality of an item in terms of quantity is described in law itself. For example, Schedule III requires disclosure of items of expenditures which are in excess of 1% of the revenue from operations or ₹ 1,00,000, whichever is higher.</li><li>5. An item whose impact is insignificant at present, but in future it may be significant, may be material item.</li></ol> |
| <b>Materiality</b>  | <ol style="list-style-type: none"><li>1. Involves use of professional judgment.</li><li>2. Starting point - a percentage often applied to a chosen benchmark.</li></ol>  |
| <b>Performance Materiality</b>                              | <ol style="list-style-type: none"><li>1. Amount(s) set by auditor at less than materiality for FS as a whole.</li><li>2. To reduce to an appropriate low level.</li><li>3. Probability that aggregate of uncorrected &amp; undetected misstatements exceeds materiality for FS as a whole.</li></ol>   |
| <b>Revision as Audit Progresses</b>                         | Materiality may need to be revised as a result of:<br><ol style="list-style-type: none"><li>1) A change in circumstances that occurred during the audit for example, a decision to dispose of a major part of the entity's business.</li><li>2) New information.</li><li>3) A change in auditor's understanding of entity and its operations as a result of performing further audit procedures.</li></ol>   |





## 500 Series

500 – 599  
Audit Evidence

|        |  |
|--------|--|
| SA 500 | Audit Evidence   |
| SA 501 | Audit Evidence – Specific Considerations for Selected Items  |
| SA 505 | External Confirmation  |
| SA 510 | Initial Audit Engagements – Opening Balances   |
| SA 520 | Analytical Procedures  |
| SA 530 | Audit Sampling   |
| SA 540 | Auditing Accounting Estimates, Including Fair Value Accounting Estimates & Related Disclosure (Excluded) |
| SA 550 | Related Parties  |
| SA 560 | Subsequent Events  |
| SA 570 | Going Concern (Revised)  |
| SA 580 | Written Representation   |



**SA  
500**

## Audit Evidence

| Topic Heading      | Detailed Explanation   |
|--------------------|--|
| <b>Definitions</b> | <b>Audit Evidence</b><br>Information used by auditor in arriving at conclusions on which audit opinion is based.   |
|                    | <pre> graph TD     A[Audit Evidence] --&gt; B[Sufficient]     A --&gt; C[Appropriate]           </pre>   |
|                    | <b>Appropriateness of audit evidence:</b>  |
|                    | <b>Measure of quality of audit evidence which depends on:</b><br>1. Relevance; and<br>2. Reliability   |
|                    | <b>Sufficiency of audit evidence:</b>  |
| <b>Relevance</b>   | <b>Measure of quantity of audit evidence which depends on:</b><br>1. Auditor's assessment of ROMM.<br>2. Quality of such audit evidence.   |
|                    | Relevance of an Evidence implies that whether the evidence successfully tests the Assertion which is required to be tested. Relevance deals with the logical connection between<br>1. Purpose of the audit procedure and<br>2. The assertion under consideration.                        |
| <b>Reliability</b> | 1) External Evidence > Internal Evidence.<br>2) Direct Evidence > Indirect Evidence.<br>3) Documentary Evidence > Oral Evidence.<br>4) Original paper Evidence > Photocopied paper Evidence.<br>5) Evidence is more reliable when the related Internal Financial Controls are effective. |

## Method of Obtaining Audit Evidence

| Topic Heading      | Detailed Explanation   |
|--------------------|--|
| <b>Inspection</b>  | Inspection consists of examining records, documents or tangible assets. 3 major categories of documentary evidence are:<br>(i) documentary evidence created and held by the third parties;<br>(ii) documentary evidence created by third parties and held by the entity; and<br>(iii) documentary evidence created and held by the entity.<br>(iv) |
| <b>Observation</b> | Observation consists of looking at a process a procedure being performed by the others. For example, the auditor may observe the counting of inventories by client personnel.  |

# Standards on Auditing – Compact Book



| Topic Heading                   | Detailed Explanation  |
|---------------------------------|---|
| <b>Inquiry and confirmation</b> | Inquiry consists of seeking appropriate information from knowledgeable person inside or outside the entity. Responses to inquiries may provide the auditor with information which he did not previously possess or may provide him with corroborative evidence. |
| <b>Confirmation</b>             | Confirmation consists of the response to an inquiry to corroborate information in the accounting records.   |
| <b>Analytical Review</b>        | Analytical review consists of studying significant ratios and trends and investigating unusual fluctuation and item.  |
| <b>Re-calculation</b>           | Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.  |
| <b>Re-performance</b>           | Re-performance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.  |

## Using Work of Management Expert (ME)

| Topic Heading                                     | Detailed Explanation  |
|---|---|
| <b>Evaluating the expert</b>                      | <ol style="list-style-type: none"> <li>1. Evaluate competence, capabilities &amp; objectivity (CCO) of expert.</li> <li>2. Obtain an understanding of his work.</li> <li>3. Evaluate appropriateness of his work as audit evidence.</li> </ol>  |
| <b>Reviewing expert's methods and assumptions</b> | <p>The auditor may also consider the following while evaluating the appropriateness of the management's expert's work as audit evidence:</p> <ol style="list-style-type: none"> <li>(i) The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence;</li> <li>(ii) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and</li> <li>(iii) If that expert's work involves significant use of source data, the relevance, completeness, and accuracy of that source data.</li> </ol> |

**SA  
501**

## Audit Evidence – Specific Considerations for Selected Items

### Inventory

| Topic Heading  | Detailed Explanation  |
|--|---|
| <b>Inventory Count at a date other than FY ending date</b> | If physical inventory counting is conducted at a date other than the date of the financial statements, the auditor shall perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded.  |
| <b>Inventory lying with third party</b>                    | <ol style="list-style-type: none"> <li>(a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.</li> <li>(b) Perform inspection or other audit procedures appropriate in the circumstances i.e. check documentation regarding issue of goods to third party along with reasons such</li> </ol> |



| Topic Heading  | Detailed Explanation  |
|--|---|
|  | as Job Work (verify Excise Register) or if possible conduct an inspection at the third party's site.  |
| <b>Attendance at inventory counting is impracticable</b> | If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705. |

