EKATVAM ACADEMY

CA INTER

NEW SYLLABUS

AUDITING & ETHICS

Module-1



CA Rishabh Jain

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Acknowledgments

There are people in this world, some of them so wonderful, that made this book become a reality that you are holding in your hand. I would like to thank all of them.

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"Alone we can do so little,
together we can do so much"

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CA INTERMEDIATE

Auditing and Ethics

Module - 1

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RJ = Practical Insight into Theoretical World

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STANDARDs OVERVIEW

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List of SA's

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STANDARDS DETAILS

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GUIDANCE NOTES AND STATEMENTS

<table>
<tr><td rowspan="3">Guidance Notes</td><td colspan="2">1) 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.
2) Guidance Notes are recommendatory in nature.</td></tr>
<tr><td>Duties of member</td><td>a) 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.
b) Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not.
c) If the same have not been followed, the member should consider, a disclosure in his report if necessary.</td></tr>
<tr><td>Examples</td><td>a) Guidance note on Independence of Auditors.
b) Guidance note on Audit u/s 44AB of the Income-tax Act.</td></tr>
<tr><td>Statements</td><td colspan="2">1) Statements on Auditing are issued with a view to secure compliance by professional accountants on matters, which in the opinion of the Council are critical for the proper discharge of their functions.
2) Compliance of Statements is Mandatory in nature.</td></tr>
<tr><td rowspan="2"></td><td>Duties of member</td><td>a) To examine whether 'Statements' relating to accounting matters are complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the 'Statements', it will be their duty to make adequate disclosures in their audit reports so that the users of Financial statements may be aware of such deviations; and
b) If, for any reason, a member, has not been able to perform an audit in accordance with such 'Statements' his report should draw attention to the material departures therefrom.</td></tr>
<tr><td>Examples</td><td>Statement on Companies (Auditor's Report) Order, 2003 (Revised 2016)</td></tr>
</table>

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SA 200

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SA 200

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

Overall objectives of the Auditor	1) While auditing the financial statements, the auditor has following objectives: a) To obtain **reasonable assurance** about whether the financial statements are **free from material misstatements** thereby enabling the auditor to express an opinion on whether financial statement are prepared as per applicable **Financial reporting framework (FRF)** and b) To **report** on **financial statements** and **communicate as per SAs**. 2) If reasonable assurance **cannot be obtained** and **qualified opinion** is **insufficient** then as required by SA's, Auditor should either **disclaim the opinion** or **withdraw** from engagement.
Ethical requirements	1) The Auditor shall comply with relevant Ethical Requirements, **including independence**. 2) The relevant Ethical Requirements ordinarily includes **Code of Ethics** issued by ICAI. The fundamental principles are: a) Integrity; b) Objectivity; c) Professional competence and due care; d) Confidentiality; and e) Professional behavior 3) The Code describes independence as comprising both **independence of mind and independence in appearance**.
Professional Judgment	It is necessary to make proper decisions during audit. For example, decisions about: a) Materiality b) Audit risk c) Nature, Timing and Extent of Audit Procedure d) Sufficiency & Appropriateness of evidence
Sufficient & appropriate Audit Evidence and Audit Risk	1) Sufficiency refers to quantum of evidence whereas appropriateness refers to its quality. He should consider **SA 500**. 2) It is required to reduce audit risk to an acceptable low level. 3) Audit risk is a **technical risk**. It consists of risk of material misstatements and detection risk. 4) However, due to **inherent limitations of audit**, audit risk cannot be reduced to Zero.

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Preparation of financial statement	1) Audit is conducted on the premise that Management & TCWG have some fundamental responsibilities, 2) Audit of the financial statements does not relieve them of their responsibilities.
Purpose of an Audit	1) To enhance the confidence of intended users of financial statements. 2) To form an opinion on the true and fair view of the framework, 3) His opinion **does not assure** a) **future viability** of entity or b) **efficiency or effectiveness**, with which the management has conducted the affairs of the entity 4) However, in some cases, applicable law & regulation may require auditor to express opinion on some specific matters. Then auditor should undertake further work (As in The Companies Act, 2013)
Reasonable Assurance	1) Auditor is required to obtain reasonable assurance as to whether the financial statements are free from material misstatements. Thus auditor obtains sufficient and appropriate audit evidence to reduce audit risk to an acceptable low level. 2) However, **reasonable assurance is not absolute assurance**. This is due to inherent limitations of an audit.

NOTE 1 - INHERENT LIMITATIONS OF AUDIT

The process of audit suffers from certain inbuilt limitations due to which an **auditor cannot obtain an absolute assurance** that financial statements are free from misstatement due to fraud or error. These fundamental limitations arise due to the following factors: -

The Nature of Financial Reporting:

a) Preparation of financial statements **involves** making many **judgments by management**. These judgments may involve **subjective decisions** or a **degree of uncertainty**. Therefore, auditor may not be able to obtain absolute assurance that financial statements are free from material misstatements due to frauds or errors.

b) One of the premises for conducting an audit is that management acknowledges its responsibility of preparation of financial statements in **accordance with applicable financial reporting framework** and for devising suitable internal controls.

c) However, such controls may not have operated to produce reliable financial information due to their own limitations.

d) Consider, **for example**, that management of a company has devised a control that all purchase bills should reflect stamp and signatures of an authorised person in "Goods Receiving Section"

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of the company stating the date and time of receiving goods in premises.

e) It is an example of internal control devised by the company to ensure that only those purchase bills are produced for payment for which goods have been actually received.

f) Now, what happens if concerned accountant and authorised person in "Goods Receiving Section" **collude**. It is a case of **overriding of internal controls** devised by the company due to collusion between two persons. Such a probable collusion is one of limitations of internal controls itself.

The Nature of Audit Procedures:

a) The auditor **carries out** his work by obtaining audit evidence through **performance** of audit procedures. However, there are practical and legal limitations on ability of auditor to obtain audit evidence.

b) **For example**, an auditor does not test all transactions and balances. He forms his opinion only by **testing samples**. It is an example of practical limitation on auditor's ability to obtain audit evidence.

c) **Management may not provide complete information** as requested by auditor. There is no way by which auditor can force management to provide complete information as may be requested by auditor. In case he is not provided with required information, he can only report. It is an example of legal limitation on auditor's ability to obtain audit evidence.

d) The management may consist of **dishonest and unscrupulous people** and may be, itself, involved in fraud.

e) It may be engaged in concealing fraud by **designing sophisticated and carefully organized schemes** which may be hard to detect by the auditor. It may produce fabricated documents before auditor to lead him to believe that audit evidence is valid. However, in reality, such documents could be fake or non-genuine.

f) An auditor is not an expert in authentication of documents. Therefore, he may be led to accept invalid audit evidence on the basis of unauthentic documents.

g) It is quite possible that entity may have entered into some **transactions with related parties**.

h) Such transactions may be only paper transactions and may not have actually occurred. The auditor may not be aware of such related party relationships or audit procedures may not be able to detect probable wrong doings in such transactions.

Not in nature of investigation:

Audit is not an official investigation. Hence, auditor **cannot** obtain absolute assurance that financial statements are free from material misstatements due to frauds or errors.

Timeliness of financial reporting and decrease in relevance of information over time:

a) The **relevance** of information **decreases over time** and auditor cannot verify each and every matter. Therefore, **a balance has to be struck** between **reliability of information** and **cost of obtaining** it.

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b) For example, an auditor who is conducting audit of a company since last two years. During these two years, he has sought detailed information from management of company regarding various matters.

c) During his third year stint, he chooses to rely upon some information obtained as part of audit procedures of second year. However, it could be possible that something new has happened and that information is not relevant. So, the information being relied upon by auditor is not timely and may have lost its reliability.

Future Events:

a) Future events or conditions may affect an entity adversely. Adverse events may seriously affect ability of an entity to continue its business.

b) The business may cease to exist in future due to change in market conditions, emergence of new business models or products or due to onset of some adverse events.

c) Therefore, it is in view of above factors, that an auditor cannot provide a guarantee that financial statements are free from material misstatements due to frauds or errors.

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SA 210

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SA 210 Agreeing the Terms of Audit Engagement

Introduction	1) **SA 210** deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. 2) This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present.
Objective	The **objective** of the auditor is **to accept or continue an audit engagement** only when the basis upon which it is to be performed has been agreed, through: a) Establishing whether the **preconditions for an audit** are present; and b) Confirming that there is a **common understanding between the auditor and management** and, where appropriate, those charged with governance of the terms of the audit engagement.
Agreement on Audit Engagement Terms	1) Except in the cases where it is required under law to get accounts audited **(for example in case of companies)**, audit is a matter of contract between auditor and client. 2) It is, therefore, important, **both for the auditor and client**, that each party should be **clear** about the **nature of the engagement**. It must be **reduced to writing** and should exactly specify the scope of the work. 3) The auditor shall **agree** the terms of the audit engagement with **management or those charged with governance**, as appropriate. 4) The agreed terms of the audit engagement shall be **recorded in an audit engagement letter** or **other suitable form of written agreement**. 5) The audit engagement letter is sent **by the auditor to his client**. 6) It is in the interest of both the auditor and the client to issue an engagement letter so that the possibility of misunderstanding is reduced to a great extent. **Such a letter includes**:- a) The **objective and scope** of the audit of the financial statements; b) The **responsibilities of the auditor;** c) The **responsibilities of management;** d) Identification of the **applicable financial reporting framework** for the preparation of the financial statements; and e) Reference to the **expected form and content of any reports** to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content. 7) **If law or regulation prescribes in sufficient detail the terms of the audit**

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	engagement, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.
Preconditions for an Audit	As per **SA 210 "Agreeing the Terms of Audit Engagements"**, preconditions for an audit may be defined as the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted. **In order to establish whether the preconditions for an audit are present, the auditor shall:** 1) Determine whether the **financial reporting framework** is acceptable; and 2) Obtain the agreement of management that it **acknowledges and understands its responsibility:** a) For the preparation of the financial statements in accordance with the **applicable financial reporting framework;** including where relevant their fair representation; b) For the **internal control** as management considers necessary; to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and c) **To provide the auditor with:** (i) **Access to all information** of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters; (ii) **Additional information** that the auditor may request from management for the purpose of the audit; and (iii) **Unrestricted access to persons within the entity** from whom the auditor determines it necessary to obtain audit evidence.
Limitation on Scope Prior to Audit Engagement Acceptance	If management or those charged with governance **impose a limitation on the scope of the auditor's work** in the terms of a proposed audit engagement such that the auditor believes the **limitation will result in the auditor disclaiming an opinion** on the financial statements, **the auditor shall not accept** such a **limited engagement** as an audit engagement unless required by law or regulation to do so.
What happens if preconditions for an audit are not present?	If the preconditions for an audit are **not present**, the auditor shall **discuss the matter with management**. Unless required by law or regulation to do so, the auditor shall **not accept** the proposed audit engagement: a) If the auditor has **determined** that the financial reporting framework to be applied in the preparation of the financial statements is **unacceptable** or

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	b) If the agreement of management is **not obtained** on matters relating to understanding of responsibility of management on preparation of financial statements, internal controls for preparation of financial statements, providing access to all information to auditor and unrestricted access to persons within the entity.
Recurring Audits	1) **Recurring audit** is an audit which is performed by an auditor **over years**. On recurring audits, the auditor shall **assess** whether **circumstances** require the **terms of the audit engagement** to be **revised** and whether there is a **need to remind** the entity of the **existing terms** of the audit engagement. 2) The **auditor may decide not to send a new audit engagement letter** or other written agreement each period. 3) However, the **following factors** may **make it appropriate to revise** the terms of the audit engagement **or to remind** the **entity of existing terms:** a) Any indication that the **entity misunderstands the objective** and **scope** of the audit. b) Any **revised or special terms** of the audit engagement. c) A recent **change in senior management**, board of directors. d) A significant change in **ownership** e) A significant **change in nature or size of the entity's business.** f) A change in **legal or regulatory requirements.** g) A change in the **Financial reporting framework** adopted in the preparation of the Financial statements h) A change in **other reporting requirements.**
Acceptance of a Change in the Terms of the Audit Engagement	The auditor shall not agree to a change in the terms of the audit engagement where there is **no reasonable justification** for doing so. **(Refer Note 1 for Details.)**

Note-1

Request from Entity to change the Terms of Audit Engagement-When Reasonable Justification Exists?

1) A request from the entity for the auditor to change the terms of the audit engagement may result from
   a) a **change in circumstances** affecting the need for the service,
   b) a **misunderstanding** as to the nature of an audit as originally requested or
   c) a **restriction on the scope** of the audit engagement, whether imposed by management or caused by other circumstances.

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d) The auditor considers the **justification** given for the request, particularly the **implications of a restriction** on the scope of the audit engagement.

2) A **change in circumstances** that affects the entity's requirements or **a misunderstanding** concerning the nature of the service originally requested may be considered **a reasonable basis** for **requesting a change** in the audit engagement.

3) In contrast, a change may **not** be considered reasonable if it **appears** that the change **relates to information** that is **incorrect, incomplete or otherwise unsatisfactory**.

4) **An example** might be where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified opinion or a disclaimer of opinion.

What should auditor consider before agreeing to change the audit engagement to the engagement providing lower level of assurance?

1) If, prior to completing the audit engagement, the auditor is **requested to change** the audit engagement to an engagement that **conveys a lower level of assurance**, the auditor shall **determine** whether there is **reasonable justification** for doing so.

2) Before agreeing to **change an audit engagement to a review or a related service**, an auditor who was engaged to perform an audit in accordance with SAs may also **need to assess** any **legal or contractual** implications of the change.

3) If the auditor **concludes** that there is **reasonable justification** to change the audit engagement to a review or a related service, the audit work performed to the date of change may be **relevant** to the changed engagement.

4) However, the work required to be performed and the report to be issued would be those appropriate to the revised engagement. In order to avoid confusing the reader, the report on the related service would **not include** reference to:

   a) The **original** audit engagement or

   b) **Any procedures** that may have been performed in the **original audit engagement**, except where the audit engagement is changed to an engagement to undertake agreed- upon procedures and thus reference to the procedures performed is a normal part of the report.

5) If the **terms** of the audit engagement are **changed**, the auditor and management shall **agree on and record the new terms** of the engagement in an engagement letter or other suitable form of written agreement.

Recourse available to auditor in situation of nonagreement to a change in terms of engagement and lack of permission from management to continue original audit engagement

If the auditor is **unable** to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:

a) **Withdraw** from the audit engagement where **possible** under **applicable law or regulation** and

b) **Determine** whether there is any **obligation**, either contractual or otherwise, **to report** the circumstances to other parties, such as **those charged with governance, owners or regulators**.

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Practical Insight into draft engagement letter

RJ & Co.
Chartered Accountants

24, MG Road,
Mumbai
10th August XXXX

To the Board of Directors of Pristine Products Limited

The objective and scope of the audit

You have requested that we audit the financial statements of Pristine Products Limited, which comprise the Balance Sheet as at March 31st, 20XX, the Statement of Profit & Loss, Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing (SAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

The responsibilities of the auditor

We will conduct our audit in accordance with Standards on Auditing (SAs) issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. However, we will

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communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs.

The responsibilities of management

Our audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledge and understand that they have responsibility:

a) For the preparation of financial statements that give a true and fair view in accordance with the financial reporting Standards. This includes:
   (i) The responsibility for the preparation of financial statements on a going concern basis.
   (ii) The responsibility for selection and consistent application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards.
   (iii) The responsibility for making judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the entity at the end of the financial year and of the profit or loss of the entity for that period.

b) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and

c) To provide us with:
   (I) Access, at all times, to all information, including the books, accounts, vouchers and other records and documentation, of the company, whether kept at the head office of the

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company or elsewhere, of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters,

(ii) Additional information that we may request from management for the purpose of the audit and

(iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the company such information and explanations as we may think necessary for the performance of our duties as auditor. As part of our audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

Fees

Our fees bill for ₹ XXXXXX (plus applicable taxes) and out of pocket expenses will be raised after completion of audit work.

Reporting

We will report to the members of Pristine Products Limited as a body, whether in our opinion, the financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at March 31, 20XX, and its profit/loss, and its cash flows for the year ended on that date. The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

For RJ & Co.
Chartered Accountants
Firm's Registration Number

(Signature)
(Name of the Member)
(Designation)

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SA 220

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SA 220 Quality Control for an Audit of Financial Statements

INTRODUCTION

1) Based upon quality control system of firm, quality control policies pertaining to audit engagements are decided by engagement teams.
2) **Engagement partner** of a team is **responsible for quality control procedures** of a particular audit engagement in accordance with SA 220.
3) Therefore, **SA 220 is premised on the basis that the firm is subject to SQC 1**. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures that are applicable to the audit engagement and provide the firm with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.

OBJECTIVE OF SA 220

As per **SA 220**, the objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that: -

a) The audit complies with **professional standards and regulatory and legal requirements** and
b) The **auditor's report issued** is **appropriate** in the circumstances.

SA 220 is modelled on lines of SQC 1. It describes responsibilities of engagement partner in relation to following matters: -

a) Leadership responsibilities for quality on audits
b) Relevant ethical requirements
c) Acceptance and Continuance of client relationships and audit engagements
d) Assignment of engagement teams
e) Engagement performance
f) Monitoring

Leadership Responsibilities for Quality on Audits

1) Leadership responsibility of an engagement partner is **to take responsibility** for the overall quality on each audit engagement.
2) The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, **emphasise**

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a) The importance to audit quality of: -
   i) **Performing work** that **complies** with professional standards and regulatory and legal requirements;
   ii) **Complying** with the firm's quality control **policies and procedures** as applicable;
   iii) **Issuing** auditor's reports that are appropriate in the circumstances; and
   iv) The engagement team's **ability to raise concerns without fear of reprisals**.
b) The fact that quality is essential in performing audit engagements.

