

Last Mile Referencer for

AUDITING



The Institute of Chartered Accountants of India

(Setup by an Act of Parliament)

Board of Studies (Academic)

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Saransh - Last Mile Referencer for Auditing

While due care has been taken in preparing this booklet, if any errors or omissions are noticed, the same may be brought to the notice of the Director, BoS. The Council of the Institute is not responsible in any way for the correctness or otherwise of the matter published herein.

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Board of Studies (Academic)
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Board of Studies (Academic), the student wing of the Institute, does not leave any stone unturned in providing best-in-class services to its students. It imparts quality academic education through its value-added study materials, wherein concepts are explained in lucid language. Illustrations and Test Your Knowledge Questions contained therein facilitate enhanced understanding and application of concepts learnt. Booklet on MCQs & Case Scenarios contain a rich bank of MCQs and Case Scenarios to hone the analytical skills of students, by applying the concepts learnt in problem solving. Revision Test Papers contain updates and Q & A to help students update themselves with the latest developments before each examination and revise the concepts and provisions by solving questions contained therein. Suggested Answers containing the ideal manner of answering questions set at examination also helps students revise for the forthcoming examination. Mock Test Papers help students assess their level of preparedness before each examination. BoS (Academic) also conducts live virtual classes through eminent faculty for its students across the length and breadth of the country.

To reach out to its students, the BoS (Academic) has also been publishing subject-specific capsules in its monthly Students' Journal "The Chartered Accountant Student" since the year 2017 for facilitating effective revision of concepts dealt with in different topics of each subject at the Foundation, Intermediate and Final levels of the chartered accountancy course. Each issue of the journal includes a capsule relating to specific topic(s) in one subject at each of the three levels. In these capsules, the concepts and provisions are presented in attractive colours in the form of tables, diagrams and flow charts for facilitating easy retention and quick revision of topics.

The BoS (Academic) is now coming out with a comprehensive booklet 'Saransh - Last Mile Referencer for Auditing,' In Auditing, the significant features of the Engagement and Quality Control Standards included within the scope of syllabi at intermediate and final levels are highlighted. The important concepts of SQC 1 and Standards on Auditing covered in syllabi have been explained precisely. Students would be able to grasp these significant concepts quickly with the help of this booklet.

Happy Reading!

Message of Key ICAI Office Bearers



CA. (Dr.) Debashis Mitra President, ICAI

The Board of Studies (Academic) of ICAI has always been at the forefront of providing quality education to aspiring CA students and handholding them in preparing for their exams. Saransh — Last Mile Referencer is a step in that direction. This pack of 3 booklets on Accounting, Auditing & Cost Management and Strategic Decision Making covers significant concepts of each chapter in precise form. This will not only help students for their reference for examinations but also Members can use it for their practice reference.



CA. Aniket S. Talati Vice-President, ICAI

It has always been the endeavour of ICAI to provide updated information to its student to keep them abreast about the latest happenings in the accounting and related fields. The Board of Studies (Academic), the academic wing of ICAI, has come up with a series of booklets 'Saransh – Last Mile Referencer' with key points of different subjects. This will help facilitate effective revision of concepts in each subject.



CA. Dayaniwas Sharma Chairman, Board of Studies (Academic)

Saransh — Last Mile Referencer is a compilation of capsules on different subjects of Foundation, Intermediate and Final levels of the chartered accountancy course. This series of booklets consolidates all significant topics of Accounting including Accounting Standards & Ind AS, Auditing with Auditing Standards and Cost Management and Strategic Decision Making at one place by capturing the key points. The concepts and provisions presented in attractive colours in the form of tables, diagrams and flow charts will facilitate quick revision of topics and easy retention.



CA. Vishal Doshi Vice-Chairman, Board of Studies (Academic)

Among the many best-in-class services that the Board of Studies (Academic) provides to its students, Saransh — Last Mile Referencer is another initiative in that direction. These booklets on different subjects have been provided in a concise and precise form. It will facilitate understanding of the concepts better to students and grasp the essence of the subject. These capsules will enhance of level of preparedness before the examinations.



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AUDITING

Engagement & Quality Control Standards

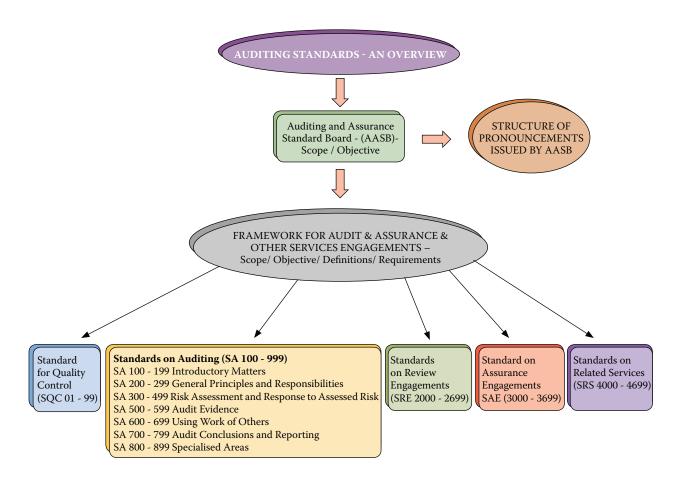
International Auditing and Assurance Standards Board (IAASB):

- The IFAC Board has established the IAASB to develop and issue, in the public interest and under its own authority, high quality auditing standards for use around the world.
- The IAASB functions as an independent standard-setting body under the auspices of IFAC.

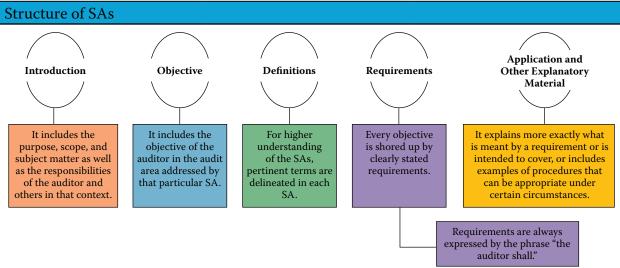
Auditing and Assurance Standards Board (AASB):

- ICAI is a member of the IFAC and is committed to work towards the implementation of the guidelines issued by the IFAC.
- ICAI constituted the AASB to review the existing auditing practices in India and to develop Engagement and Quality Control Standards so that these may be issued by the Council of the Institute.

Diagrammatic Representation of the Structure of Standards Under the New Preface



Procedure for issuing SAs 2. In the preparation of SAs, the AASB is assisted by Study Groups constituted to consider 1. The AASB determines the specific subjects. In the formation of Study broad areas in which the Groups, provision is made for participation of SAs need to be formulated a cross-section of members of the Institute. and the priority in regard to the selection thereof. 4. After taking into consideration 3. On the basis of the work of the the comments received, the Study Groups, an exposure draft of draft of the proposed SA is the proposed SA is prepared by the finalised by the AASB and Committee and issued for comments by submitted to the Council of the members of the Institute. Institute. 5. The Council of the Institute considers the final draft of the proposed SA, and, if necessary, modifies the same in consultation with the AASB. The SA is then issued under the authority of the Council. Structure of SAs



Compliance with the SAs:

While discharging their attest function, it is the duty of the members of the Institute to ensure that the SAs are followed in the audit of financial information covered by their audit reports.

If for any reason a member has not been able to perform an audit in accordance with the SAs, his report should draw attention to the material departures therefrom. Auditors are expected to follow SAs in the audits commencing on or after the date specified in the Standard. Further, compliance of SAs are mandatory requirement as per the Companies Act, 2013.

Linkage between SAs and Disciplinary Proceedings: The SAs (as well as other statements on auditing) represent the generally accepted procedure(s) of audit. As such, a member who does not perform his audit in accordance with these statements and fails to disclose the material departures there from, becomes liable to the disciplinary proceedings of the Institute. Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if:

he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity. he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties. he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

Clause 5 of Part I of the Second Schedule

Clause 7 of Part I of the Second Schedule

Clause (9) of Part I of the Second Schedule

Engagement & Quality Control Standards

SQC

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

Introduction

Leadership responsibilities for quality within the firm

Ethical Requirements Acceptance & Continuance of client relationships & specific engagements

Human Resources **Engagement** performance

Monitoring

The purpose this is to establish standards provide guidance regarding a firm's responsibility for its system of quality control for audits & reviews historical of financial information & for other assurance & related service engagements.

2. The firm should establish a system of quality control to provide it with reasonable assurance that the firm & its personnel comply with professional standards & regulatory & legal requirements & that the report issued by the firm/engagement partner(s) are appropriate in the circumstances.

3. The firm's system of quality control should include policies & procedures addressing each of the six elements of such system.

Firm's policies & procedures should:

1. Provide it with reasonable assurance that the firm & its personnel comply with ethical requirements of:

- i) Integrity;
- ii) Objectivity;
- iii) Professional competence & due care;
- iv) Confidentiality;
- v) Professional behaviour.
- 2. Emphasise the fundamental principles which are reinforced in particular by the leadership of firm, education & training, monitoring & process for dealing with non compliance.
- 3. Provide it with reasonable assurance that the firm, its personnel, experts, network firms maintain independence to:
 - i) Communicate
- requirements to management.

 ii) Identify & evaluate circumstances & relationships that create threats to independence & take appropriate action.
- 4. Provide it with reasonable assurance that it is notified of breaches of independence requirement & to enable it to take appropriate action.
- 1. Firm should promote internal culture recognising quality as essential in performing engagement.
 2. Firm's CEO (or equivalent) or firm's managing partner to assume ultimate responsibility for firms system of quality control.
- 3. If some other person(s) is assigned such operational responsibility, he should have sufficient & appropriate experience, ability & authority to assume that responsibility.