## Litigation & Claims

| Topic Heading   | Detailed Explanation  |
|---|---|
| <b>LITIGATION &amp; CLAIMS</b>                                    | <ol style="list-style-type: none"> <li><b>Inquiry</b> – of management &amp; others within the entity.</li> <li><b>Review</b> – minutes of meetings of TCWG, communication between entity &amp; external legal counsel.</li> <li><b>Review</b> – legal expenses account.</li> </ol>  |
| <b>Direct communication with entity's external legal counsel:</b> | <ol style="list-style-type: none"> <li>The auditor shall do so through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.</li> <li>If Unlikely that the entity's external legal counsel will respond appropriately to a letter of general inquiry the auditor may seek direct communication through a letter of specific inquiry.               <ol style="list-style-type: none"> <li>A list of litigation and claims;</li> <li>Management's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications; and</li> <li>A request that the entity's external legal counsel confirm the reasonableness of Management's assessments and provide further information.</li> </ol> </li> </ol> |

**SA  
505**

## External Confirmation

### Definition

| Term                         | Definition   |
|------------------------------|--|
| <b>External confirmation</b> | Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.      |
| <b>Positive confirmation</b> | A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request. |
| <b>Negative confirmation</b> | A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.             |



## Requirements of SA 505

| Topic Heading   | Detailed Explanation   |
|---|--|
| <b>Areas where External Confirmation can be used</b>                            | <ol style="list-style-type: none"> <li>1. Bank balances.</li> <li>2. Accounts receivable balances.</li> <li>3. Inventories held by third parties.</li> <li>4. Property title deeds held by third parties.</li> <li>5. Investments purchased but delivery not taken.</li> <li>6. Loans from lenders.</li> <li>7. Accounts payable balances.</li> <li>8. Long outstanding share application money.</li> </ol>  |
| <b>Process of External Confirmation</b>   | <p>When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:</p> <ol style="list-style-type: none"> <li>a. Determining the information to be confirmed or requested;</li> <li>b. Selecting the appropriate confirming party;</li> <li>c. Designing the confirmation requests; and</li> <li>d. Sending the requests to the confirming party.</li> </ol>   |
| <b>Factors to be considered while designing a confirmation request</b>          | <ol style="list-style-type: none"> <li>1. The assertions being addressed.</li> <li>2. ROMM.</li> <li>3. The layout and presentation of the confirmation request.</li> <li>4. Prior experience on the audit or similar engagements.</li> <li>5. The method of communication.</li> <li>6. Management’s authorization to the confirming parties to respond to the auditor.</li> <li>7. The ability of the confirming party to provide the requested information.</li> </ol>   |
| <b>Management’s Refusal to Allow the Auditor to Send a Confirmation Request</b> | <p>The auditor shall:</p> <ol style="list-style-type: none"> <li>a. Inquire management’s reasons for the refusal, and seek audit evidence as to their validity and reasonableness;</li> <li>b. Evaluate the implications of management’s refusal on ROMM;</li> <li>c. Perform alternative audit procedures designed to obtain audit evidence.</li> <li>d. If the auditor concludes that management’s refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall                             <ul style="list-style-type: none"> <li>• Communicate with TCWG.</li> <li>• Express Modified Opinion.</li> </ul> </li> </ol> |
| <b>Negative Confirmations</b>   | <ol style="list-style-type: none"> <li>(1) Provide less persuasive audit evidence than positive confirmations.</li> <li>(2) Not to use NCR as sole audit procedure unless all the 4 conditions are met:                             <ol style="list-style-type: none"> <li>a. Auditor assessed RMM as low.</li> <li>b. Population of relevant items comprises large number of small, homogeneous account balances/ transactions/ conditions.</li> <li>c. Very low exception rate is expected.</li> <li>d. Auditor not aware of any circumstances that would cause recipients of negative confirmation requests to disregard the request.</li> </ol> </li> </ol>  |
| <b>Analysis of Results of External</b>  | <ol style="list-style-type: none"> <li>(1) <b>Response to request is not reliable –</b><br/>Consider its effect on nature, timing and extent of other audit procedures. May involve Fraud Risk Factors.</li> <li>(2) <b>Confirming party do not respond –</b></li> </ol>   |



| Topic Heading          | Detailed Explanation  |
|------------------------|---|
| Confirmation Procedure | Perform Alternative Audit procedure.<br>(3) <b>No confirmation obtained when auditor determines that response is necessary and alternative procedure will not provide the evidence auditor requires – Express Modified Opinion.</b> |

**SA  
510**

## Initial Audit Engagements – Opening Balances

| Topic Heading  | Detailed Explanation   |
|--|--|
| <b>Auditor's Objective</b>                             | Obtain SAAE in respect of opening balances (OB) about whether: <ol style="list-style-type: none"> <li>OB contains Material Misstatements that affect current period FS.</li> <li>Appropriate Accounting Policies of last year has been consistently applied in the current year as well and Changes, if any, have been properly accounted for and presented in FS.</li> </ol>  |
| <b>Definitions</b>                                     | <ol style="list-style-type: none"> <li><b>Initial Audit Engagement</b> – An engagement in which Prior Period FS:           <ol style="list-style-type: none"> <li>Not audited; or</li> <li>Audited by a predecessor auditor.</li> </ol> </li> <li><b>Opening Balances</b> – Accounting Balances existing at the beginning comprise of:           <ol style="list-style-type: none"> <li>Closing balances of prior period – Reflect the effect of prior period transactions and events, and accounting policies applied.</li> <li>Disclosure of accounts i.e., contingency and commitments.</li> </ol> </li> </ol>  |
| <b>Audit procedures in respect of Opening Balances</b> | <ol style="list-style-type: none"> <li>The auditor shall read last years's auditor's report, if any, for information relevant to opening balances, including disclosures.</li> <li>The auditor shall obtain SAAE about whether OB contain misstatements that materially affect the current period's FS by following steps:           <ol style="list-style-type: none"> <li>Determining whether the prior period's closing balances have been correctly brought forward to the current period;</li> <li>Determining whether the opening balances reflect the application of appropriate accounting policies; and</li> <li>Performing one or more of the following:               <ol style="list-style-type: none"> <li>Where the prior year FS were audited, peruse the copies of the audited FS;</li> <li>Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or</li> <li>Performing specific audit procedures to obtain evidence regarding the opening balances.</li> </ol> </li> </ol> </li> <li>If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's FS, then: -           <ol style="list-style-type: none"> <li>the auditor shall perform such additional audit procedures as appropriate in the circumstances to determine the effect on the current period's FS, and</li> <li>the auditor shall communicate the misstatements with the appropriate level of management and TCWG as per SA 450.</li> </ol> </li> </ol> |