Relevant ethical requirements

The responsibilities of an engagement partner in relation to ethical requirements in an audit engagement are as under: -

1) **Identifying** a **threat to independence** regarding the audit engagement that safeguards may not be able to eliminate or reduce to an acceptable level.
2) **Reporting** by engagement partner to the relevant persons within the firm to determine appropriate action, which may include **eliminating the activity or interest** that **creates the threat**, or **withdrawing from the audit engagement**, where withdrawal is legally permitted.

Acceptance and Continuance of Client Relationships and audit Engagements

1) The responsibility of an engagement partner in this regard in an audit engagement is on lines of SQC 1 which requires the **firm should obtain such information** as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.
2) Information like
   a) **integrity of principal owners,**
   b) **competence of engagement team and consideration of necessary capabilities including time and resources,**
   c) **compliance with relevant ethical requirements and**
   d) **significant matters arisen during current or previous audit engagement and their implications**
3) This will assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate.

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Assignment of engagement teams

It should be ensured by engagement partner that the engagement team and any auditor's experts who are not part of the engagement team, collectively have the **appropriate competence and capabilities** to perform the engagement in accordance with professional standards and regulatory and legal requirements.

Engagement Performance

1) Engagement partner has the **responsibility for direction, supervision and performance** of audit engagement in accordance with professional standards and regulatory and legal requirements. He is responsible for **auditor's report being appropriate** in circumstances.
2) Further, review of audit documentation before issue of audit report is his responsibility. It has to be **ensured** that sufficient appropriate audit evidence has been obtained to support the **conclusions** reached and for issuance of auditor's report.
3) Engagement partner is also responsible for ensuring **undertaking appropriate consultation** on **difficult or contentious matters** by engagement team not only within the team but also with others at **appropriate level within or outside the firm.**
4) For **audits of financial statements of listed entities**, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
   a) **Determine** that an engagement quality control reviewer has been **appointed.**
   b) **Discuss significant matters** arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer.
   c) **Not date the auditor's report** until the **completion** of the engagement quality control review.
5) If **differences of opinion arise within the engagement team**, with those consulted or, where applicable, **between the engagement partner** and the **engagement quality control reviewer**, the engagement team shall follow the **firm's policies and procedures** for dealing with and **resolving differences of opinion.**

Monitoring

1) An effective system of quality control includes a monitoring process **designed to provide the firm with reasonable assurance** that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.
2) The engagement partner shall consider the results of the firm's monitoring process as

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evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether **deficiencies** noted in that information may affect the audit engagement.

3) The engagement partner should document **following matters** pertaining to an audit engagement:
   a) **Issues identified** with respect to compliance with relevant ethical requirements and how they were resolved.
   b) **Conclusions on compliance** with **independence requirements** that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
   c) **Conclusions** reached regarding the **acceptance and continuance of client relationships and audit engagements**.
   d) The **nature and scope of, and conclusions** resulting from, consultations undertaken during the course of the audit engagement.

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Practical Insight into Checklist for A/C Analysis

Client Acceptance / Continuance Check-list

Client: _____

Accounting period: _____

Date _____

Sl. No.	Checklist for Client Acceptance	Completed by	Date	Remarks
1	Proposal			
2	Background Check From Markets			
4	Engagement compliance checklist			
5	Client Acceptance Form			
6	Request by Client to confirm willingness to act as Auditors			
7	Communication made with the previous auditors and due time elapsed after such communication.			
8	Letter of willingness			
9	Letter of Appointment/ ratifictaion with copy of resolution from the client.			
10	Information to ROC about Acceptance			
11	Engagement Budget			
12	Engagement Letter			

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SQC 1

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SQC-1

"Quality Control for firms that Perform Audits & Reviews of Historical Financial Information, & other Assurance & Related Services Engagements"

1) **SQC 1** requires that the firm should establish a system of quality control designed to provide it with **reasonable assurance** that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports issued by the firm or engagement partners are appropriate in the circumstances.
2) Firm's system of quality control should consist of policies designed to achieve these objectives.

ELEMENTS OF SYSTEM OF QUALITY CONTROL

1) The **firm's system of quality control** should include policies and procedures addressing each of the following **elements**: -
   a) Leadership responsibilities for quality within the firm
   b) Ethical requirements
   c) Acceptance and continuance of client relationships and specific engagements
   d) Human resources
   e) Engagement performance
   f) Monitoring
2) Quality control policies and procedures should be documented and communicated to the firm's personnel. By communicating, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel.
3) Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.

Leadership responsibilities for quality within the firm

1) **SQC 1** requires firms to establish policies and procedures designed **to promote an internal culture** based on the recognition that quality is essential in performing engagements.
2) Such policies and procedures should require the **firm's chief executive officer or the firm's managing partners** to **assume ultimate responsibility** for the firm's system of quality control.
3) The example set by firm's leadership encourages an inner culture that recognizes high quality audit work.
4) Further, persons assigned operational responsibilities for the firm's quality control system by the firm's chief executive officer or managing partners should have **sufficient and appropriate experience, ability** and the necessary authority to assume that responsibility.

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Ethical requirements

1) The firm should establish policies and procedures designed to **provide it with reasonable assurance** that the firm and its personnel comply with relevant ethical requirements contained in the **Code of ethics issued by ICAI**.
2) The Code establishes the **fundamental principles** of professional ethics which include
   a) integrity,
   b) objectivity,
   c) professional competence and due care,
   d) confidentiality and
   e) professional behaviour.
3) **Observance of "Independence" in all engagements is the basic requirement.**

   The firm should **establish policies and procedures** designed to provide it with reasonable assurance that the firm, its personnel and (including experts contracted by the firm and network firm personnel) maintain independence where required by the Code.
4) Such **policies and procedures** should enable the firm to: -
   a) **Communicate** its independence requirements to its personnel
   b) **Identify and evaluate** circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.
5) There should **exist a mechanism** in the firm by which engagement partners provide the firm with relevant information about client engagements and personnel of firm promptly notify firm of circumstances and relationships that create a threat to independence.
6) **All breaches of independence** should be **promptly notified** to firm for appropriate action. Its objective is **to ensure** that **independence requirements** are **satisfied**.
7) **At least annually**, the firm should **obtain written confirmation** of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.

Acceptance and Continuance of Client Relationships and Specific Engagements

1) **A firm** before accepting an engagement should **acquire vital information** about the client. Such an information should help firm to decide about: -
   a) **Integrity** of Client
   b) **Competence** (including capabilities, time and resources) to perform engagement
   c) **Compliance** with ethical requirements
2) The firm should **obtain** such information as it considers **necessary** in the circumstances before

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accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.

3) Where **issues have been identified**, and the firm decides to **accept or continue** the client relationship or a specific engagement, it should **document** how the issues were resolved.

4) **With regard to the integrity of a client, matters that the firm considers include, for example:**

   a) The identity and business reputation of the **client's principal owners, key management, related parties and those charged with its governance.**

   b) The **nature of the client's operations**, including its business practices.

   c) Information concerning the **attitude** of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.

   d) Whether the client is aggressively concerned with **maintaining the firm's fees** as low as possible.

   e) Indications of an **inappropriate limitation** in the scope of work.

   f) Indications that the client might be involved in **money laundering or other criminal activities.**

   g) The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.

5) If there is any **conflict of interest** between the firm and client, it should be properly resolved before accepting the engagement. Where the firm obtains information that would have caused it to decline an engagement if that information had been obtainable earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:

   a) The **professional and legal responsibilities** that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and

   b) The **possibility of withdrawing** from the engagement or from both the engagement and the client relationship.

Human resources

1) The firm should **establish policies and procedures** designed to provide it with reasonable assurance that it has **sufficient personnel** with the **capabilities, competence, and commitment** to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

2) Such **policies and procedures** should address relevant HR issues including

   a) Recruitment,

   b) Compensation,

   c) Training,

   d) Career development,

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e) Performance evaluation etc.

3) There should be **emphasis on the continuing professional development** of firm's personnel.

Engagement Performance

1) **Consistency** in quality of engagement performance is achieved through **briefing of engagement teams** of their objectives, processes for complying with engagement standards, processes of engagement supervision and training, methods of reviewing performance of work, appropriate documentation of work performed.
2) **Consultation** should take place in **difficult or contentious matters** pertaining to an engagement. Consultation includes **discussion**, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.
3) A firm needing to consult externally, **for example**, a firm without appropriate internal resources, may take advantage of advisory services provided by other firms or professional and regulatory bodies.
4) **Significant judgments** made in an engagement should be **reviewed** by an engagement quality control reviewer for taking an objective view before the report is issued. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances.
5) The review does **not reduce** the responsibilities of the engagement partner. Engagement quality control review is mandatory for all audits of financial statements of listed entities.
6) In respect of other engagements, firm should **devise criteria** to determine cases requiring performance of engagement quality control review.
7) There might be difference of opinion within engagement team, with those consulted and between engagement partner and engagement quality control reviewer. The report should only be issued after resolution of such differences.
8) In case, recommendations of engagement quality control reviewer are **not** accepted by engagement partner and matter is **not resolved** to reviewer's satisfaction, the matter should be resolved by following established procedures of firm like by
   a) **consulting** with another practitioner or firm, or
   b) **a professional or regulatory body**.
9) Besides, the firm should **establish policies and procedures** for engagement teams to complete the assembly of final engagement files on a **timely basis** after the engagement reports have been finalized.
10) The assembly of engagement files should be **completed in not more than 60 days after date of auditor's report** in case of audit engagements and in other cases within the limits appropriate to engagements.
11) Policies and procedures should be designed **to maintain the confidentiality, safe custody, integrity, accessibility and retrievability** of engagement documentation. Unless otherwise specified by law or regulation, engagement documentation is the property of the firm.

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12) **The firm** may, at **its discretion**, make portions of, or extracts from, engagement documentation **available to clients**, provided such disclosure does **not undermine** the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel.

13) Engagement documentation has to be **retained** 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.

14) In the **specific case of audit engagements**, the **retention period** ordinarily is **no shorter than seven years** from the **date of the auditor's report**, or, if later, the date of the group auditor's report.

Monitoring

The firm should ensure that policies and procedures relating to the system of quality control are **relevant, adequate, operating effectively and complied** with in practice.

Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.

AUDIT QUALITY

1) **The purpose** of an independent audit is **to provide confidence** to users of audited financial statements. Therefore, high audit quality is essential **to maintain confidence** in the independent assurance provided by the auditors.

2) It is the **responsibility of auditor** to maintain high audit quality.

3) **SQC 1 and SA 220** both deal with **quality control**.

4) Whereas **SQC 1** deals with all engagements including audits, reviews and other assurance and related service engagements, **SA 220** applies to **audit engagements only**.

5) Further, **SQC 1** applies **to entire firm**. However, **SA 220** applies to a **particular audit engagement**.



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SA 230

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SA 230 Audit Documentation

Audit documentation: SA 230 on **"Audit Documentation"**, audit documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (terms such as **"working papers" or "work papers"** are also sometimes used.)

OBJECTIVE OF THE AUDITOR

The objective of the auditor is to prepare documentation that provides:

a) **A sufficient and appropriate record** of the basis for the auditor's report; and

b) **Evidence** that the audit **was planned and performed** in accordance with SAs and applicable legal and regulatory requirements

NATURE OF AUDIT DOCUMENTATION

Audit documentation provides:

a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and

b) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

PURPOSE OF AUDIT DOCUMENTATION

The following are the purpose of Audit documentation:

a) Assisting the engagement team **to plan and perform** the audit.

b) Assisting members of the engagement team **to direct and supervise** the audit work, and to discharge their review responsibilities.

c) Enabling the engagement team **to be accountable** for its work.

d) **Retaining a record** of matters of continuing **significance to future audits.**

e) Enabling the conduct of quality control reviews and inspections in **accordance with SQC 1.**

f) Enabling the **conduct** of external inspections in accordance **with applicable legal, regulatory or other requirements.**

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FORM, CONTENT AND EXTENT OF AUDIT DOCUMENTATION

1) The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
   a) The **nature, timing and extent** of the audit procedures performed.
   b) The **results of the audit procedures performed**, and the **audit evidence obtained** and
   c) **Significant matters** arising during the audit and the conclusions reached thereon and **significant professional judgements** made in reaching those conclusions.
2) Further in documenting the nature, timing and extent of audit procedures performed, **the auditor shall record:**
   a) **The identifying characteristics** of the specific items or matters tested.
   b) **Who performed** the audit work and the date such work was completed; and
   c) **Who reviewed** the audit work performed and the date and extent of such review.
3) The auditor shall document **discussions of significant matters with management**, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
4) If the auditor **identified information** that is **inconsistent** with the auditor's final conclusion regarding a **significant matter**, the auditor **shall document** how the auditor **addressed the inconsistency**.

The form, content and extent of audit documentation depend on factors such as:

a) The size and complexity of the entity.
b) The nature of the audit procedures to be performed.
c) The identified risks of material misstatement.
d) The significance of the audit evidence obtained.
e) The nature and extent of exceptions identified.
f) The audit methodology and tools used.

TIMELY PREPARATION OF AUDIT DOCUMENTATION

1) Preparing sufficient and appropriate audit documentation on a timely basis helps **to enhance the quality of audit** and **facilitates the effective review and evaluation** of the audit evidence obtained and conclusions reached before the auditor's report is finalized.
2) Documentation prepared after the audit work had been performed is likely to be less accurate than prepared at the time such work is performed.

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EXAMPLES OF AUDIT DOCUMENTATION

1) Audit documentation may be **recorded on paper or on electronic or other media.**
2) **Audit Documentation include:**
   a) Audit programmes.
   b) Analyses.
   c) Issues memoranda.
   d) Summaries of significant matters.
   e) Letters of confirmation and representation.
   f) Checklists.
   g) Correspondence (including e-mail) concerning significant matters.
3) The auditor may **include copies** of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation. Audit documentation is not a substitute for the entity's accounting records.
4) The auditor need **not include** in audit documentation **superseded drafts** of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

AUDIT FILE

Audit file may be defined as **one or more folders** or other storage media, **in physical or electronic form**, containing the records that comprise the audit documentation for a **specific engagement**.

ASSEMBLY OF THE FINAL AUDIT FILE

1) The auditor shall assemble the audit documentation in an audit file and complete the **administrative process** of assembling the final audit file on a timely basis after the date of the auditor's report.
2) **SQC 1 "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services"**, requires firms to establish policies and procedures for the timely completion of the assembly of audit files.
3) **An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.**
4) The completion of the assembly of the final audit file after the date of the auditor's report is an **administrative process** that does not involve the performance of new audit procedures or the drawing of new conclusions.
5) Changes may, however, be made to the audit documentation **during the final assembly** process, if they are administrative in nature.

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6) **Examples of such changes include:**
   a) **Deleting** or discarding superseded documentation.
   b) **Sorting**, collating and cross-referencing working papers.
   c) **Signing off on completion checklists** relating to the file assembly process.
   d) **Documenting** audit evidence that the auditor has obtained, discussed, and agreed with the relevant members of the engagement team before the date of the auditor's report.
7) After the assembly of the final audit file has been completed, the **auditor shall not delete or discard** audit documentation of any nature before the end of its retention period.
8) **SQC 1** requires firms to establish policies and procedures for the retention of engagement documentation. The **retention period** for audit engagements ordinarily is **no shorter than seven years** from the date of the auditor's report, or, if later, the date of the group auditor's report.

DOCUMENTATION OF SIGNIFICANT MATTERS AND RELATED SIGNIFICANT PROFESSIONAL JUDGMENTS

1) Judging the significance of a matter requires an **objective analysis** of the facts and circumstances.

   Examples of significant matters include: (Matters that give rise to significant risks.)
   a) **Results** of audit procedures indicating
      (i) that the financial statements could be **materially misstated**, or
      (ii) a **need to revise** the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
   b) Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
   c) Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter Paragraph in the auditor's report.
2) An **important factor** in determining the form, content and extent of audit documentation of significant matters is the **extent of professional judgment exercised** in performing the work and evaluating the results.
3) Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment.
4) Such matters are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits, when reviewing matters of continuing significance (for example, when performing a retrospective review of accounting estimates).

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COMPLETION MEMORANDUM OR AUDIT DOCUMENTATION SUMMARY

1) The auditor may consider it helpful to **prepare and retain** as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes-
   a) the **significant matters** identified during the audit and
   b) **how they were addressed.**
2) Such a summary may **facilitate effective and efficient** review and inspection of the audit documentation, particularly for large and complex audits.
3) Further, the preparation of such a summary may assist auditor's consideration of the significant matters. It may also help the auditor to consider whether there is any individual relevant SA objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

OWNERSHIP OF AUDIT DOCUMENTATION

1) **Standard on Quality Control (SQC) 1** provides that, unless otherwise specified by law or regulation, audit documentation is the **property of the auditor.**
2) He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the auditor or of his personnel.

Practical Insight into Form, Content and Extent of Audit Documentation

XYZ Co
Statutory Audit for the year ended 31st March 2011

C-3

W.P. Ref.: C-3
Date: June-29-2011
Prepared by: MF
Reviewed by: SM/SK

Cash & Bank
Cash on hand

Objective
To verify whether cash balance is fairly stated.

Particulars	In W/P Ref	31-Mar-11	31-Mar-10	Variation	% variation	Out W/P Ref
Cash on hand		-	-	-	#DIV/0!	C-2

Work Done
We have obtained the cash certificate for Nil balance as on 31st March 2011. Hard Copy ref. C-3.1
We have scrutinize the entire Cash book.

Observation
There were no cash transactions during the year.

Conclusion
The cash balance is fairly stated.