- 1. Firm's policies & procedures should provide it with reasonable assurance that it will undertake or continue relationships & engagements only when it:
- a) has considered the integrity of the client.
- b) is competent & has capabilities, time & resources.
- c) can comply with ethical requirements.

2. When the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, the firms policies & procedures should consider:

- a) the professional & legal responsibilities
- b) the possibility of withdrawing from the engagement & client relationship.
- 3. Policies & procedures for withdrawal include:
 - a) discussing with appropriate level for appropriate action & the reasons for withdrawal.
 - b) c o n s i d e r i n g professional, legal or regulatory requirements.
- c) documenting significant issues, consultations, conclusions & the basis for conclusion.

- 1. Firm's policies & procedures should provide it with reasonable assurance that:
 - a) it has sufficient personnel with the capabilities, competence, commitment to ethical principles.
 - b) enable the firm to issue appropriate reports.
- 2. Firm's performance evaluation, compensation & promotion procedures give due recognition & reward to the development & maintenance of competence & commitment to ethical principles.
- The firm should assign responsibility for each engagement to an engagement partner.
 The firm should also assign appropriate staff with capabilities, competence & time to perform engagements.
- Firm's policies & procedures should provide it with reasonable assurance that:
 a) engagements are performed in
- a) engagements are performed in accordance with professional standards, legal & regulatory requirements.
- b) that the firm issue appropriate report.

 2. Firm should establish policies & procedures w.r.t.:
- a) consultation
- b) resolving differences of Opinion.
- c) engagement quality control review & its documentation.
- d) confidentiality, safe custody, accessibility & retrieval, retention, ownership of engagement documentation.
- 1. Firm's policies & procedures should provide it with reasonable assurance that:
 - a) the policies & procedures relating to the system of quality control are relevant, adequate, operating effectively.
 - b) it includes an ongoing consideration & evaluation of firm's system of quality control, including a periodic inspection of a selection of completed engagements.
- 2. Firm should evaluate the deficiencies noted as a result of monitoring process & should communicate to relevant engagement partners & other appropriate personnel.
- partners & other appropriate personnel.
 3. Firm should also design policies & procedures to appropriately address the complaints & allegations.

Documentation

Firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

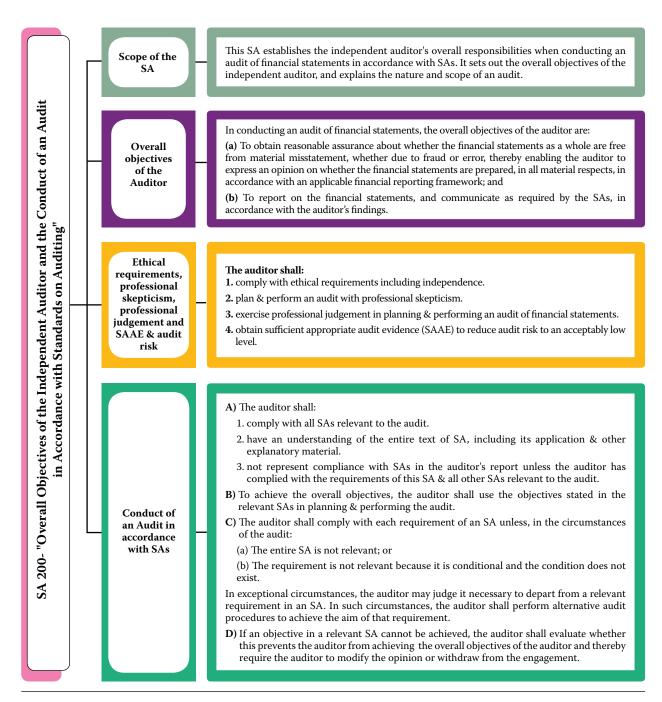
Factors to consider when determining the form and content of documentation for the same are:

- The s ze of the firm and the number of offices.
- The d gree of authority both personnel and offices have.
- The n ture and complexity of the firm's practice and organization.

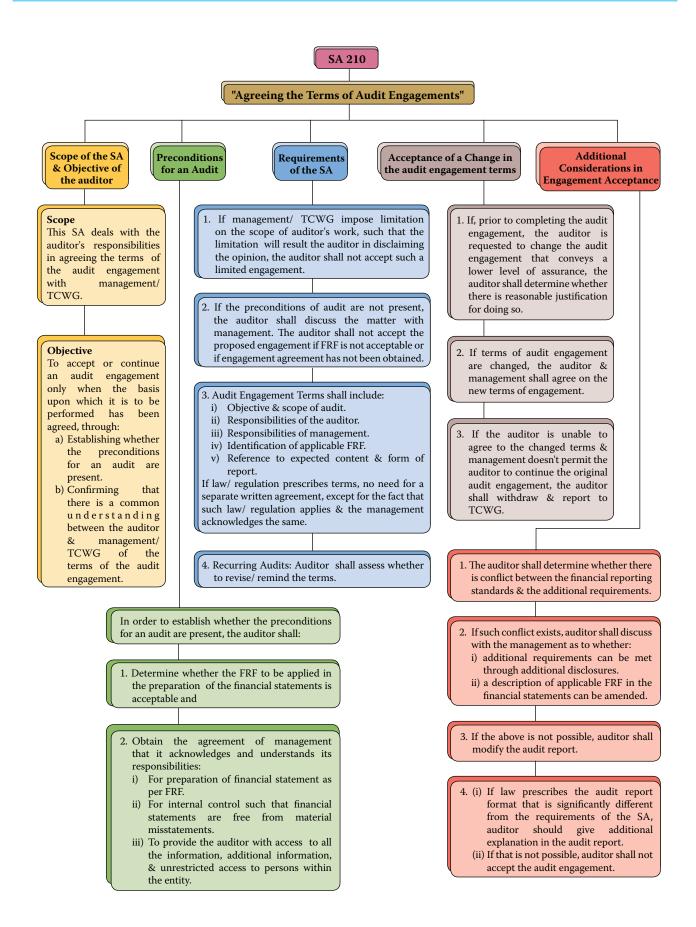
The firm retains this documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

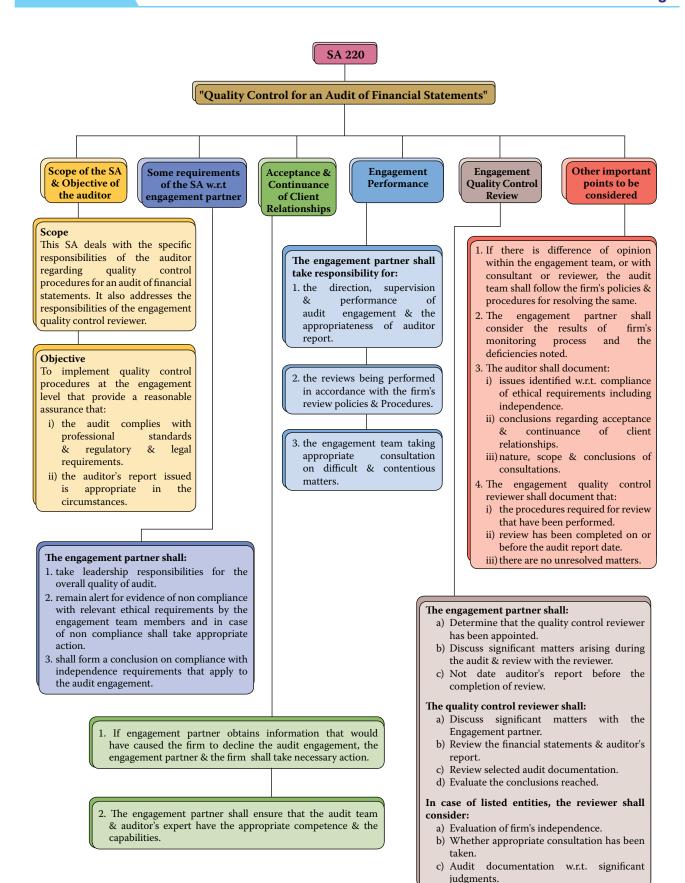
Auditing

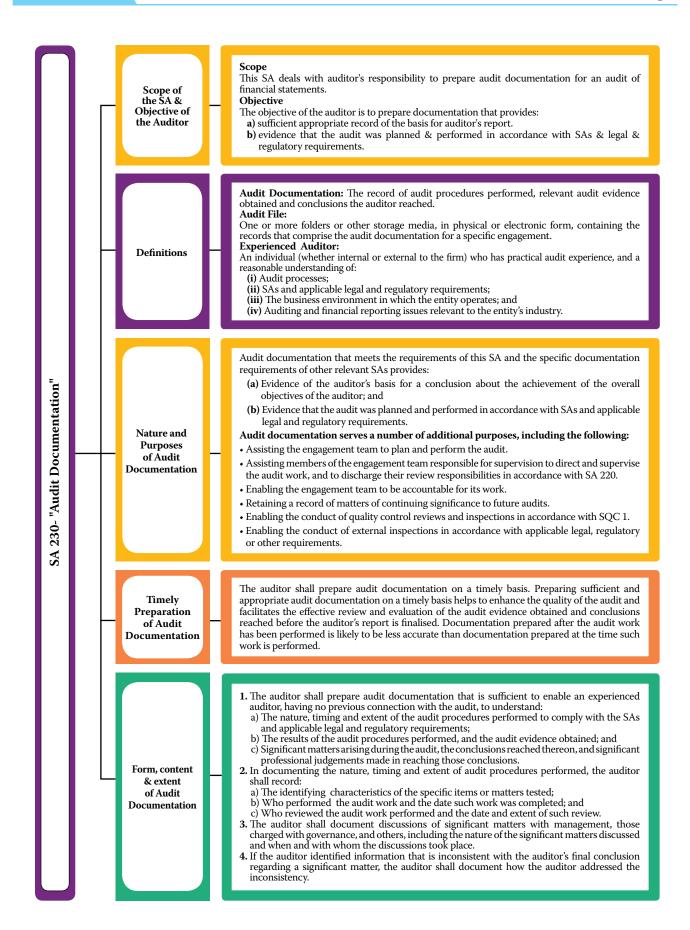
SA 200 - 299 General Principles and Responsibilities