# Standards on Auditing – Compact Book



| Topic Heading                          | Detailed Explanation   |
|--|--|
| <b>Audit Conclusions and Reporting</b> | <p>1. <b>Opening Balances:</b></p> <p>(a) If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a QO or DO.</p> <p>(b) If the auditor concludes that the opening balances contain a misstatement that materially effects the current period's FS, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a QO or AO.</p> <p>2. <b>Consistency in Accounting Policies:</b><br/>The auditor shall express a QO or AO, if he concludes that:</p> <p>(a) The current period's accounting policies are not consistent with the opening balances in accordance with the applicable Financial Reporting Framework; or</p> <p>(b) A change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the Financial Reporting Framework.</p> <p>3. <b>Modified Opinion in the Predecessor Auditor's Report:</b><br/>If the predecessor auditor's opinion regarding the prior period's FS was modified and the matter still remains relevant and material to the current period's FS, the auditor shall modify the auditor's opinion on the current period FS accordingly.</p> |

|                   |                              |
|-------------------|------------------------------|
| <b>SA<br/>520</b> | <b>Analytical Procedures</b> |
|-------------------|------------------------------|

| Topic Heading   | Detailed Explanation  |
|---|---|
| <b>Meaning of Analytical Procedures</b>                       | The term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.   |
| <b>Use of AP</b>  | Analytical review procedures are used for the following purposes: <ul style="list-style-type: none"> <li>(a) to assist the auditor in planning the nature, timing and extent of other audit procedures;</li> <li>(b) as substantive procedures when their use can be more effective or efficient than tests of details in reducing detection risk for specific financial statement assertions; and</li> <li>(c) as an overall review of the financial statements in the final review stage of the audit.</li> </ul> |
| <b>Precautions/Factors to be kept in mind while doing AP.</b> | Matters relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement that, when aggregated with other misstatements, may cause the financial statements to be materially misstated, include:  |



## Siddharth Agarwal Classes

| Topic Heading                    | Detailed Explanation  |
|----------------------------------|---|
|                                  | <ol style="list-style-type: none"><li>1. The ACCURACY with which the expected results of substantive analytical procedures can be PREDICTED.</li><li>2. The degree to which information can be DISAGGREGATED.</li><li>3. The AVAILABILITY of the information, both financial and non-financial. For example, the auditor may consider whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures.</li></ol>   |
| <b>Extent of reliance on AP.</b> | <p>Following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:</p> <ol style="list-style-type: none"><li>1. <b>Source of the information available.</b> For example, information may be more reliable when it is obtained from independent sources outside the entity;</li><li>2. <b>Comparability of the information available.</b> For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;</li><li>3. <b>Nature and relevance of the information available.</b> For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and</li><li>4. <b>Controls over the preparation of the information</b> that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.</li></ol> |





SA  
530

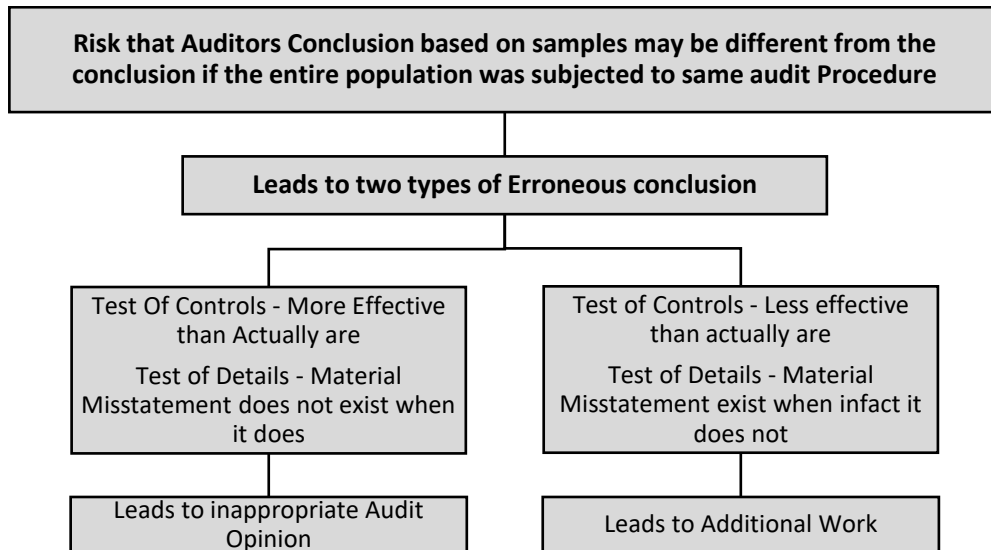
## Audit Sampling

### Few important Definition

#### Audit sampling:

1. Application of audit procedures to less than 100% of items within a population of audit relevance.
2. Such that all sampling units have a chance of selection.
3. To provide a reasonable basis on which to draw conclusions about entire population.

