

# इश्वरानंदे

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**

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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)**  
**The Institute of Chartered Accountants of India**  
**‘ICAI Bhawan’ A-29, Sector-62,**  
**Noida 201 309**

# PREFACE

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.



# **The Institute of Chartered Accountants of India**

(Setup by an Act of Parliament)

**Board of Studies (Academic)**

## **INDEX**

Topic	Pg No.
<b>AUDITING</b>	
Engagement & Quality Control Standards	1
SQC 1	3
SA 200-299: General Principles and Responsibilities	4
SA 300-499: Risk Assessment and Response to Assessed Risks	14
SA 500-599: Audit Evidence	20
SA 600-699: Using Work of Others	28
SA 700-799: Audit Conclusions and Reporting	32

## AUDITING

### Engagement & Quality Control Standards

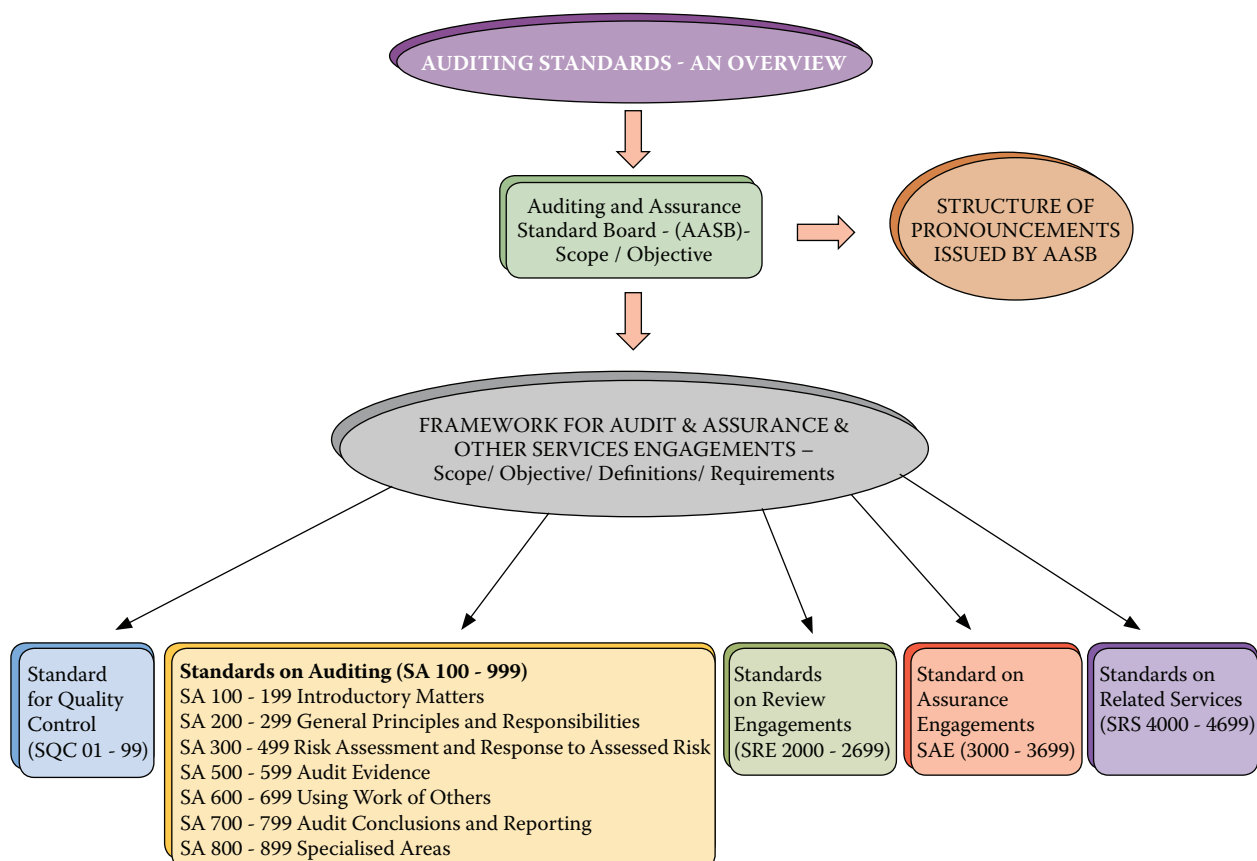
#### International Auditing and Assurance Standards Board (IAASB):

- 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.

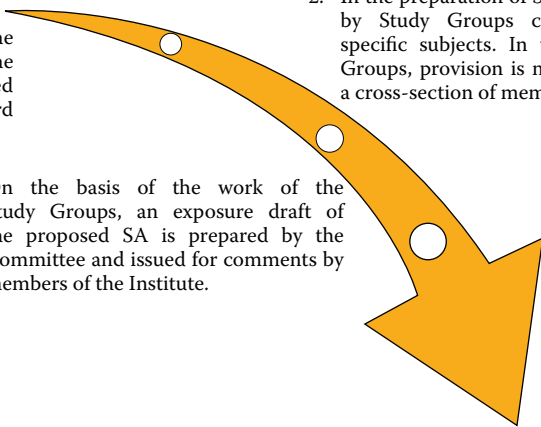
#### Auditing and Assurance Standards Board (AASB):

- 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.

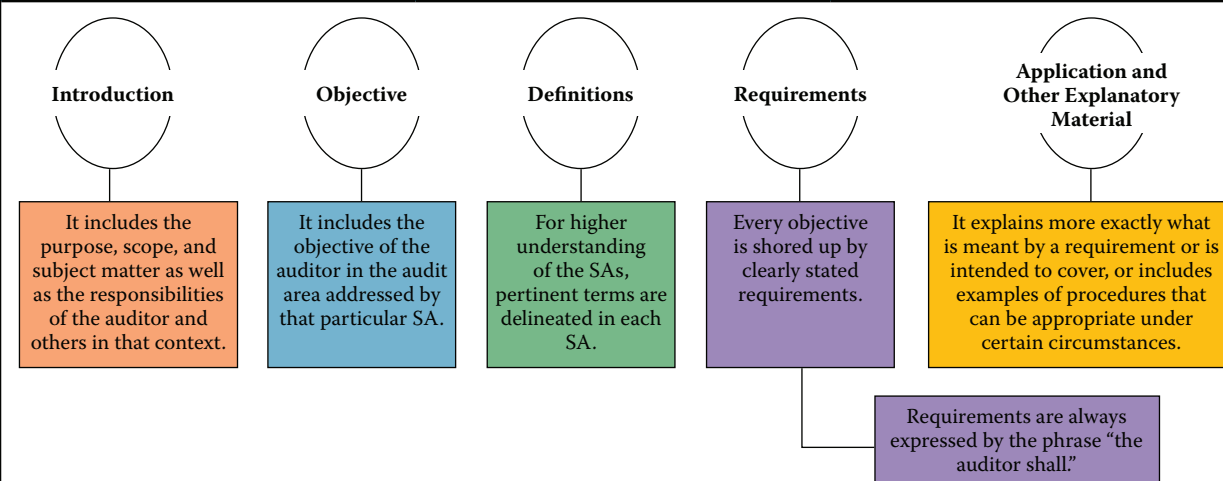
#### Diagrammatic Representation of the Structure of Standards Under the New Preface



### Procedure for issuing SAs

1. The AASB determines the broad areas in which the SAs need to be formulated and the priority in regard to the selection thereof.
  2. In the preparation of SAs, the AASB is assisted by Study Groups constituted to consider specific subjects. In the formation of Study Groups, provision is made for participation of a cross-section of members of the Institute.
  3. On the basis of the work of the Study Groups, an exposure draft of the proposed SA is prepared by the Committee and issued for comments by members of the Institute.
  4. After taking into consideration the comments received, the draft of the proposed SA is finalised by the AASB and submitted to the Council of the 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 therefrom, 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.*