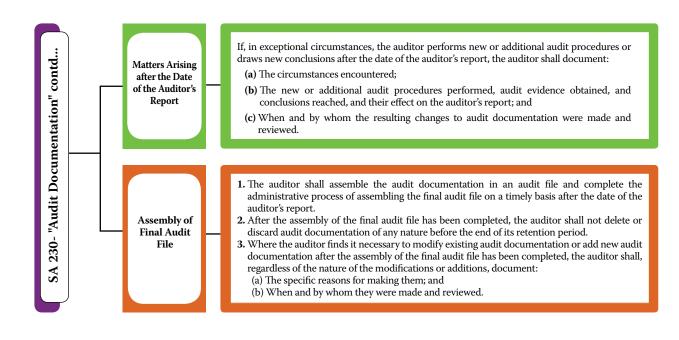


"The more that you read, the more things you will know, the more that you learn, the more places you'll go." —Dr. Seuss











This SA deals with auditor's responsibilities relating to fraud in an audit of financial statements. It expands on how SA 315 & SA 330 are to be applied in relation to ROMM due to fraud. The objectives of the auditor are: Scope of the SA (a) To identify and assess the risks of material misstatement in the financial statements due & Objective of to fraud; the Auditor (b) To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; (c) To respond appropriately to identified or suspected fraud. 240- " The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" 1. Misstatements in the financial statements can arise from either fraud or error. 2. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. 3. Although fraud is a broad legal concept, for the purposes of the SAs, the auditor is concerned Characteristics with fraud that causes a material misstatement in the financial statements of Fraud 4. Two types of intentional misstatements are relevant to the auditor-misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. 5. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred. In accordance with SA 200, the auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. Unless the auditor has reason to believe the contrary, the auditor may accept records and Professional documents as genuine. Skepticism Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies. SA 315 requires a discussion among the engagement team members and a determination by the engagement partner of matters which are to be communicated to those team members not involved in the discussion. Discussion This discussion shall place particular emphasis on how and where the entity's financial Among the Engagement statements may be susceptible to material misstatement due to fraud, including how fraud Team might occur. The discussion shall occur notwithstanding the engagement team members' beliefs that management and those charged with governance are honest and have integrity. Risk When performing risk assessment procedures and related activities to obtain an understanding Assessment of the entity and its environment, including the entity's internal control, required by SA 315, **Procedures** the auditor shall perform the specified procedures to obtain information for use in identifying and Related the risks of material misstatement due to fraud. Activities In accordance with SA 315, the auditor shall identify and assess the risks of material Identification misstatement due to fraud at the financial statement level, and at the assertion level for and classes of transactions, account balances and disclosures. Assessment When identifying and assessing the risks of material misstatement due to fraud, the of the Risks auditor shall, based on a presumption that there are risks of fraud in revenue recognition, of Material evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Misstatement The auditor shall treat those assessed risks of material misstatement due to fraud as Due to Fraud

Responses to the Assessed Risks of Material Misstatement Due to Fraud-Overall Responses In accordance with SA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level.

In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall:

- (a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement;
- (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and
- (c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures.

Audit
Procedures
Responsive to
Assessed Risks
of Material
Misstatement
Due to Fraud at
the Assertion
Level

In accordance with SA 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level.

Evaluation of Audit Evidence The auditor shall evaluate whether analytical procedures that are performed when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's understanding of the entity and its environment indicate a previously unrecognized risk of material misstatement due to fraud.

When the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud.

If there is such an indication, the auditor shall evaluate the implications of the misstatement in relation to other aspects of the audit.

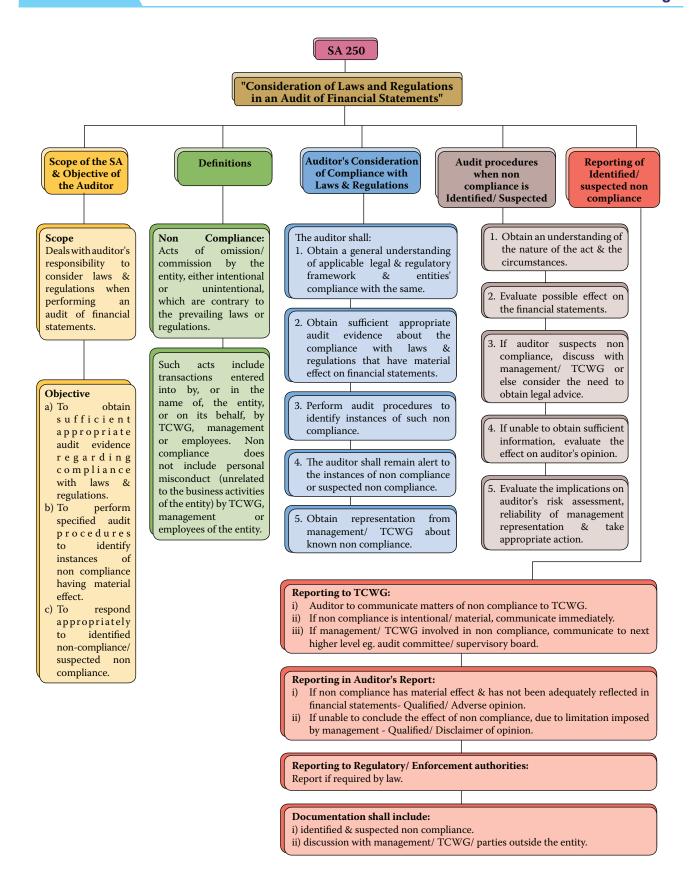
If the auditor identifies a misstatement and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud.

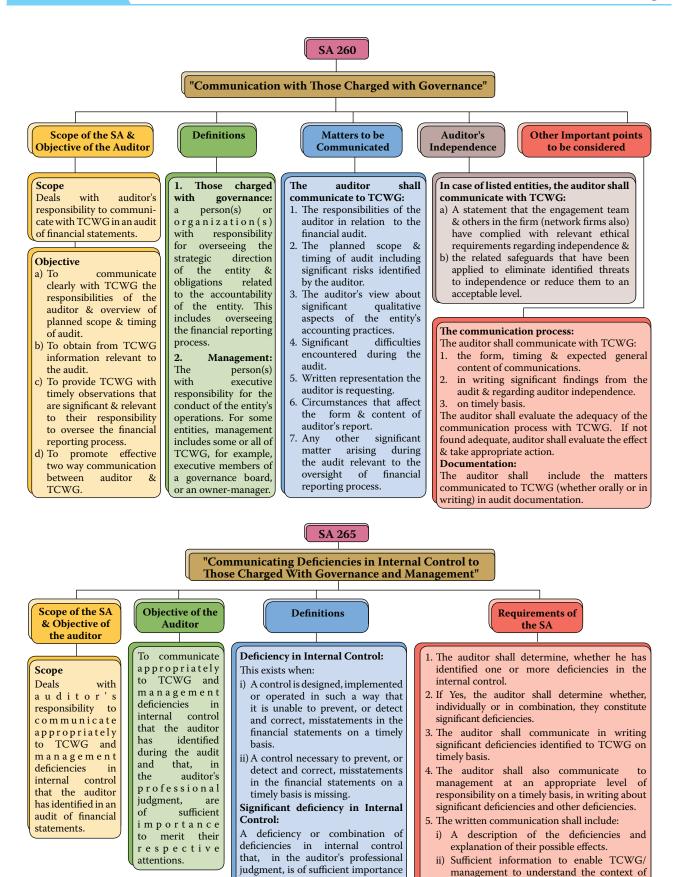
The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud, the auditor shall evaluate the implications for the audit.

Auditor Unable to Continue the Engagement If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall:

- (a) Determine the professional and legal responsibilities applicable in the circumstances.
- (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- (c) If the auditor withdraws:
 - (i) Discuss with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the reasons for the withdrawal; and
 - (ii) Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment.