#### Sampling risk:



#### Non-sampling risk:

Risk that auditor reaches an erroneous conclusion for any reason not related to sampling risk (e.g., inappropriate audit procedures/misinterpretation of evidence/failure to recognise a misstatement/ deviation).

#### Statistical sampling –

An approach to sampling that has the following characteristics:

1. Random selection of the sample items; and
2. The use of probability theory to evaluate sample results, including measurement of sampling risk.



# Siddharth Agarwal Classes

## Non-Statistical sampling –

A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.

## Stratification –

The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).

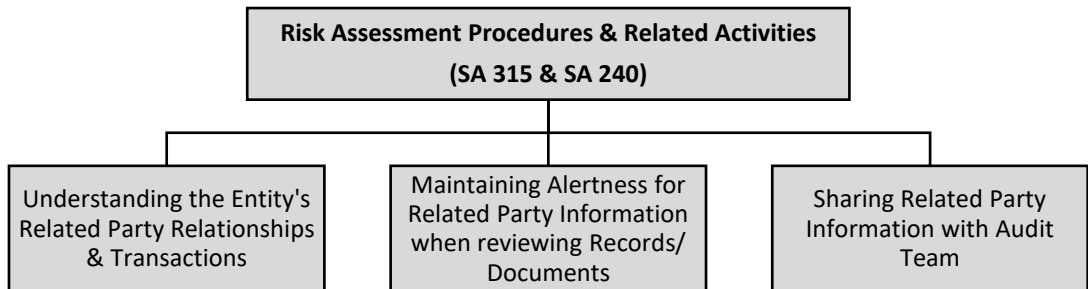
| Topic Heading                                    | Detailed Explanation   |
|--|--|
| <b>Requirements</b>                              | <ol style="list-style-type: none"><li>1. Sample Design, Size and Selection of Items for Testing</li><li>2. Performing Audit Procedures</li><li>3. Nature and Cause of Deviations and Misstatements</li><li>4. Projecting Misstatements</li><li>5. Evaluating Results of Audit Sampling</li></ol>   |
| <b>Sample Design, Size and Selection of Item</b> | <p><b>(A) Sample Design</b><br/>Consider:</p> <ol style="list-style-type: none"><li>a) Purpose of audit procedure.</li><li>b) Characteristics of population.</li></ol> <p><b>(B) Sample Size</b><br/>Auditor to determine sample size sufficient to reduce sampling risk to an acceptably low level.</p> <p><b>(C) Selection of Items for Testing</b><br/>Auditor to select representative sample – Each sampling unit in the population has a chance of Selection.</p>  |
| <b>Methods of selecting sample</b>               | <ol style="list-style-type: none"><li>a) <b>Random selection:</b> This method is applied through random number generators, for example, random number tables.</li><li>b) <b>Systematic selection:</b> In this method the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerised random number generator or random number tables.</li><li>c) <b>Monetary Unit sampling:</b> This method is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.</li><li>d) <b>Haphazard selection:</b> In this method the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.</li></ol> |



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## Related Parties

| Topic Heading                   | Detailed Explanation   |
|---------------------------------|--|
| <b>Meaning of Related party</b> | <p>A party that is either:</p> <ol style="list-style-type: none"> <li>1. A related party as defined in the applicable financial reporting framework; or in Indian context, as given in AS 18, "Related Party Disclosures", issued by the ICAI, will be applicable for the purposes of this Standard.</li> <li>2. Where the applicable financial reporting framework establishes minimal or no related party requirements                             <ol style="list-style-type: none"> <li>(a) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;</li> <li>(b) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or</li> <li>(c) Another entity that is under common control with the reporting entity through having:                                     <ol style="list-style-type: none"> <li>(i) Common controlling ownership;</li> <li>(ii) Owners who are close family members; or</li> <li>(iii) Common key management.</li> </ol> </li> </ol> </li> </ol> <p>However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.</p> |
| <b>Auditor's Objectives</b>     | <ol style="list-style-type: none"> <li>1. Obtain an understanding of RP relationships &amp; transactions sufficient to be able to recognize fraud risk factors (FRF<sub>1</sub>).</li> <li>2. Where Financial Reporting Framework (FRF<sub>2</sub>) establishes RP requirements, then obtain SAAE whether RP relationships &amp; transactions have been appropriately identified, accounted for &amp; disclosed in FS.</li> </ol>  |





## RAP & SAP

| Topic Heading   | Detailed Explanation   |
|---|--|
| <b>Understanding Entity's RP Relationships &amp; Transactions</b>                 | <ol style="list-style-type: none"> <li>1. Auditor to inquire management regarding:               <ol style="list-style-type: none"> <li>a. Identity of entity's RP, changes from prior period.</li> <li>b. Nature of relationships between entity and RP.</li> <li>c. Type &amp; purpose of transactions with RP during the period.</li> </ol> </li> <li>2. Perform appropriate RAPs to obtain understanding whether management has established controls to:               <ol style="list-style-type: none"> <li>a. Identify, account for and disclose RP relationships &amp; transactions.</li> <li>b. Authorise &amp; approve significant transactions/arrangements with RP.</li> </ol> </li> </ol>   |
| <b>Identification of significant related party transaction outside business</b>   | <ol style="list-style-type: none"> <li>(i) Inspect the underlying contracts or agreements, if any, and evaluate whether:               <ol style="list-style-type: none"> <li>(1) The business rationale (or lack thereof) the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;</li> <li>(2) The terms of transactions are consistent with management's explanations; &amp;</li> <li>(3) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and</li> </ol> </li> <li>(ii) Obtain audit evidence that the transactions have been appropriately authorized and approved.</li> </ol> |
| <b>Maintaining Alertness for RP Information when reviewing records/ documents</b> | <p>Auditor should remain alert when inspecting records with respect to information indicating existence of RP relationships or transactions that were not previously identified or disclosed to auditor:</p> <ol style="list-style-type: none"> <li>a. Bank, legal and third party confirmations obtained as part of the auditor's procedures;</li> <li>b. Minutes of meetings of shareholders and of TCWG; and</li> <li>c. Such other records or documents considers necessary by auditor in circumstances of entity.</li> </ol>  |