**Clause 5 of Part I of the Second Schedule**

*he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.*

**Clause 7 of Part I of the Second Schedule**

*he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.*

**Clause (9) of Part I of the Second Schedule**

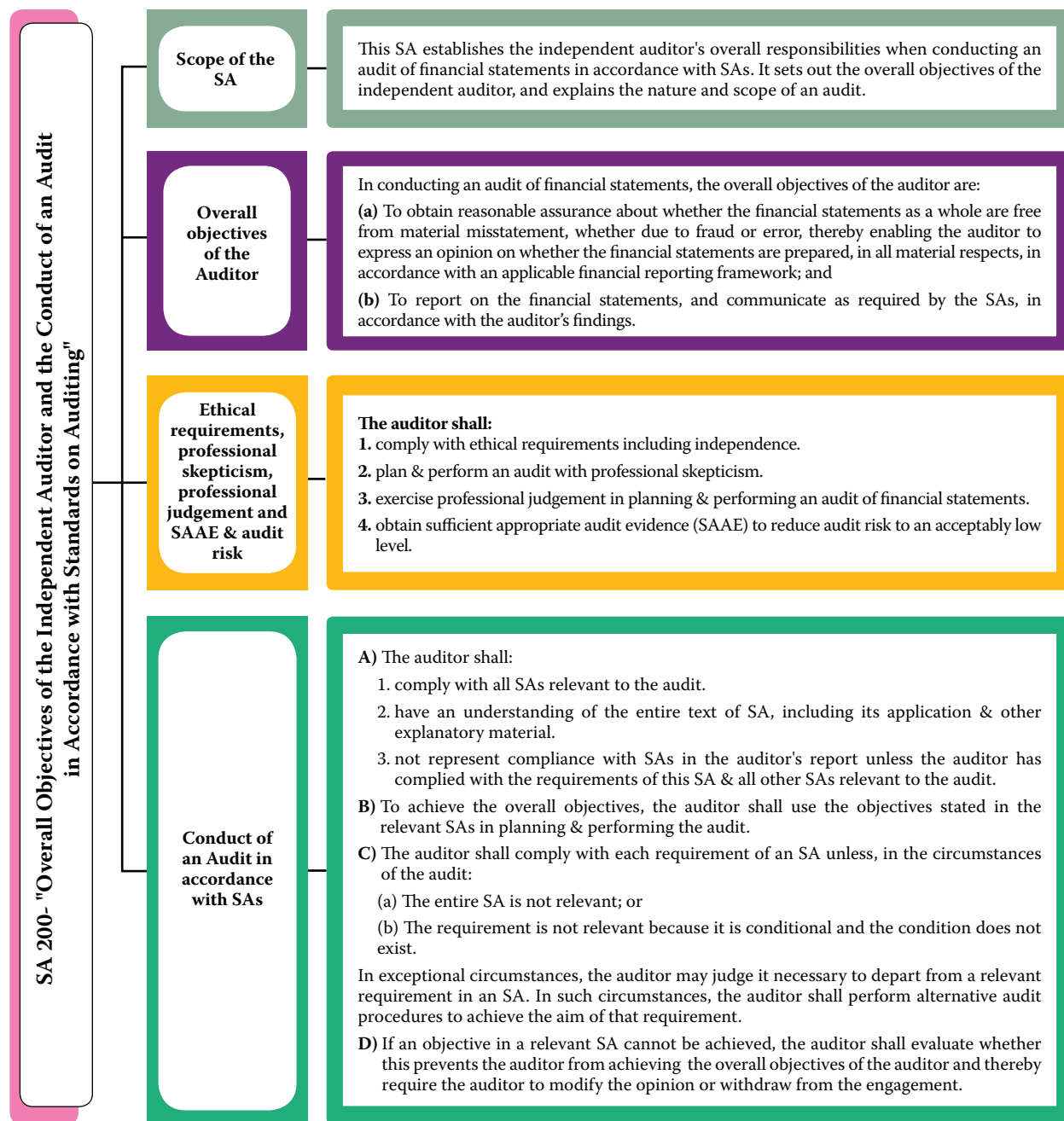


## Engagement &amp; Quality Control Standards

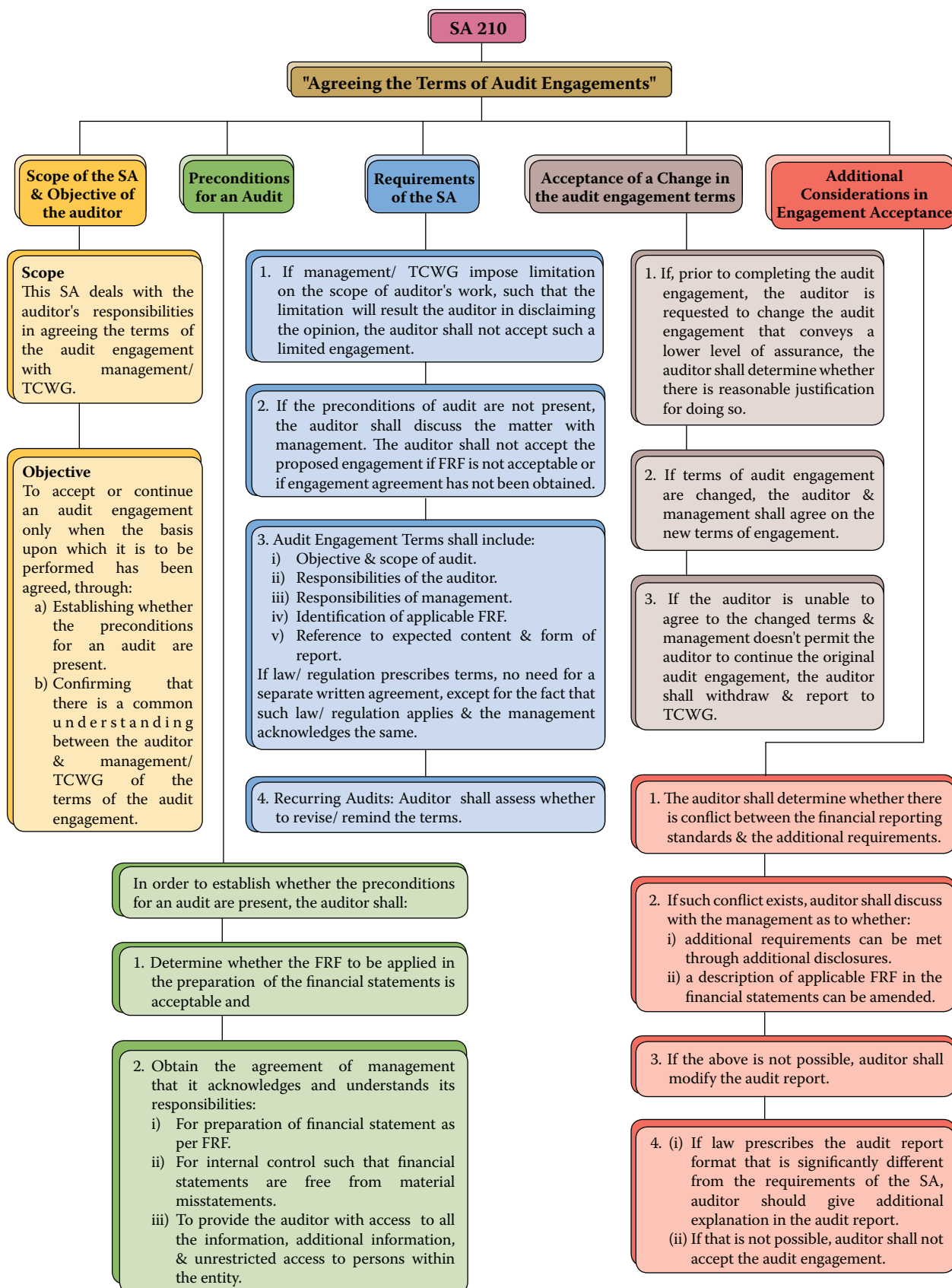


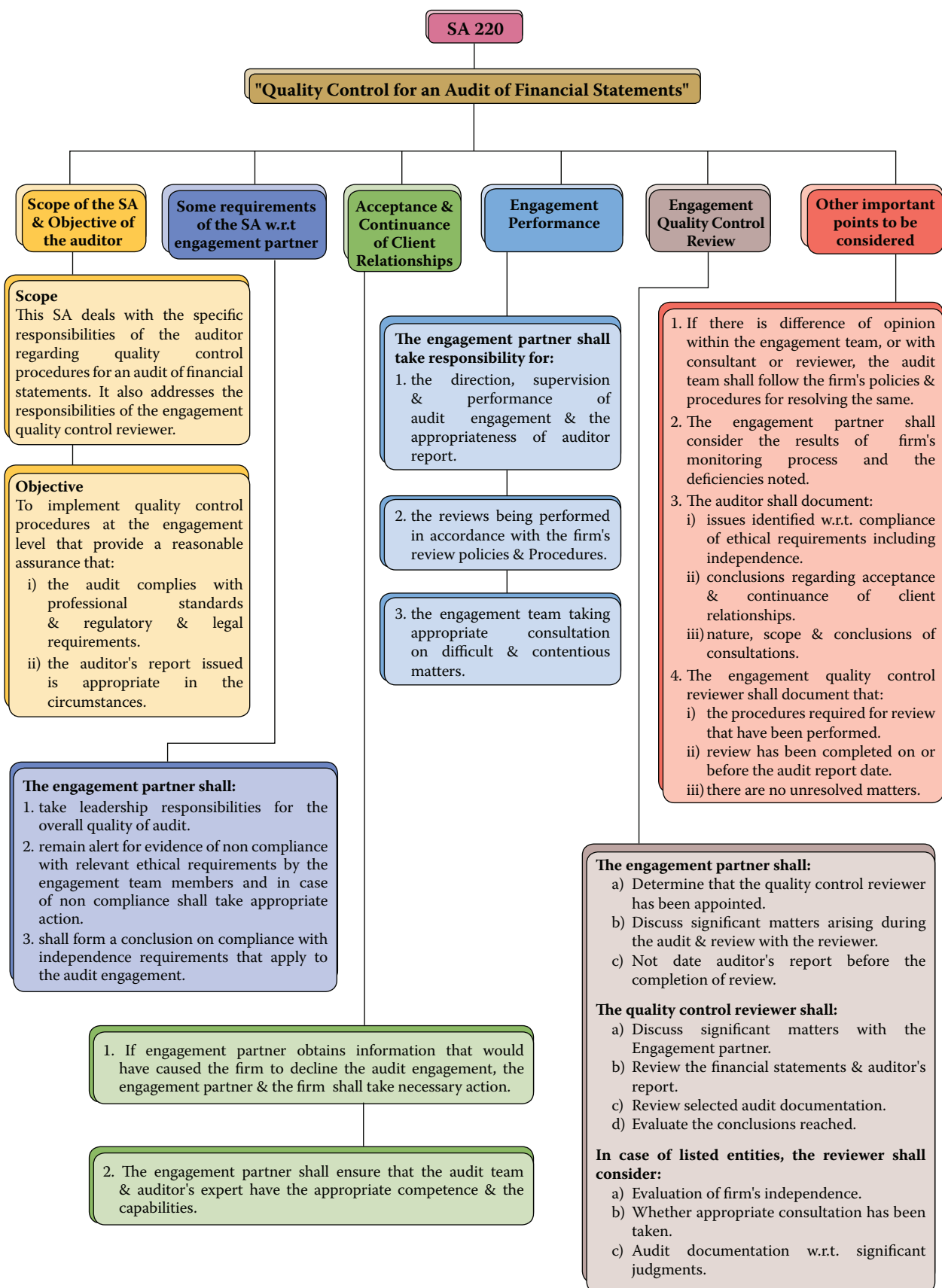


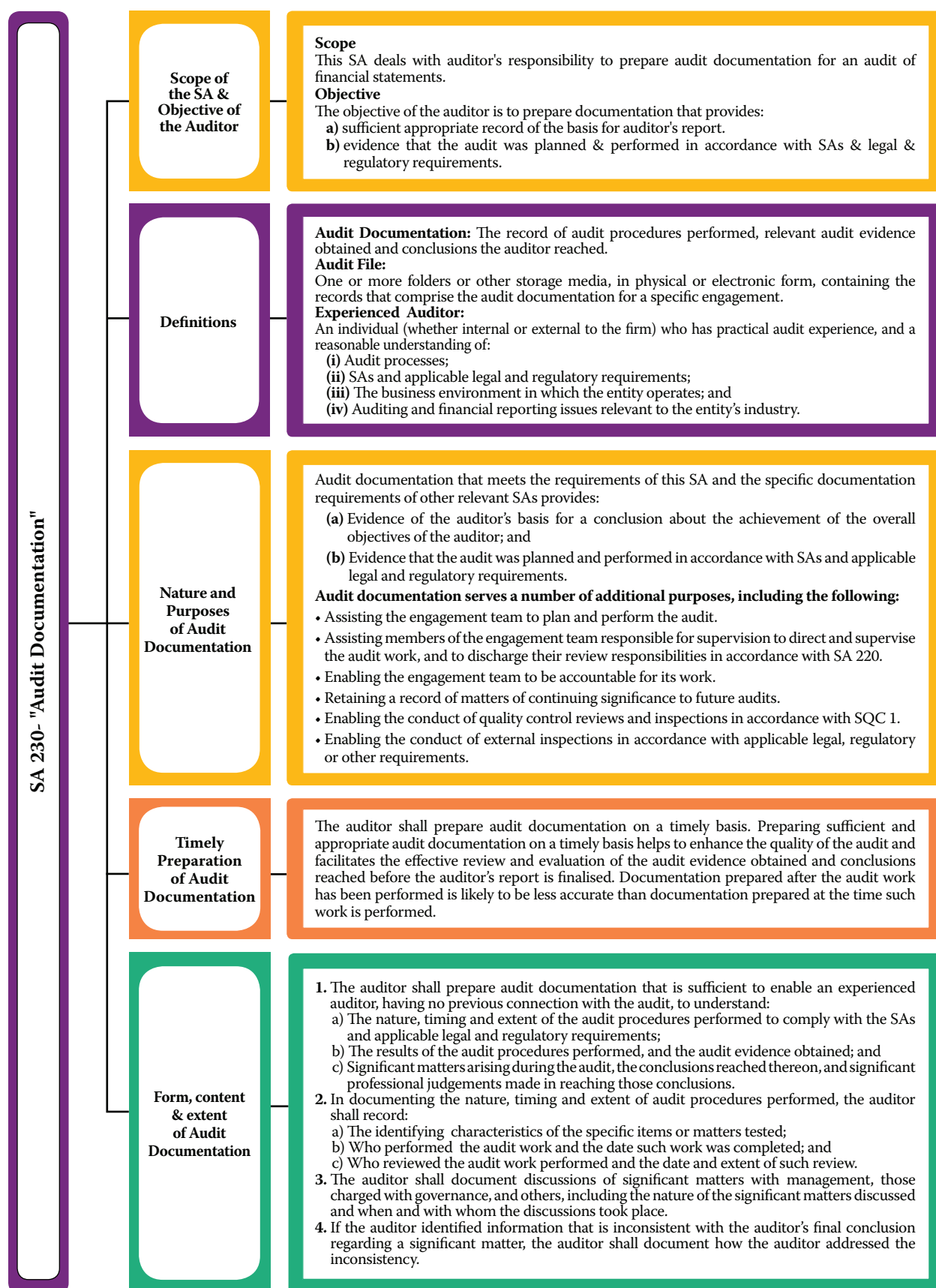
## SA 200 - 299 General Principles and Responsibilities

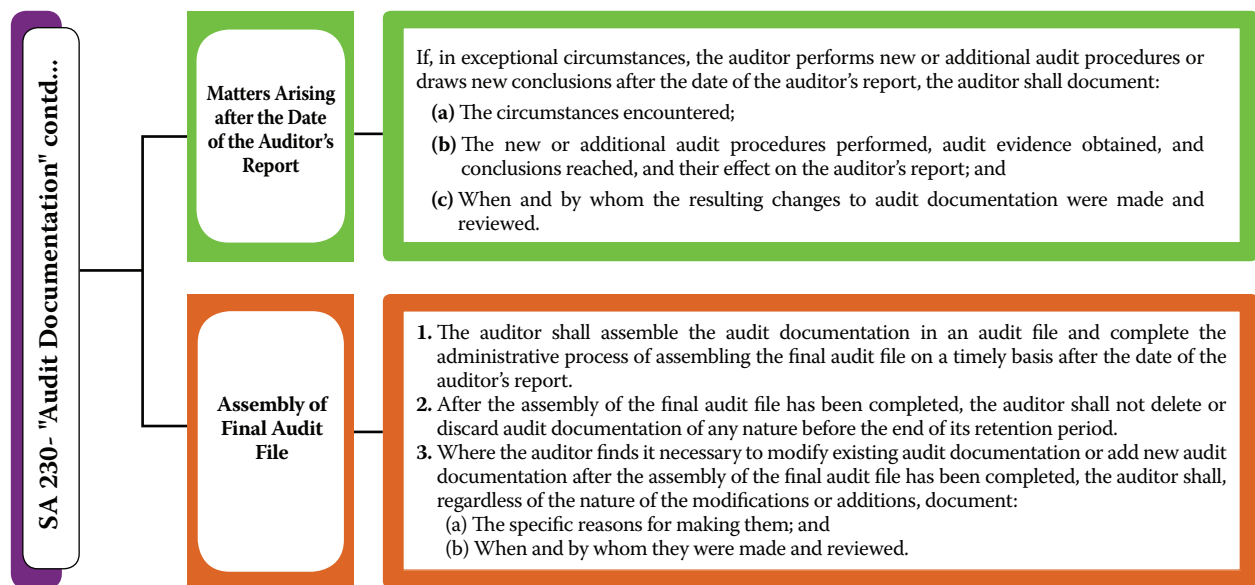


*"The more that you read, the more things you will know, the more that you learn, the more places you'll go." —Dr. Seuss*











## SA 240- "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"

**Scope of the SA & Objective of the Auditor****Scope**

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:**

- (a) To identify and assess the risks of material misstatement in the financial statements due to fraud;
- (b) To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- (c) To respond appropriately to identified or suspected fraud.

**Characteristics of Fraud**

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 with fraud that causes a material misstatement in the financial statements.
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.

**Professional Skepticism**

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 documents as genuine.

Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.

**Discussion Among the Engagement Team**

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.

This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur.

The discussion shall occur notwithstanding the engagement team members' beliefs that management and those charged with governance are honest and have integrity.

**Risk Assessment Procedures and Related Activities**

When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by SA 315, the auditor shall perform the specified procedures to obtain information for use in identifying the risks of material misstatement due to fraud.

**Identification and Assessment of the Risks of Material Misstatement Due to Fraud**

In accordance with SA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.

When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks.



## SA 240- "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" contd...

**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.

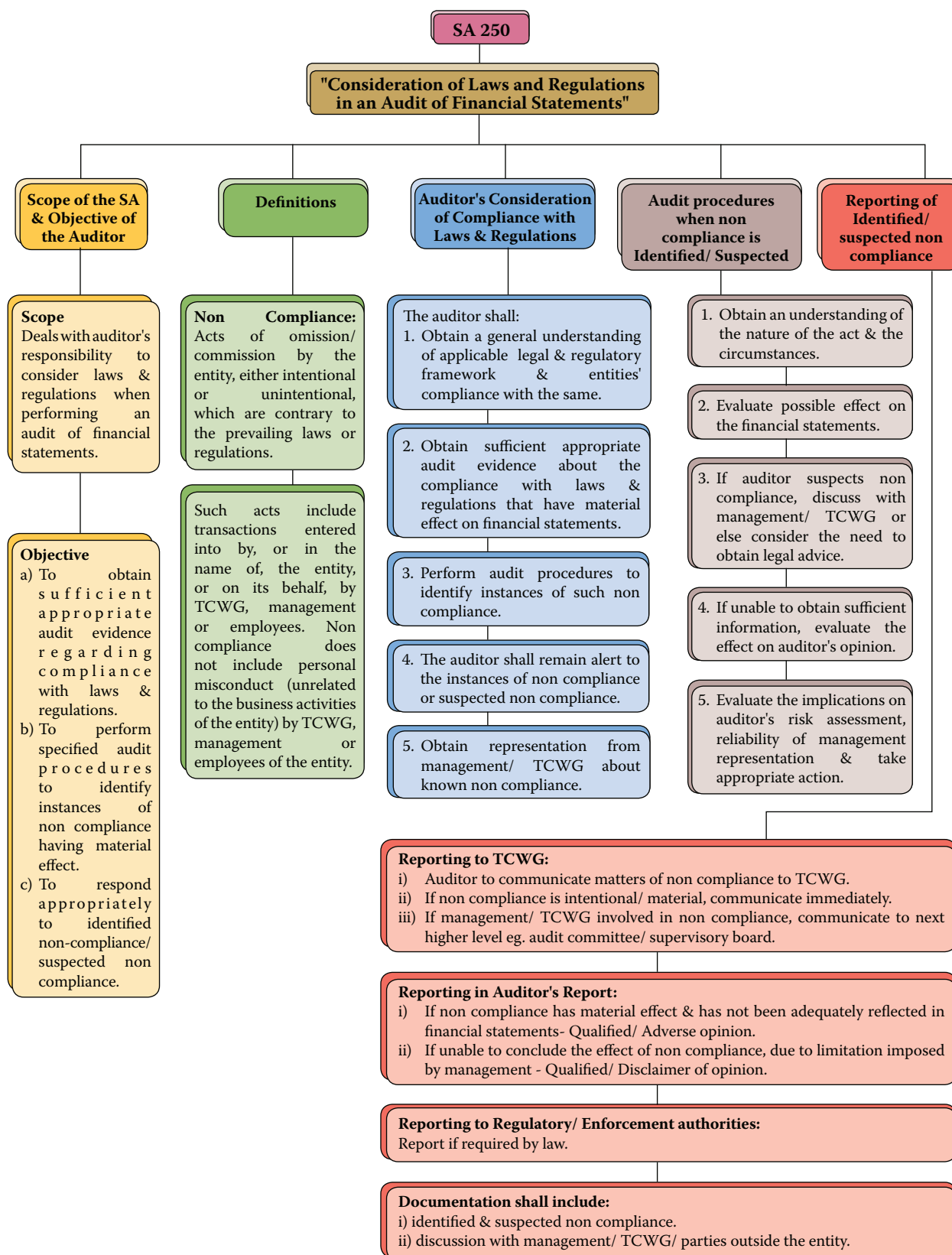
If the auditor identifies a misstatement and the auditor has reason to believe that it is or may be the result of fraud and that management (in particular, senior management) is involved, the auditor shall re-evaluate the assessment of the risks of material misstatement due to fraud. The auditor shall also consider whether circumstances or conditions indicate possible collusion involving employees, management or third parties when reconsidering the reliability of evidence previously obtained.

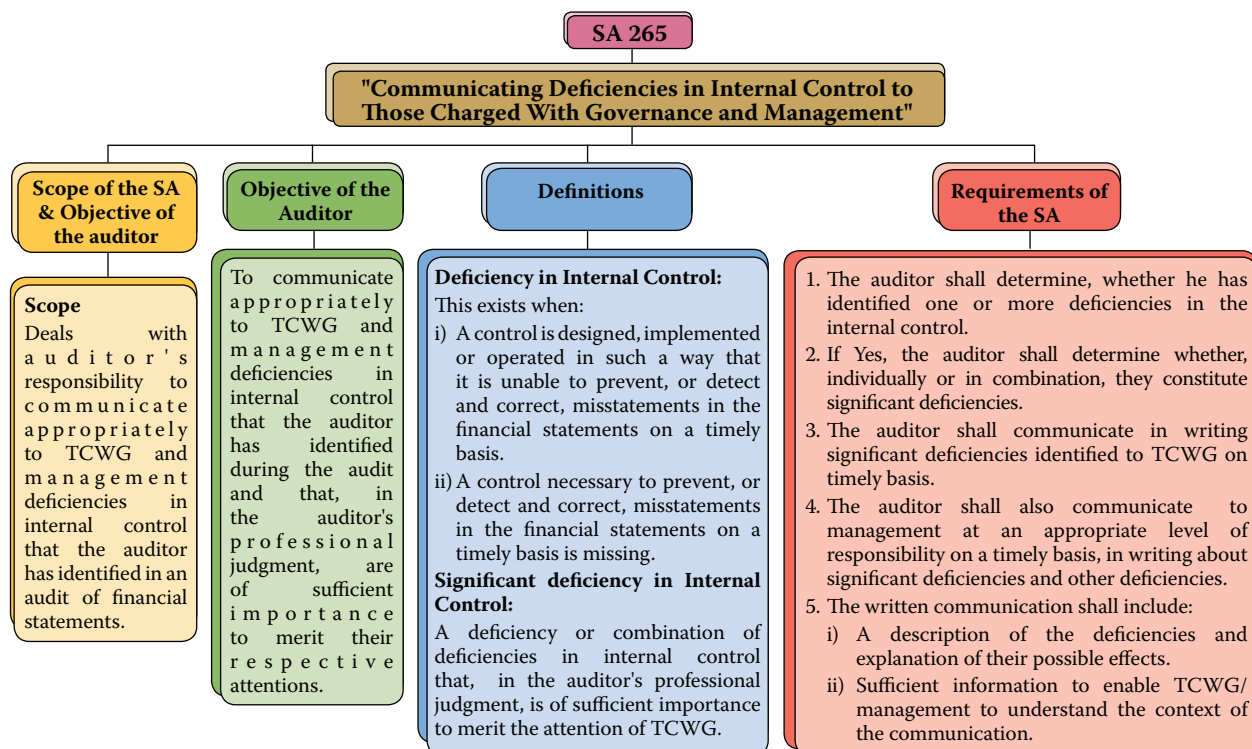
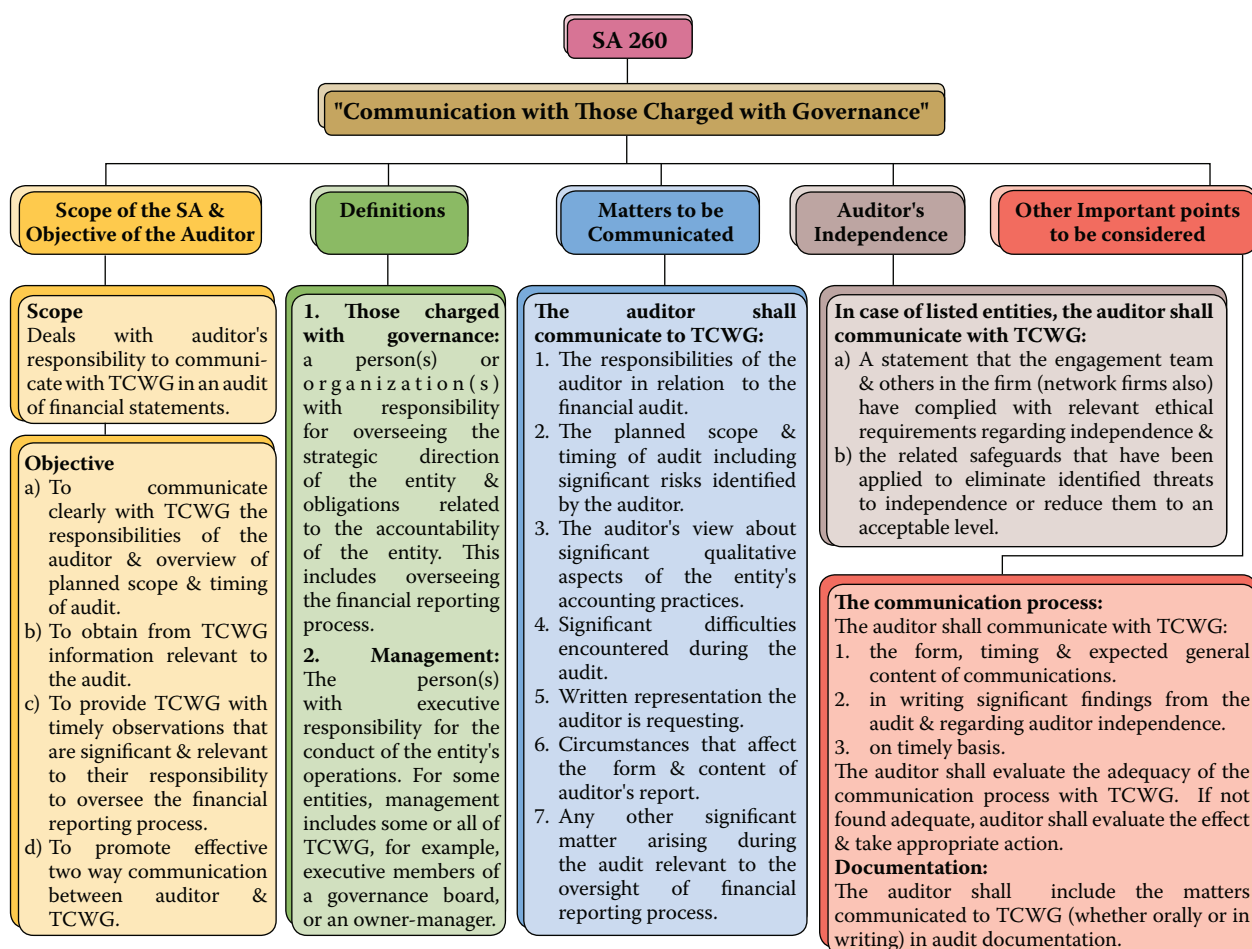
When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud, the auditor shall evaluate the implications for the audit.