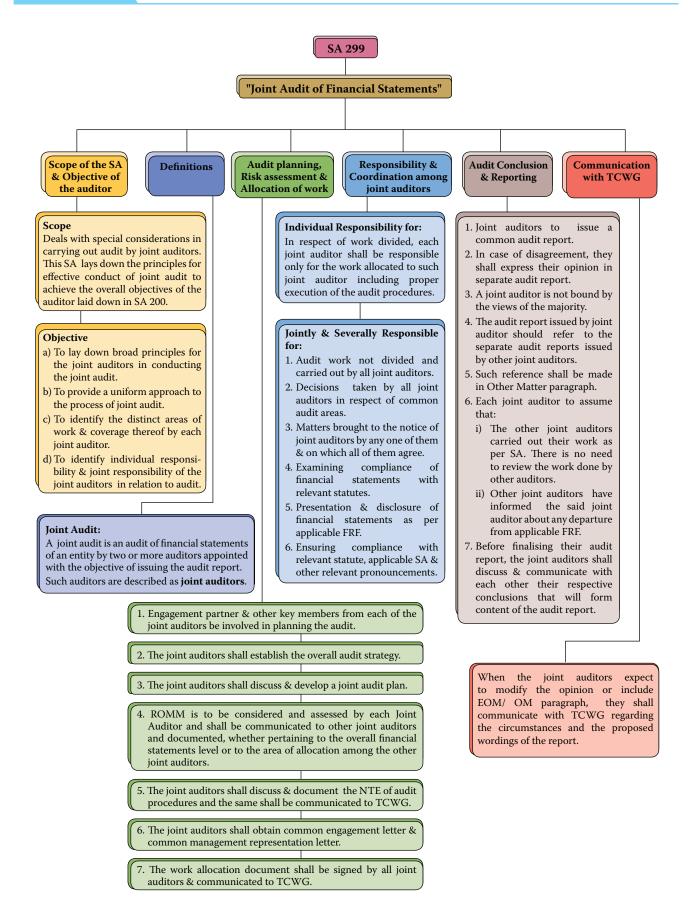




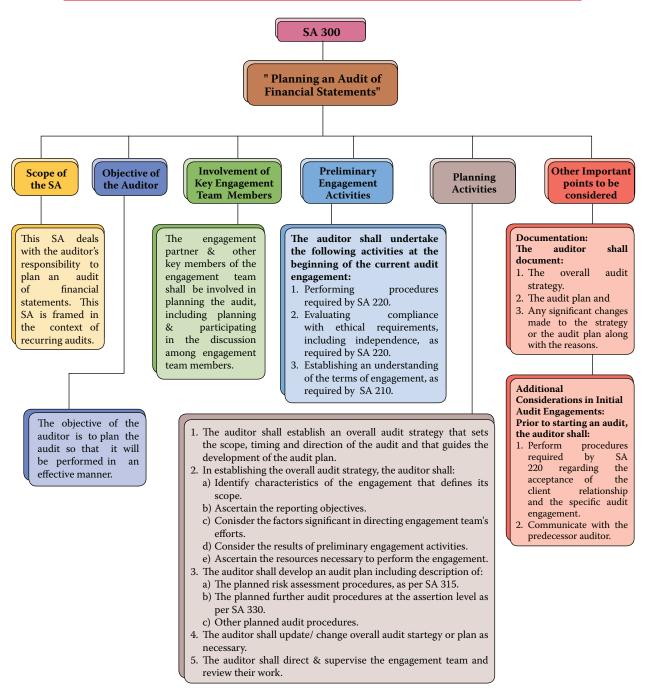
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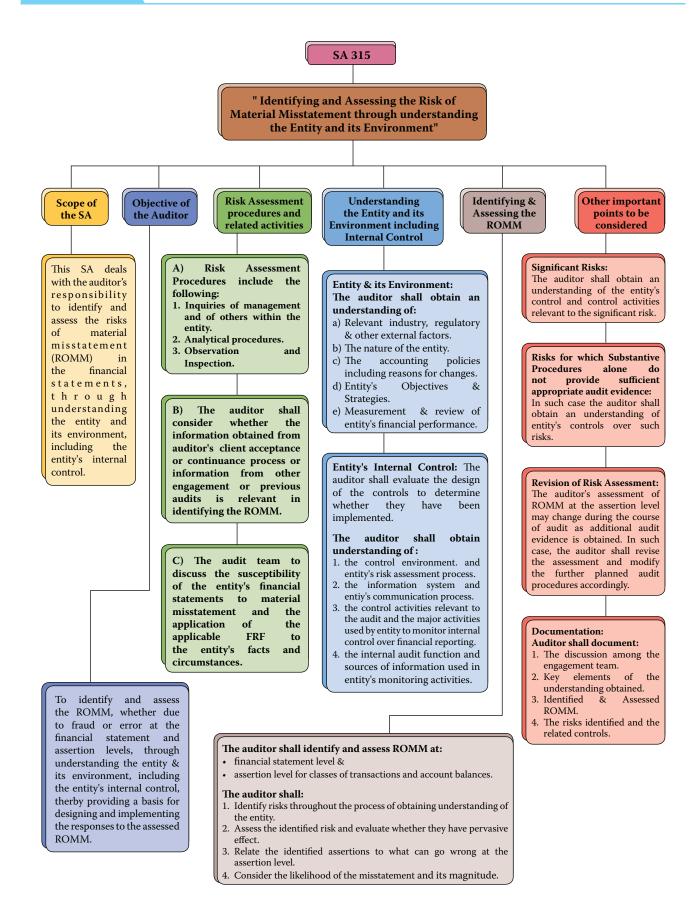
the communication.

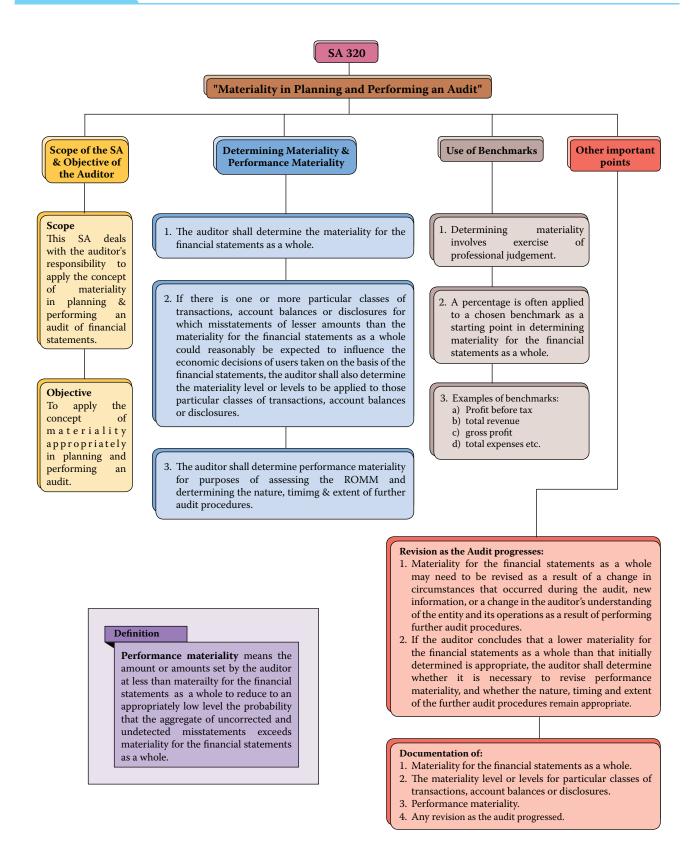
to merit the attention of TCWG.



SA 300 - 499: Risk Assessment and Response to Assessed Risks







SA 330 "The Auditor's Responses to Assessed Risks" Scope of the SA Other important Requirements Substantive Test of & Objective of points of SA controls procedures the Auditor Scope A) The auditor shall design 1. Irrespective of the assessed Overall Responses: The This SA deals auditor shall design & & perform test of controls ROMM, auditor shall with the auditor's implement overall responses when: perform substantive responsibility 1. the auditor expects that procedures. to address the assessed the controls are operating to design and ROMM at the financial 2. Auditor shall consider effectively or whether implement statement level. external responses 2. Substantive procedures confirmation are to be ROMM identified alone cannot provide performed as Substantive audit procedures. sufficient appropriate audit & assessed by Audit **Procedures** the auditor in evidence at the assertion 3. Auditor shall perform Assessed **ROMM** at substantive procedures related to financial accordance level. Assertion Level: with SA 315 B) The auditor shall perform The auditor shall design in a financial statement closing process other audit procedures along & perform further audit statement audit. and those responsive to with inquiry & determine procedures whose nature, significant risks. whether the controls to be timing & extent are based 4. When substantive tested depend upon indirect on & are responsive to the procedures are performed controls. assessed ROMM at the at an interim date, the Objective C) The auditor shall test assertion level. auditor shall cover the obtain To controls for a particular time sufficient remianing period also. or throughout the period. 5. If misstatements that the appropriate audit D) The auditor may use audit auditor did not expect evidence about In designing Further Audit evidence obtained in previous the assessed when assessing ROMM Procedures, the auditor ROMM, through audits after considering are detected at an interim shall: continuing relevance. designing date, the auditor shall & a) Consider the reasons implementing evaluate whether E) The auditor shall test the for the assessment given related assessment of risk appropriate controls for significant risk in to the ROMM at the responses & planned substantive current period. assertion level for each those risks. procedures covering the class of transactions, F) When deviations from remaining period need to be account balance and controls are detected, the modified. disclosure. auditor shall make specific b) Obtain more persuasive inquires to understand these matters & their potential audit evidence because of a higher assessment of consequences. risk. **Definition Substantive Procedure:** 1. The auditor shall perform audit procedures to evaluate An audit procedure designed to detect material the adequacy of presentation & disclosures made in the misstatements at the assertion level. It comprises of: financial statements. 2. The auditor shall evaluate the sufficiency & 1. Test of details (of classes of transactions, account

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balances, & disclosures), &

Test of Controls:

2. Substantive analytical procedures.

An audit procedure designed to evaluate operating

effectiveness of controls in preventing, or detecting and

correcting, material misstatements at the assertion level.

appropriateness of audit evidence.