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## Subsequent Events

| Topic Heading            | Detailed Explanation   |
|--------------------------|--|
| <b>Subsequent Events</b> | <ol style="list-style-type: none"> <li>(1) <b>EVENTS</b> - Events occurring between the date of the Financial Statements and the date of the Auditor's Report</li> <li>(2) <b>Facts A</b> – FACTS which become known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued</li> <li>(3) <b>Facts B</b> – FACTS which become known to the Auditor After the Financial Statements have been Issued.</li> </ol> |
|                          | <b>Auditor's responsibility</b>  |
|                          | <ol style="list-style-type: none"> <li>(1) To consider Events only if they require adjustment/ disclosure in FS.</li> <li>(2) To consider Facts only if they would have impacted the AR.</li> </ol>  |

# Standards on Auditing – Compact Book



| Topic Heading  | Detailed Explanation   |
|--|--|
| <b>Events Occurring Between FS date and the Date of the Auditor's Report</b>   | <ol style="list-style-type: none"> <li>(1) The auditor shall perform audit procedures to obtain SAAE to ensure that Adjusting events or Non-adjusting events have been identified.</li> <li>(2) In determining nature &amp; extent of audit procedures, auditor shall:               <ol style="list-style-type: none"> <li>(a) Understanding the procedures through which management has identified subsequent events.</li> <li>(b) Read minutes of management meetings that have been held after the date of the financial statements.</li> <li>(c) Read the entity's latest subsequent interim financial statements, if any.</li> <li>(d) If auditor identifies such events, the auditor should be determined whether each such event is appropriately reflected in the financial statements.</li> <li>(e) The auditor shall request the management to provide a Written Representation that all such events have been adjusted or disclosed.</li> </ol> </li> </ol>  |
| <b>Specific enquiries to be made from Management</b>   | <ol style="list-style-type: none"> <li>(1) Whether new commitments, borrowings or guarantees have been entered into.</li> <li>(2) Whether sales or acquisitions of assets have occurred or are planned.</li> <li>(3) Whether there have been increases in capital or issuance of debt instruments, such as the new issue of shares or debentures, or an agreement to merge or liquidate has been made or has been planned.</li> <li>(4) Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.</li> <li>(5) Whether there have been any developments regarding contingencies.</li> <li>(6) Whether any unusual accounting adjustments have been made or are contemplated.</li> <li>(7) Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.</li> <li>(8) Whether any events have occurred that are relevant to the recoverability of assets.</li> </ol>  |
| <b>Facts which become known to the auditor after the date of the Auditor's Report but the before the date the F.S are issued</b> | <ol style="list-style-type: none"> <li>(1) The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report.</li> <li>(2) However, if a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to revise the auditor's report, the auditor shall:               <ol style="list-style-type: none"> <li>(a) Discuss the matter with management.</li> <li>(b) Determine whether the financial statements need amendment and, if so,</li> <li>(c) Inquire how management intends to address the matter in the financial statements.</li> </ol> </li> <li>(3) If management amends the financial statements, the auditor shall:               <ol style="list-style-type: none"> <li>(a) Extend the audit procedures to the date of the new auditor's report; and</li> <li>(b) Provide a new auditor's report on the amended financial statements.</li> </ol> </li> <li>(4) When law, regulation or FRF does not prohibit management from restricting the amendment of FS to the effect of subsequent events, auditor is permitted to restrict the audit procedures on subsequent events to that amendment. In such case, the auditor shall:               <ol style="list-style-type: none"> <li>(a) Amend the audit report to include an additional date restricted to that amendment. (Dual Dating)</li> <li>(b) Provide a new or amended Audit Report that includes OMP that conveys that auditor's procedures on subsequent event are restricted solely to amendments of financial statements.</li> </ol> </li> </ol> |



| Topic Heading  | Detailed Explanation  |
|--|---|
| <b>Facts which become known to the auditor after the FS have been issued</b> | <ol style="list-style-type: none"> <li>(1) The auditor has no obligation to perform any audit procedures regarding such FS.</li> <li>(2) However, if a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:               <ol style="list-style-type: none"> <li>(a) Discuss the matter with management.</li> <li>(b) Determine whether the financial statements need amendment and, if so,</li> <li>(c) Inquire how management intends to address the matter in the FS.</li> </ol> </li> <li>(3) If the management amends the FS, the auditor shall:               <ol style="list-style-type: none"> <li>(a) Carry out the audit procedures necessary in the circumstances on the amendment.</li> <li>(b) Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation.</li> <li>(c) Extend the audit procedures to the date of the new auditor's report; and</li> <li>(d) Provide a new auditor's report on the amended financial statements.</li> <li>(e) In the amended auditor's report an EMP paragraph referring to a note to the FS that discussed the reason of amendment in FS, should be included.</li> </ol> </li> </ol> |

**SA  
570**

## Going Concern (Revised)

### Events or Conditions that cast significant doubt on the entity's ability to continue as a Going Concern

| Topic Heading    | Detailed Explanation  |
|------------------|---|
| <b>Financial</b> | <ol style="list-style-type: none"> <li>a) Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.</li> <li>b) Negative operating cash flows indicated by historical or prospective FS.</li> <li>c) Adverse key financial ratios.</li> <li>d) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.</li> <li>e) Change from credit to cash-on-delivery transactions with suppliers.</li> </ol> |
| <b>Operating</b> | <ol style="list-style-type: none"> <li>a) Loss of key management without replacement.</li> <li>b) Loss of a major market, key customer(s), franchise, license, or principal supplier(s).</li> <li>c) Labor difficulties.</li> <li>d) Shortages of important supplies.</li> <li>e) Emergence of a highly successful competitor.</li> </ol>   |
| <b>Other</b>     | <ol style="list-style-type: none"> <li>a) Non-compliance with capital or other statutory or regulatory requirements.</li> <li>b) Pending legal or regulatory proceedings against the entity.</li> </ol>   |