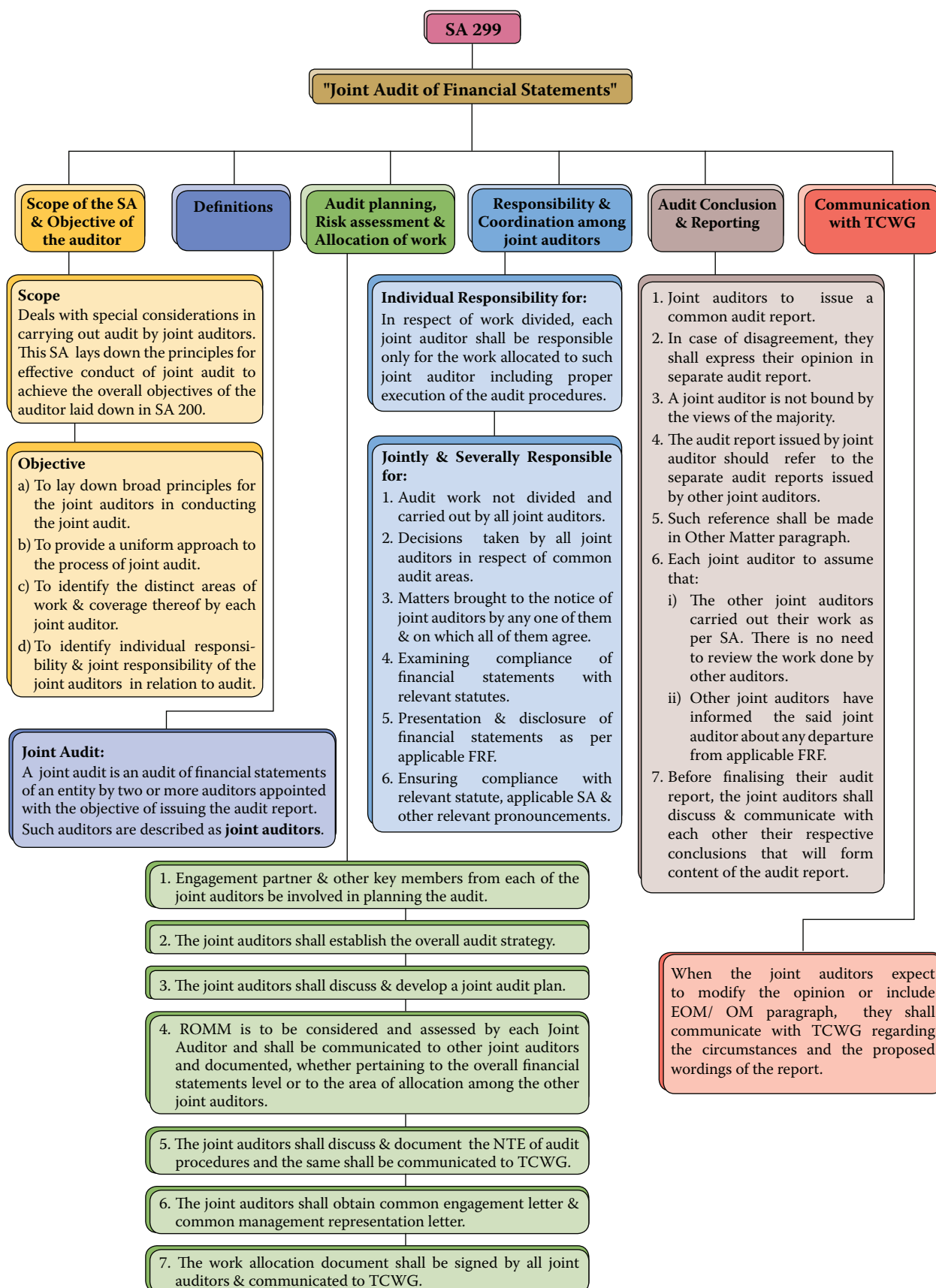
**Auditor Unable to Continue the Engagement**

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:

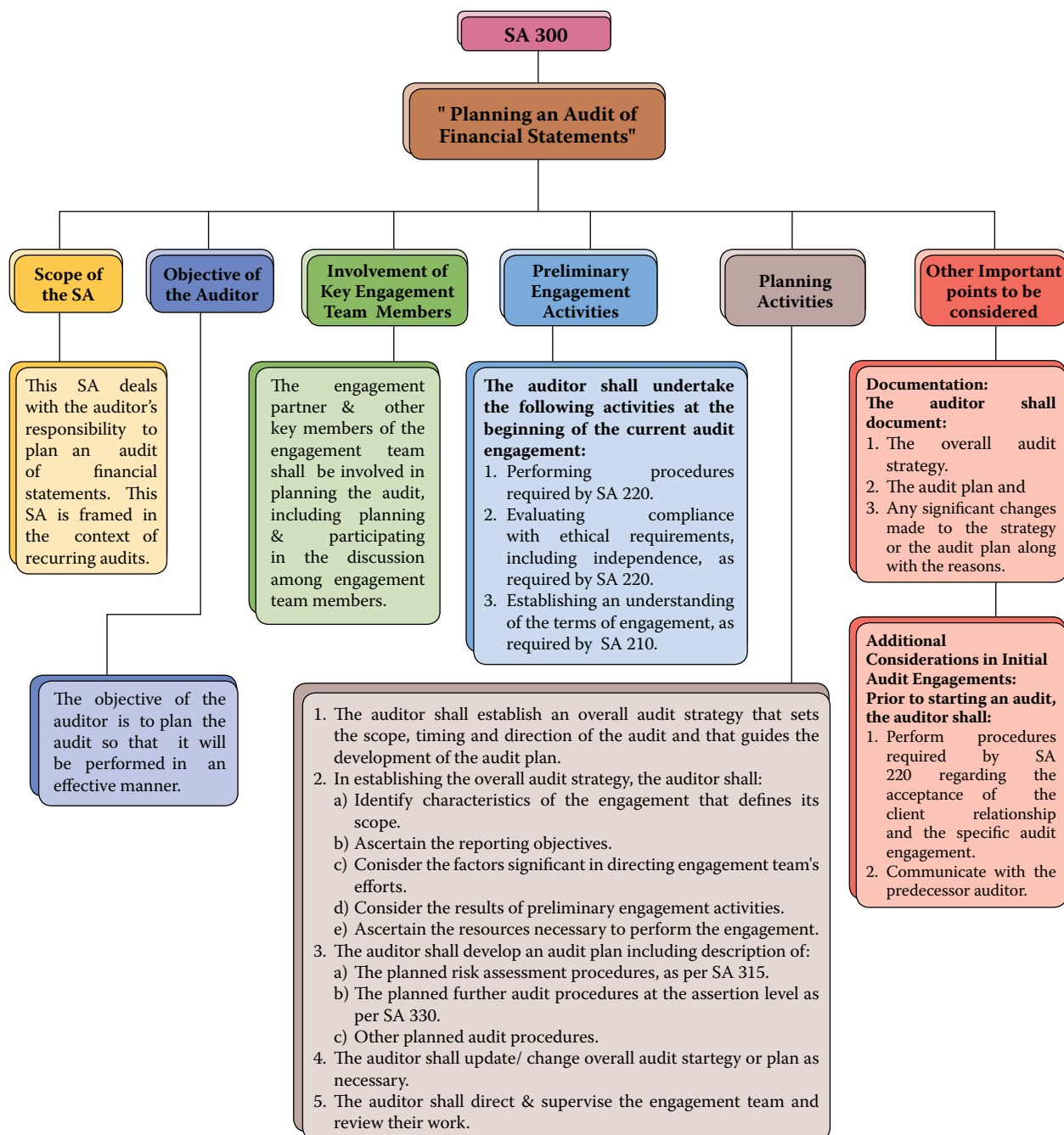
- (a) Determine the professional and legal responsibilities applicable in the circumstances.
- (b) Consider whether it is appropriate to withdraw from the engagement, where withdrawal from the engagement is legally permitted; and
- (c) If the auditor withdraws:
  - (i) Discuss with the appropriate level 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.



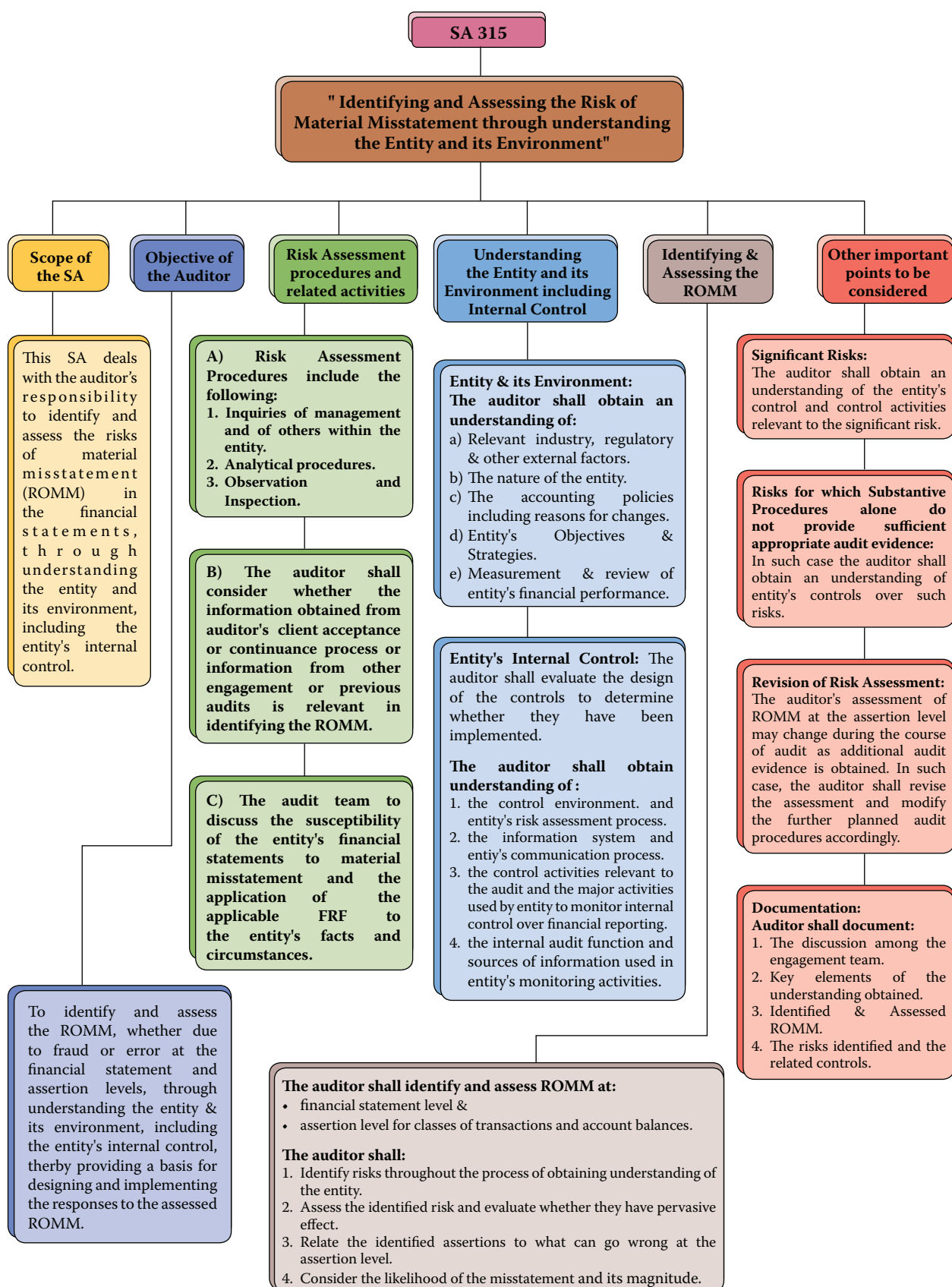




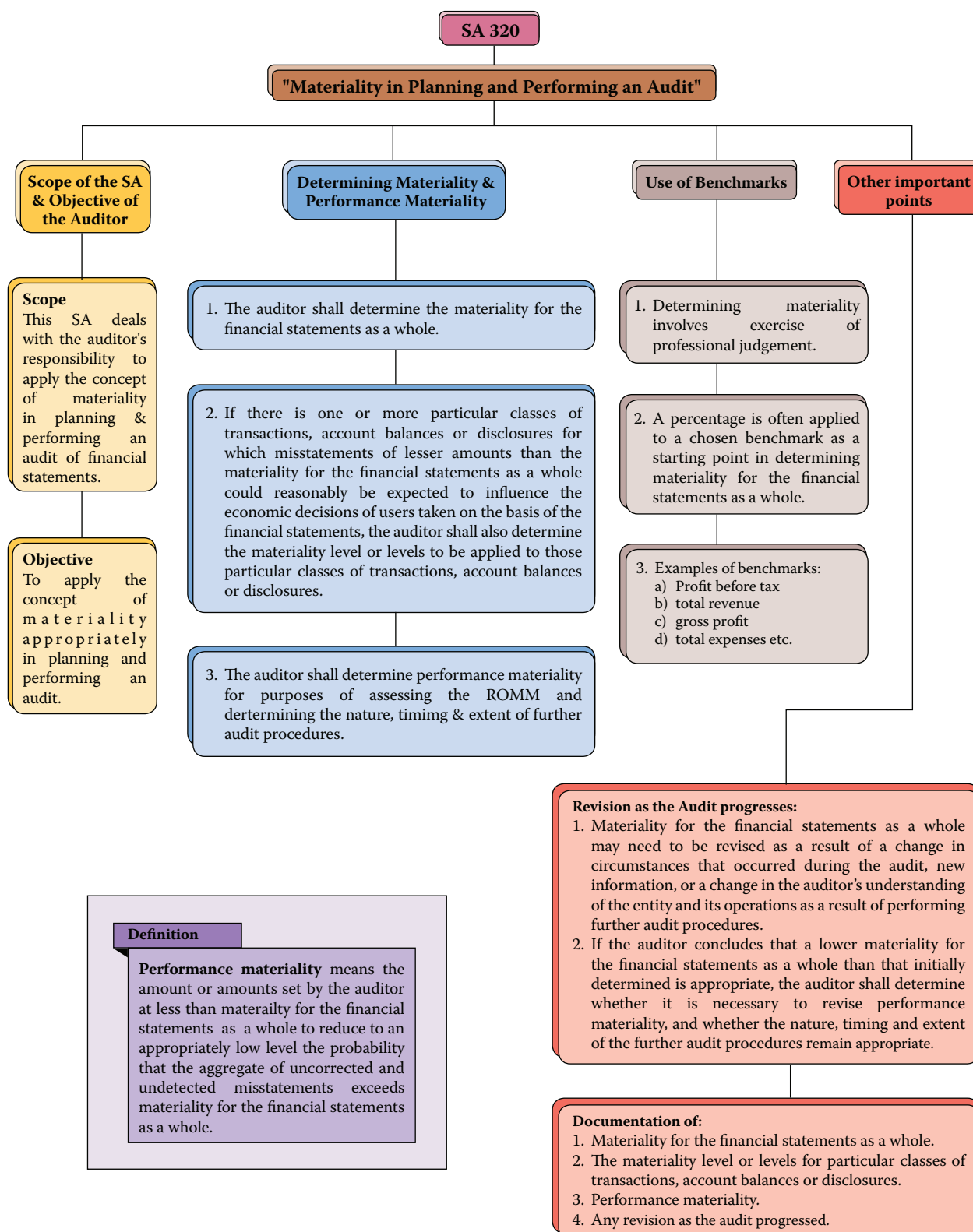
## SA 300 - 499: Risk Assessment and Response to Assessed Risks