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Practical Insight into Draft Audit Program
(Refer along with SA 300)

XYZ Co
Statutory Audit for the year ended 31st March 2011

Cash & Bank
Audit Programme

W.P. Ref.: Audit Programme
Date: June-29-2011
Prepared by: MF

Sr no	Particulars	Assertions	W/P Ref	Performed By	Reviewed By
1	Obtain a schedule for balances with banks as at March 31, 2011. Verify whether the same agrees with the Trial Balance.	C,E,V	C-2	MF	SM/SK
2	Obtain cash certificate for year ended 31 March 2011.	E	C-3	MF	SM/SK
3	Obtain resolution and ensure all formalities have been done to open new bank accounts.	C	No New Bank Accounts Opened	MF	SM/SK
4	Verify whether the bank balance as per the books agrees with the external confirmations received from banks.	V	C-4	MF	SM/SK
5	Verify reconciling items which are of material amounts for cheques issued but not presented for payment, obtain the bank statement for subsequent monts and verify whether the items appearing in the March, 2011 reconciliation have been subsequently cleared.	C	C-5	MF	SM/SK
6	Verify re-statement of foreign currency balances at year end rate, ensure the same have been correctly restated and the unrealised exchange gain loss has been correctly accounted for.	V	C-6	MF	SM/SK
7	For FDs obtain the FDR and trace the balances to the same.	V,E	C-7	MF	SM/SK
8	Test cutoffs of cash and bank transactions	E, C	C-8	MF	SM/SK

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SA 240 [E]

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

MEANING OF FRAUD

SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" defines the term 'fraud' as-

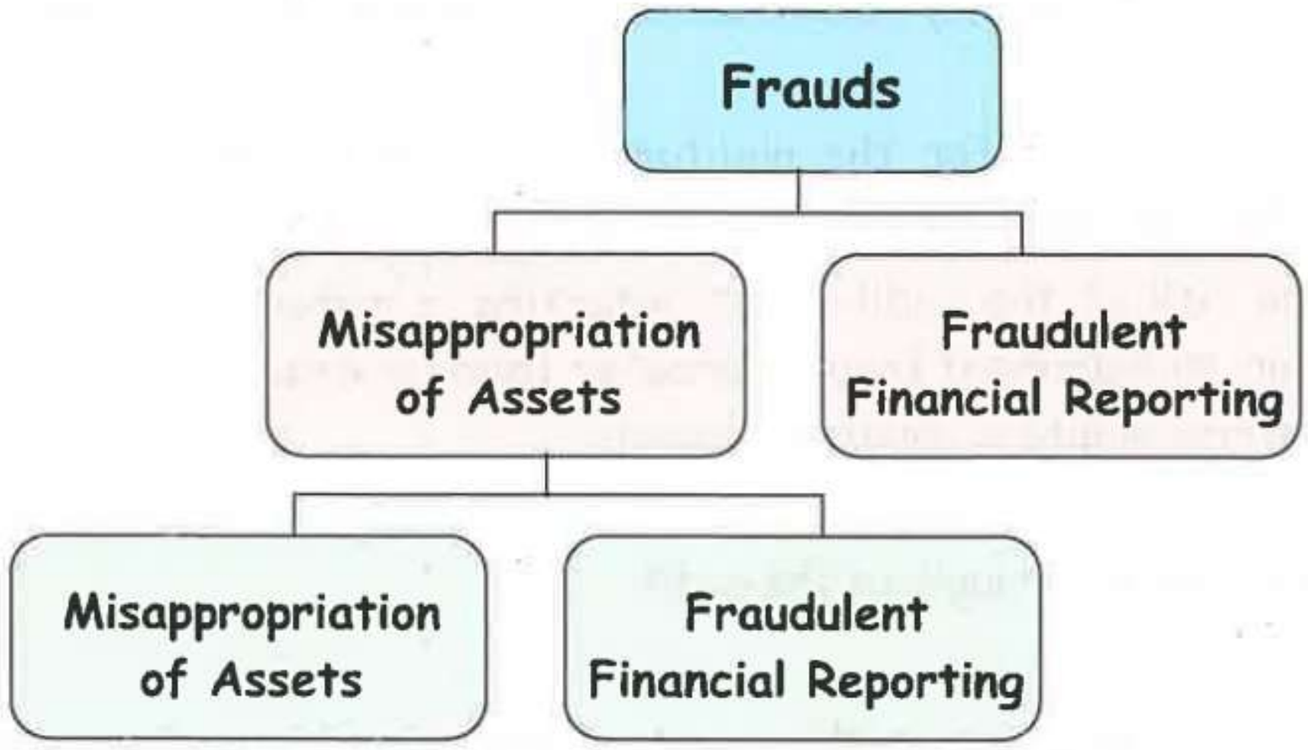
"an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage".

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.

Two types of intentional misstatements are relevant to the auditor –

a) misstatements resulting from fraudulent financial reporting and

b) misstatements resulting from misappropriation of assets.



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GENERAL CONTENT (FOR REFERENCE)

Scope of this SA	Specifically, it expands on how SA 315 and SA 330 is to be applied in relation to risks of material misstatement due to fraud.
Responsibility for the Prevention and Detection of Fraud	1) The primary responsibility for the prevention and detection of fraud rests with both those Charged with governance of the entity and management. 2) Management and those charged with governance should place a strong emphasis on fraud prevention. 3) This involves a commitment to creating a culture of honesty and ethical behavior.
Responsibilities of the Auditor	1) An auditor is responsible for **obtaining reasonable assurance** that the financial statements taken as a whole are free from material misstatement. 2) As described in SA 200, due to the **inherent limitations of an audit**, there is an **unavoidable risk** that some material misstatements-of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs. 3) The risk of **not detecting** a material misstatement resulting from **fraud** is **higher** than the risk of not detecting one resulting **from error**. This is because fraud may involve carefully organized schemes designed to conceal it 4) It is difficult for the auditor to determine whether **misstatements in judgment areas** such as accounting estimates are caused by fraud or error. 5) The risk of the auditor not detecting, a material misstatement resulting from **management fraud** is **greater than** for **employee fraud** as management can manipulate accounting records. 6) The auditor is responsible for maintaining an **attitude of professional skepticism** throughout the audit. **Note:** **If auditor can prove in the court of law using his working papers (SA 230) that he has performed his audit procedures in compliance with all applicable SA's and has followed all the basic principles governing an audit then he may not be held responsible for non-detection of certain material misstatements.**

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SA 250 [E]

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SA 260

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SA 260 (Revised) Communication with those Charged with Governance and Management

SCOPE OF THIS SA

SA 260 deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements.

OBJECTIVES OF AUDITOR IN ACCORDANCE WITH SA 260

The objectives of the auditor are: -

a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;

b) To obtain from those charged with governance information relevant to the audit;

c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process and

d) To promote effective two-way communication between the auditor and those charged with governance.

DETERMINING APPROPRIATE PERSONS WITH WHOM TO COMMUNICATE

The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate.

MATTERS TO BE COMMUNICATED BY AUDITOR

Following matters are required to be communicated by auditor with those charged with governance:

The auditor's responsibilities in relation to the financial statement audit

The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:

a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance

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and

b) The audit of the financial statements does **not** relieve management or those charged with governance of their responsibilities.

Planned scope and timing of the audit

The auditor shall **communicate** with those charged with governance an overview of the **planned scope and timing** of the audit, which includes communicating about the significant risks identified by the auditor.

Significant findings from the audit

The **auditor shall communicate** with those charged with governance: -

a) The **auditor's views** about **significant qualitative aspects** of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, **the auditor** shall **explain** to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity

b) **Significant difficulties**, if any, encountered during the audit;

c) **Unless** all of those charged with governance are involved in managing the entity: -

(i) **Significant matters** arising during the audit that were **discussed, or subject to correspondence**, with management;

(ii) **Written representations** the auditor is requesting

d) **Circumstances** that affect the form and content of the auditor's report, if any and

e) **Any other significant matters** arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

COMMUNICATION OF AUDITOR'S INDEPENDENCE IN CASE OF LISTED ENTITIES

In the case of **listed entities**, the auditor shall communicate with those charged with governance: -

a) **A statement** that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have **complied** with relevant ethical requirements regarding independence and

b)

(i) **All relationships and other matters** between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include **total fees** charged during the period covered by the

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financial statements for **audit and non-audit services** provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor and

(ii) The **related safeguards** that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

THE COMMUNICATION PROCESS

1) The auditor shall **communicate** with those charged with governance the **form, timing and expected** general content of communications.
2) The auditor shall **communicate in writing** with those charged with governance regarding **significant findings** from the audit if, in the auditor's professional judgment, oral communication would not be adequate.
3) Written communications need **not** include all matters that arose during the course of the audit.
4) The auditor shall **communicate in writing** with those charged with governance regarding **auditor independence** when required in case of **listed entities**. The auditor shall communicate with those charged with governance **on a timely basis**.

ADEQUACY OF THE COMMUNICATION PROCESS

1) The auditor shall **evaluate** whether the **two-way communication** between the auditor and those charged with governance **has been adequate** for the purpose of the audit.
2) **If it has not**, the auditor shall **evaluate the effect**, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall **take appropriate action**.

DOCUMENTATION

Where matters required by **SA 260** to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.

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NOTE 1- SIGNIFICANCE OF COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Communication from auditor is important with those charged with governance. An effective two-way communication is important in assisting: -

a) The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity.

b) The auditor in obtaining from those charged with governance information relevant to the audit.

For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and

c) Those charged with governance in fulfilling their responsibility to **oversee the financial reporting process**, thereby reducing the risks of material misstatement of the financial statements.

Note 2 - WHO ARE "THOSE CHARGED WITH GOVERNANCE"?

1) The person(s) or organization(s) (e.g., a corporate trustee) **with responsibility** for **overseeing the strategic direction** of the entity and obligations related to the accountability of the entity.

2) This includes overseeing the financial reporting process. For some entities, **those charged with governance may include management personnel**, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

3) Governance structures vary by entities, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. **For example**, in some entities, a **supervisory board exists that is separate from executive board.**

4) In other entities, both supervisory and executive functions are performed by a single board. In some entities, those charged with governance hold positions that are an **integral part** of the entity's legal structure. **For example**, company directors.

5) In some cases, **some or all of those charged with governance are involved in managing the entity**. In others, those charged with governance and management comprise different persons.

6) In most entities, **governance is the collective responsibility** of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, trustees, or equivalent persons.

7) In some smaller entities, however, one person may be charged with governance, **for example**, the owner-manager where there are no other owners, or a sole trustee.

8) Such diversity means that it is not possible to specify for all audits the persons with whom the

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auditor is to communicate particular matters. Also, in some cases, the appropriate persons with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, for example, entities where the governance structure is not formally defined, such as some family-owned entities and some not-for-profit organizations.

9) In such cases, the auditor may need to discuss and agree with the engaging party the relevant persons with whom to communicate.

10) In deciding with whom to communicate, the auditor's understanding of an entity's governance structure and processes obtained in accordance with SA 315 is relevant.

11) The appropriate persons with whom to communicate may vary depending on the matter to be communicated.

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SA 265

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SA 265 Communicating Deficiencies in Internal Control to those Charged with Governance and Management

SCOPE OF THIS SA

1) SA 265 deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements.
2) The auditor is required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of material misstatement.
3) In making those risk assessments, the auditor considers internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
4) The auditor may identify deficiencies in internal control not only during this risk assessment process but also at any other stage of the audit.
5) SA 265 specifies which identified deficiencies the auditor is required to communicate to those charged with governance and management.

OBJECTIVE OF AUDITOR IN ACCORDANCE WITH SA 265

The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.

MEANING OF "DEFICIENCY IN INTERNAL CONTROL" AND "SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL"

1) Deficiency in internal control – This exists when: -
   a) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis or
   b) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.
2) Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.
3) The significance of a deficiency or a combination of deficiencies in internal control depends not only on whether a misstatement has actually occurred, but also on the likelihood that a

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misstatement could occur and the potential magnitude of the misstatement.

4) Significant deficiencies may, therefore, exist even though the auditor has **not identified** misstatements during the audit.

Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency

1) The **likelihood of the deficiencies** leading to material misstatements in the financial statements in the future.
2) The **susceptibility to loss or fraud** of the related asset or liability.
3) The **subjectivity and complexity** of determining estimated amounts, such as fair value accounting estimates.
4) The financial statement amounts **exposed** to the deficiencies.
5) The **volume of activity** that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.
6) The **importance of the controls** to the financial reporting process, **for example:**
   a) General monitoring controls (such as oversight of management).
   b) Controls over the prevention and detection of fraud.
   c) Controls over the selection and application of significant accounting policies.
   d) Controls over significant transactions with related parties.
   e) Controls over significant transactions outside the entity's normal course of business.
   f) Controls over the period-end financial reporting process (such as controls over non-recurring journal entries).
7) The **cause and frequency** of the exceptions detected as a result of the deficiencies in the controls.
8) The **interaction** of the deficiency with other deficiencies in internal control.

Examples of indicators of significant deficiencies in internal control

1) Evidence of ineffective aspects of the control environment, such as: -
   a) **Indications** that significant transactions in which management is financially interested are not being appropriately scrutinised by those charged with governance.
   b) **Identification** of management fraud, whether or not material, that was not prevented by the entity's internal control.
   c) **Management's failure to implement** appropriate remedial action on significant deficiencies previously communicated.
2) **Absence of a risk assessment process** within the entity where such a process would ordinarily be expected to have been established.

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3) **Evidence of an ineffective** entity risk assessment process, such as management's failure to identify a risk of material misstatement that the auditor would expect the entity's risk assessment process to have identified.
4) **Evidence of an ineffective response** to identified significant risks (e.g., absence of controls over such a risk).
5) **Misstatements detected** by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control.
6) **Disclosure** of a material misstatement due to error or fraud as prior period items in the current year's Statement of Profit and Loss.
7) **Evidence of management's inability to oversee** the preparation of the financial statements.

DETERMINATION OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

1) The auditor shall **determine** whether, on the basis of the audit work performed, the auditor has **identified** one or more deficiencies in internal control.
2) If the auditor has **identified one or more deficiencies** in internal control, the auditor shall **determine**, on the basis of the audit work performed, whether, **individually or in combination**, they constitute significant deficiencies.

COMMUNICATION OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE

1) The auditor shall **communicate in writing significant deficiencies** in internal control identified during the audit to those charged with governance on a timely basis.
2) The auditor shall also **communicate** to management at an **appropriate** level of responsibility on a **timely basis**: -
   a) **In writing**, significant deficiencies in internal control that the auditor has **communicated or intends to communicate** to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances; and
   b) **Other deficiencies** in internal control identified during the audit that have **not** been communicated to management by other parties and that, in the **auditor's professional judgment**, are of sufficient importance to merit management's attention.
3) **The auditor shall include in the written communication of significant deficiencies in internal control: -**
   a) **A description** of the deficiencies and an explanation of their potential effects; and
   b) **Sufficient information** to enable those charged with governance and management to

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understand the context of the communication.

4) **In particular, the auditor shall explain that:**

   a) **The purpose** of the audit was for the auditor to express an opinion on the financial statements;

   b) The **audit included consideration of internal control** relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and

   c) **The matters** being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

NOTE 1 - WHY COMMUNICATION OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL IS NECESSARY?

Communicating significant deficiencies in internal control in writing to those charged with governance reflects the importance of these matters and assists those charged with governance in fulfilling their oversight responsibilities.

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SA 299

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SA 299 (Revised) Responsibility of Joint Auditors

Scope	The practice of appointing more than one auditor to conduct the audit of large entities has been in vogue for a longtime, sometimes voluntarily by the shareholders or sometimes due to the requirements of laws or regulations. Such auditors, known as joint auditors, conduct the audit jointly and report on the financial statements of the entity
Definition	A joint audit is an audit of Financial Statements of an entity by **two or more auditors** appointed with the objective of issuing the audit report. Such auditors are described as joint auditors.
Special Considerations while carrying out Joint Audit	
Audit Planning, Risk Assessment and Allocation of Work	1) The Engagement partner and other key members from each of the joint auditors should be involved in planning the audit. 2) The joint auditors shall jointly establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. 3) Prior to the commencement of the audit, the joint auditors shall discuss and develop a joint audit plan. **In developing the joint audit plan, the joint auditors shall:** a) **Identify division of audit areas and common audit areas** b) Ascertain the **reporting objectives of the engagement** c) Consider and **communicate among all joint auditors** the factors that are significant d) Consider the **results of preliminary engagement activities** or similar engagements performed earlier. e) Ascertain the **nature, timing and extent of resources** necessary to accomplish the engagement. 4) Risks of material misstatement need to be considered and assessed by each of the joint auditors and shall be communicated to other joint auditors.
Documentation of Work Allocated	a) The joint auditors shall discuss and document the nature, timing, and the extent of the audit procedures for **common and specific allotted areas of audit to be performed** by each of the joint auditors. b) The joint auditors shall obtain **common engagement letter and common management representation letter.** c) After identification and allocation of work among the joint auditors, **the work allocation document shall be signed by all the joint auditors.**

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	d) Documentation of allocation of work helps in avoiding any dispute or confusion which may arise among the joint auditors regarding the scope of work to be carried out by them.
Responsibility of Joint Auditors	1) In respect of audit work divided among the joint auditors, **each joint auditor shall be responsible only for the work allocated** to such joint auditor including **proper execution of the audit procedures**. 2) On the other hand, all the **joint auditors shall be jointly and severally responsible** for: a) The audit **work which is not divided** among the joint auditors and is carried out by all joint auditors; b) **Decisions taken by all the joint auditors** under **audit planning in respect of common audit areas** concerning the NTE of the audit procedures to be performed by each of the joint auditors. c) **Matters which are brought to the notice of the joint auditors by any one of them** and on which there is an **agreement among the joint auditors** on such matters. d) Examining that the **Financial Statements of the entity comply with the requirements** of the relevant statutes; e) **Presentation and disclosure of the Financial Statements** as required by the applicable FRF; f) Ensuring that the **audit report** complies with the requirements of the relevant statutes, the **applicable Standards on Auditing** and the other relevant pronouncements issued by ICAI. 3) It shall be the **responsibility of each joint auditor** to determine the NTE of audit procedures to be applied **in relation to the areas of work allocated to said joint auditor**. **Note:** Where, in the course of the audit, **a joint auditor comes across matters** which are relevant to the **areas of responsibility of other joint auditors and which deserve their attention**, or which require disclosure or require discussion with, or application of judgment by other joint auditors, **the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit**.
Audit Conclusion and Reporting	a) Joint auditors are required to **issue common audit report**. b) However, **in case of any disagreement** among joint auditors with regard to the opinion or any matters to be covered by the audit report, **they shall express their opinion in a separate audit report**. c) **A joint auditor is not bound by the views of the majority of the joint auditors** regarding the opinion or matters to be covered in the audit report

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	and shall express opinion formed by the said joint auditor in **separate audit report** in case of disagreement. d) **In case of separate reports**, the audit report(s) issued by the **joint auditor(s) shall make a reference to the separate audit report(s)** issued by the **other joint auditor(s)**. Such reference shall be made under the heading **"Other Matter Paragraph" as per SA 706.**
Review of work by other joint auditor	**Each joint auditor is entitled to assume** that the other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the SA's.
Communication with TCWG	a) When the joint auditors expect to modify the opinion in the auditor's report, they shall **communicate with TCWG the circumstances** that led to the expected modification and the **proposed wording of the modification** to ensure compliance with SA 705. b) If the joint auditors expect to include an **EOM or an OM paragraph** in the auditor's report, the joint **auditors shall communicate with TCWG** regarding this expectation and the **proposed wording** of this paragraph to ensure compliance with SA 706.