# Standards on Auditing – Compact Book



| Topic Heading | Detailed Explanation  |
|---------------|---|
|               | <ul style="list-style-type: none"> <li>c) Changes in law or regulation or government policy expected to adversely affect the entity.</li> <li>d) Uninsured or underinsured catastrophes when they occur.</li> </ul> |

## Requirements – RAP & SAP

| Topic Heading  | Detailed Explanation   |
|--|--|
| <b>Risk Assessment Procedures (RAP)</b>                          | <p>When performing RAP under SA 315:-</p> <ul style="list-style-type: none"> <li>1) The auditor shall consider whether events or conditions exist that cast significant doubt on the entity's ability to continue as a going concern.</li> <li>2) The auditor shall remain alert throughout the audit for such indications.</li> <li>3) The auditor shall also see whether Management has already performed a preliminary assessment of the entity's GCA.</li> </ul>   |
| <b>Audit Procedures When Events or Conditions Are Identified</b> | <p>If events or conditions have been identified that cast significant doubt on the entity's ability to continue as a going concern, the auditor shall perform additional audit procedures as follows:-</p> <ul style="list-style-type: none"> <li>(a) Where management has not yet performed a GCA assessment, requesting management to make it.</li> <li>(b) Evaluating management's plans for future actions, whether the outcome of these plans are feasible.</li> <li>(c) An analysis of the cash flow forecast if prepared by management: <ul style="list-style-type: none"> <li>(i) Evaluating the reliability of the underlying data to prepare forecast; and</li> <li>(ii) Determining whether there is adequate support for the assumptions.</li> </ul> </li> <li>(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.</li> <li>(e) Requesting Written Representations from management regarding their plans for future actions and the feasibility of these plans.</li> </ul> |

## Reporting Responsibility

| Topic Heading   | Detailed Explanation   |
|---|--|
| <b>Use of GCA Is Inappropriate</b>                                      | If the FS have been prepared using the GCA but, in the auditor's judgment, it is inappropriate, the auditor shall express an ADVERSE OPINION.  |
| <b>Use of GCA is Appropriate but a Material Uncertainty (MU) Exists</b> | <b>Case 1: Adequate Disclosure of a Material Uncertainty Is Made in the FS</b>   |
|   | If adequate disclosure is made about the MU in the Notes to the FS, the auditor shall express a CLEAN OPINION and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: <ul style="list-style-type: none"> <li>(a) Draw attention to the note in the FS that discloses the material uncertainty (MU); and</li> <li>(b) State that these events or conditions indicate that MU exists.</li> </ul> |
|   | <b>Case 2: Adequate Disclosure of a Material Uncertainty Is NOT Made in the FS</b>   |
|   | If adequate disclosure about the material uncertainty is not made in the FS, the auditor shall express a QO or AO, as appropriate.   |

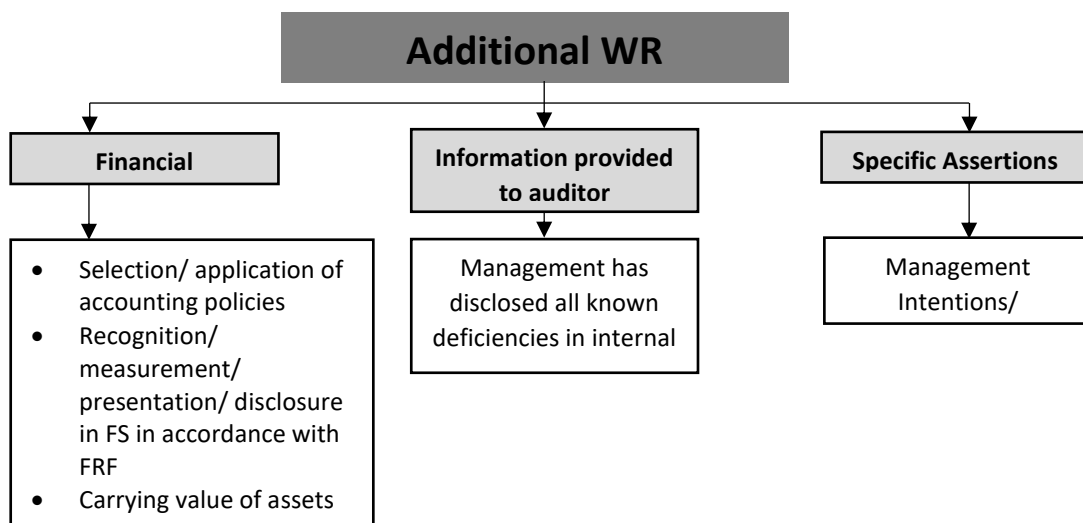


**SA  
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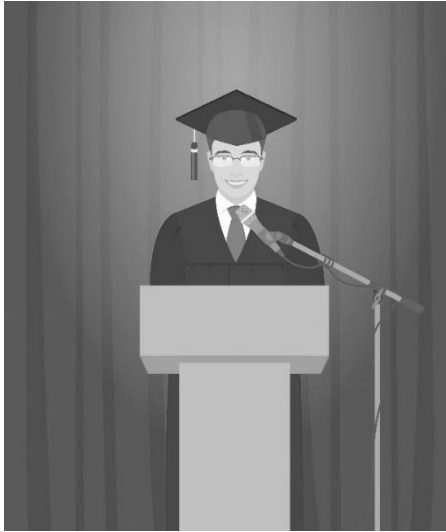
## Written Representation

| Topic Heading                            | Detailed Explanation   |
|--|--|
| <b>Meaning of Written Representation</b> | <b>A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.</b>  |
| <b>Basic elements of WR</b>              | <ol style="list-style-type: none"> <li>(1) It is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.</li> <li>(2) It does not include financial statements or supporting books and records.</li> <li>(3) The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of FS as per FRF.</li> <li>(4) The written representations shall be for all FS and period(s) referred to in the auditor's report.</li> </ol> |
| <b>WR as Audit Evidence</b>              | <ol style="list-style-type: none"> <li>1. WR are necessary audit evidence but not sufficient appropriate audit evidence.</li> <li>2. WR do not dilute auditor's responsibility to obtain other audit evidence for matters covered by WR.</li> </ol>  |
| <b>Management's refusal to give WR</b>   | <p>If management does not provide one or more of the requested written representations, the auditor shall-</p> <ol style="list-style-type: none"> <li>(i) discuss the matter with management;</li> <li>(ii) re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and</li> <li>(iii) take appropriate actions, including determining the possible effect on the opinion in the auditor's report. (Disclaimer of opinion)</li> </ol>          |