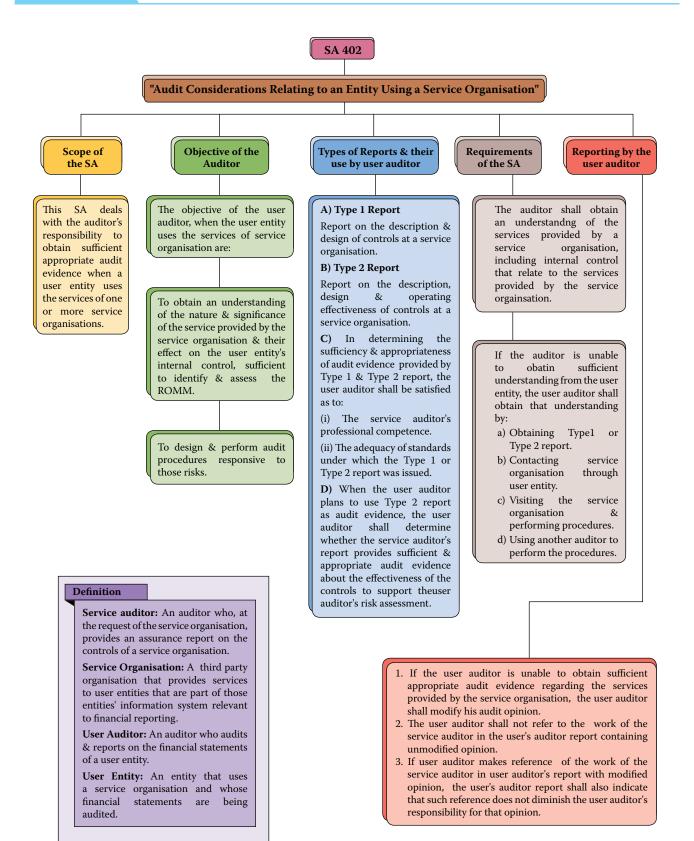
c) the results of audit procedures.

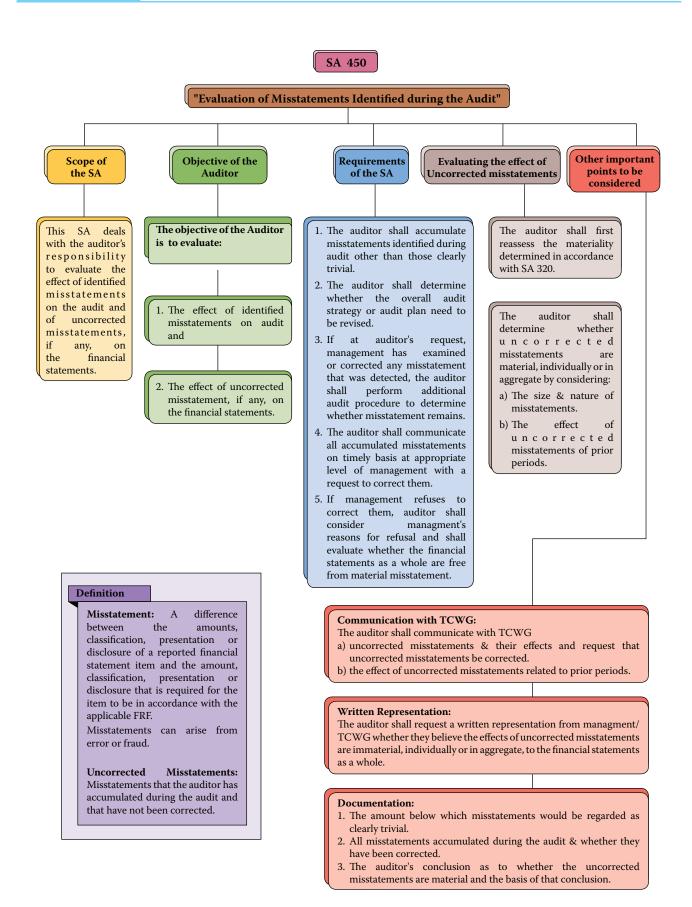
a) the overall responses and the nature , timing, extent of further audit procedures performed.

b) the linkage of those procedures with assessed risks

3. The auditor shall document:

at the assertion level.





SA 500 - 599: Audit Evidence

SA 500 - "Audit Evidence"

Scope of the SA

This SA deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to

base the auditor's opinion. This SA is applicable to all the audit evidence obtained during course of audit.

Objective of the auditor

design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base auditor's opinion.

Information to be used as audit evidence

The auditor shall consider the relevance and reliability of the information to be used as audit evidence.

When information from management expert is used, the auditor shall evaluate the competence, objectivity of the expert, appropriateness of the expert's work.

When using information produced by the entity, the auditor shall evaluate the reliability, completeness, accuracy of the information.

Audit procedures to obtain audit evidence

Audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by

1. R i s Assessment procedures

performing:

2. Further audit procedures comprising of : Test of controls and Substantive procedures

Inconsistency in or doubts over reliability of audit evidence

> The auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter and shall consider the effect of the matter, if any, on other aspects of the audit.

Definition

Audit Evidence: Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. It includes both information contained in the accounting records underlying the financial statements and other information.

Appropriateness: It is the measure of quality of audit evidence.

Sufficieny: It is the measure of quantity of audit evidence.

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

Scope of the SA

auditor in

evidence

Objective of the auditor

Inventory

a) If inventory is material, obtain evidence for existence and condition of inventory

- 1.Attendance at physical inventory counting.
- 2.Performing audit procedures over the entity's final inventory records.
- b) If inventory counting conducted at date other than the date of financial statements. perform additional procedures with respect to inventory between count date and date of financial statements.
- c) If auditor is unable to attend the physical inventory counting due to unforeseen circumstances, auditor to make/ observe some physical count on alternate date and perform audit procedures on intervening transactions.
- d) If attendance at inventory count is impracticable, auditor to perform alternate procedures. If it is not possible to do so, modify the opinion.
- e) When inventory is under custody of third party, request confirmation from third party and perform inspection and other

Litigations & Claims

- a) Auditor to perform audit procedures to identify litigation and claims by:
 - 1.Inquiry of management.
 - 2.Reviewing minutes meetings.
 - 3.Reviewing legal expense accounts.
- b) If auditor assesses risk of material misstatement, seek direct communication with entity's external legal counsel.
- c) If auditor is unable to communicate with the external legal counsel, modify the opinion as per SA 705.
- d) Obtain Written Representation that all known actual or possible litigation and claims have been disclosed to the auditor and appropriately accounted for as per applicable FRF.

Segment Information

Auditor to obtain audit evidence regarding presentation and disclosure segment information in accordance with applicable FRF

- 1. Understanding segment information
- analytical

To obtain sufficient and appropriate audit evidence regarding:

This SA deals with specific

considerations by the

sufficient appropriate audit

to inventory, litigation

and claims and segment

information in an audit of

financial statements.

obtaining

with respect

- 1. Existence and condition of inventory
- 2. Completness of litigation and claims involving the entity.
- 3. Presentation and disclosure of segment information in accordance with applicable FRF.

the methods used by the management in determining

2. Performing procedures.

SA 505 - "External Confirmations"

Scope of the SA & Objective of the auditor Scope This SA deals with auditor's use of external

confirmation procedures to obtain audit evidence.

Objective

design and perform external confirmation procedures to obtain relevant and reliable audit evidence.

External Confirmation

Determining the information to be confirmed/

Procedures

Selecting the appropriate confirming party.

requested.

- 3. Designing the confirmation requests.
- 4. Sending the requests, including follow-up requests.

Management's refusal to allow the auditor to send a confirmation request

- 1. Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness
- 2. Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and
- 3. Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

If management's refusal unreasonable, then communicate with TCWG and consider the implications on audit and auditor's opinion.

Results of the External Confirmation procedures

A) Reliability of responses to confirmation requests: If auditor has doubt about reliability of response, auditor to obtain further audit evidence. If auditor

determines response is not reliable, auditor to evaluate the implications on the assessment of risk of material misstatement.

- B) Non Response: Auditor shall perform alternative audit procedures.
- C) When a response to positive confirmation is necessary and the same is not received: Determine the implications on the audit and the auditors opinion.
- D) Exception: Auditor shall investigate exceptions to determine whether or not they are indicative of misstatement.
- E) Negative Confirmation: Auditor to use negative confirmation as sole substantive audit procedure when:
- 1. Assessed Risk of Material misstatement is low and relevant controls are effective.
- 2. The population comprise of large number of small, homogeneous transactions.
- 3. A very low exception rate is expected.
- 4.The auditor is not aware of circumstances that would cause recipients of negative confirmation requests to disregard such requests.