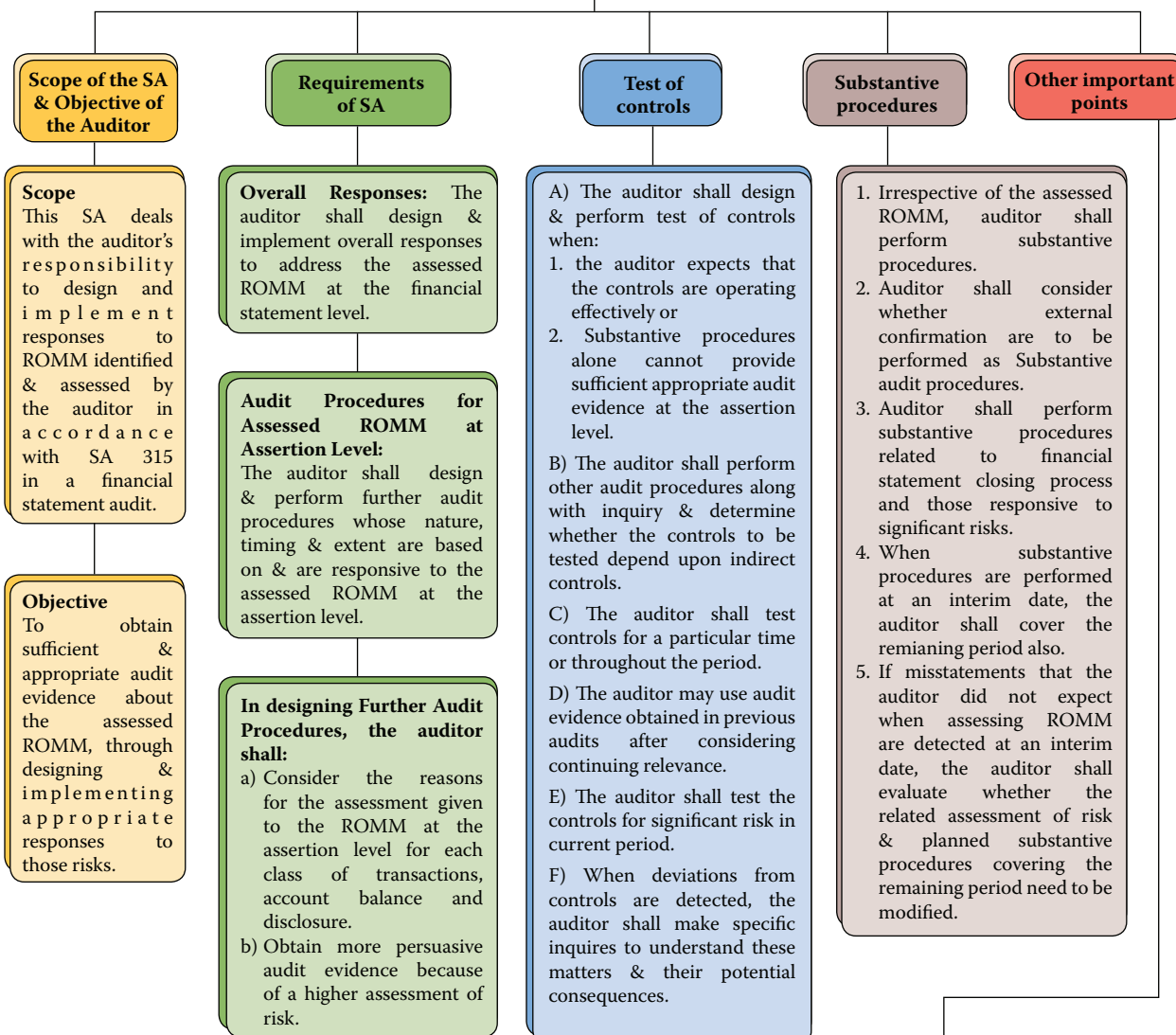








## SA 330

**"The Auditor's Responses to Assessed Risks"****Definition****Substantive Procedure:**

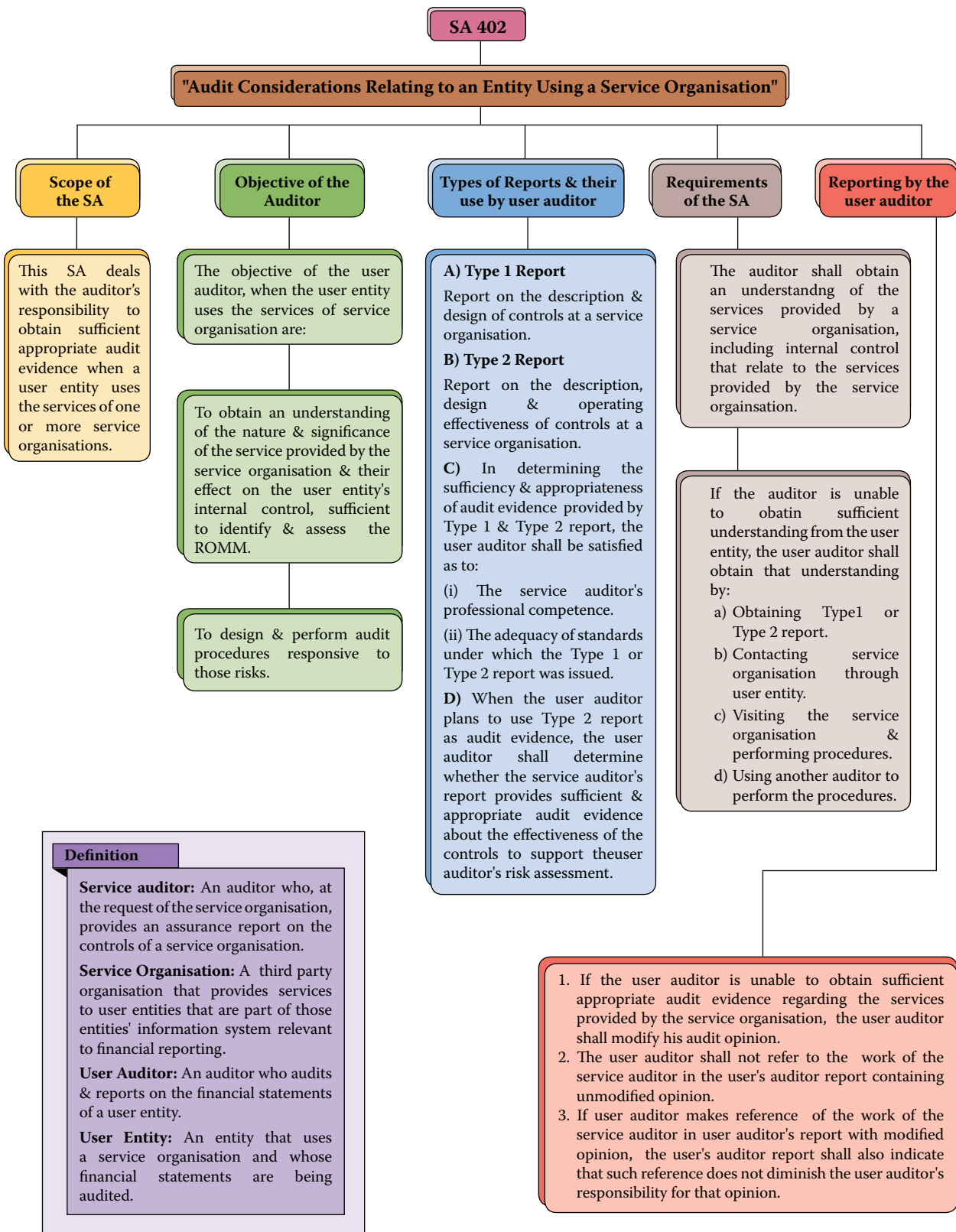
An audit procedure designed to detect material misstatements at the assertion level. It comprises of:

- Test of details (of classes of transactions, account balances, & disclosures), &
- Substantive analytical procedures.

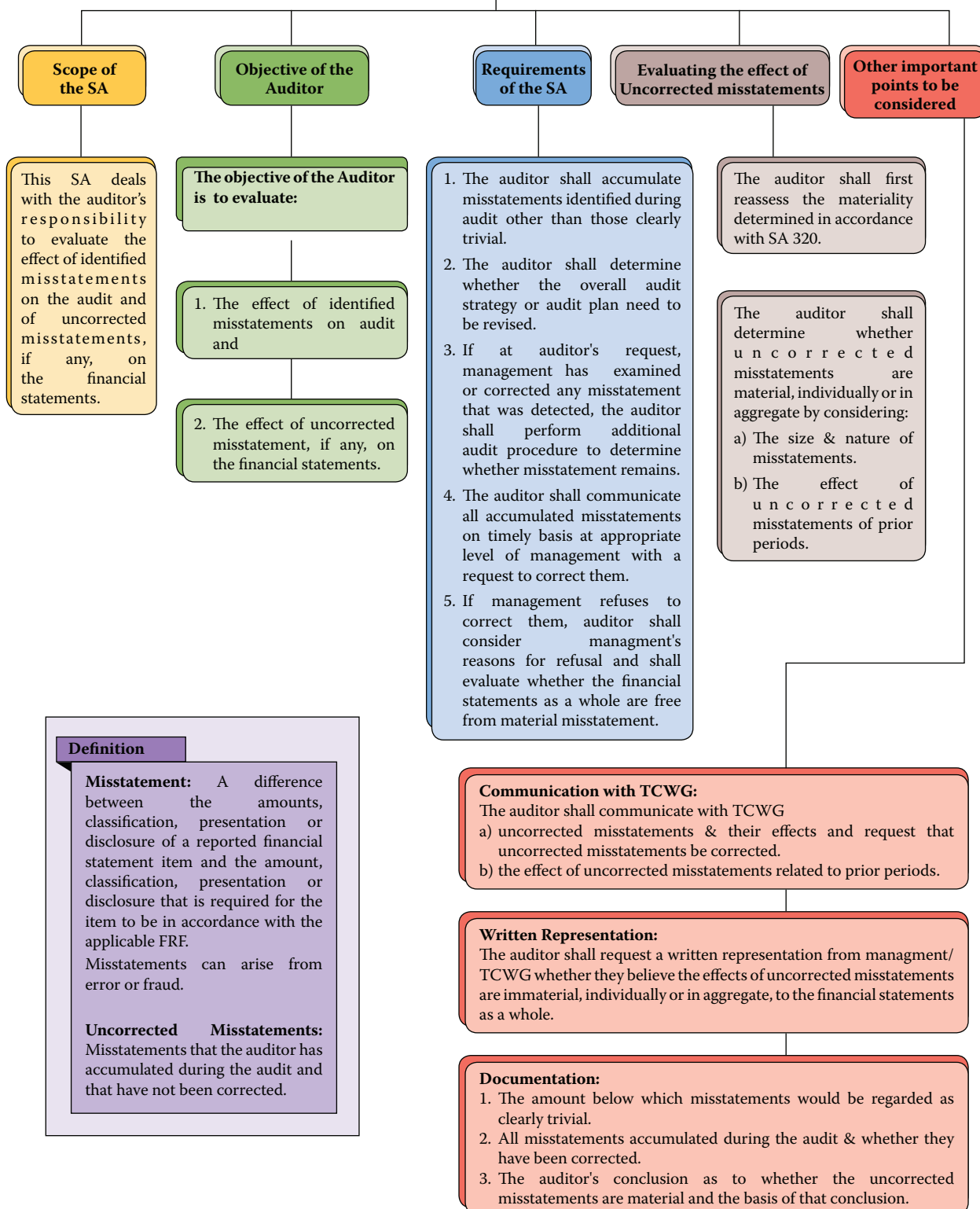
**Test of Controls:**

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

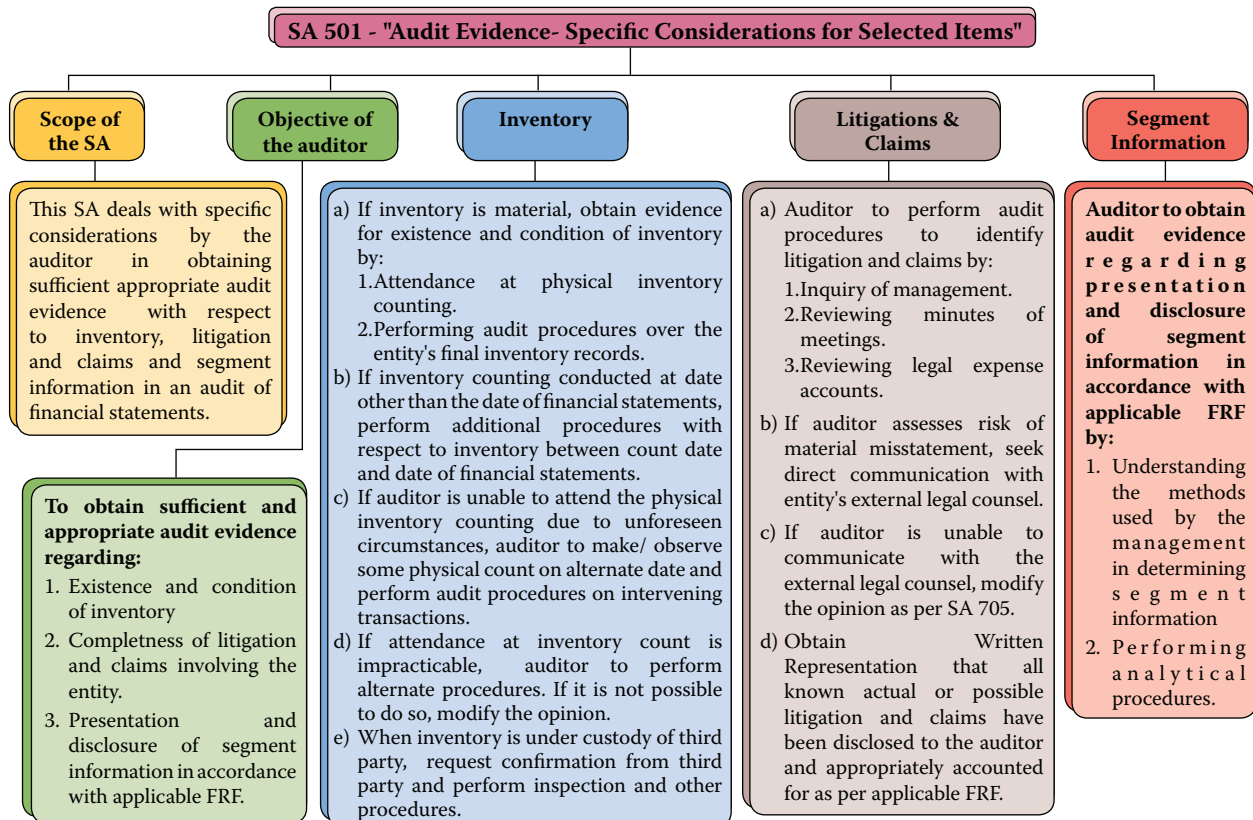
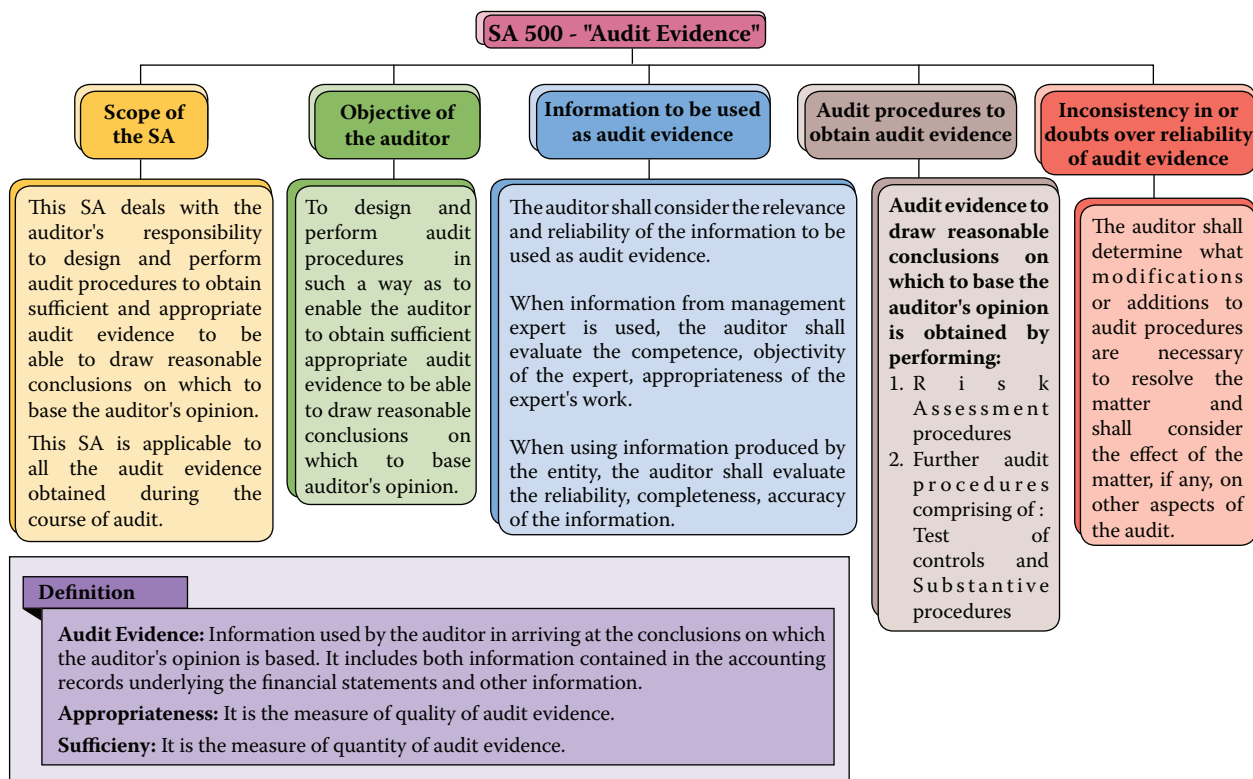
- The auditor shall perform audit procedures to evaluate the adequacy of presentation & disclosures made in the financial statements.
- The auditor shall evaluate the sufficiency & appropriateness of audit evidence.
- The auditor shall document:
  - the overall responses and the nature, timing, extent of further audit procedures performed.
  - the linkage of those procedures with assessed risks at the assertion level.
  - the results of audit procedures.