### Contents of Written Representations







## 600 Series

600 – 699

### Using the Work of Others

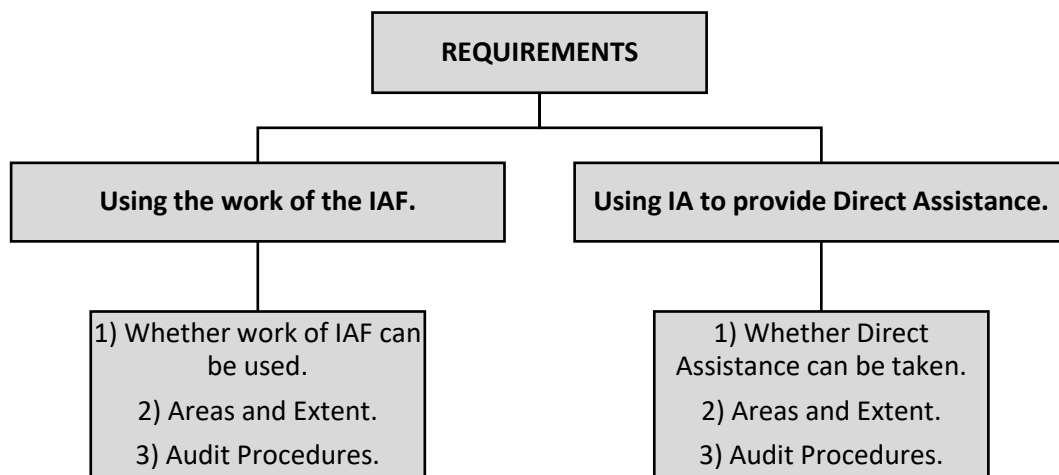
|        |   |
|--------|---|
| SA 600 | Using the Work of another Auditor (Excluded)    |
| SA 610 | Using the Work of an Internal Auditor (Revised) |
| SA 620 | Using the Work of an Expert (Excluded)          |



**SA  
610**

## Using the Work of an Internal Auditor (Revised)

| Topic Heading                             | Detailed Explanation  |
|---|---|
| <b>Pre-requisites for applying SA 610</b> | <ol style="list-style-type: none"> <li>1. The entity has an <b>INTERNAL AUDIT FUNCTION (IAF)</b> and</li> <li>2. The External Auditor expects to:-               <ol style="list-style-type: none"> <li>a) Use the work of the Internal Audit Function to modify the nature, timing and extent of his own audit procedures, or</li> <li>b) Use internal auditors to provide Direct Assistance.</li> </ol> </li> </ol> |



### Requirements: Part 1

#### Using the Work of Internal Audit Function (IAF)

| Topic Heading                                     | Detailed Explanation  |
|---|---|
| <b>Whether work of IAF can be used.</b>           | <ol style="list-style-type: none"> <li>(a) The extent to which the IAF's organizational status support the OBJECTIVITY of the internal auditors;</li> <li>(b) The level of COMPETENCE of the IAF; and</li> <li>(c) Whether the IAF applies a systematic and DISCIPLINED APPROACH including Quality Control.</li> </ol>  |
| <b>Nature and Extent of Work that can be used</b> | <p>Examples of work of the IAF that can be used by the external auditor:</p> <ol style="list-style-type: none"> <li>1. Testing of the operating effectiveness of controls.</li> <li>2. Substantive procedures involving limited judgment (Vouching).</li> <li>3. Observations of inventory counts.</li> <li>4. Testing of compliance with regulatory requirements.</li> </ol> |

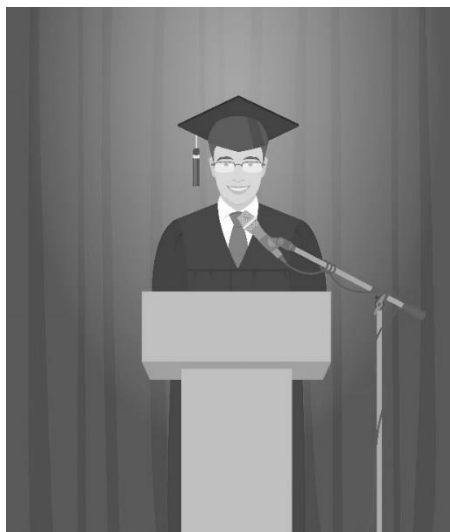
# Standards on Auditing – Compact Book



| Topic Heading  | Detailed Explanation   |
|--|--|
| <b>Audit Procedures when using the work of the IAF</b> | <p><b>Procedure 1:</b> The external auditor shall discuss the planned use of its work and coordinate with them.</p> <p><b>Procedure 2:</b> The external auditor shall read the REPORTS of the IAF and obtain an understanding of the nature and extent of audit procedures performed by them and the related findings.</p> <p><b>Procedure 3:</b> The external auditor shall perform sufficient audit procedures on the work of the IAF, including evaluating whether:</p> <ol style="list-style-type: none"> <li>The work of the function had been properly planned, performed, supervised, reviewed and documented;</li> <li>Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and</li> <li>Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed.</li> </ol> |