ADVANTAGES AND DISADVANTAGES OF JOINT AUDIT

Joint Audit basically implies pooling together the resources and expertise of two or more firms to perform an expert job in a given time period which may be difficult to accomplish acting individually.

Advantages

In specific terms the advantages that flow may be the following:

a) Sharing of expertise.

b) Advantage of mutual consultation.

c) Lower workload.

d) Better quality of performance.

e) Improved service to the client.

f) In respect of multi-national companies, the work can be spread using the expertise of the local firms which are in a better position to deal with detailed work and the local laws and regulations.

g) Lower staff development costs.

h) Lower costs to carry out the work.

i) A sense of healthy competition towards a better performance.

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Disadvantages

The general disadvantages may be the following:

a) The fees being shared.

b) Psychological problem where firms of different standing are associated in the joint audit.

c) General superiority complexes of some auditors.

d) Problems of co-ordination of the work.

e) Areas of work of common concern being neglected.

f) Uncertainty about the liability for the work done.

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Practical Insight into Engagement Terms of Joint Audit

Auditor 1 Auditor 2

STATUTORY AUDIT OF ---------- ltd.

STATEMENT OF JOINT RESPONSIBILITIES OF AUDITORS

1.0. INTRODUCTION:

Auditor 1 and Auditor 2 have been appointed as the joint auditors for the purpose of conducting the statutory audit of _____ Co LTD ('the Company') for the year ending March 31, 2023. The Consolidated financial statements of _____ would cover the financial statements of _____ and its subsidiaries and joint ventures namely, _____, and their subsidiaries and any other entities which would become subsidiaries/associates at a later date (herein after collectively referred to as 'the subsidiaries). The allocation of work areas between the joint auditors, as mutually agreed, has been annexed herewith. The joint auditors would be mutually and jointly responsible for the overall consolidation of financial statements, corporate and secretarial matters and tax reviews.

2.0. INTEREST ALLOCATION OF RESPONSIBILITIES AND WORK:

As per mutual discussions between Auditor 1 and Auditor 2, the responsibility for the work to be performed, has been delineated. In terms of SA 299 issued by the Institute of Chartered Accountants of India, it has been mutually decided between both the joint auditors as follows:

(a) Each joint auditor is responsible for the work allocated to him, whether or not he has prepared a separate report on the work performed by him;

(b) Where, in the course of his work, any of the joint auditors comes across matters which are relevant to the other joint auditor, and which deserve their attention, or which requires disclosure or requires discussion with, or application of judgement by the other joint auditor, they would communicate the same to the other joint auditor in writing.

(c) If any matter of the nature referred to in paragraph (b) above, is brought to the attention of the Company or the joint auditor, after the audit report has been submitted, the other joint auditor would not be responsible for these matters.

(d) The joint auditors are jointly and severally responsible for:

(i) in respect of the audit work which is not divided among the joint auditors and is carried out by both of them;

(ii) in respect of decisions taken by both the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. It may, however, by clarified that both the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature, timing or extent of the audit procedures agreed upon among them; proper execution of these audit procedures is the separate and specific responsibility of the joint auditor concerned;

(iii) in respect of the matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;

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(iv) for examining that the financial statements of the entity comply with disclosure requirements of the relevant statute; and

(v) for ensuring that the audit report complies with the requirements of the relevant statute.

(e) Each joint auditor is entitled to assume that the other joint auditor has carried out their part of the audit work in accordance with generally accepted audit procedures. It is not necessary for a joint auditor to review the work performed by the other joint auditor or perform any tests in order to ascertain whether the work has actually been performed in such a manner. Each joint auditor is entitled to rely upon the other joint auditor for bringing to his notice any departure from generally accepted accounting principles or any material error noticed in the course of the audit.

(f) Each of the joint auditors confirms that there are no independence issues as regards their appointment / functioning as the statutory auditors of the Company is concerned.

3.0. JURISDICTION

This Agreement shall be governed by, and construed in accordance with, the laws of India. Any dispute arising out of the Services or this Agreement shall be subject to the exclusive jurisdiction of the courts of New Delhi, to which the parties hereby agree to submit for these purposes.

On behalf of
Auditor 1

Partner

On behalf of
Auditor 2

Partner

Place: Pune
Date: July____, 2023

We are in agreement with the above terms and conditions.

On behalf of

_____Co LTD

(Managing Director)

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Practical Insight into SBI Joint Auditor's Report

Standalone Financials

In terms of our report of even date

For Khandelwal Jain & Co.
Chartered Accountants

Shailesh Shah
Partner: M. No. 033632
Firm Regn. No. 105049W
UDIN:22033632AIXHQQ3021

For SCV & Co. LLP
Chartered Accountants

Anuj Dhingra
Partner: M. No.512535
Firm Reg.No.000235N/N500089
UDIN:22512535AIXKXX2970

For Guha Nandi & Co.
Chartered Accountants

Dr. B. S. Kundu
Partner: M. No. 051221
Firm Regn. No. 302039E
UDIN:22051221AIXPYM6914

For V Singhi & Associates
Chartered Accountants

Aniruddha Sengupta
Partner: M. No. 051371
Firm Regn. No. 311017E
UDIN:22051371AIXHWT8422

For Shah Gupta & Co.
Chartered Accountants

Heneel K Patel
Partner: M. No. 114103
Firm Regn. No. 109574W
UDIN:22114103AIXKLG7230

For ASA & Associates LLP
Chartered Accountants

Parveen Kumar
Partner: M. No. 088810
Firm Regn. No. 009571N/N500006
UDIN:22088810AIXJER5275

For M C Bhandari & Co.
Chartered Accountants

M R Jain
Partner: M. No. 050919
Firm Regn. No. 303002E
UDIN:22050919AIXHIH2828

For Suri & Co.
Chartered Accountants

V Natarajan
Partner: M. No. 223118
Firm Regn. No. 004283S
UDIN:22223118AIXKPX8986

For Umamaheswara Rao & Co.
Chartered Accountants

L Shyama Prasad
Partner: M. No. 028224
Firm Regn. No. 004453S
UDIN:22028224AIXHMB9621

For Prem Gupta & Co.
Chartered Accountants

Prem Behari Gupta
Partner: M. No. 080245
Firm Regn. No. 000425N
UDIN:22080245AIXKLC5297

For K C Mehta & Co.
Chartered Accountants

Chirag Bakshi
Partner: M. No. 047164
Firm Regn. No. 106237W
UDIN:22047164AIXKOQ4739

For Talati & Talati LLP
Chartered Accountants

Anand Sharma
Partner: M. No.129033
Firm Regn. No. 110758W/W100377
UDIN:22129033AIXMPT2135

Place — Mumbai
Date — May 13, 2022

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SA 300

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SA 300 Planning An Audit Of Financial Statements

Introduction

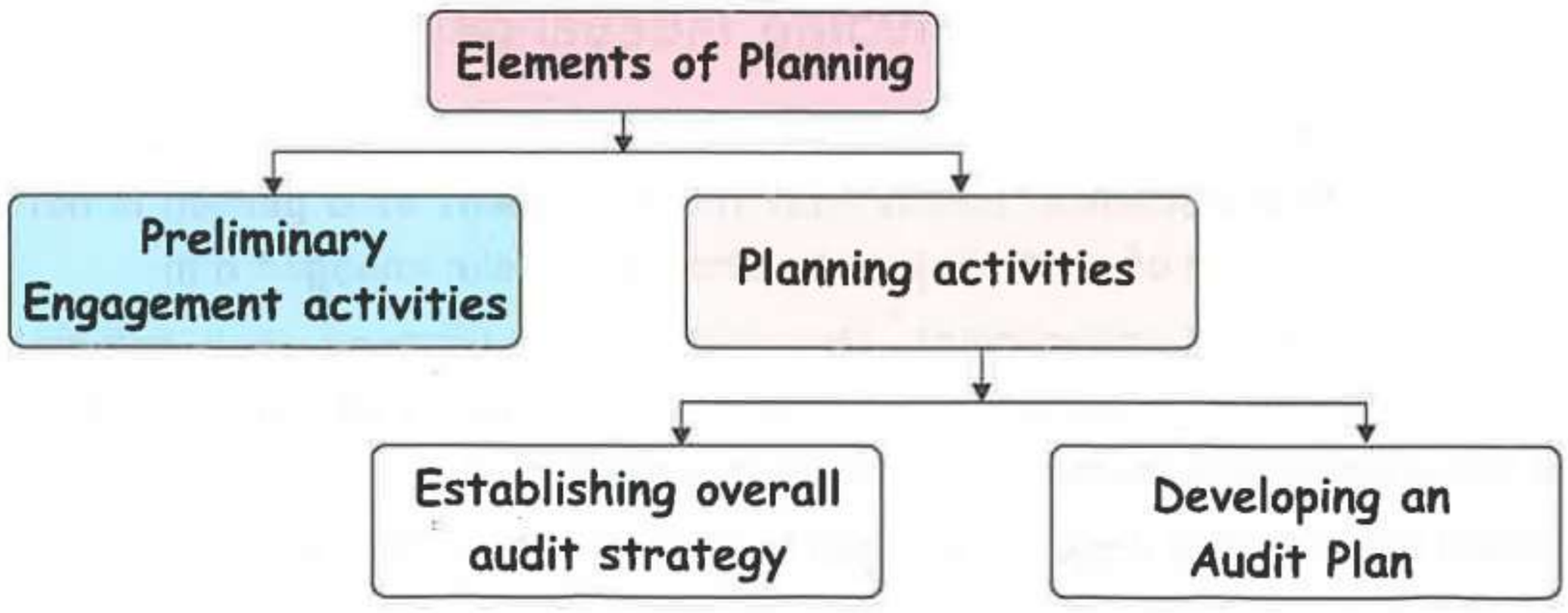
SA 300- Planning an audit of financial statements deals with the auditor's responsibility to plan an audit of financial statements. It states that objective of the auditor is to plan the audit so that it will be performed in an effective manner.

Why Planning an audit is necessary? Its Benefits:

1) Planning an audit is necessary **to carry out it effectively in a timely manner**. Besides ensuring compliance with professional standards, it **helps in performing** audit engagement **effectively**.
2) Adequate planning benefits the audit of financial statements in several ways, including the following:
   a) Helping the auditor to **devote appropriate attention** to **important areas** of the audit.
   b) Helping the auditor **identify and resolve potential problems** on a timely basis.
   c) Helping the auditor **properly organize and manage** the audit engagement so that it is performed in an effective and efficient manner.
   d) Assisting in the **selection of engagement team members** with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
   e) Facilitating the **direction and supervision of engagement team members** and the review of their work.
   f) Assisting, where applicable, in **coordination of work done** by auditors of **components and experts**.

Therefore, planning an audit **ensures** that audit risk is reduced **to an acceptable low level**. When audit work is **adequately and properly planned**, it reduces the risk of inappropriate opinion by the auditor.

PLANNING PROCESS- ELEMENTS OF PLANNING



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The elements of planning can be categorized as under: -

(I) Preliminary engagement activities

(II) Planning activities

I) Preliminary engagement activities

The auditor considers whether relationship with client should be continued and whether ethical requirements including independence continue to be complied with. It includes: -

(A) Performing procedures regarding the continuance of the client relationship

(B) Evaluating compliance with ethical requirements, including independence

(C) Establishing an understanding of terms of engagement

(A) Performing procedures regarding the Continuance of Client Relationships and Audit Engagements

Acceptance and Continuance of Client Relationships and Audit Engagements

1) It should be **ensured** that **appropriate procedures** regarding the acceptance and continuance of client relationships and audit engagements **have been followed** and that **conclusions** reached in this regard are **appropriate**.
2) The firm should **obtain information** considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.
3) **Matters** such as
   a) Integrity of principal owners and key management,
   b) Competence of engagement team to perform the audit engagement and
   c) Implications of matters that have arisen during current and previous audit engagement may **need to be considered**.
4) Besides, in case of **initial engagements**, **communication with predecessor auditor** should be **made**, where there has been a change of auditors.

(B) Evaluating compliance with ethical requirements including independence

1) The auditor shall continuously evaluate compliance with ethical requirements including independence. "**Independence**" means that the **judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him.**
2) Throughout the audit engagement, the engagement partner shall **remain alert**, through **observation** and making **inquiries** as necessary, for **evidence of non-compliance** with relevant ethical requirements by members of the engagement team.
3) If **matters** come to the **engagement partner's** attention that **indicate** that members of the

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engagement team have **not complied** with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall **determine the appropriate action.**

4) The engagement partner shall **form a conclusion** on compliance with independence requirements that apply to the audit engagement. In doing so, the **engagement partner shall**: -
   a) **Obtain relevant information** from the firm **to identify and evaluate** circumstances and relationships that **create** threats to independence
   b) **Evaluate information** on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement and
   c) **Take appropriate action** to **eliminate** such threats or **reduce** them to an acceptable level by applying safeguards, or, if considered appropriate, **to withdraw** from the audit engagement, where withdrawal is permitted by law or regulation.
   d) The engagement partner shall **promptly report** to the firm any inability to resolve the matter for appropriate action.

Besides, consideration for client continuance and compliance with ethical requirements, preliminary engagements activities also include establishing an understanding of terms of engagement.

C) Establishing an understanding of terms of engagement

1) It is in the interests of both the entity and the auditor that the auditor sends an **audit engagement letter** before the commencement of the audit **to help avoid misunderstandings** with respect to the audit.
2) It **ensures** that there is **no confusion** with the client regarding terms of the engagement.
3) **Performing** preliminary engagement activities **assists** the auditor in **identifying and evaluating** events or circumstances that may **affect auditor's ability to plan and perform** audit engagement.

II) PLANNING ACTIVITIES

Planning activities involve:

(A) Establishing the overall audit strategy

(B) Developing an audit plan

A) OVERALL AUDIT STRATEGY

Establishment of Overall Audit Strategy

The auditor shall establish an overall audit strategy that sets the **scope, timing and direction** of the audit, and that **guides** the **development of the audit plan.**

In establishing the overall audit strategy, the auditor shall: (Factors)

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a) **Determination of Characteristics of Audit:** Identify the characteristics of the engagement that define its scope;

b) **Reporting Objectives:** Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;

c) **Team's Efforts:** Consider the factors that are significant in directing the engagement team's efforts;

d) **Preliminary Work:** Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and

e) **Nature, timing and Extent of Resources:** Ascertain the Nature, timing & extent of resources necessary to perform the engagement.

Above Factors in Detail

Identify the characteristics of the engagement that define its scope

1) It is important for auditor to identify scope of the engagement. Only a well identified scope can lead to establishment of a sound audit strategy.
2) There are many characteristics of engagement defining its scope.
3) Some of characteristics are as under: -
   a) Applicable financial reporting framework applicable to the entity
   b) Nature of business segments to be audited including the need for specialized knowledge
   c) Industry specific reporting requirements required by industry regulators
   d) Expected use of audit evidence obtained in previous audits

Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required.

The ascertaining of reporting objectives of engagement **helps** the auditor to **plan timing** of different audit procedures and also nature of communications. Some of the instances are given under: -

1) The **entity's timetable** for reporting
2) **Organization of meetings** to discuss of nature, timing and extent of audit work with management
3) **Discussion with management** regarding the expected type and timing of reports to be issued **including the auditor's report**
4) **Discussion with management** regarding the expected communications on the status of audit work throughout the engagement.

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5) Expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.

Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts

1) The auditor needs to direct efforts of engagement team towards matters that in his professional judgment are significant.
2) Preliminary identification of material classes of transactions, account balances and disclosures help auditor in establishing overall audit strategy.
3) More energies need to be devoted to significant matters to obtain desired outcomes. Few examples are listed as under: -
   a) Volume of transactions which may determine whether it is more efficient for the auditor to rely on internal control
   b) Significant industry developments such as changes in industry regulations and new reporting requirements.
   c) Significant changes in the financial reporting framework, such as changes in accounting standards.
   d) Other significant relevant developments, such as changes in the legal environment affecting the entity.

Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant

Considering results of preliminary engagement activities and knowledge gained from similar engagements goes a long way in establishing sound audit strategy.

Examples are listed as under: -

1) Results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them.
2) The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.

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Ascertain the nature, timing and extent of resources necessary to perform the engagement.