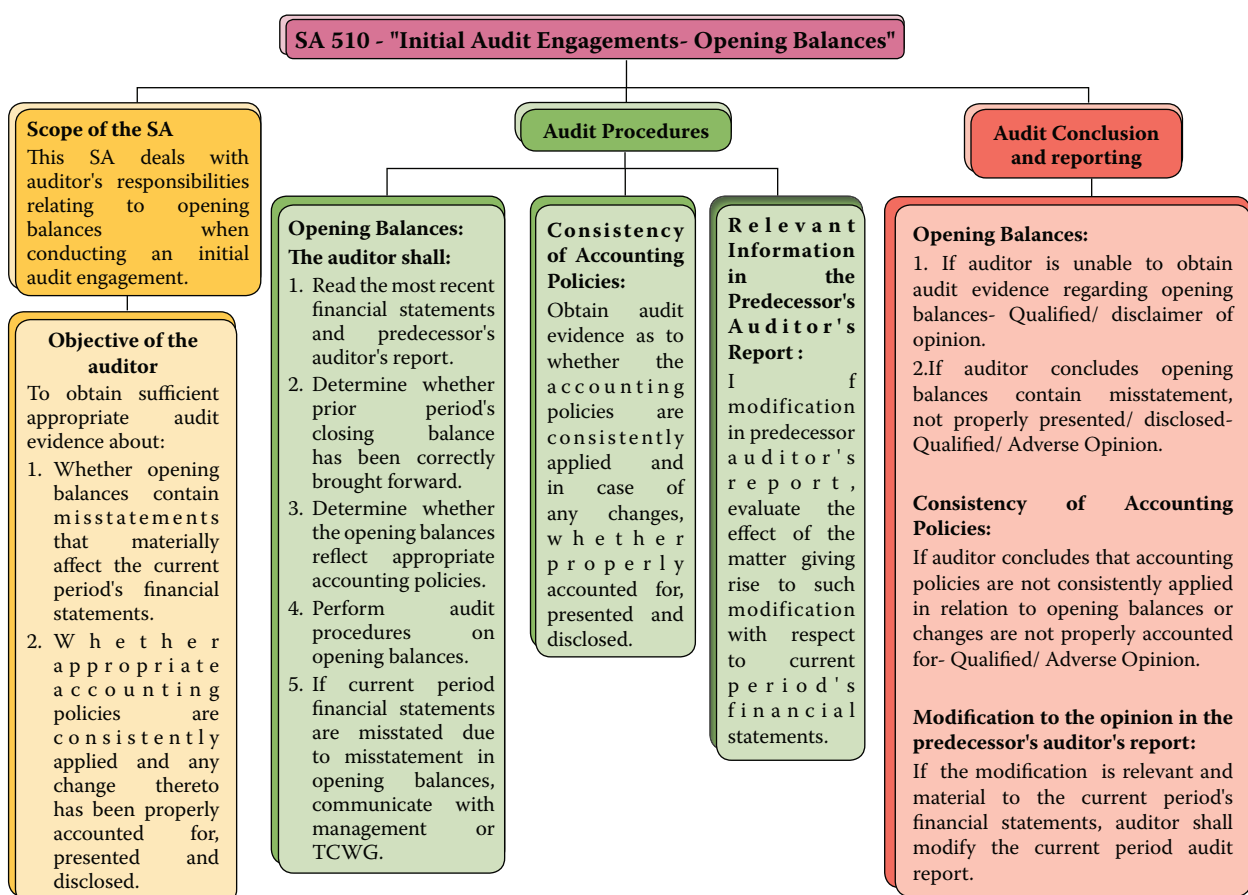
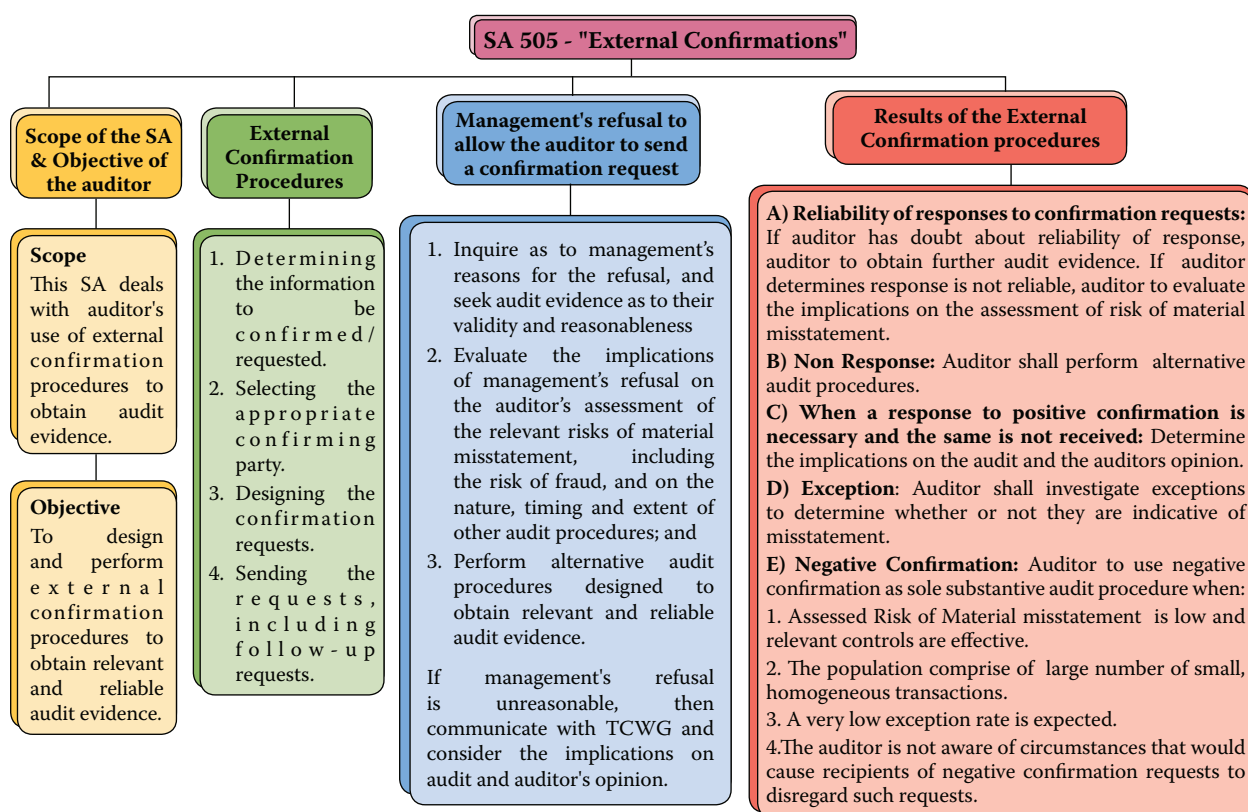
## SA 450

**"Evaluation of Misstatements Identified during the Audit"**

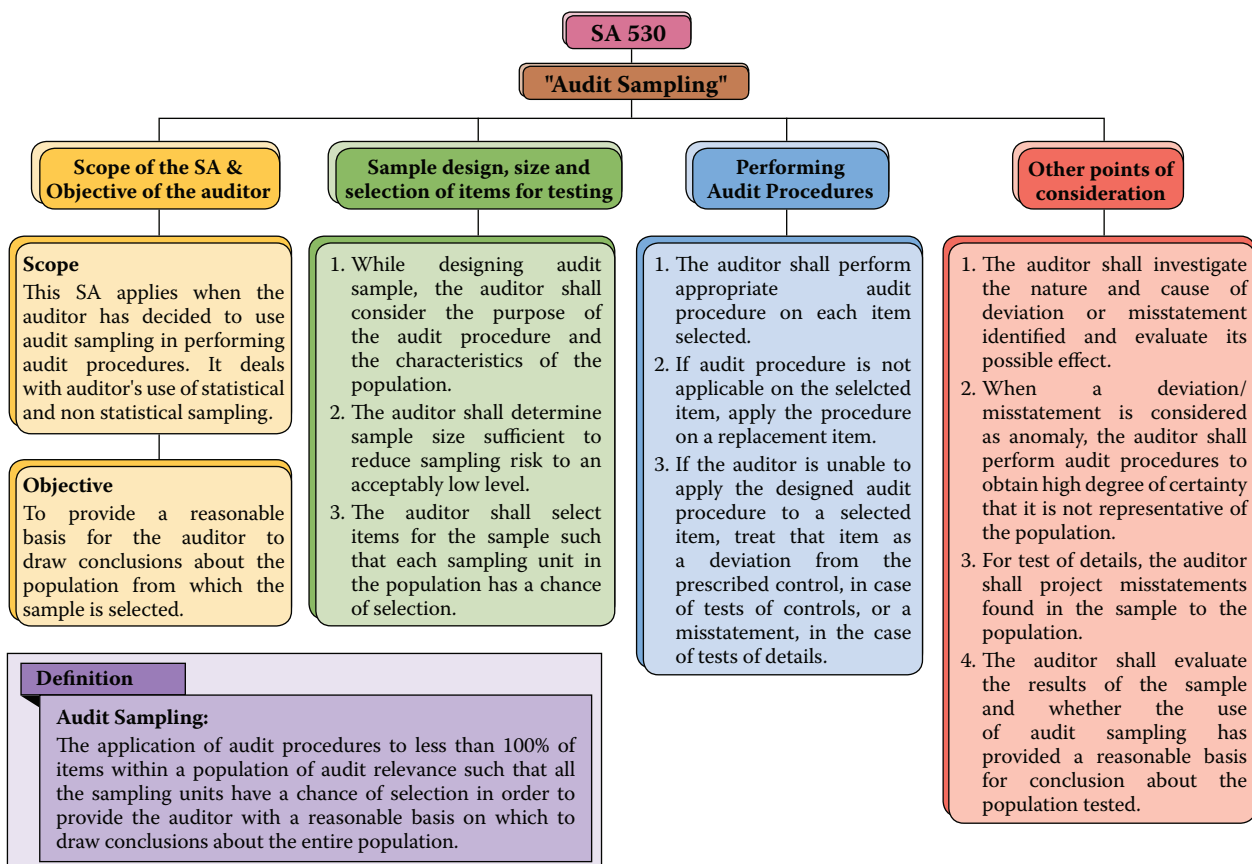
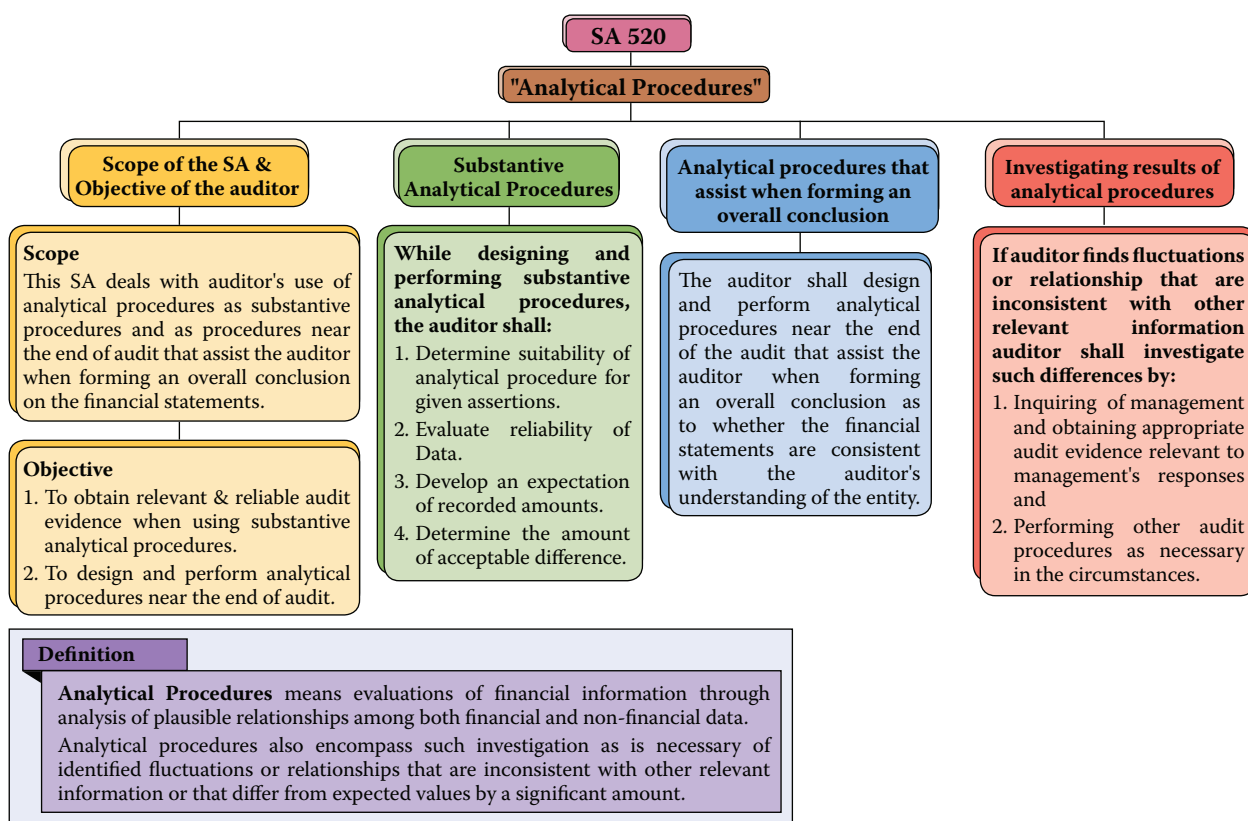
## SA 500 - 599: Audit Evidence