## Requirements: Part 2 Using Internal Auditors' Works to provide Direct Assistance

| Topic Heading  | Detailed Explanation   |
|--|--|
| <b>Whether Internal Auditors (IA) Can Be Used</b>                              | <p>The external auditor shall evaluate:-</p> <ol style="list-style-type: none"> <li>Existence of threats to OBJECTIVITY and</li> <li>Level of COMPETENCE of the internal auditors who will be providing such assistance.</li> </ol>  |
| <b>Nature and Extent of Work that Can Be Assigned to IA (Areas and Extent)</b> | <p>The external auditor shall not use internal auditors to provide direct assistance to perform procedures in following cases:</p> <ol style="list-style-type: none"> <li>When the Audit Procedure involves making significant judgments in the audit;</li> <li>When ROMM is High;</li> <li>When the Audit Procedure relates to work which has already been, or will be, reported to management/TCWG by the internal audit function (IAF).</li> </ol>  |
| <b>Audit Procedures when using IA</b>  | <p><b>Procedure 1:</b> Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:</p> <ol style="list-style-type: none"> <li>Obtain written agreement from the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work that internal auditor performs for the external auditor; and</li> <li>Obtain written agreement from the internal auditors that they will keep specific matters confidential.</li> </ol> <p><b>Procedure 2:</b> The external auditor shall DIRECT, SUPERVISE and REVIEW the work performed by internal auditors on the engagement in accordance with SA 220.</p> |



## 700 Series

700 – 799

### Audit Conclusion & Reporting

|        |  |
|--------|--|
| SA 700 | Forming an Opinion and Reporting on Financial Statements (Revised) (In Audit Report Chapter)                                 |
| SA 701 | Communicating Key Audit Matters in the Independent Auditor's Report (NEW) (In Audit Report Chapter)                          |
| SA 705 | Modifications to the opinion in the Independent Auditor's Report (Revised) (In Audit Report Chapter)                         |
| SA 706 | Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (In Audit Report Chapter)      |
| SA 710 | Comparatives   |
| SA 720 | The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statement (Excluded) |



|                   |                     |
|-------------------|---------------------|
| <b>SA<br/>710</b> | <b>Comparatives</b> |
|-------------------|---------------------|

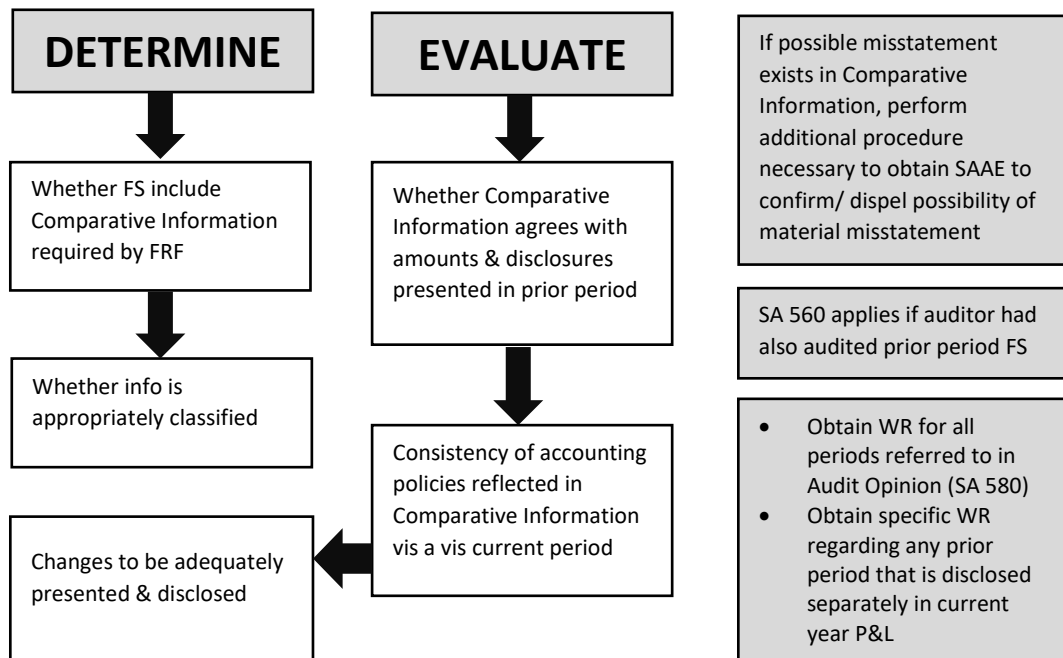
## Definition

### Corresponding Figures

**Corresponding Figures** are integral part of current period FS to be read only in relation to amounts & disclosures relating to current period.

Auditor's opinion on FS refers to current period only.

## Audit Objectives and Audit Procedures





## Siddharth Agarwal Classes

| Topic Heading                                     | Detailed Explanation  |
|---|---|
| <b>Audit Reporting – Corresponding Figures</b>    | Audit opinion not to refer to corresponding figures, EXCEPT:<br><ol style="list-style-type: none"><li>1. If Auditor's report in prior period FS was modified and the subject matter is still unresolved, then Modify current audit report also.</li><li>2. If Auditor obtains audit evidence regarding existence of material misstatement in prior period FS on which unmodified opinion was issued, then Express QO/AO on current FS wrt Corresponding figures if misstatement has not been dealt as required by applicable FRF.</li></ol> |
| <b>Prior Period FS Audited by Another Auditor</b> | If L&R permits reference to predecessor auditor's report on corresponding Figs, current audit report to include Other Matter para:<br><ol style="list-style-type: none"><li>a. FS of prior period were audited by another auditor.</li><li>b. Type of opinion expressed by predecessor auditor (reasons for modification, if any).</li><li>c. Date of that report.</li></ol>  |
| <b>Prior Period FS are Unaudited</b>              | <ol style="list-style-type: none"><li>1. Include Other Matters para:<ol style="list-style-type: none"><li>a. That corresponding figures are unaudited.</li></ol></li><li>2. 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.</li></ol>  |