1) Selection of engagement team and assignment of audit work to team members is a **significant factor** in establishing overall audit strategy.
2) Experienced team members may be **assigned in areas** where there is **higher risk of material misstatement.**

   Similarly, engagement **budgeting and devotion** of more time to areas of higher risk of material misstatement are **to be kept in mind.**

BENEFITS OF OVERALL AUDIT STRATEGY

The process of establishing the overall audit strategy **assists the auditor to determine**, subject to the completion of the auditor's risk assessment procedures, such matters as:

a) **Employment of Qualitative Resources:** The resources to deploy for specific audit areas, such as the use of appropriately **experienced team members for high risk areas** or the involvement of experts on complex matters.

b) **Allocation of Quantity of Resources:** The amount of resources to allocate to specific audit areas, such as the **number of team members** assigned to observe the inventory count at material locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas.

c) **Timing of Deployment of Resources:** When these resources are to be deployed, such as whether at an **interim audit stage** or at **key cut-off dates.**

d) **Management of Resources:** How such resources are **managed, directed and supervised**, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place **(for example, on -site or off-site)**, and whether to complete engagement quality control reviews.

B) DEVELOPMENT OF AUDIT PLAN

1) Once the **overall audit strategy** has been **established**, an **audit plan** can be **developed to address** the various matters **identified in the overall audit strategy**, taking into account the need **to achieve the audit objectives** through the **efficient use** of the auditor's resources.
2) Understanding **client's business** is one of the important principles in developing an audit plan. In fact, without adequate knowledge of client's business, a proper audit is not possible. **Gaining knowledge of client's business** is, therefore, one of the **foremost requirements** to **develop audit plan.**
3) **Description of Audit Plan**

   The auditor shall develop an audit plan **that shall include** a description of:

   (a) The nature, timing and extent of planned risk assessment procedures, as determined

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under **SA 315** "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".

(b) The nature, timing and extent of planned **further audit procedures** at the assertion level, as determined under **SA 330** "The Auditor's Responses to Assessed Risks".

(c) **Other planned audit procedures** that are required to be carried out so that the engagement complies with SAs.

4) The auditor **plans** what type of audit procedures are to be **performed**, their **timing** and **how much work** should be done taking into account sample size etc.

5) **The audit plan is more detailed than the overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops.**

6) **For example,** planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

RELATIONSHIP BETWEEN OVERALL AUDIT STRATEGY AND AUDIT PLAN

1) Audit strategy **sets the broad overall approach** to the audit whereas audit plan **addresses** the various matters **identified** in the overall audit strategy.

2) Audit strategy determines **scope, timing and direction** of audit. Audit plan **describes how strategy** is going to **be implemented**.

3) The audit plan is **more detailed than** the overall audit strategy that includes the **nature, timing and extent** of audit procedures to be performed by engagement team members.

4) **Planning** for these audit procedures takes place **over the course of the audit** as the audit plan for the engagement develops.

5) Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the **need to achieve the audit objectives** through the e□cient use of the **auditor's resources**.

6) The establishment of the overall audit strategy and the detailed audit plan are **not necessarily discrete or sequential processes**, but are **closely inter-related** since changes in one may result in consequential changes to the other.

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OVERALL AUDIT STRATEGY AND THE AUDIT PLAN- THE AUDITOR'S RESPONSIBILITY

The overall audit strategy and the audit plan remain **the auditor's responsibility**. It is the auditor who is responsible for establishing overall audit strategy and developing audit plan. However, as discussed earlier, auditor may **discuss elements of planning** with entity's management without **compromising effectiveness** of audit.

NATURE OF AUDIT PLANNING - A CONTINUOUS AND ITERATIVE PROCESS

1) Planning is **not a discrete phase of an audit, but rather a continual and iterative process** that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement.
2) Planning, however, **includes** consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.
3) **For example, planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as:**
   a) The **analytical procedures** to be applied as risk assessment procedures.
   b) Obtaining a **general understanding of the legal and regulatory framework applicable** to the entity and how the entity is complying with that framework.
   c) The **determination** of materiality.
   d) The **involvement** of experts.
   e) The **performance** of other risk assessment procedures.

AUDIT PROGRAMME

1) **Audit programme is a list of examination and verification steps** to be applied and set out in such a way that the **interrelationship of one step to another is clearly shown and designed**, keeping in view the assertions discernible in the statements of account produced for audit or on the basis of an appraisal of the accounting records of the client.
2) **An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given company for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on such statements.**
3) In other words, an audit programme is a detailed plan of applying the audit procedures in the given circumstances with instructions for the appropriate techniques to be adopted for accomplishing the audit objectives.

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CONSTRUCTING AN AUDIT PROGRAMME

1) The audit planning ideally **commences** at the **conclusion of the previous year's audit**, and along with the related programme, it should be reconsidered for modification as the audit progresses. Such consideration is based on the auditor's review of the internal control, his preliminary evaluation thereof, and the results of his compliance and substantive procedures.
2) While developing an audit programme, the auditor may **conclude** that relying on certain internal controls is an e□ective and e□cient way to conduct his audit.
3) However, the auditor may decide **not to rely** on internal controls when there are other **more efficient** ways of obtaining su□cient appropriate audit evidence. The auditor should also **consider** the timing of the procedures, the coordination of any assistance expected from the client, the availability of assistants, and the involvement of other auditors or experts.
4) Further, the auditor normally has **flexibility** in deciding when to perform audit procedures. However, in some cases, the auditor may have no discretion as to timing, for example, when observing the taking of inventories by client personnel or verifying the securities and cash balances at the year-end.

For the purpose of programme construction, the following points should be kept in mind:

a) **Stay within the scope and limitation** of the assignment.
b) **Prepare a written audit programme** setting forth the procedures that are needed to implement the audit plan.
c) **Determine** the evidence **reasonably available** and **identify the best evidence** for deriving the necessary satisfaction.
d) **Apply** only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.
e) **Include** the audit objectives for each area and **sufficient details** which serve as a set of instructions for the assistants involved in audit and help in controlling the proper execution of the work.
f) **Consider** all possibilities of error.
g) **Co-ordinate the procedures** to be applied to related items.

AUDIT PROGRAMME- DESIGNED TO PROVIDE AUDIT EVIDENCE

1) As per **SA 500 Audit Evidence** may be defined as the **information used by the auditor** in arriving at **the conclusions** on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.
2) Evidence is the very **basis for formulation of opinion** and an **audit programme** is **designed** to provide for that by prescribing procedures and techniques. What is best evidence for testing

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the accuracy of any assertion is a matter of expert knowledge and experience.

3) This is the primary task before the auditor when he draws up the audit programme. Transactions are varied in nature and impact; procedures to be prescribed depend on prior knowledge of what evidence is reasonably available in respect of each transaction.

4) **An auditor picks up evidence from a variety of fields and it is generally of the following broad types:**

a) Documentary examination,

b) Physical examination,

c) Statements and explanation of management, officials and employees,

d) Statements and explanations of third parties,

e) Arithmetical calculations by the auditor,

f) State of internal controls and internal checks,

g) Inter-relationship of the various accounting data,

h) Subsidiary and memorandum records,

i) Minutes,

j) Subsequent action by the client and by others.

Example:

(i) For cash in hand, the best evidence is 'count'

(ii) For investment pledged with a bank, the banker's certificate.

(iii) For verifying assertions about book debts, the client's ledger invoices, debit notes, credit notes, monthly accounts statement sent to the customers are all evidence: some of these are corroborative, other being complementary. In addition,

(iv) balance confirmation procedure is often resorted to, to obtain greater satisfaction about the reliability of the assertion.

ADVANTAGES AND DISADVANTAGES OF AN AUDIT PROGRAMME

Advantages

The advantages of an audit programme are:

a) It **provides the assistant** carrying out the audit with **total and clear set of instructions** of the work generally to be done.

b) It is essential, particularly for major audits, to provide **a total perspective** of the work to be performed.

c) **Selection of assistants** for the jobs on the basis of capability **becomes easier** when the work is rationally planned, defined and segregated.

d) **Without a written and pre-determined programme**, work is necessarily to be carried out on the basis of some **'mental' plan**. In such a situation there is always a danger of ignoring or

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overlooking certain books and records. Under a properly framed programme, the danger is significantly less and the audit can proceed systematically.

e) The assistants, by putting their signature on programme, **accept the responsibility** for the work carried out by them individually and, if necessary, the work done may be traced back to the assistant.

f) **The principal** can control the progress of the various audits in hand by examination of audit programmes initiated by the assistants deputed to the jobs for completed work.

g) It **serves as a guide** for audits to be carried out in the succeeding year.

h) A properly drawn up audit programme **serves as evidence** in the event of any charge of negligence being brought against the auditor. It may be of considerable value in establishing that he exercised reasonable skill and care that was expected of professional auditor.

Disadvantages

Some disadvantages are also there in the use of audit programmes but most of these can be removed by following some concrete steps.

a) The work may become **mechanical** and particular parts of the programme may be carried out without any understanding of the object of such parts in the whole audit scheme.

b) The programme often tends to become **rigid and inflexible** following set grooves; the business may change in its operation of conduct, but the old programme may still be carried on. Changes in staff or internal control may render precaution necessary at points different from those originally decided upon.

c) **Inefficient assistants** may take shelter behind the programme i.e. defend deficiencies in their work on the ground that no instruction in the matter is contained therein.

d) **A hard and fast** audit programme may **kill the initiative** of efficient and enterprising assistants.

All these disadvantages may be eliminated by **imaginative supervision of the work** carried on by the assistants; the auditor must have a **receptive attitude** as regards the assistants; the assistants should be **encouraged** to observe matters objectively and bring significant matters to the notice of supervisor / principal.

EVOLVING ONE AUDIT PROGRAMME - NOT PRACTICABLE FOR ALL BUSINESSES

1) Businesses **vary in nature, size and composition**; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment.

2) On account of such variations, **evolving one audit programme** applicable to all business under all circumstances is **not practicable**.

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3) However, it becomes a necessity to specify in detail in the audit programme the **nature of work to be done** so that no time will be wasted on matters not pertinent to the engagement and any special matter or any specific situation can be taken care of.

THE ASSISTANT TO KEEP AN OPEN MIND

1) **To start with**, an auditor having regard to the **nature**, **size and composition** of the business and the dependability of the internal control and the given scope of work, should frame a programme which should aim at providing for a minimum essential work which may be termed as a standard programme.
2) As experience is gained by actually carrying out the work, the programme may be **altered** to take care of situations which were left out originally, but are found relevant for the particular concern.
3) Similarly, if any work originally provided for proves beyond doubt to be **unnecessary or irrelevant**, it may be dropped. The assistant engaged in the job should be encouraged to keep an open mind beyond the programme given to him.
4) He should be instructed to **note and report significant matters** coming to his notice, to his seniors or to the partners or proprietor of the firm engaged for doing the audit.

PERIODIC REVIEW OF THE AUDIT PROGRAMME

1) There should be **periodic review** of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transactions.
2) Unless this is done, any change in the business policy of the client may **not be adequately** known, and consequently, audit work may be carried on, on the basis of an obsolete programme and, for this negligence, the whole audit may be held as **negligently conducted** and the auditor may have to face legal consequences.
3) The utility of the audit programme can be **retained and enhanced** only by keeping the programme as also the client's operations and internal control under periodic review so that **inadequacies or redundancies** of the programme may be removed.
4) However, as a basic feature, audit programme not only lists the tasks to be carried out but also contains a few relevant instructions, like the **extent of checking, the sampling plan, etc.** So long as the programme is not officially changed by the principal, every assistant deputed on the job should unfailingly carry out the detailed work according to the instructions governing the work.
5) Many persons believe that this brings an **element of rigidity** in the audit programme.
6) This is not true provided the periodic review is **undertaken to keep the programme as up-to-date as possible** and by encouraging the assistants on the job to observe all salient features of the various accounting functions of the client.

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DOCUMENTATION

The auditor shall document:

a) The overall audit strategy;

b) The audit plan; and

c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes such changes.

ASPECTS TO BE KEPT IN MIND WHILE MAINTAINING DOCUMENTATION

1) **Record of Key Decisions:** The documentation of the overall audit strategy is a record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team

2) **Record of Nature, Timing and Extent of Risk Assessment Procedures:** The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs and/or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

3) **Record of reasons for Change in Audit Plans:** A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

CHANGES TO PLANNING DECISIONS DURING THE COURSE OF THE AUDIT

1) The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit.

2) As a result of
   a) unexpected events,
   b) changes in conditions, or
   c) the audit evidence obtained from the results of audit procedures,

3) the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks.

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4) This may be the case when information comes to the auditor's attention that **differs significantly** from the information available when the auditor planned the audit procedures.
5) **For example**, audit evidence obtained through the performance of substantive procedures may contradict the audit evidence obtained through tests of controls.

PLANNING SUPERVISION AND REVIEW OF WORK OF ENGAGEMENT TEAM MEMBERS

1) The auditor shall **plan the nature, timing and extent** of direction and supervision of engagement team members and the review of their work.
2) **The nature, timing and extent of the direction and supervision** of engagement team members and review of their work **vary depending** on many factors, **including**:
   a) The **size and complexity** of the entity.
   b) The **area** of the audit.
   c) The **assessed risks of material misstatement**
   d) The **capabilities and competence** of the individual team members performing the audit work.

OTHER IMPORTANT NOTES

Involvement of key engagement team members in planning audit

The engagement partner and other key members of the engagement team shall be involved in planning the audit including planning and participating in the discussion among engagement team members. The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.

Discussion of elements of planning with entity's management

The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit.

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SA 315

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SA 315

Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment

Introduction to SA 315	As per SA 315 - "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment", **the objective of the auditor is to** identify and assess the risks of material misstatement, **whether due to fraud or error**, at the financial statement and assertion levels, **through** understanding the entity and its environment, **including** the entity's internal control, **thereby providing a basis** for designing and implementing responses to the assessed risks of material misstatement. **This will help the** auditor to reduce the risk of material misstatement to an acceptably low level.
Risk Assessment Procedures and Related Activities [Refer Note 1]	1) The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion level are defined as risk assessment procedures. 2) The **risk assessment procedures** shall include the following: a) **Inquiries of management, and of others within the entity** b) **Analytical procedures.** c) **Observation and inspection.** 3) The auditor shall consider whether information obtained from the **auditor's client acceptance or continuance process** is relevant to identifying risks of material misstatement. 4) Where **engagement partner** has performed **other engagements** for the entity, consider whether information obtained is relevant to identifying risks of material misstatement. 5) If auditor uses his **previous experience**, consider if changes have occurred since the previous audit. 6) The engagement partner and other key engagement team members shall discuss the **susceptibility of the entity's financial statements to material misstatement.** 7) Risk assessment procedures by themselves, however, **do not provide sufficient appropriate audit evidence** on which to base the audit opinion.

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The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control [Refer Note 2]	**The auditor shall obtain an understanding of the following:** 1) **Relevant** industry, regulatory, and other external factors including AFRF 2) The **nature of the entity**, including: a) **its operations;** b) **its ownership and governance structures;** c) **the types of investments; and** d) **the way that the entity is structured and how it is financed;** 3) The entity's **selection and application** of accounting policies, including the reasons for changes thereto. 4) The **entity's objectives and strategies**, and those related business risks that may result in risks of material misstatement. 5) The **measurement and review** of the entity's financial performance.
Objective of the Auditor	The objective of the auditor as stated in SA 315 is to identify and assess the risks of material misstatement. **The auditor shall identify and assess the risks of material misstatement at:** a) The **financial statement level**; and b) The **assertion level** for classes of transactions, account balances, and disclosures; To provide a basis for designing and performing further audit procedures. **For this purpose, the auditor shall:** a) **Identify risks** throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements b) **Assess the identified risks**, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions c) **Relate the identified risks to what can go wrong** at the assertion level, taking account of relevant controls that the auditor intends to test and d) **Consider the likelihood of misstatement**, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

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Information obtained by performing risk assessment procedures - Used as audit evidence	1) Information obtained by **performing risk assessment procedures** and related activities may be used by the auditor as audit evidence to support assessments of the risks of material misstatement. 2) In addition, the auditor may **obtain audit evidence** about classes of transactions, account balances, or disclosures and related assertions and about the operating effectiveness of controls, even though such procedures were not specifically planned as substantive procedures or as tests of controls. 3) The auditor also may choose to perform substantive procedures or tests of controls concurrently with risk assessment procedures because it is efficient to do so.
Why understanding the entity and its environment is significant?	1) **Understanding** the entity and the environment in which it operates is very significant. 2) **It helps** the auditor in **planning** the audit and in **identifying** areas requiring **special attention**. Gaining knowledge about client's business is one of the important principles in developing an overall audit plan. 3) In fact, without adequate knowledge of client's business, a **proper audit** is **not possible**.
Risks that Require Special Audit Consideration	In exercising judgment as to which risks are significant risks, the auditor shall consider the following: a) Whether the risk is a **risk of fraud;** b) Whether the **risk is related to recent significant economic, accounting, or other developments;** c) The **complexity of transactions;** d) Whether the **risk involves significant transactions with related parties;** e) The degree of **subjectivity in the measurement** of financial information; and f) Whether the **risk involves significant unusual transactions.**
Risks for which Substantive Procedures alone do Not Provide Sufficient Appropriate Audit Evidence	a) Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit **highly automated processing with little or no manual intervention.** b) In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.

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Material Weakness in Internal Control	The auditor shall communicate material weaknesses in internal control identified during the audit on a timely basis to management at an appropriate level of responsibility, and, as **required by SA 260 & 265.**

NOTE 1 - WHAT IS INCLUDED IN RISK ASSESSMENT PROCEDURES

A) Inquiries of Management and Others Within the Entity:

Much of the information obtained by the auditor's inquiries is obtained from management and those responsible for financial reporting. However, the auditor may also obtain information, or a di□erent perspective in identifying risks of material misstatement, **through inquiries of others** within the entity and other employees with di□erent levels of authority.