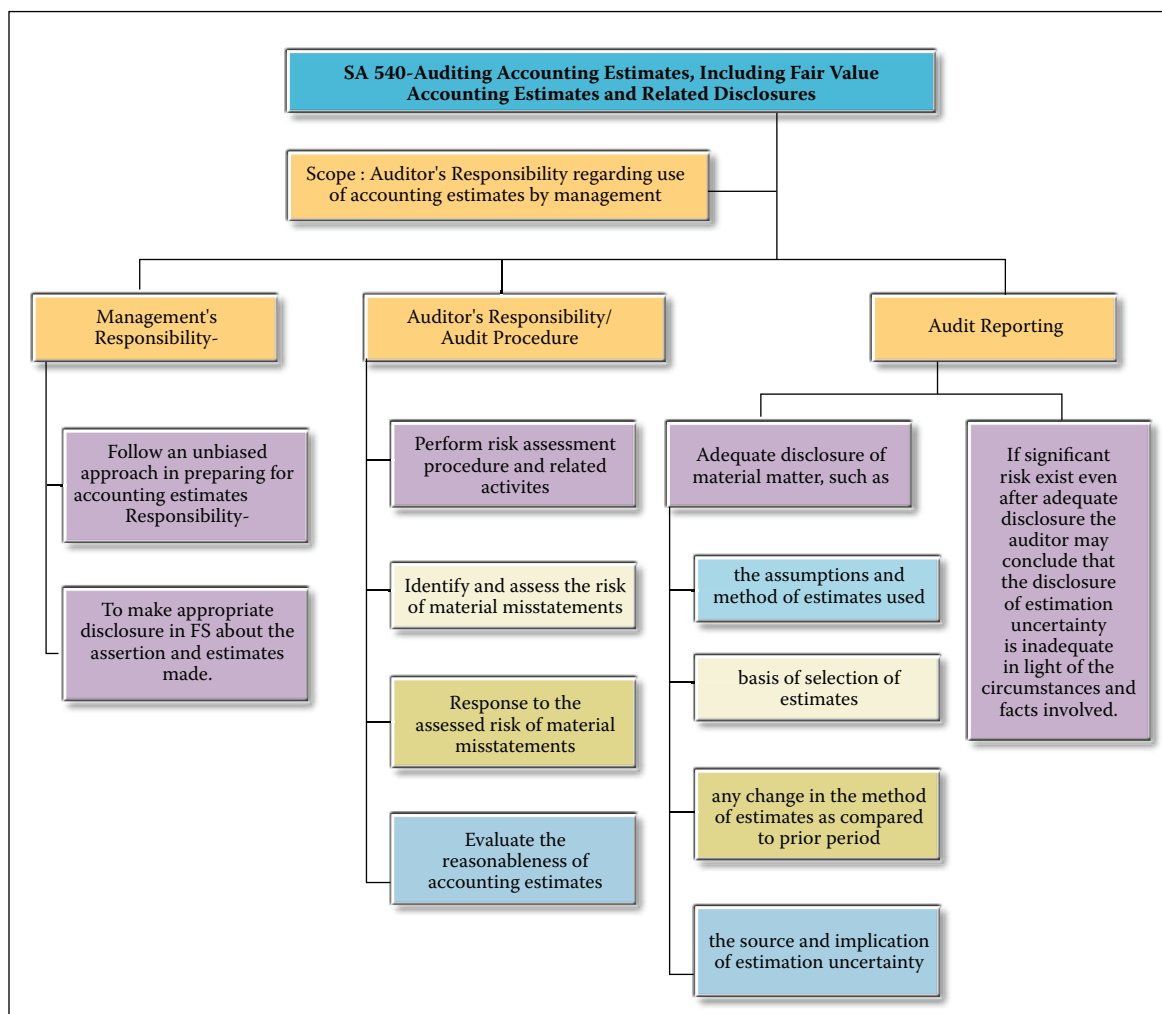










**Important Definitions:**

**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.

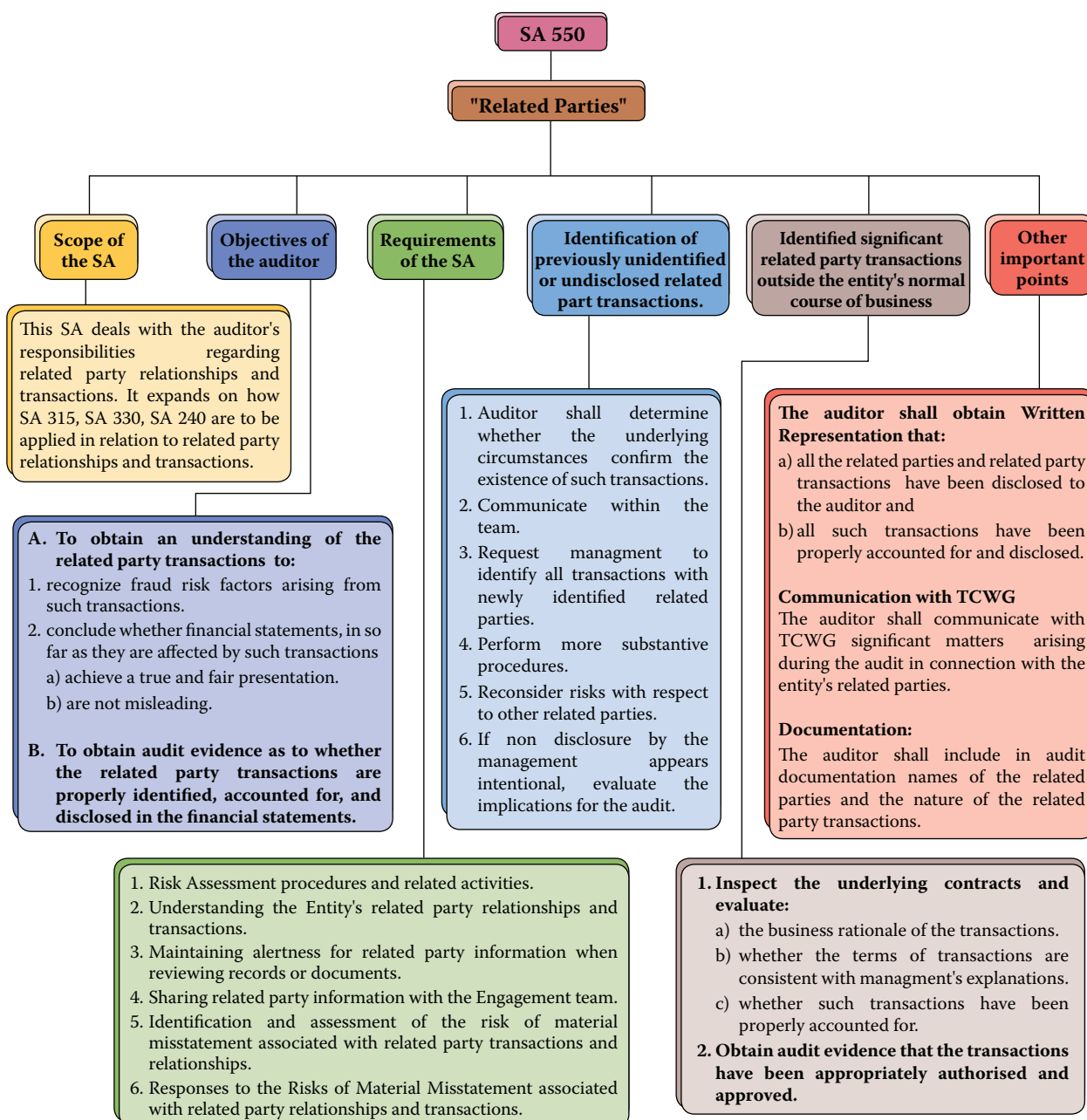
**Auditor's point estimate or auditor's range** – The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management's point estimate

**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.

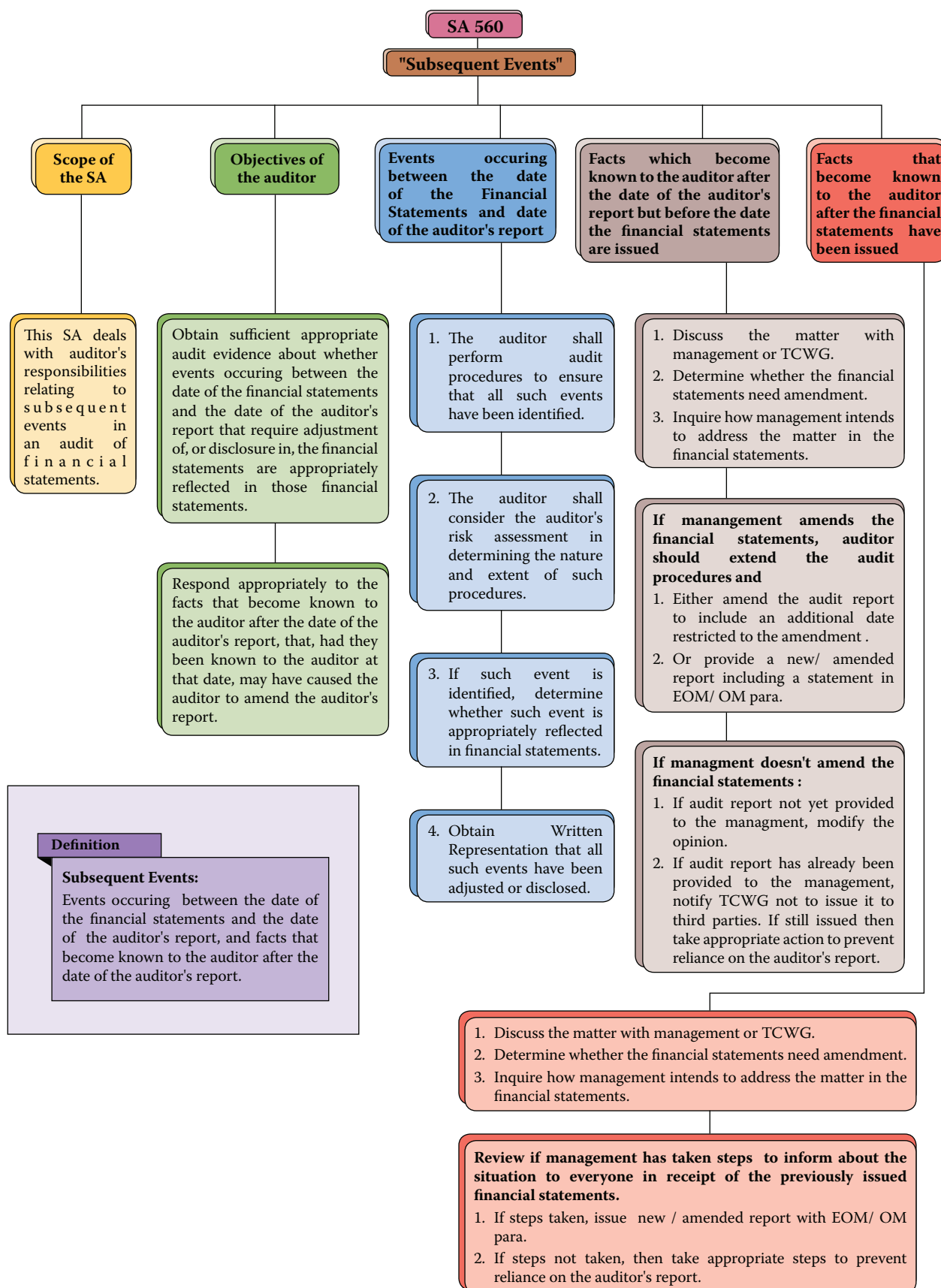
**Definition**

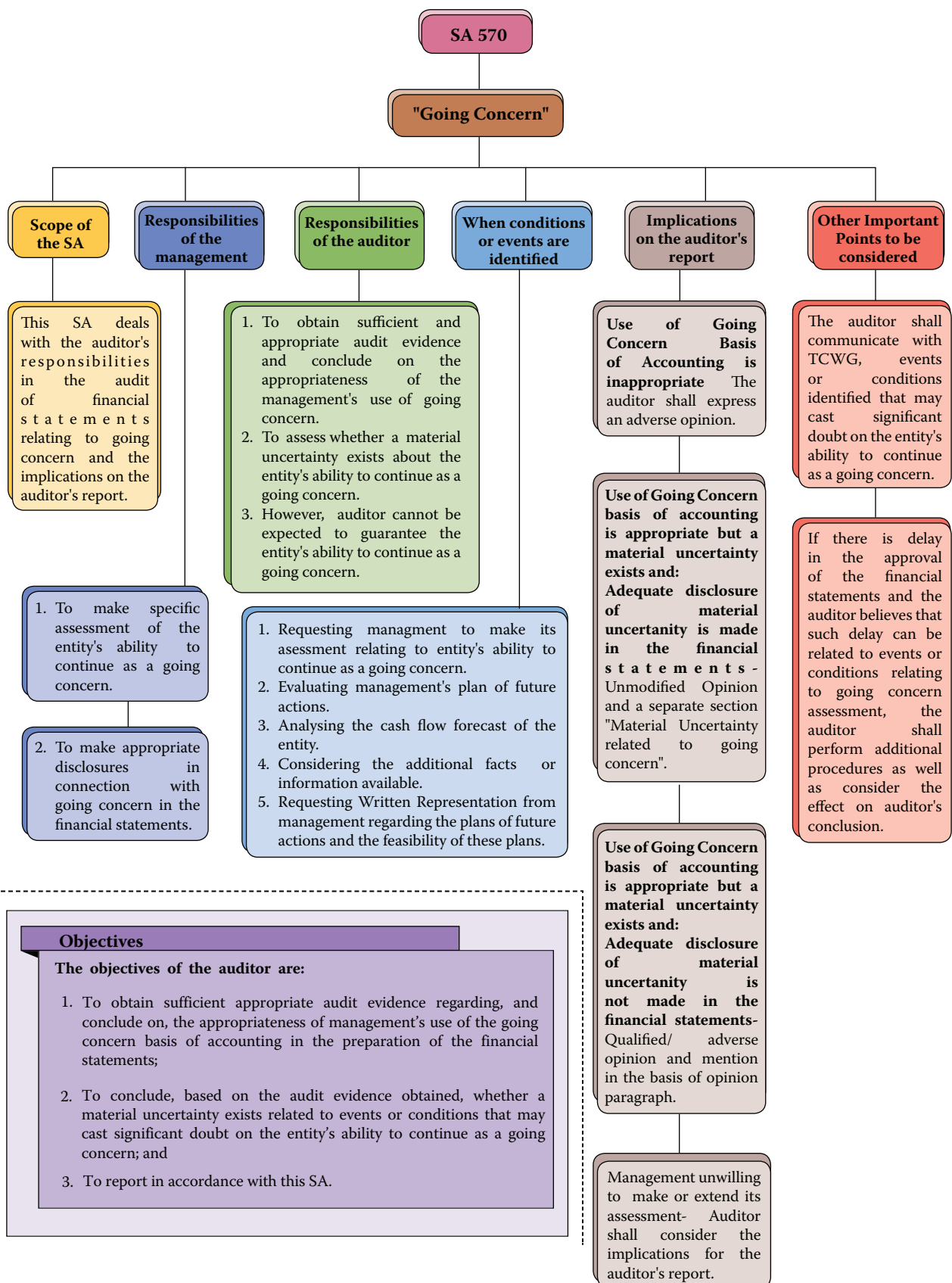
Related party- A party that is either:

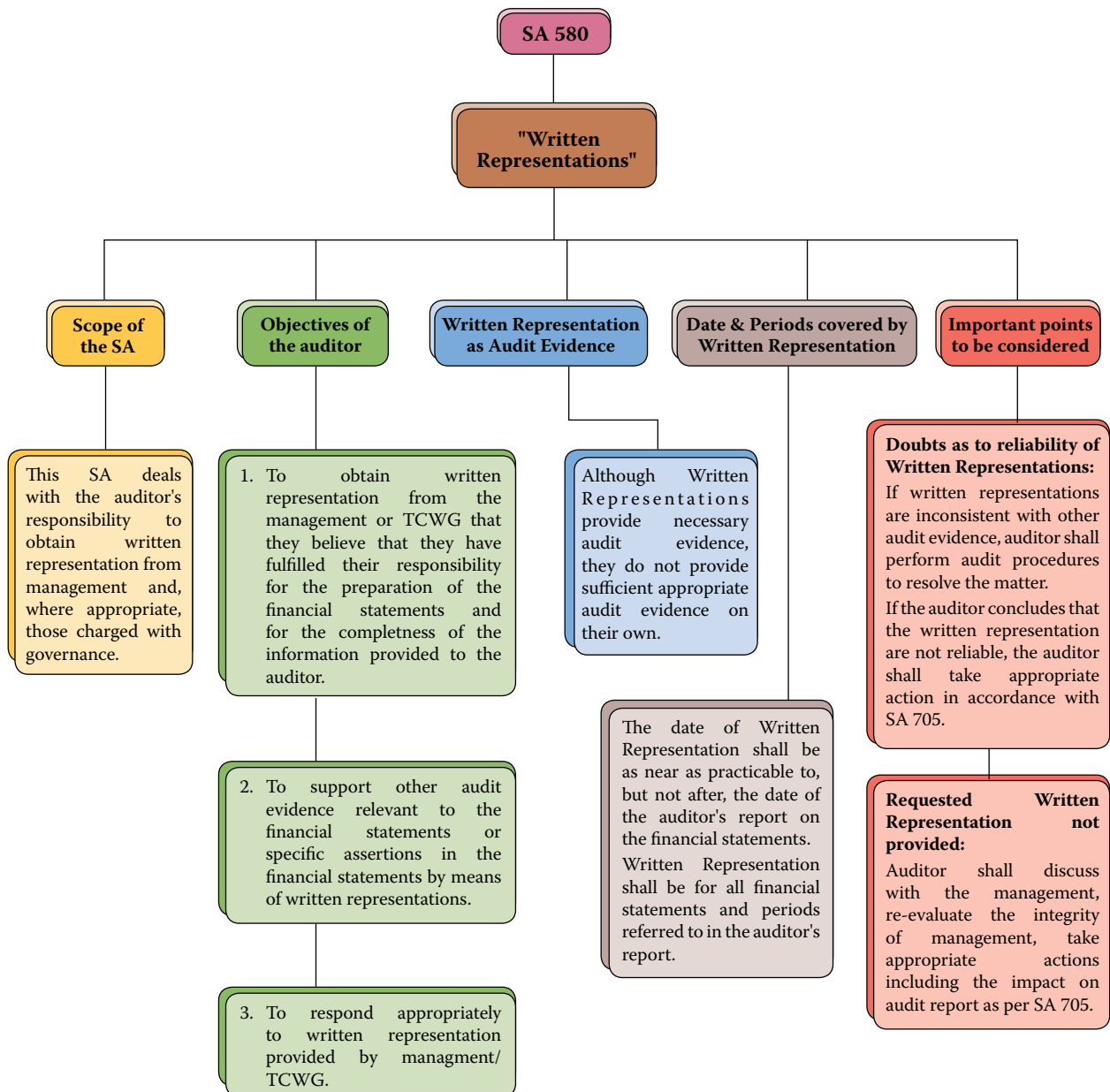
i) a related party as defined in applicable FRF.