SA 510 - "Initial Audit Engagements- Opening Balances"

Scope of the SA

This SA deals auditor's responsibilities relating to opening balances when conducting an initial audit engagement.

Objective of the auditor

To obtain sufficient appropriate evidence about:

- 1. Whether opening balances contain misstatements that materially affect the current period's financial statements.
- 2. Whether appropriate accounting policies are consistently applied and any change thereto has been properly accounted for. presented and disclosed.

Audit Procedures

Opening Balances: The auditor shall:

- 1. Read the most recent financial statements and predecessor's auditor's report.
- 2. Determine whether prior period's closing balance has been correctly brought forward.
- 3. Determine whether the opening balances reflect appropriate accounting policies.
- 4. Perform audit procedures on opening balances.
- 5. If current period financial statements are misstated due to misstatement in opening balances, communicate with management TCWG.

Consistency of Accounting Policies:

Obtain audit

evidence as to whether the accounting policies are consistently applied and in case of any changes, whether properly accounted for, presented and disclosed.

Relevant Information Predecessor's

modification in predecessor auditor's report, evaluate the effect of the matter giving rise to such modification with respect to current period's financial

statements.

Auditor's

Report:

Audit Conclusion and reporting

Opening Balances:

1. If auditor is unable to obtain audit evidence regarding opening balances- Qualified/ disclaimer of opinion.

2.If auditor concludes opening balances contain misstatement, not properly presented/ disclosed-Qualified/ Adverse Opinion.

Consistency of Accounting Policies:

If auditor concludes that accounting policies are not consistently applied in relation to opening balances or changes are not properly accounted for- Qualified/ Adverse Opinion.

Modification to the opinion in the predecessor's auditor's report:

If the modification is relevant and material to the current period's financial statements, auditor shall modify the current period audit report.

SA 520 "Analytical Procedures"

Scope of the SA & Objective of the auditor

Scope

This SA deals with auditor's use of analytical procedures as substantive procedures and as procedures near the end of audit that assist the auditor when forming an overall conclusion on the financial statements.

Objective

- To obtain relevant & reliable audit evidence when using substantive analytical procedures.
- 2. To design and perform analytical procedures near the end of audit.

Substantive Analytical Procedures

While designing and performing substantive analytical procedures, the auditor shall:

- 1. Determine suitability of analytical procedure for given assertions.
- 2. Evaluate reliability of Data.
- 3. Develop an expectation of recorded amounts.
- 4. Determine the amount of acceptable difference.

Analytical procedures that assist when forming an overall conclusion

The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Investigating results of analytical procedures

If auditor finds fluctuations or relationship that are inconsistent with other relevant information auditor shall investigate such differences by:

- Inquiring of management and obtaining appropriate audit evidence relevant to management's responses and
- 2. Performing other audit procedures as necessary in the circumstances.

Definition

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.

SA 530

"Audit Sampling"

Scope of the SA & Objective of the auditor

Scope

This SA applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with auditor's use of statistical and non statistical sampling.

Objective

To provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Sample design, size and selection of items for testing

- 1. While designing audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population.
- 2. The auditor shall determine sample size sufficient to reduce sampling risk to an acceptably low level.
- 3. The auditor shall select items for the sample such that each sampling unit in the population has a chance of selection.

Performing Audit Procedures

- The auditor shall perform appropriate audit procedure on each item selected.
- 2. If audit procedure is not applicable on the selected item, apply the procedure on a replacement item.
- 3. If the auditor is unable to apply the designed audit procedure to a selected item, treat that item as a deviation from the prescribed control, in case of tests of controls, or a misstatement, in the case of tests of details.

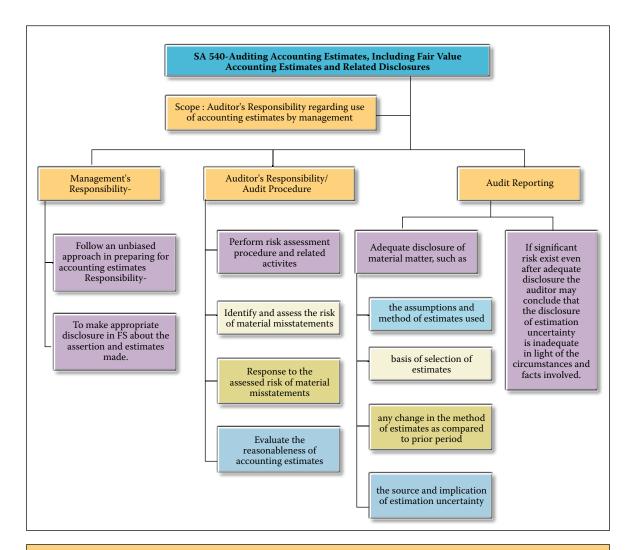
Other points of consideration

- 1. The auditor shall investigate the nature and cause of deviation or misstatement identified and evaluate its possible effect.
- 2. When a deviation/ misstatement is considered as anomaly, the auditor shall perform audit procedures to obtain high degree of certainty that it is not representative of the population.
- 3. For test of details, the auditor shall project misstatements found in the sample to the population.
- 4. The auditor shall evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusion about the population tested.

Definition

Audit Sampling:

The application of audit procedures to less than 100% of items within a population of audit relevance such that all the sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.



Important Definitions:

Accounting estimate – An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where this SA addresses only accounting estimates involving measurement at fair value, the term "fair value accounting estimates" is used.

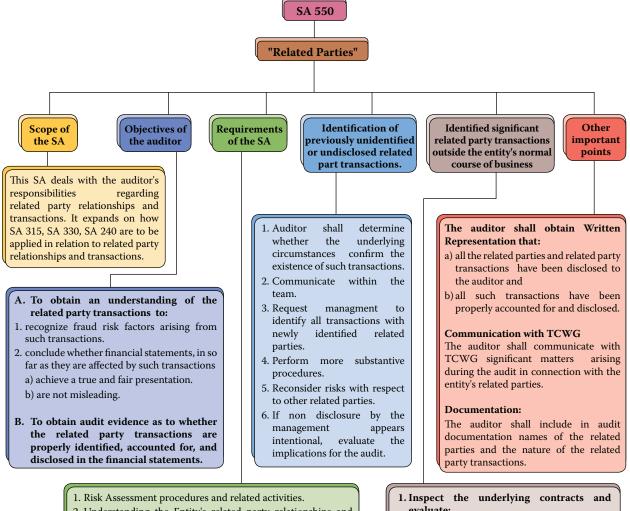
Auditor's point estimate or auditor's range – The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management's point estimate

Management bias - A lack of neutrality by management in the preparation and presentation of information.

Management's point estimate – The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.

Estimation uncertainty – The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.

Outcome of an accounting estimate – The actual monetary amount which results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by the accounting estimate.



- 2. Understanding the Entity's related party relationships and transactions.
- 3. Maintaining alertness for related party information when reviewing records or documents.
- 4. Sharing related party information with the Engagement team.
- 5. Identification and assessment of the risk of material misstatement associated with related party transactions and relationships.
- 6. Responses to the Risks of Material Misstatement associated with related party relationships and transactions.

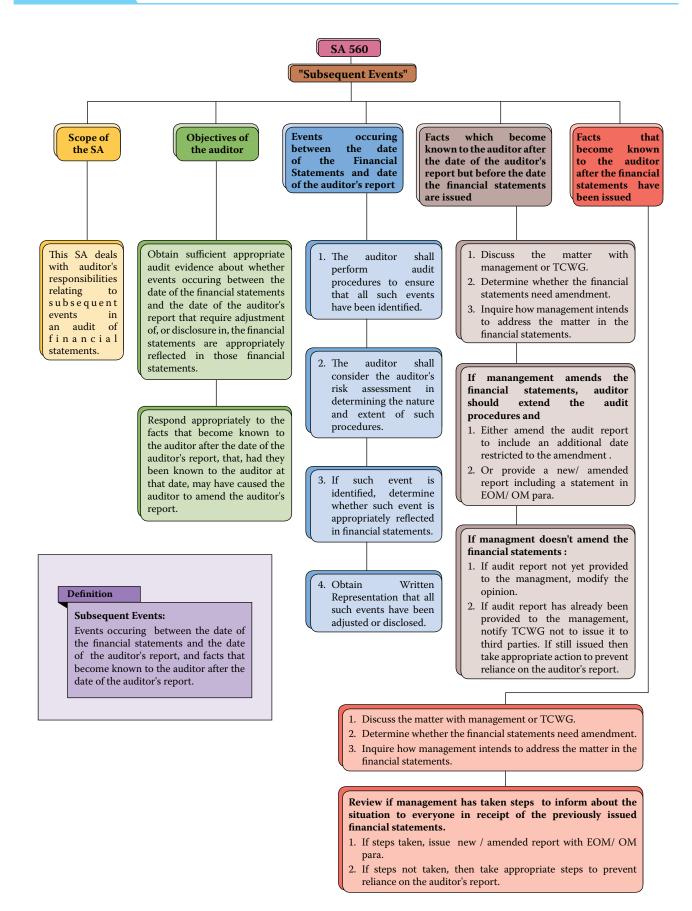
evaluate:

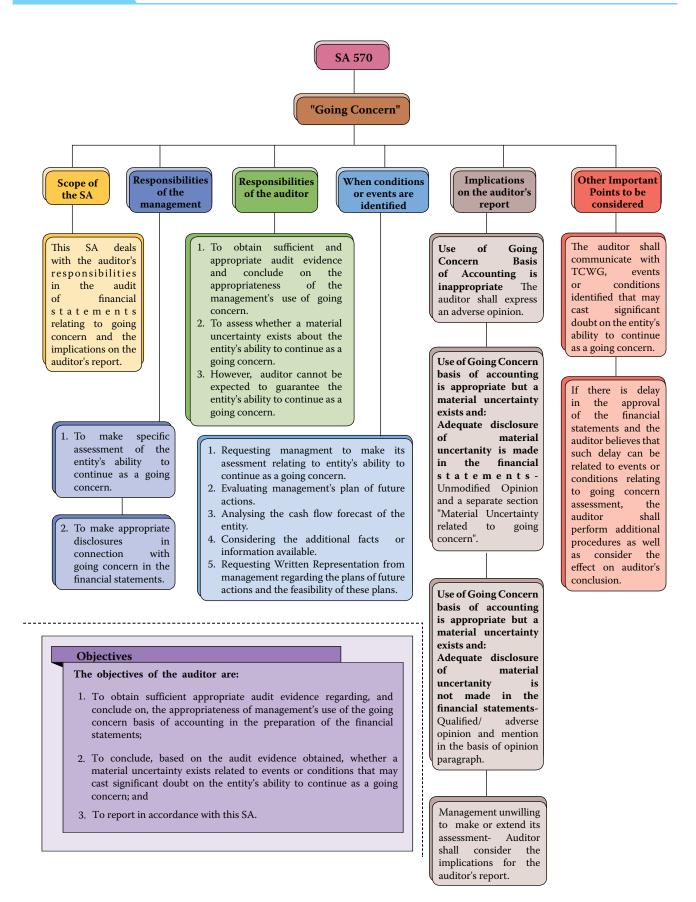
- a) the business rationale of the transactions.
- b) whether the terms of transactions are consistent with managment's explanations.
- c) whether such transactions have been properly accounted for.
- 2. Obtain audit evidence that the transactions have been appropriately authorised and approved.

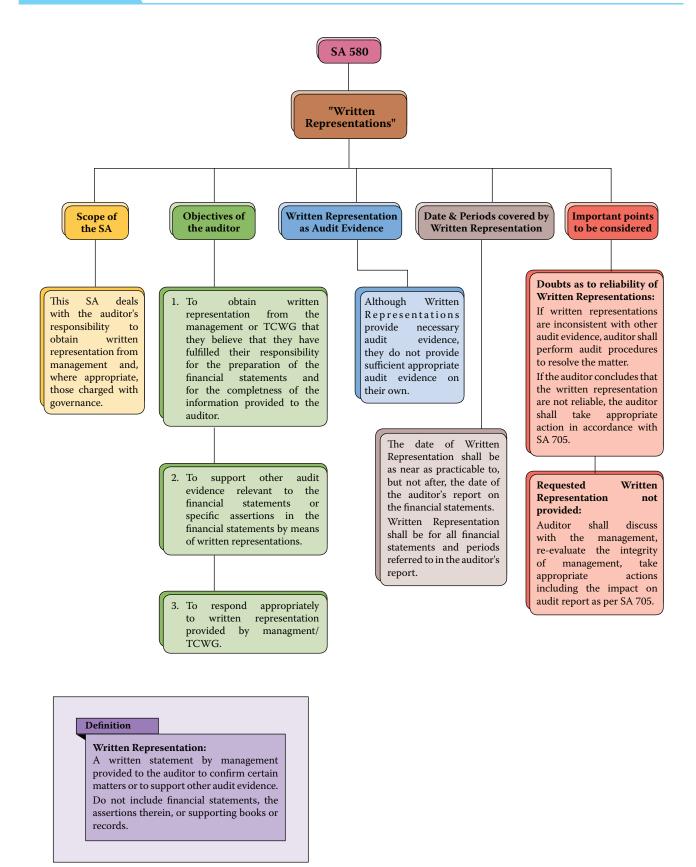
Definition

Related party- A party that is either:

- i) a related party as defined in applicable FRF.
- ii) where applicable FRF establishes minimal or no related party requirements:
 - a) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity,
 - b) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
 - c) Another entity that is under common control with the reporting entity through having:
 - · common controlling ownership,
 - · owners who are close family members, or
 - · common key management.

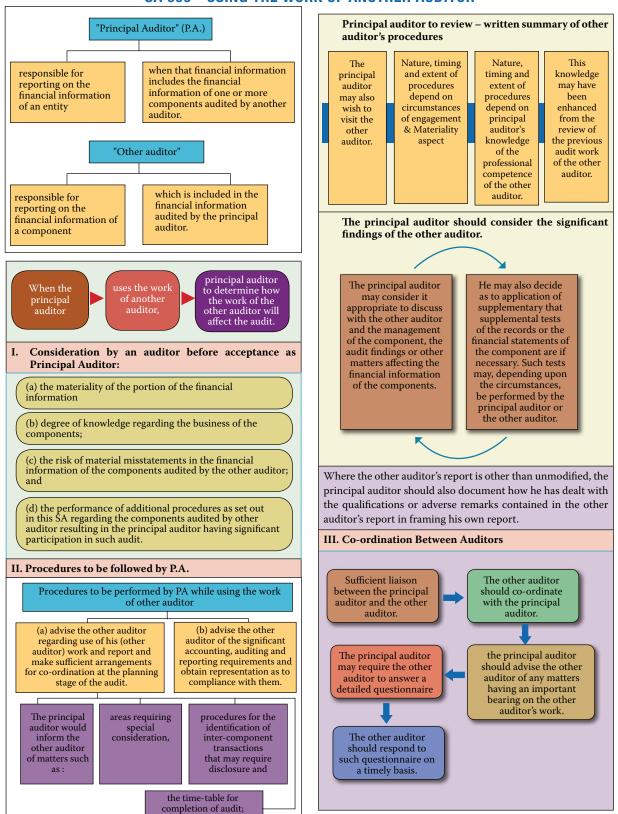






SA 600 - 699: Using Work of Others

SA 600 - USING THE WORK OF ANOTHER AUDITOR



IV Reporting Considerations

 Principal auditor to express a qualified opinion or disclaimer of opinion in case of a limitation on the scope of audit.

When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.

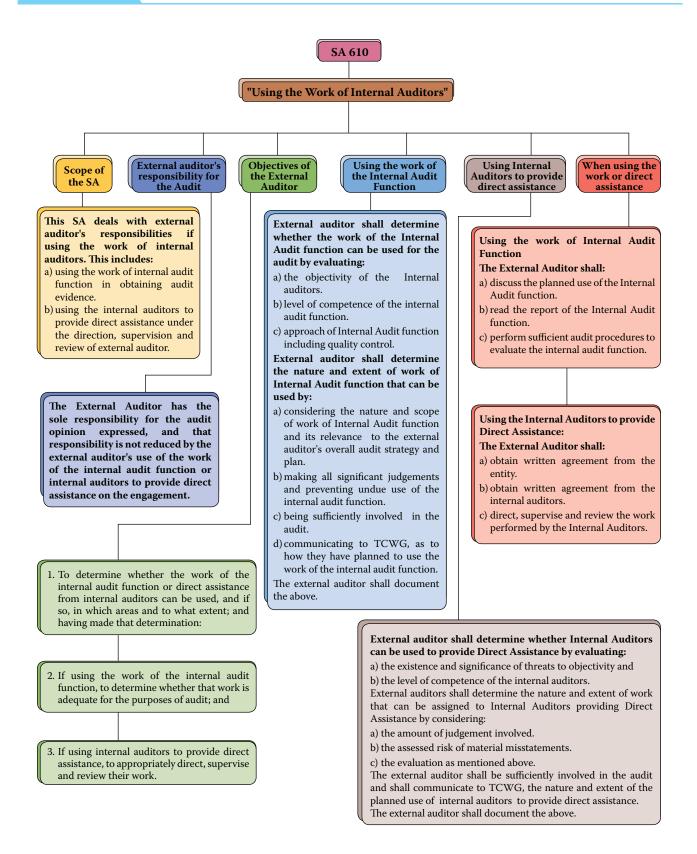
2. If the other auditor issues a Modified Report

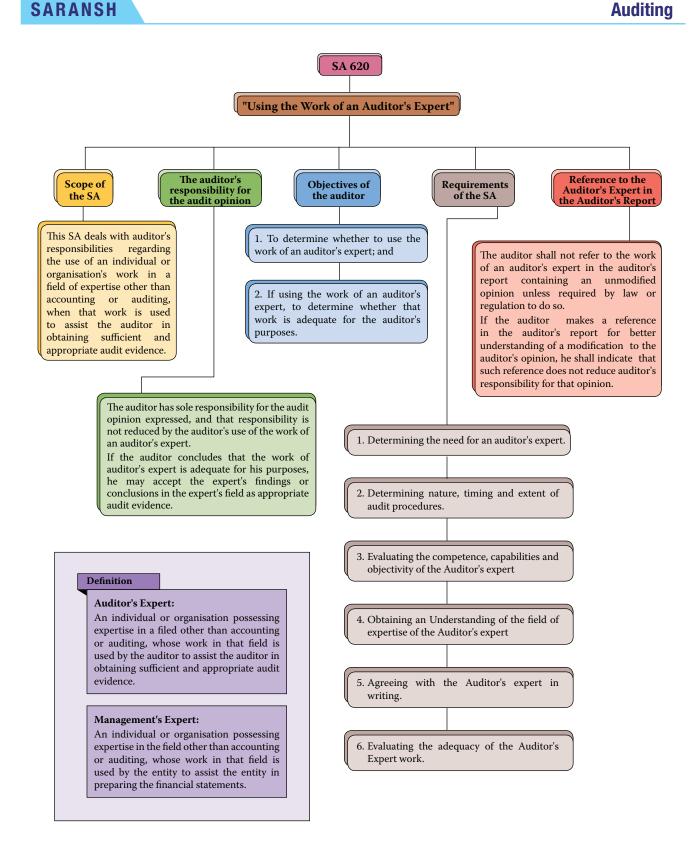
In all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting that it requires a modification of the principal auditor's report.