Example:

a) Inquiries directed toward internal audit personnel may provide information about internal audit procedures performed during the year relating to the design and effectiveness of the entity's internal control and whether management has satisfactorily responded to findings from those procedures.

b) Inquiries of employees involved in initiating, processing or recording complex or unusual transactions may help the auditor to evaluate the appropriateness of the selection and application of certain accounting policies.

c) Inquiries directed toward in-house legal counsel may provide information about such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners and the meaning of contract.

d) Inquiries directed towards marketing or sales personnel may provide information about changes in the entity's marketing strategies, sales trends, or contractual arrangements with its customers.

e) Inquiries directed to the risk management function (or those performing such roles) may provide information about operational and regulatory risks that may affect financial reporting.

f) Inquiries directed to information systems personnel may provide information about system changes, system or control failures, or other information system- related risks.

B) Analytical Procedures:

a) Analytical procedures performed as risk assessment procedures may **identify aspects of the entity** of which the **auditor was unaware** and **may assist** in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks.

b) Analytical procedures performed as risk assessment procedures **may include both financial and non-financial information**, for example, the **relationship between sales and square**

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footage of selling space or volume of goods sold.

c) Analytical procedures may help identify the **existence of unusual transactions or events**, and amounts, ratios, and trends that might indicate matters that have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, **especially risks of material misstatement due to fraud.**

d) However, when such analytical procedures use **data aggregated at a high level** (which may be the situation with analytical procedures performed as risk assessment procedures), the results of those analytical procedures only provide a **broad initial indication** about whether a material misstatement may exist.

e) Accordingly, in such cases, **consideration of other information** that has been **gathered** when identifying the risks of material misstatement together with the results of such analytical procedures may **assist** the auditor in **understanding and evaluating** the results of the analytical procedures.

C) Observation and Inspection:

Observation and inspection may support inquiries of management and others and may also provide information about the entity and its environment.

Examples of such audit procedures include observation or inspection of the following:

a) The **entity's operations**

b) **Documents** (such as business plans and strategies), records, and **internal control manuals**

c) Reports prepared by management (such as quarterly management reports and interim financial statements) and those charged with governance (such as minutes of board of directors' meetings)

d) The **entity's premises** and **plant facilities.**

NOTE 2 - UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

As per **SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment"**, the auditor shall obtain an understanding of the following:

A) Relevant industry, regulatory and other external factors including the applicable financial reporting framework.

1) Relevant industry factors include **industry conditions** such as the competitive environment, supplier and customer relationships, and technological developments. **Examples of matters the auditor may consider include**

   a) market and competition,

   b) whether entity is engaged in seasonal activities,

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c) product technology relating to the entity's products.

2) The **industry** in which the **entity operates** may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation. Relevant regulatory factors include the regulatory environment.

3) The regulatory environment includes, among other matters, the applicable financial reporting framework and the legal and political environment.

4) Examples **of matters the auditor may consider include**

a) accounting principles and industry specific practices,

b) regulatory framework for a regulated industry,

c) legislation and regulation that significantly affect the entity's operations, including direct supervisory activities, taxation,

d) government policies currently affecting the conduct of the entity's business, environmental requirements affecting the industry and the entity's business.

5) Examples **of other external factors affecting the entity that the auditor may consider include**

a) the general economic conditions,

b) interest rates and availability of financing, and inflation etc.

B) The nature of the entity, including:

a) its **operations;**

b) its **ownership and governance** structures;

c) the **types of investments** that the entity is making and plans to make, including investments in special-purpose entities; and

d) the **way that the entity is structured and how it is financed**; to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.

1) An **understanding** of nature of entity enables the auditor to understand whether entity has a **complex structure** for example, whether it has subsidiaries. Complex structures often introduce issues that may give rise to risks of material misstatement.

2) It also helps in **understanding** matters relating to the ownership, and relations between owners and other people or entities. This understanding assists in determining whether related party transactions have been identified and accounted for appropriately.

3) **Examples of matters that the auditor may consider while obtaining understanding of nature of entity include:**

a) Business operations such as nature of revenue sources, products or services, conduct of operations, location of production facilities, key customers and suppliers of goods and services

b) Investment and investment activities such as capital investment activities and planned or recently executed acquisitions

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c) Financing and financing activities such as major subsidiaries, debt structure etc.

d) Financial reporting such as accounting principles and revenue recognition practices

C) The entity's selection and application of accounting policies, including the reasons for changes thereto.

The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.

D) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.

1) The entity conducts its business in the **context** of industry, regulatory and other internal and external factors. To respond to these factors, the entity's management define objectives, which are the overall plans for the entity. Strategies are the approaches by which management intends to achieve its objectives.
2) The entity's objectives and strategies may change over time. Business risk is **broader than** the risk of material misstatement of the financial statements, though it includes the latter. Business risk may arise from change or complexity.
3) An understanding of the business risks facing the entity **increases the likelihood** of identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the financial statements.
4) However, the auditor does **not have a responsibility** to identify or assess all business risks because not all business risks give rise to risks of material misstatement.
5) **Examples of matters** that the auditor may consider when obtaining an understanding of the entity's objectives, strategies and related business risks that may result in a risk of material misstatement of the financial statements include: -
   a) **Industry developments** (a potential related business risk might be, for example, that the entity does not have the personnel or expertise to deal with the changes in the industry).
   b) **New products and services** (a potential related business risk might be, for example, that there is increased product liability).
   c) **Expansion of the business** (a potential related business risk might be, for example, that the demand has not been accurately estimated).

E) The measurement and review of the entity's financial performance.

1) Management and others will **measure and review** those things they regard as important. Performance measures, whether external or internal, create pressures on the entity. These pressures, in turn, may motivate management to take action to improve the business

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performance or to misstate the financial statements.

2) Accordingly, an understanding of the entity's performance measures **assists** the auditor in considering whether pressures to achieve performance targets may result in management actions that increase the risks of material misstatement, including those due to fraud.

3) **Examples for measuring and reviewing financial performance which may be used by an auditor may include: -**

   a) **Key performance indicators** (financial and non-financial) and key ratios, trends and operating statistics.

   b) **Period-on-period** financial performance analyses.

   c) **Budgets, forecasts**, variance analyses, and departmental or other level performance reports.

   d) **Credit rating agency reports**

NOTE 3 - UNDERSTANDING OF THE ENTITY- A CONTINUOUS PROCESS

1) **Obtaining** an understanding of the entity and its environment, including the entity's internal control (referred to hereafter as an "understanding of the entity"), is a continuous, dynamic process of gathering, updating and analysing information throughout the audit.

2) The understanding **establishes a frame of reference** within which the auditor plans the audit and exercises professional judgment throughout the audit, **for example**, when:

   a) **Assessing** risks of material misstatement of the financial statements;

   b) **Determining** materiality in accordance with **SA 320;**

   c) **Considering the appropriateness** of the selection and application of accounting policies;

   d) **Identifying** areas where special audit consideration may be necessary, for example, related party transactions, the appropriateness of management's use of the going concern assumption, or considering the business purpose of transactions;

   e) **Developing expectations** for use when performing analytical procedures;

   f) **Evaluating the sufficiency and appropriateness of audit evidence** obtained, such as the appropriateness of assumptions and of management's oral and written representations.

NOTE 4 - DOCUMENTING THE RISK

   a) The **discussion among the engagement team** and the **significant decisions** reached;

   b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment and of each of the internal control components, the sources of information from which the understanding was obtained; and the risk assessment procedures performed;

   c) The **identified and assessed risks of material misstatement** at the financial statement level and at the assertion level; and

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d) The **risks identified, and related controls** about which the auditor has obtained an understanding

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Audit Risk

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INTRODUCTION TO AUDIT RISK

1) **Audit risk** means the **risk** that the **auditor gives an inappropriate audit opinion** when the **financial statements** are **materially misstated.**
2) It means that an auditor **expresses an unmodified opinion** when financial statements are **materially misstated.**
3) In such a case, **not only reputation** of auditor would be **damaged**, but he could also **invite regulatory action** from professional body and could **face probable legal action** by intended users.
4) **To avoid** such unpleasant consequences, the auditor will **plan and perform** the audit in such a way that **audit risk is reduced to an acceptably low level. SA-200** states that the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor **to draw reasonable conclusions** on which to base the auditor's opinion.

   Consider, for example, that profits of a company have been increased artificially by showing fake revenues of sizeable amounts in its financial statements. In such a case, financial statements are materially misstated. The probability, that auditor in such a case, expresses an inappropriate audit opinion is referred to as audit risk. It is the possibility that auditor expresses an unmodified opinion even when financial statements are materially misstated.
5) Audit risk is a **function** of the **risks of material misstatement** and **detection risk.**

RISKS OF MATERIAL MISSTATEMENT

SA 200 states that risk of material statement is the risk that the financial statements are materially misstated prior to audit. It simply means that there is a probability of frauds or errors in financial statements before audit

What is meant by Misstatement:

Misstatement refers to a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Few examples of misstatements could be:

1) Charging of an item of capital expenditure to revenue or vice-versa
2) Difference in disclosure of a financial statement item vis-à-vis its requirement in applicable financial reporting framework
3) Selection or application of inappropriate accounting policies
4) Difference in accounting estimate of a financial statement item vis-à-vis its appropriateness in

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applicable financial reporting framework

5) Intentional booking of fake expenses in statement of profit and loss
6) Overstating of receivables in financial statements by not writing off irrecoverable debts
7) Overstating or understating inventories

The risks of material misstatement may exist at two levels:

a) The overall financial statement level
b) The assertion level for classes of transactions, account balances, and disclosures.

Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.

COMPONENTS OF RISK OF MATERIAL MISSTATEMENT:

The risks of material misstatement at the assertion level consist of two components:

a) Inherent risk
b) Control risk

Both inherent risk and control risk are the entity's risks and they exist independently of the audit of financial statements. Inherent risk and control risk are influenced by the client. These are entity's risks and are not influenced by the auditor.

Inherent risk:

1) **Inherent risk is the susceptibility of an assertion about a class of transaction, account balance or disclosure** to a misstatement that could be **material, either individually or when aggregated with other misstatements before consideration of any related controls** as described in SA-200.
2) There is always a risk that before considering any existence of internal control in an entity, a particular transaction, balance of an account or a disclosure required to be made in the financial statements of an entity have a **chance of being misstated** and such misstatement can be material. This risk is **known as inherent risk**.
3) Inherent risk is **higher** for some assertions and related classes of transactions, account balances, and disclosures than for others. For example, it may be higher for complex

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calculations.

4) Inherent risk **factors** are **considered** while **designing tests of controls and substantive procedures**. Category of auditor's assessment lower or higher, each category covers a range of degrees of inherent risk.

5) Auditor may assess the inherent risk of two different assertions as lower while recognizing that one assertion has less inherent risk than the other, although both have been assessed as lower.

6) It is important to consider the **reason** for each identified inherent risk even if the risk is lower, when auditor designs tests of controls and substantive procedures.

7) **External circumstances** giving rise to business risks may also **influence** inherent risk. **For example**, technological developments might make a particular product obsolete. Factors in the entity and its environment may also influence the inherent risk related to a specific assertion.

8) **Few examples of inherent risks could include:**

   a) An accounting standard provides guidance on some complex issue which might not be understood by the management. Therefore, recording of this issue in financial statements carries inherent risk of being misstated.

   b) There are large number of business failures in an industry. Therefore, assertions in financial statements of an entity operating in such an industry carry an inherent risk of being misstated.

Control risk

1) **Control risk** in accordance with **SA-200**, control risk is the **risk** that a **misstatement** that **could occur in an assertion** about a **class of transaction, account balance or disclosure** and that could be **material, either individually or when aggregated with other misstatements**, will **not be prevented, or detected and corrected**, on **a timely basis** by the **entity's internal control**.

2) Control risk is a risk that **internal control existing and operating** in an entity would **not be efficient** enough to stop from **happening, or find and then rectify** in an appropriate time, any material misstatement relating to a transaction, balance of an account or disclosure required to be made in the financial statements of that entity.

3) Therefore, in a way, it can be said that **there exists an inverse relation** between **control risk and efficiency of internal control** of an entity.

4) When efficiency of internal control of an entity is high, the control risk is low and when efficiency of internal control of that entity is low, the control risk is high.

5) **Examples of control risk could include:**

   a) A company has devised control that cash and cheque books should be kept in a locked safe and access is granted to authorized personnel only. There is risk that control is not being followed.

   b) An entity has devised a control that fire extinguishers and smoke detectors are in place and are in working condition at all times to reduce the risk of damage to inventories caused

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by fire. There is a risk that fire extinguishers in place are expired and are not being refilled. Similarly, there is a possibility that smoke detectors are not working.

c) A company has devised a control relating to petty cash that items of expenditure of only less than ₹ 10000 should be routed through imprest system of petty cash. There is a risk that control is not being followed.

Detection risk

1) **SA 200** defines **detection risk** as the **risk** that the **procedures performed** by the auditor to reduce audit risk to an acceptably low level **will not detect** a misstatement that **exists** and that **could be material**, either **individually or when aggregated with other misstatements**.

2) **For example**, auditor of a company uses certain audit procedures for the purpose of obtaining audit evidence and reducing audit risk, but still there will remain a risk that audit procedures used by the auditor may not be able to detect a misstatement which by nature is material, then that risk is known as detection Risk.

3) **Detection risk comprises sampling and non-sampling risk.**

   a) **Sampling risk** is the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. It simply means that the sample was not representative of the population from which it was chosen.

   b) **Non-sampling risk** is the risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk. Like an auditor may reach an erroneous conclusion due to application to some inappropriate audit procedure.

4) **Examples of detection risk could include:**

   a) Sizeable work-in-progress inventories are expected in financial statements of a company. However, auditor of the company does not devote time to attending inventory count. Instead, he chooses to rely upon alternative audit procedures.

   b) The auditor of a company has audited revenue of a company by taking a sample. However, there is a risk that sample of revenue is not representative of overall revenue.

5) **The auditor** can only **influence detection risk**. Inherent risk and control risk belong to the entity and are influenced by the entity. Therefore, auditor **must reduce** detection risk in order to keep audit risk at low level.

6) Detection risk may be **reduced by increasing** area of checking, testing larger samples and by including competent and experienced persons in the engagement team.

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AUDIT RISK - WHAT IS NOT INCLUDED?

1) Audit risk is a **technical term** related to the process of auditing; it **does not refer** to the auditor's business risks **such as**
   a) loss from litigation,
   b) adverse publicity, or
   c) other events arising in connection with the audit of financial statements.
2) For the purpose of the SA's **audit risk does not include** the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not. This risk is ordinarily insignificant.

ASSESSMENT OF RISKS- A MATTER OF PROFESSIONAL JUDGMENT

1) Audit risk is a **function of the risks of material misstatement and detection risk**. The assessment of risks is **based on audit procedures** to obtain information necessary for that purpose and evidence obtained throughout the audit.
2) The assessment of risks is a **matter of professional judgment**, rather than a matter capable of precise measurement.
3) The **distinguishing feature** of the professional judgment expected of an auditor is that **it is exercised by an auditor** whose **training, knowledge and experience** have **assisted** in **developing** the necessary competencies to achieve reasonable judgments.

COMBINED ASSESSMENT OF THE RISK OF MATERIAL MISSTATEMENT

1) Standards on auditing **do not** ordinarily refer to inherent risk and control risk separately, but rather to a **combined assessment of the "risks of material misstatement"**.
2) However, the auditor may make **separate or combined** assessments of inherent and control risk **depending on preferred audit techniques or methodologies** and practical considerations.
3) The assessment of the risks of material misstatement may **expressed in quantitative terms**, such as in percentages, or in **non-quantitative terms**.
4) In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.
5) It can be concluded from the above that:

Audit Risk = Risk of Material Misstatement x Detection Risk ------ (1)

Risk of Material Misstatement= Inherent Risk x Control Risk ------ (2)

From (1) and (2)

Audit Risk = Inherent Risk x Control Risk x Detection Risk

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ILLUSTRATION:

XYZ Ltd is engaged in the business and running several stores dealing in variety of items such as readymade garments for all seasons, shoes, gift items, watches etc. There are security tags on each and every item. Moreover, inventory records are physically verified on monthly basis.

Discuss the types of inherent, control and detection risks as perceived by the auditor.

SOLUTION:

1) **Inherent Risk:** Because items may have been misappropriated by employees, therefore, risk to the auditor is that inventory records would be inaccurate.
2) **Control Risk:** There is a security tag on each item displayed. Moreover, inventory records are physically verified on monthly basis. Despite various controls being implemented at the stores, still collusion among employees may be there and risk to auditor would again be that inventory records would be inaccurate.
3) **Detection Risk:** Auditor checks the e□ciency and e□ectiveness of various control systems in place. He would do that by making observation, inspection, enquiry, etc. In addition to these, the auditor would also employ sampling techniques to check few sales transactions from beginning to end. However, despite all these procedures, the auditor may not detect the items which have been stolen or misappropriated.

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SA 320

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SA 320 Materiality in Planning and Performing an Audit

WHAT IS MEANT BY MATERIALITY?

1) **SA 320 Materiality in Planning and Performing an Audit** states that misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
2) The objective of an independent auditor is **to obtain reasonable assurance** about whether the **financial statements as a whole are free from material misstatement, whether due to fraud or error**, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.
3) Herein, **lies the significance of materiality**. The auditor has to obtain reasonable assurance that financial statements as a whole are free from material misstatement whether due to fraud or error.
4) As a result, an audit strives to identify significant risks of material misstatement and audit procedures are geared towards it.
5) **Materiality** is not always a matter of relative size. **For example**, a small amount lost by fraudulent practices of certain employees can indicate a serious flaw in the enterprise's internal control system requiring immediate attention to avoid greater losses in future.