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.





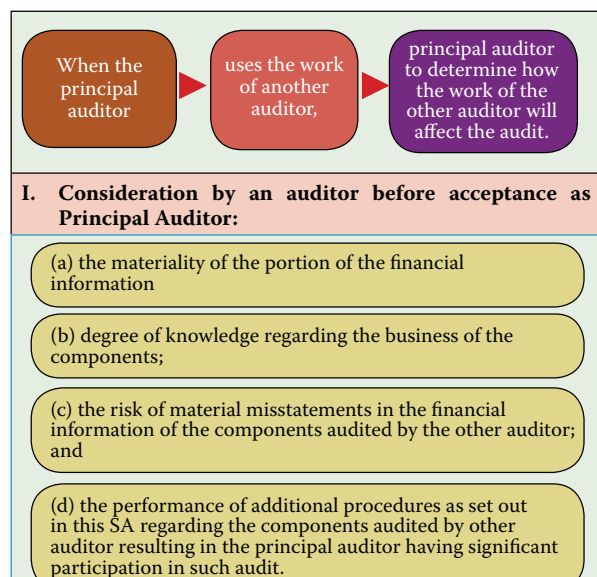
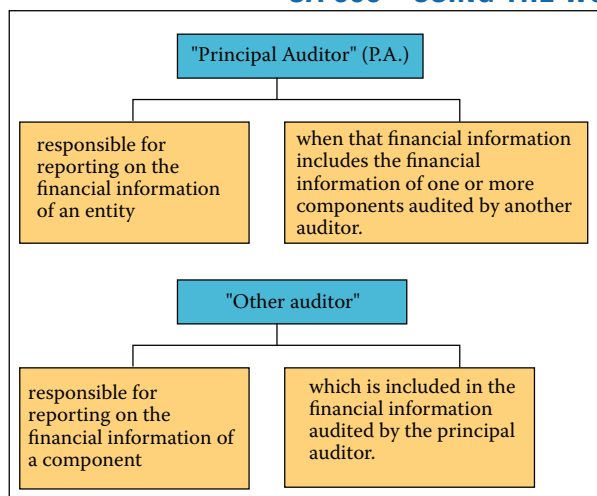
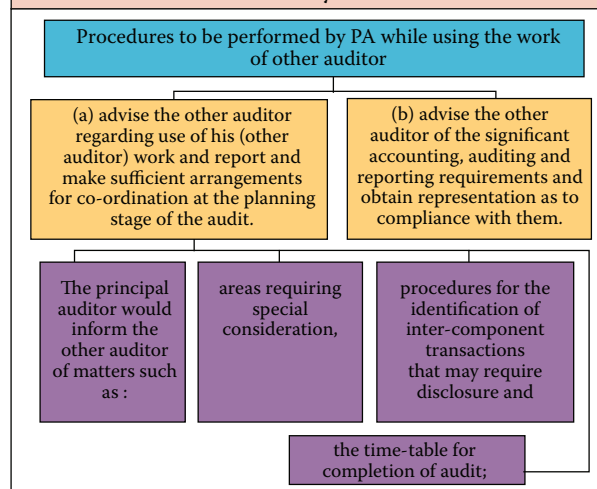
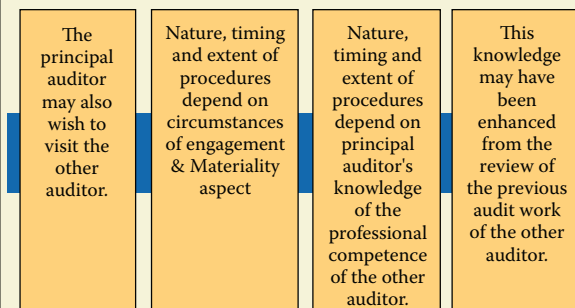
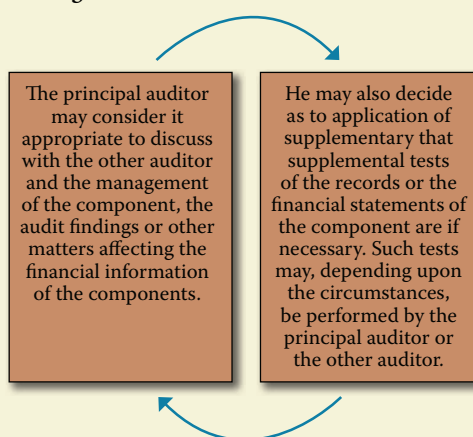
**Definition****Written Representation:**

A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Do not include financial statements, the assertions therein, or supporting books or records.

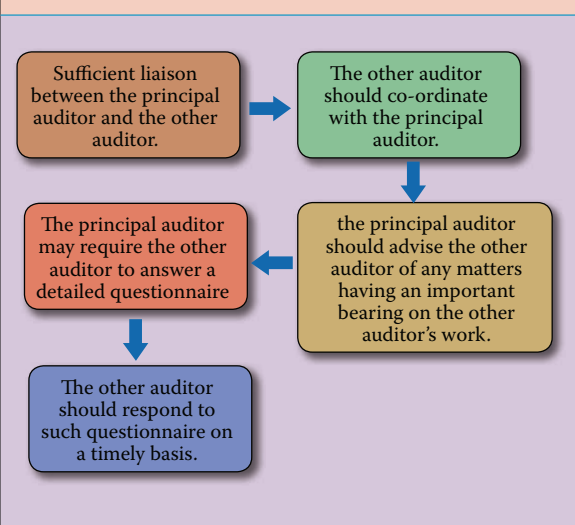


## SA 600 - 699: Using Work of Others

## SA 600 - USING THE WORK OF ANOTHER AUDITOR

**II. Procedures to be followed by P.A.****Principal auditor to review – written summary of other auditor's procedures****The principal auditor should consider the significant findings of the other auditor.**

Where the other auditor's report is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.

**III. Co-ordination Between Auditors**

**IV Reporting Considerations****1. 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.

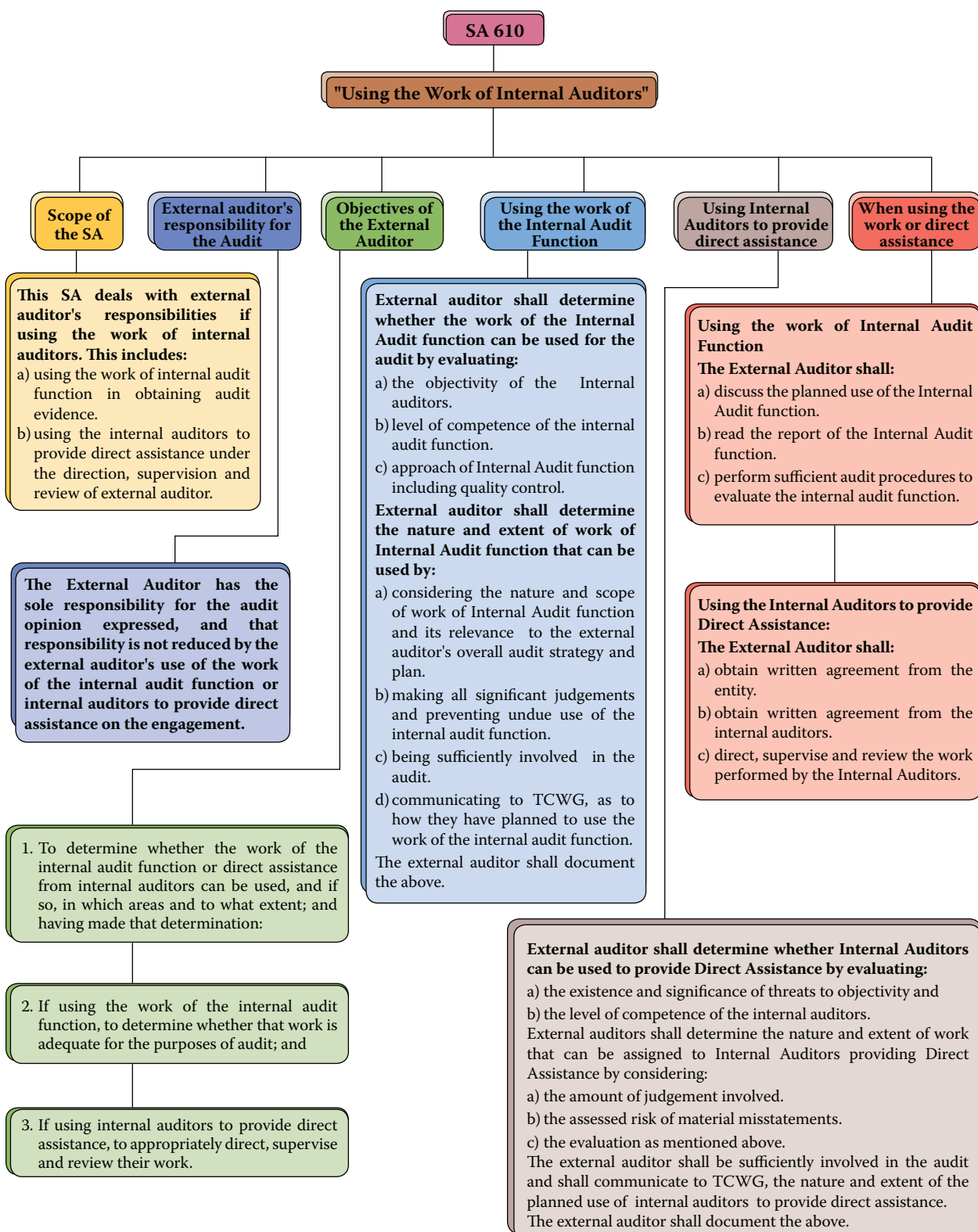
**2. If the other auditor issues a Modified Report**

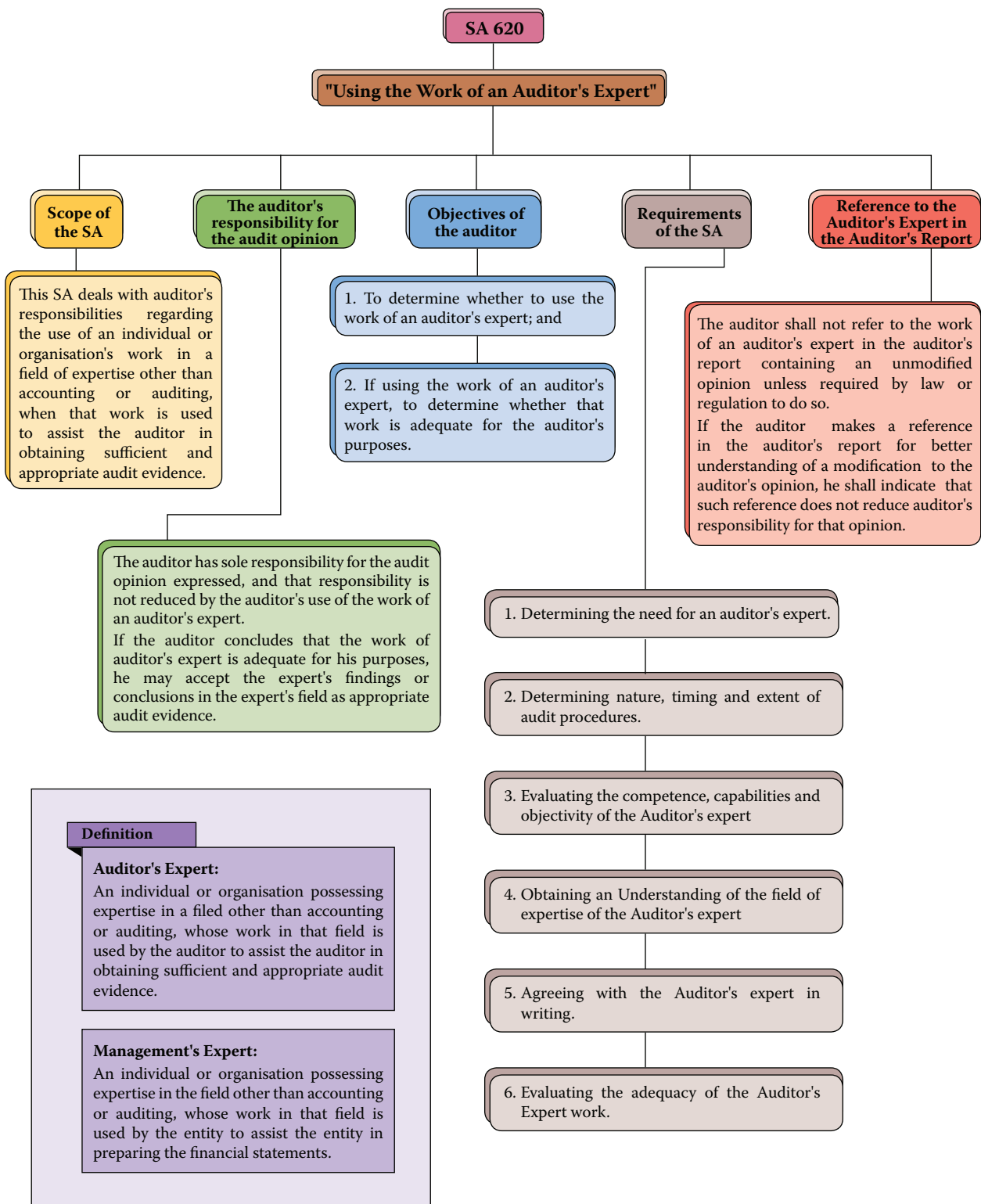
In all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor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

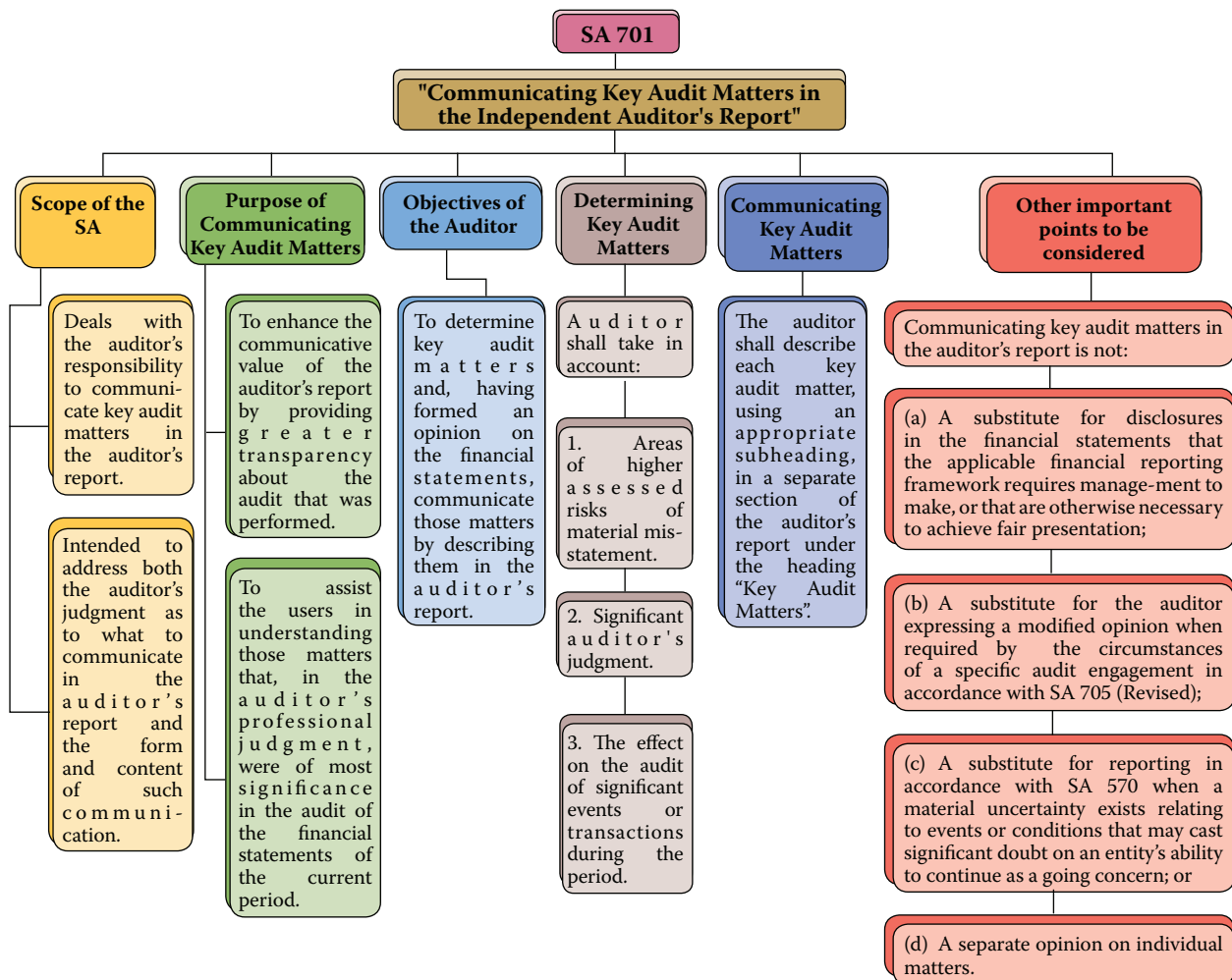
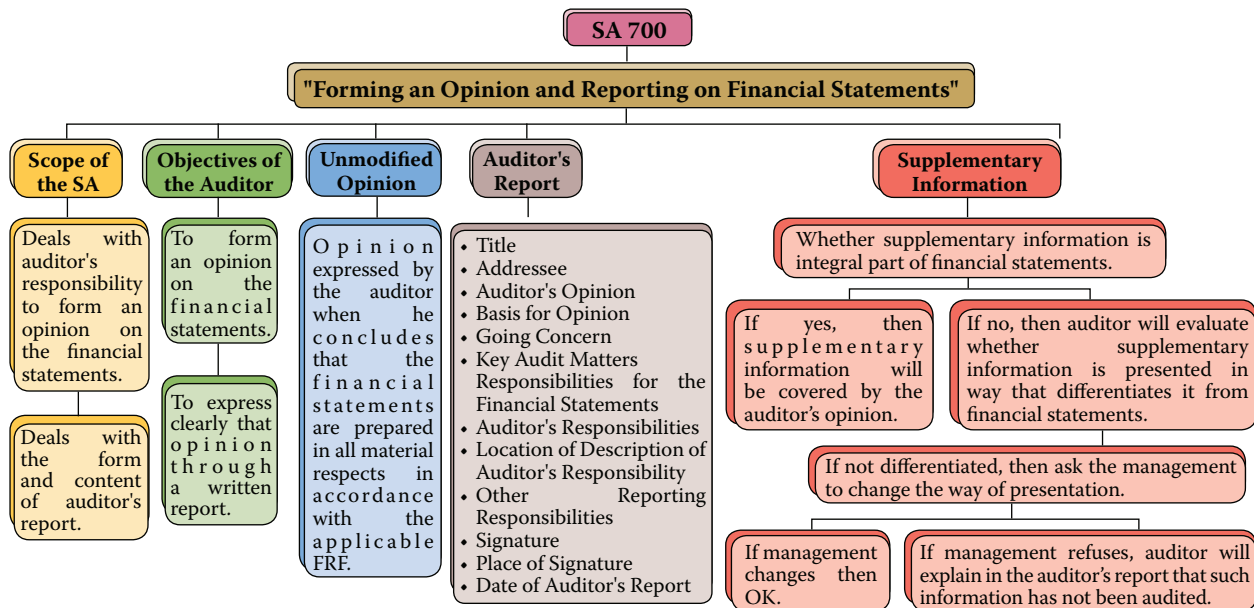