V. Division of Responsibility

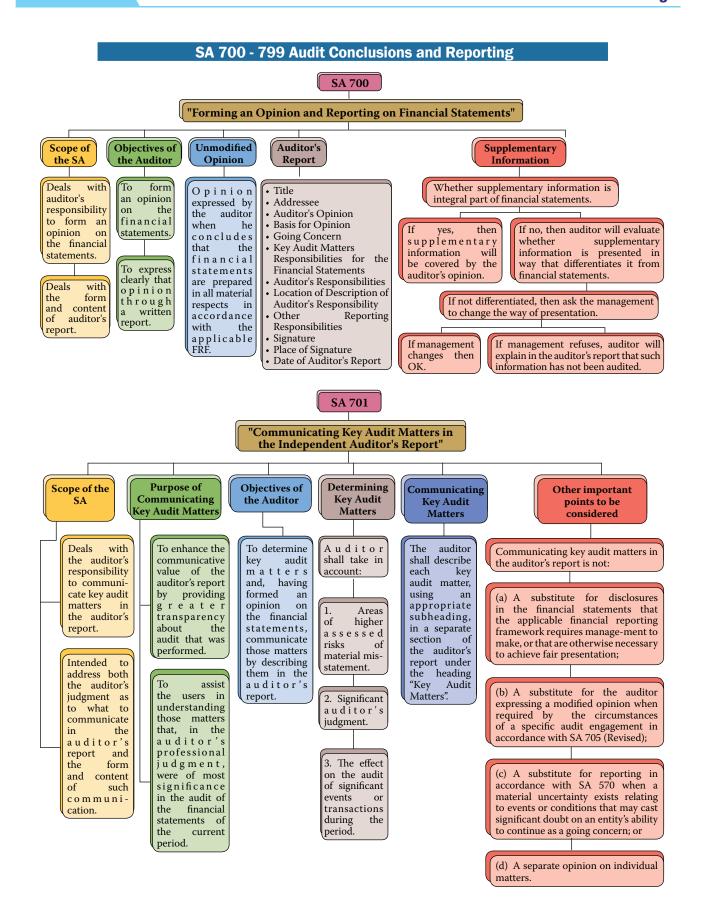
When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors. However, if the Principal Auditor notices any material discrepancies the same has to be brought to the knowledge of other Auditor. This should be incorporated in the Audit Report.

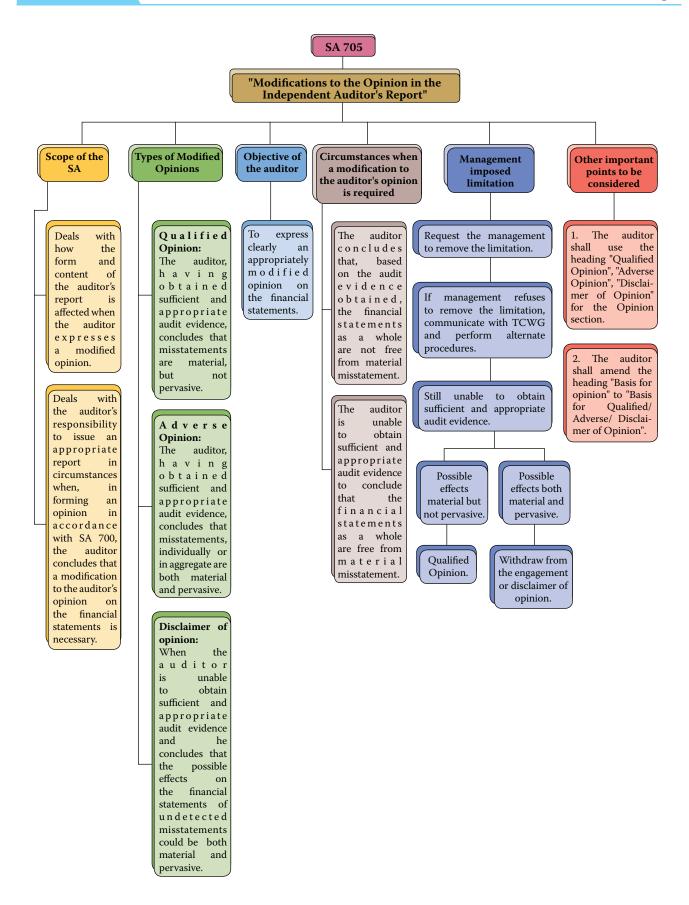


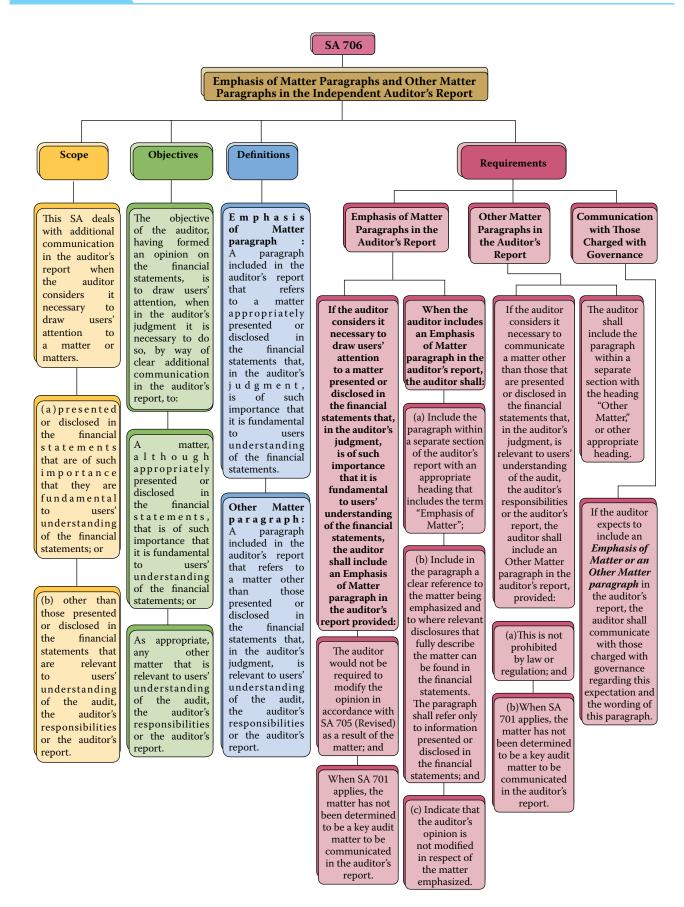


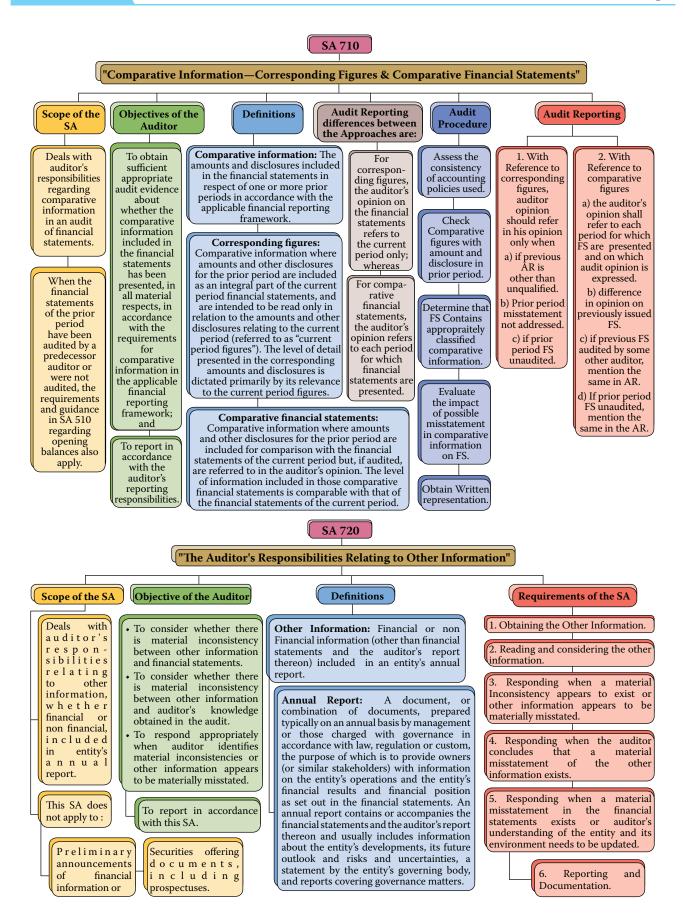


Auditing











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