MATERIALITY IN PLANNING AND PERFORMING AN AUDIT- AUDITOR'S RESPONSIBILITY

1) The **concept of materiality** is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.
2) SA **320** deals with auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.
3) Financial reporting frameworks often **discuss the concept of materiality** in the **context of the preparation and presentation of financial statements**. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:
   a) **Misstatements**, including **omissions**, are considered to be material if they, **individually or in the aggregate**, could **reasonably be expected to influence** the economic decisions of users taken on the basis of the financial statements;
   b) **Judgments about materiality** are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

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c) **Judgments about matters** that are **material to users** of the financial statements are based on a consideration of the common financial information needs of users as a group.

d) The **possible effect** of misstatements on specific individual users, whose needs may vary widely, is not considered.

4) Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the auditor in determining materiality for the audit. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to above provide the auditor with such a frame of reference.

5) In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:

a) **Determining** the nature, timing and extent of **risk assessment procedures**;

b) **Identifying and assessing** the risks of material misstatement; and

c) **Determining** the nature, timing and extent of **further audit procedures**.

6) **The materiality** determined when planning the audit does **not** necessarily establish an amount below which uncorrected misstatements, **individually or in aggregate**, will always be **evaluated as immaterial**.

7) The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality.

8) Although, it is **not practicable** to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

9) The auditor has to **apply his professional judgement** in determining materiality, choosing appropriate benchmark and determining level of benchmark. Materiality forms the basis for determination of audit scope and the levels of testing the transactions.

10) While judging materiality, the significance of an item has to be viewed from different perspectives. Materiality of an item may be judged by considering the impact on the profit and loss, or on the balance sheet, or in the total of the category of expenditure or income to which it pertains, and on its comparison with the corresponding figure for the previous year.

If there is any statutory requirement of disclosure, it is to be considered material irrespective of the value of amount. Examples are given below:

a) As per **Division I of schedule III of Companies Act, 2013**, any item of income or expenditure which exceeds **one percent** of the revenue from operations or ₹ **1,00,000**, whichever is higher, needs to be disclosed separately.

b) A company should disclose in notes to accounts, shares in the company held by each shareholder holding more than **5 per cent** shares specifying the number of shares held as per requirements of **Division I of Schedule III of Companies Act, 2013**.

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DETERMINATION OF MATERIALITY- A MATTER OF PROFESSIONAL JUDGMENT

The auditor's determination of materiality is a **matter of professional judgment**, and is **affected** by the **auditor's perception** of the financial information needs of users of the financial statements. In this context, it is reasonable for the **auditor to assume that users:**

a) Have a **reasonable knowledge** of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;

b) Understand that financial statements are **prepared, presented and audited** to levels of materiality;

c) Recognize the **uncertainties inherent** in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and

d) Make **reasonable economic decisions** on the basis of the information in the financial statements.

PERFORMANCE MATERIALITY

1) Practically, it is **difficult** for auditors **to design tests to identify individual misstatements**. It is likely that misstatements are material in aggregate. It takes us to the concept of "performance materiality."

2) **Performance materiality** means the **amount or amounts set by the auditor at less than materiality** for the financial statements as a whole **to reduce to an appropriately low level the probability** that the **aggregate of uncorrected and undetected misstatements exceeds materiality** for the financial statements as a whole.

3) If applicable, performance materiality also **refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.**

4) Performance materiality is **set at a value lower than overall materiality**. It **lowers** the **risk** that auditor will **not be able** to identify misstatements that are material when added together.

DETERMINING MATERIALITY AND PERFORMANCE MATERIALITY WHEN PLANNING THE AUDIT

1) When establishing the overall audit strategy, the auditor shall **determine materiality** for the financial statements as a whole.

2) If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could **reasonably be expected to influence** the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

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USE OF BENCHMARKS IN DETERMINING MATERIALITY FOR THE FINANCIAL STATEMENTS AS A WHOLE

Factors that may affect identification of an appropriate benchmark

a) The **elements** of the financial statements like assets, liabilities, equity, revenue, expenses

b) Whether there are **items** on which the **attention of the users** of the entity's Financial statements **tends to be focused**

For Example, for the purpose of evaluating financial performance user may tend to focus on profit, revenue or net asset.

c) The **nature of the entity**, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;

d) The **entity's ownership structure** and the way it is financed

e) The **relative volatility** of the benchmark.

EXAMPLES OF BENCHMARKS

Examples that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as:

a) Profit Before Tax,

b) Total Revenue,

c) Gross Profit and Total Expenses,

d) Total Equity or Net Asset Value.

Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations **is volatile**, other **benchmarks may be more appropriate**, such as gross profit or total revenues.

CHOSEN BENCHMARK - RELEVANT FINANCIAL DATA

In relation to the chosen benchmark, relevant financial data ordinarily includes -

a) **Prior periods'** financial results and financial positions,

b) The **period to-date** financial results and financial position, and

c) **Budgets or forecasts** for the current period,

d) **Adjusted for significant changes** in the circumstances of the entity (for example, a significant business acquisition) and relevant changes of conditions in the industry or economic environment in which the entity operates.

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DETERMINING A PERCENTAGE TO BE APPLIED TO A CHOSEN BENCHMARK INVOLVES THE EXERCISE OF PROFESSIONAL JUDGMENT

There is a **relationship** between the **percentage and the chosen benchmark**, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

Examples:

The auditor may consider **five percent** of profit before tax from continuing operations to be appropriate for a profit-oriented entity in a manufacturing industry, while the auditor may consider **one percent** of **total revenue** or **total expenses** to be appropriate for a not-for-profit entity. Higher or lower percentages, however, may be deemed appropriate in different circumstances.

MATERIALITY LEVEL OR LEVELS FOR PARTICULAR CLASSES OF TRANSACTIONS, ACCOUNT BALANCES OR DISCLOSURES

Factors that may **indicate** the **existence** of one or more particular classes of transactions, account balances or disclosures for which **misstatements of lesser amounts than materiality** for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include the following:

1) Whether **law, regulations or the applicable financial reporting framework** affect users' expectations regarding the measurement or disclosure of certain items.

   Example:

   Related party transactions, and the remuneration of management and those charged with governance.

2) The **key disclosures** in relation to the industry in which the entity operates.

   Example:

   Research and development costs for a pharmaceutical company.

3) Whether **attention is focused on a particular aspect** of the entity's business that is separately disclosed in the financial statements.

   Example:

   A newly acquired business.

REVISION IN MATERIALITY LEVEL AS THE AUDIT PROGRESSES

1) **Materiality** for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may **need to be revised** as a result of a change in circumstances that occurred during the audit (for example, a decision to dispose of a major part of the entity's business), new information, or a change in the

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auditor's understanding of the entity and its operations as a result of performing further audit procedures.

2) If during the audit it appears as though **actual financial results** are likely to be **substantially different** from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole, the auditor revises that materiality.

3) If the auditor **concludes** that a **lower materiality** for the financial statements as a whole than that initially determined is appropriate, **the auditor** shall **determine** whether it is **necessary to revise** performance materiality, and whether the **nature, timing and extent** of the further audit procedures **remain appropriate.**

DOCUMENTING THE MATERIALITY

The audit documentation shall include the following amounts and the factors considered in their determination:

a) **Materiality** for the financial statements as a whole;

b) If applicable, the **materiality level or levels** for particular classes of transactions, account balances or disclosures;

c) **Performance materiality**; and

d) **Any revision of (a)-(c)** as the audit progressed

MATERIALITY AND AUDIT RISK

1) The concept of materiality is applied by the auditor **both in planning and performing** the audit, and in evaluating the e□ect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

2) In conducting an audit of financial statements, the **overall objectives** of the auditor are **to obtain reasonable assurance** about whether the **financial statements as a whole are free from material misstatement, whether due to fraud or error**, thereby enabling the auditor **to express an opinion** on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and to report on the financial statements, and **communicate** as required by the SAs, in **accordance with the auditor's findings.**

3) The auditor obtains reasonable assurance by obtaining su□cient appropriate audit evidence **to reduce audit risk to an acceptably low level.**

4) Audit risk is the risk that the auditor expresses **an inappropriate audit opinion** when the financial statements are **materially misstated.**

5) Audit risk is a **function of the risks of material misstatement and detection risk.**

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6) Materiality and audit risk are considered throughout the audit, in particular, **when**:
   a) **Identifying and assessing** the risks of material misstatement;
   b) **Determining** the nature, timing and extent of further audit procedures; and
   c) **Evaluating the e□ect of uncorrected misstatements**, if any, on the financial statements and in forming the opinion in the auditor's report.

Practical Insight into Materiality Working Paper

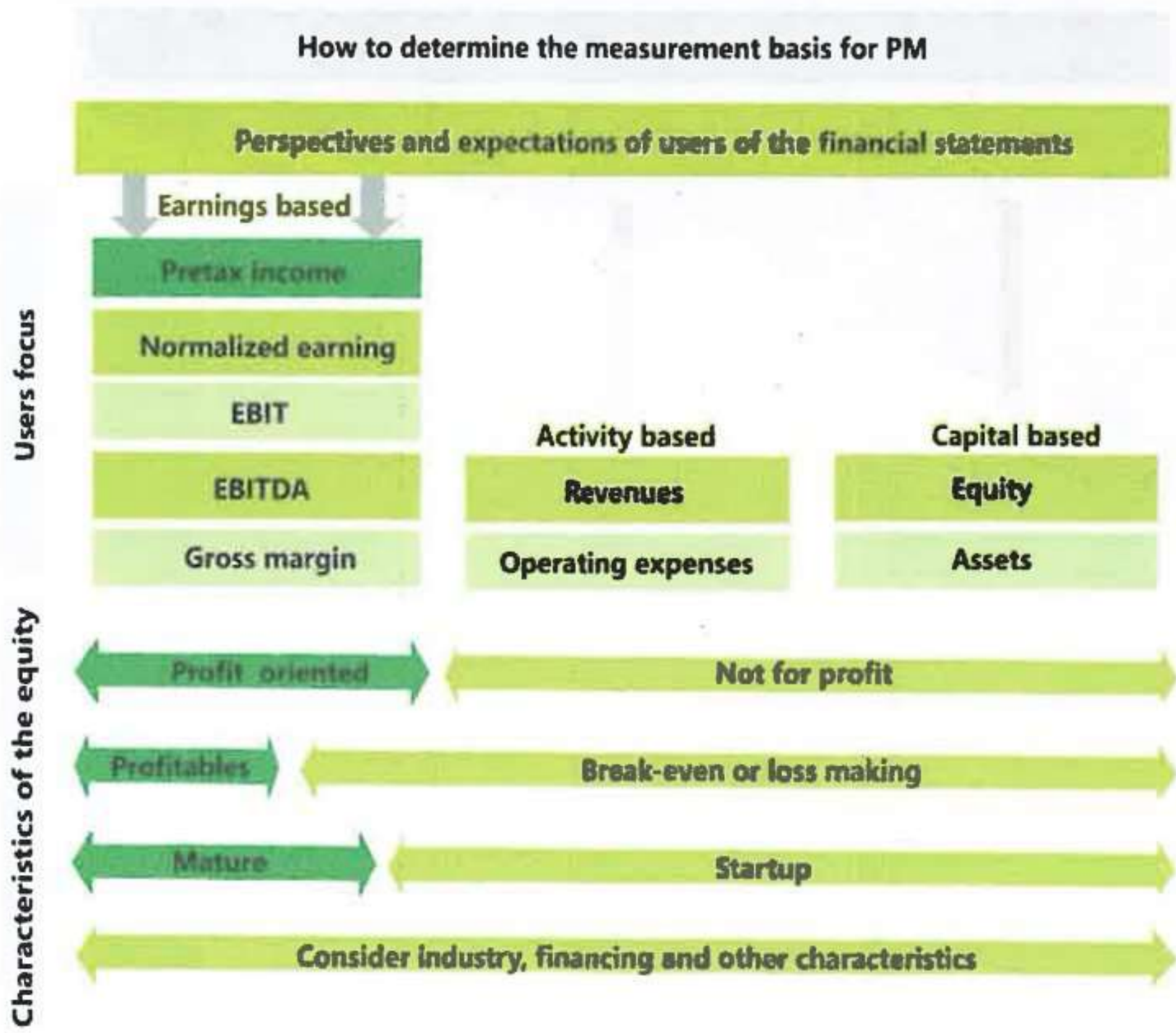
XYZ Private Ltd.

A: for the year ended March 31, 2009

Materiality Type

(Amounts in Indian rupees)	Pre Audit	Post Audit
Profit Before Tax (PBT)	5,13,68,600	4,99,87,816
Planning Materiality (PM)	25,68,430	24,99,391
Based on 5 % of PBT for the year ended March 31, 2009		
Tolerable Error (TE) 50 % of Planning Materiality	12,84,215	12,49,695
Cut-off for posting to Summary of Audit Differences (SAD) 5 % of Planning Materialit	1,28,422	1,24,970

The materiality level at the planning stage was based on first cut financials for the year ended March 31, 2009. As the materiality levels are not significantly different from the ones identified at the planning stage, we have kept the materiality levels unchanged.



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SA 330

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SA 330 The Auditor's Responses to Assessed Risks

Scope

SA 330- The auditor's responses to assessed risks deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SA 315, "Identifying and Assessing Risks of Material Misstatement Through Understanding the Entity and Its Environment" in a financial statement audit.

OBJECTIVE

The objective of the auditor is to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

SA 330 states that: -

a) The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.

b) The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

In designing the further audit procedures to be performed, the auditor shall:

1) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure, including:
   a) The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (i.e., the inherent risk); and
   b) Whether the risk assessment takes into account the relevant controls (i.e., the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and
2) Obtain more persuasive audit evidence the higher the auditor's assessment of risk.

The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls when:

1) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or

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2) Substantive procedures **alone cannot** provide **sufficient appropriate audit evidence** at the assertion level.

3) In **designing and performing** tests of controls, the auditor shall **obtain more persuasive audit evidence** the greater the reliance the auditor places on the effectiveness of a control.

4) A **higher level of assurance** may be sought about the **operating effectiveness of controls** when the approach adopted consists primarily of tests of controls, in particular, where it is **not possible or practicable** to obtain sufficient appropriate audit evidence **only from substantive procedures.**

NATURE AND EXTENT OF TEST OF CONTROLS

1) In designing and performing test of controls, the auditor shall:
   a) **Perform other audit procedures** in combination with inquiry to obtain audit evidence about the **operating effectiveness** of the controls, **including**:
      (i) **How the controls** were applied at relevant times during the period under audit.
      (ii) The **consistency** with which they were applied.
      (iii) **By whom or by what means** they were applied.
   b) **Determine** whether the **controls to be tested** depend upon other controls (indirect controls), and if so, whether it is **necessary** to obtain audit evidence supporting the effective operation of those indirect controls.

2) **Inquiry alone is not sufficient** to test the operating effectiveness of controls. Accordingly, other audit procedures are **performed in combination with inquiry.**

3) In this regard, inquiry combined with inspection or reperformance may provide more assurance than inquiry and observation, since an observation is pertinent only at the point in time at which it is made.

4) The **nature** of the **particular control influences the type of procedure** required to obtain audit evidence about whether the control was operating effectively.

5) **For example**, if operating effectiveness is evidenced by documentation, the auditor may decide to inspect it to obtain audit evidence about operating effectiveness.

6) When **more persuasive audit evidence** is needed regarding the **effectiveness of a control**, it may be **appropriate to increase the extent** of testing of the control as well as the degree of reliance on controls.

Matters the auditor may consider in determining the extent of test of controls include the following:

a) The **frequency of the performance** of the control by the entity during the period.

b) The **length of time** during the audit period that the auditor is relying on the operating effectiveness of the control.

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c) The **expected rate of deviation** from a control.

d) The **relevance and reliability** of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level.

e) The **extent** to which audit evidence is obtained from tests of other controls related to the assertion.

TIMING OF TEST OF CONTROLS

1) **The auditor** shall test controls for the **particular time, or throughout the period**, for which the auditor intends to rely on those controls in order to provide an appropriate basis for the auditor's intended reliance.

2) Audit evidence pertaining only to a point in time may be sufficient for the auditor's purpose, **for example**, when testing controls over the entity's physical inventory counting at the period end.

3) If, on the other hand, the auditor **intends to rely on a control over a period**, tests that are capable of providing audit evidence that the **control operated effectively** at relevant times during that period are appropriate. Such tests may **include** tests of the entity's monitoring of controls.

USING AUDIT EVIDENCE OBTAINED IN PREVIOUS AUDITS

In **determining** whether it is **appropriate** to use audit evidence about the **operating effectiveness of controls** obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the **auditor shall consider** the following

a) **The effectiveness** of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process

b) The **risks arising** from the characteristics of the control, including whether it is manual or automated

c) The **effectiveness** of **general IT-controls**

d) The **effectiveness** of the **control and its application** by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control

e) Whether the **lack of a change** in a particular control poses a risk due to changing circumstances and

f) The **risks of material misstatement and the extent of reliance** on the control.

If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit.

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EVALUATING THE OPERATING EFFECTIVENESS OF CONTROLS

1) When evaluating the operating effectiveness of relevant controls, **the auditor** shall **evaluate** whether misstatements that have been **detected** by substantive procedures **indicate** that **controls** are **not operating effectively**.
2) The **absence** of misstatements detected by substantive procedures, however, **does not provide** audit evidence that **controls related to the assertion** being tested are **effective**.
3) A material misstatement detected by the auditor's procedures is **a strong indicator** of the **existence of a significant deficiency** in internal control.