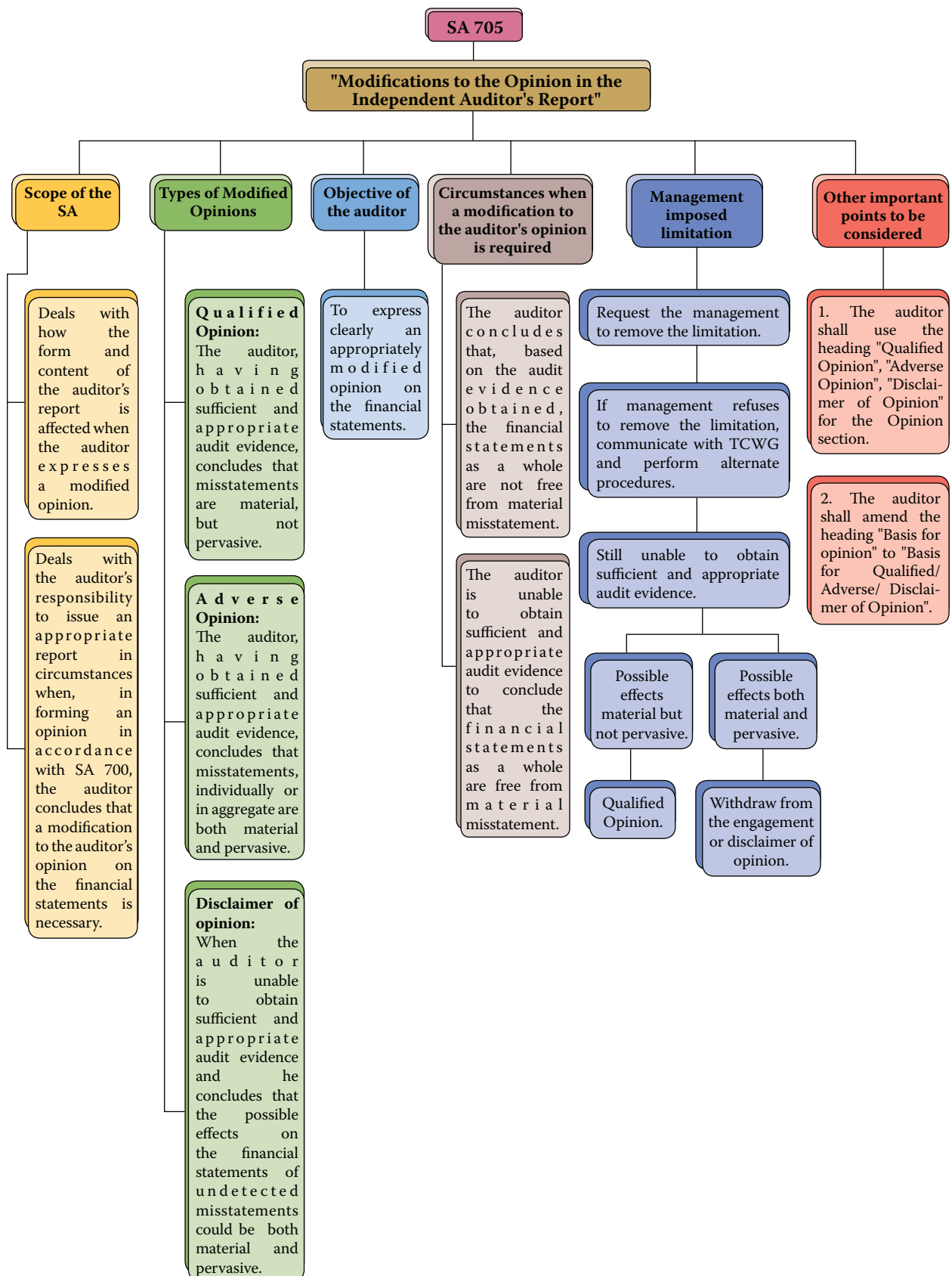


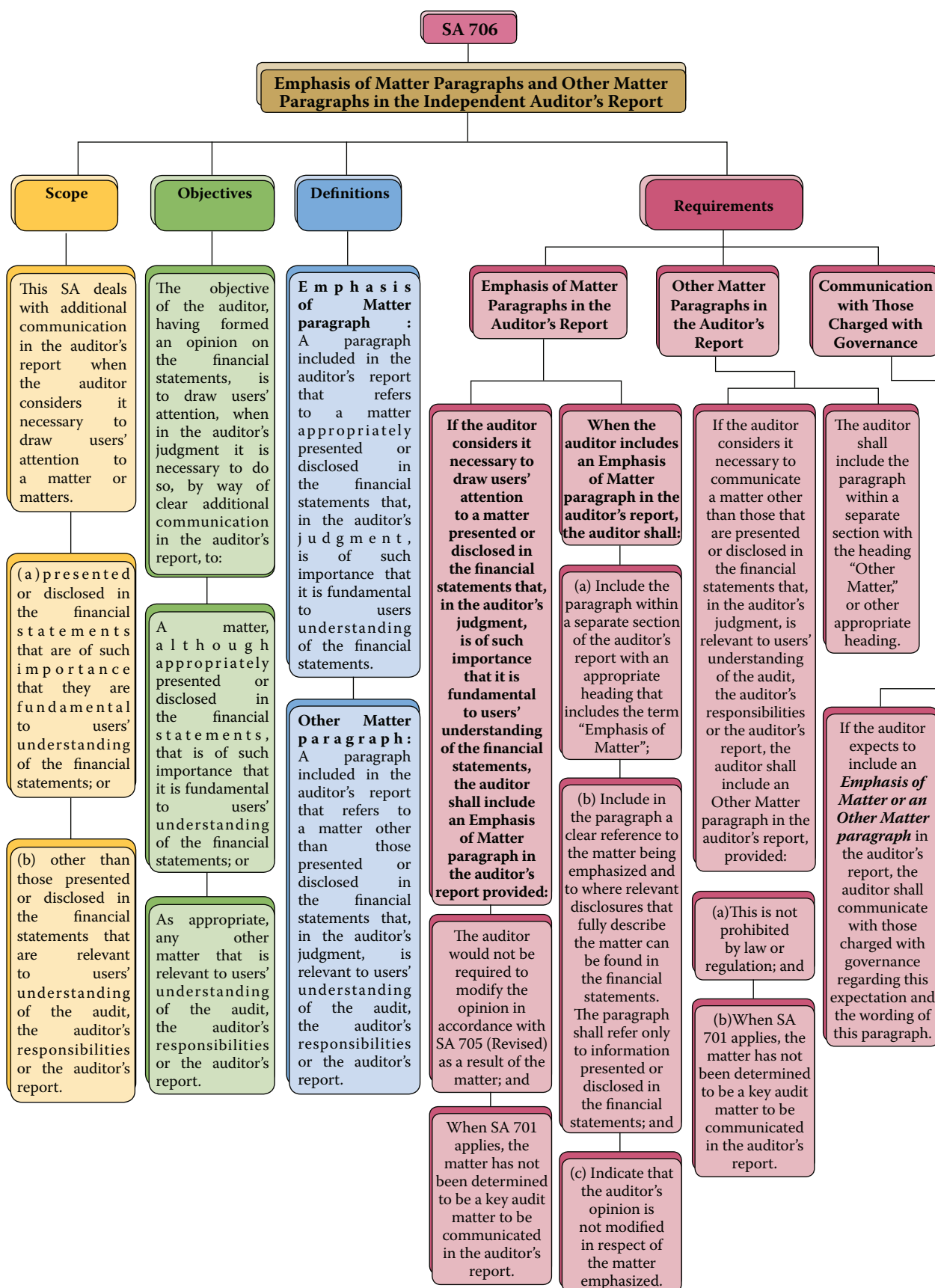


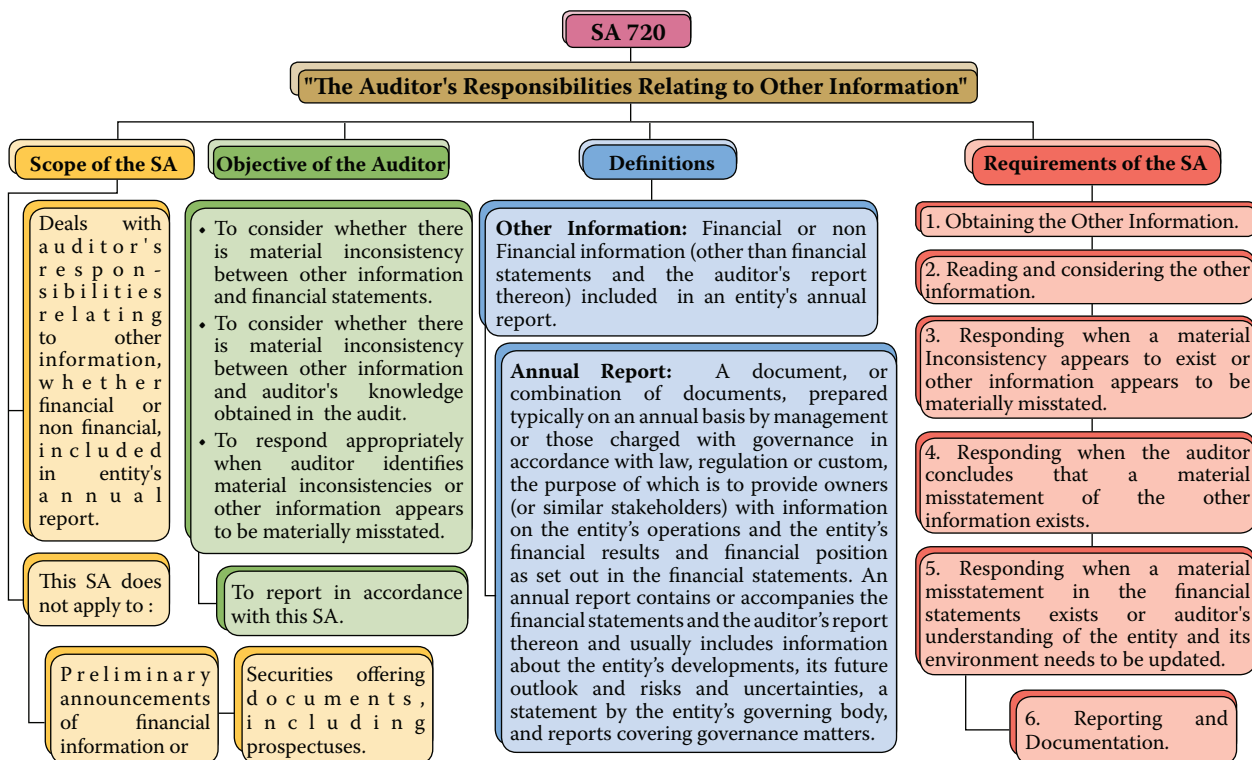
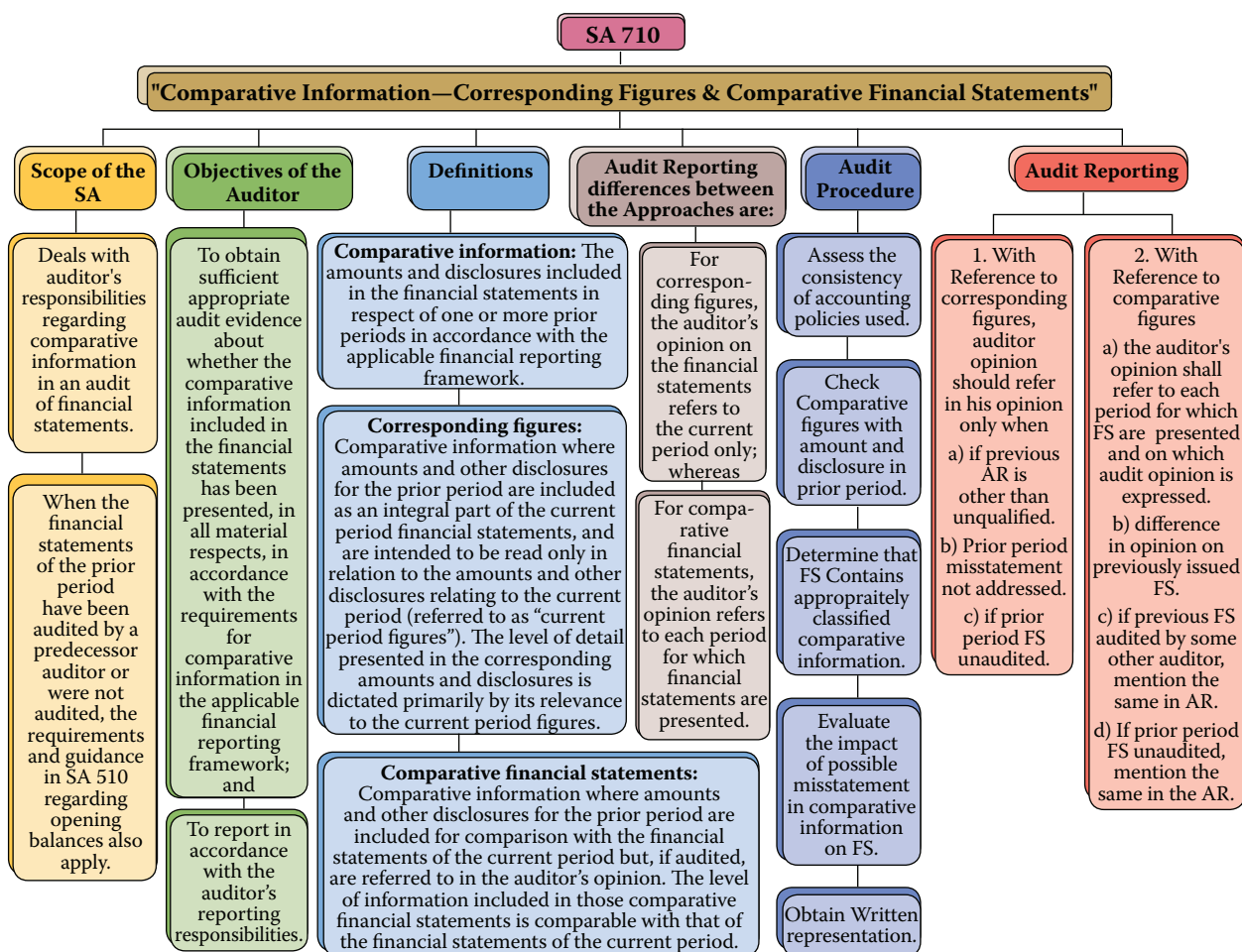
## SA 700 - 799 Audit Conclusions and Reporting











# इवारानइह

Last Mile Referencer for

## AUDITING



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(Setup by an Act of Parliament)

**Board of Studies (Academic)**

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