SPECIFIC INQUIRIES BY AUDITOR WHEN DEVIATIONS FROM CONTROLS ARE DETECTED

1) When **deviations** from controls upon which the auditor **intends to rely** are detected, **the auditor** shall make **specific inquiries** to understand these matters and their potential consequences, and shall **determine** whether:
   a) The **test of controls** that have been performed **provide an appropriate basis** for reliance on the controls
   b) **Additional test of controls** are necessary or
   c) The **potential risks of misstatement** need to be addressed using substantive procedures.
2) **Irrespective** of the assessed risks of material misstatement, **the auditor** shall **design and perform** substantive procedures for each material class of transactions, account balance, and disclosure.
3) This requirement **reflects** the facts that:
   a) The auditor's assessment of risk is **judgmental** and so may **not identify** all risks of material misstatement and
   b) There are **inherent limitations to internal control**, including management override.
4) Substantive procedures are **audit procedures designed to detect** material misstatements at the assertion level. **Substantive procedures comprise**:
   a) **Tests of details** (of classes of transactions, account balances, and disclosures), and
   b) **Substantive analytical procedures**.

TESTS OF DETAILS

1) **Tests of details** are further classified into **tests of transactions i.e., vouching and tests of balances i.e., verification**. For example, a purchase transaction may be verified by examining the related purchase invoice, goods received note, inward gate entry register.
2) Such tests of transactions **help in establishing** the authenticity of transactions recorded in books of accounts.

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3) Tests of balances **consist of verification of assets as well as liabilities**. Verification of an item of fixed asset, for example, would help in establishing existence of that asset as on date of balance sheet.
4) This may be **obtained by reviewing** entity's plan for performing physical verification of fixed assets and obtaining evidence for performance of physical verification of fixed assets by management.

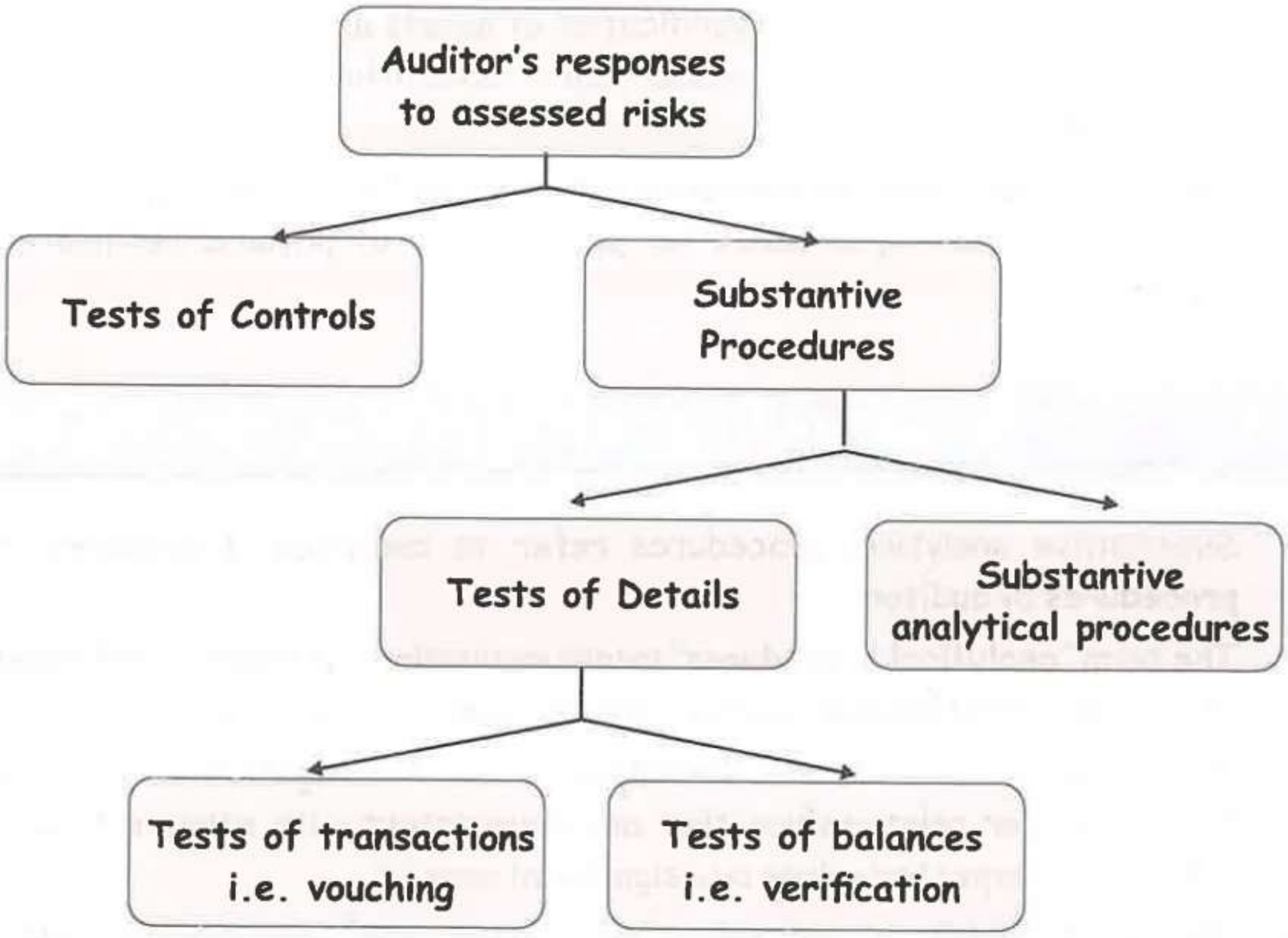
SUBSTANTIVE ANALYTICAL PROCEDURES

1) Substantive analytical procedures refer to **analytical procedures used as substantive procedures** by auditor.
2) The term "**analytical procedures**" means **evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.**
3) 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.
4) The use of widely recognised ratios (such as profit margins for different types of retail entities) can often be used **effectively** in substantive analytical procedures to provide evidence to support the reasonableness of recorded amounts.
5) Analytical procedures involving, **for example**, the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details.
6) Substantive analytical procedures are generally more **applicable to large volumes of transactions** that tend to be predictable over time.

Nature and extent of Substantive procedures

1) Depending on the circumstances, **the auditor may determine** that:
   a) Performing **only substantive analytical procedures** will be **sufficient** to reduce audit risk to an acceptably low level. For example, where the auditor's assessment of risk is supported by audit evidence from tests of controls.
   b) **Only tests of details** are **appropriate**.
   c) **A combination** of **substantive analytical procedures and tests of details** are **most responsive** to the assessed risks.
2) Because the assessment of the risk of material misstatement takes account of internal control, **the extent** of substantive procedures may **need to be increased** when the results from test of controls are unsatisfactory.
3) In **designing** tests of details, the **extent** of testing is ordinarily thought of in terms of the **sample size**. However, other matters are also relevant, including whether it is more effective to use other selective means of testing.

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SA 402[E]

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SA 450

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SA 450 Evaluation of Misstatements Identified during the Audit

INTRODUCTION

1) Before forming an opinion on the financial statements, the **auditor evaluates effects of identified misstatements** on the audit and of uncorrected misstatements on financial statements after consideration of materiality.
2) **Uncorrected misstatements** refer to those misstatements that the auditor has **accumulated** during the audit and that have not been corrected.

SCOPE OF THIS SA

SA 450 deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

OBJECTIVES OF AUDITOR IN ACCORDANCE WITH SA 450

The **objective of the auditor** is to evaluate: -

a) The **effect of identified misstatements** on the audit and
b) The **effect of uncorrected misstatements**, if any, on the financial statements.

ACCUMULATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

1) The auditor shall **accumulate** misstatements identified during the audit, other than those that are clearly trivial.
2) A misstatement may **arise** from a **variety of factors**.
3) **For example**, an inaccuracy in gathering or processing data from which financial statements are prepared or an omission of an amount or disclosure can result into a misstatement.
4) An entity has **wrongly capitalized** machinery repair expenses amounting to Rs.5 lacs resulting in overstatement of profits. It is an example of misstatement.

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CONSIDERATION OF IDENTIFIED MISSTATEMENTS AS THE AUDIT PROGRESSES

1) **The auditor shall determine whether the overall audit strategy and audit plan need to be revised if: -**

   a) The **nature of identified misstatements** and the circumstances of their occurrence indicate that **other misstatements may exist** that, when aggregated with misstatements accumulated during the audit, could be material or

   b) The **aggregate of misstatements** accumulated during the audit approaches materiality determined in accordance with **SA 320**.

2) The auditor may **request management** to examine a class of transactions, account balance or disclosure in order for management to understand the **cause** of a misstatement identified by the auditor, **perform procedures to determine** the amount of the actual misstatement in the class of transactions, account balance or disclosure, and to make appropriate adjustments to the financial statements.

3) Such a request may be made, **for example**, based on the auditor's projection of misstatements.

4) If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the **auditor shall performed additional audit procedures** to determine whether misstatements remain.

COMMUNICATION AND CORRECTION OF MISSTATEMENTS

1) The auditor shall **communicate on a timely basis** all misstatements accumulated during the audit with the **appropriate** level of management, **unless prohibited by law or regulation.**

2) **The auditor** shall **request management** to correct those misstatements. **Timely communication** of misstatements to the appropriate level of management is **important** as it **enables** management **to evaluate** whether the items are misstatements, inform the auditor if it disagrees and take action as necessary.

3) The **correction** by management of all misstatements, including those communicated by the auditor, **enables management** to **maintain accurate accounting books and records** and **reduces** the risks of material misstatement of future financial statements because of the cumulative effect of immaterial uncorrected misstatements related to prior periods.

4) If **management refuses** to correct some or all of the misstatements communicated by the auditor, **the auditor** shall **obtain an understanding** of management's **reasons** for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.

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EVALUATING THE EFFECT OF UNCORRECTED MISSTATEMENTS

1) **Prior to evaluating** the effect of uncorrected misstatements, the auditor shall **reassess** materiality determined in accordance with **SA 320** to confirm whether it remains appropriate in the context of the entity's actual financial results.
2) The auditor shall **determine** whether **uncorrected misstatements** are material, **individually or in aggregate**. In **making** this determination, **the auditor shall consider**:
   a) The **size and nature** of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence and
   b) The **effect of uncorrected misstatements** related to **prior periods** on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

1) The **auditor shall communicate** with those charged with governance regarding **uncorrected misstatements** and the effect that they, **individually or in aggregate**, may have on the opinion in the auditor's report, unless prohibited by law or regulation.
2) The auditor's communication shall identify material uncorrected misstatements individually.
3) The auditor shall **request** that **uncorrected misstatements be corrected**. The auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

WRITTEN REPRESENTATION FROM MANAGEMENT REGARDING EFFECTS OF UNCORRECTED STATEMENTS

1) The auditor shall **request a written representation** from management and, where appropriate, those charged with governance whether they believe the **effects of uncorrected misstatements are immaterial**, individually and in aggregate, to the financial statements as a whole.
2) **A summary** of such items shall be included in or attached to the written representation.

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DOCUMENTATION REGARDING MISSTATEMENTS IDENTIFIED DURING AUDIT

The **audit documentation** shall include: -

a) **The amount** below which misstatements would be regarded as clearly trivial;

b) All **misstatements accumulated** during the audit and whether they have been corrected; and

c) The **auditor's conclusion** as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

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SA 500

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SA 500 Audit Evidence

Definition of Audit Evidence	Audit evidence may be defined as the **information used by the auditor** in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both **information** contained in the accounting records underlying the **financial statements and other information.** **For Example:** **1) Information contained in the accounting records: Accounting records include** a) the records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; b) invoices; c) contracts; d) the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and e) records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures. **2) Other information that authenticates the accounting records and also supports the auditor's rationale behind the true and fair presentation of the financial statements:** Other information which the auditor may use as audit evidence includes, for example a) minutes of the meetings, b) written confirmations from trade receivables and trade payables, c) manuals containing details of internal control etc. A **combination** of tests of accounting records and other information is generally used by the auditor to support his opinion on the financial statements.
Objective of the Auditor	The objective of the auditor is to **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 the auditor's opinion.
Inconsistency in or Doubts over Reliability of Audit Evidence	If the a) audit evidence obtained from **one source is inconsistent** with that obtained from **another**; or b) the auditor has **doubts over the reliability of information** to be used as audit evidence,

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	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.

TYPES OF AUDIT EVIDENCE

Depending upon nature

Visual
For example- observing physical verification of inventory conducted by the client's staff.

Documentary
For example- fixed deposit certificate, loan agreement, sales bill etc.

Oral
For example- discussion with the management and various officers of the client.

Depending upon Source

Internal
Evidence which originates within the organisation being audited is internal evidence.
For example- Sales invoice, goods receipt note, employee's wage sheets etc.

External
The evidence that originates outside the client's organization is external evidence.
For example- Purchase invoice, Quotations, Confirmations, Bank statement etc.

RELEVANCE AND RELIABILITY OF AUDIT EVIDENCE

Introduction	a) The auditor has to express opinion on the truth and fairness on the financial statements. He shall consider the relevance and reliability of the information to be used as audit evidence. b) The quality of all audit evidence is affected by the **relevance and reliability of the information** upon which it is based.
Reliability of Evidence	a) The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by **its source and its nature**, and the **circumstances under which it is obtained**, including the **controls over its preparation and maintenance** where relevant.

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	b) Therefore, **generalizations about the reliability** of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could a□ect its reliability. **For example,** information obtained from an **independent external source** may **not be reliable** if the source is **not knowledgeable**, or a **management's expert may lack objectivity**. **While recognizing that exceptions may exist, the following generalisations about the reliability of audit evidence may be useful:** a) The reliability of audit evidence is **increased** when it is obtained from **independent sources outside the entity**. b) The reliability of **audit evidence that is generated internally** is **increased** when the **related controls**, including those over its preparation and maintenance, **imposed by the entity are effective**. c) Audit evidence **obtained directly by the auditor** (for example, observation of the application of a control) is **more reliable** than audit evidence **obtained indirectly or by inference** (for example, inquiry about the application of a control). d) Audit evidence in **documentary form**, whether paper, electronic, or other medium, is **more reliable** than evidence obtained **orally**. e) Audit evidence provided by **original documents** is **more reliable** than audit evidence provided by **photocopies or facsimiles**, or documents that have been **filmed, digitised** or otherwise transformed into electronic form, the **reliability** of which may depend on the **controls over their preparation and maintenance**.
Relevance	a) Relevance deals with the **logical connection** with, or **bearing upon**, the **purpose** of the audit procedure and, where appropriate, the assertion under consideration. The relevance of information to be used as audit evidence may be a□ected by the **direction of testing**. **Example:** If the purpose of an audit procedure is to test for **overstatement** in the **existence or valuation of accounts payable**, testing the **recorded accounts payable may be a relevant** audit procedure. **On the other hand**, when testing for **understatement in the existence or valuation of accounts payable**, testing the recorded accounts payable would **not be relevant**, but testing such information as **subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports** may be relevant.

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	b) A **given set of audit procedures** may provide audit evidence that is **relevant to certain assertions**, but **not others**. **For example,** inspection of documents related to the **collection of receivables** after the period end may provide audit evidence regarding **existence and valuation**, but **not necessarily cut-off**. c) Similarly, obtaining audit evidence regarding a **particular assertion, For example**, the **existence of inventory**, is **not a substitute** for obtaining audit evidence regarding **another assertion**, for example, the **valuation of that inventory**. d) On the other hand, audit evidence from di□erent sources or of a different nature may often be relevant to the same assertion

CONCEPT OF MANAGEMENT'S EXPERT

1) If the entity has employed or engaged experts, the auditor may rely on the works of experts, provided he is satisfied that sufficient and appropriate audit evidence is obtained with reasonable assurance to form an opinion on the financial statements.
2) **As per SA 500- Audit Evidence**, issued by ICAI, when information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:

a) Evaluate the competence, capabilities and objectivity of that expert:

(i) Whether the expert is **employed** by the entity or **is engaged** by it
(ii) The extent to which **management can exercise influence or control** over the expert
(iii) **Auditor's previous experience** of the work of the expert
(iv) Knowledge of the expert's **qualification, membership** of a **professional body or industry association**

b) Obtain an understanding of the work of that expert:

(i) Whether the **auditor has expertise to evaluate** the work of the expert
(ii) Whether any **professional or other standards, and regulatory or legal requirements** apply
(iii) Evaluating the **assumptions and methods used** by the management expert
(iv) Evaluating the nature of **internal or external data** used by the Expert

c) Evaluate the appropriateness of his work as audit evidence for the relevant assertion:

(i) **Relevance and reasonableness** of the Expert's **findings or conclusions**
(ii) Evaluating the **relevance, completeness and accuracy** of the **source data** used by the Expert.

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SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE

The sufficiency and appropriateness of audit evidence are **interrelated**.

Sufficiency → measure of quantity

Appropriateness → measure of quality

SUFFICIENCY OF AUDIT EVIDENCE

1) Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is **affected by the auditor's assessment of the risks of misstatement** (the higher the assessed risks, the more audit evidence is likely to be required) and also by the **quality of such audit evidence** (the higher the quality, the less may be required).
2) Obtaining more audit evidence, however, may not compensate for its poor quality.
3) **Factors affecting auditor's judgement as to sufficiency of audit evidence:**

   a) **Materiality –**

   Materiality may be defined as the significance of classes of transactions, account balances and presentation and disclosures to the users of the financial statements. **Less evidence** would be required in case assertions are less material to users of the financial statements. But on the other hand, if assertions are more material to the users of the financial statements, more evidence would be required.

   b) **Risk of material misstatement –**

   It may be defined as the risk that the financial statements are materially misstated prior to audit.

   Less evidence would be required in case assertions that have a lower risk of material misstatement. But on the other hand, if assertions have a higher risk of material misstatement, more evidence would be required.

   c) **Size & characteristics of a population –**

   It refers to the number of items included in the population. Less evidence would be required in case of smaller, more homogeneous population but on the other hand in case of larger, more heterogeneous populations, more evidence would be required.

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APPROPRIATENESS OF AUDIT EVIDENCE

1) Appropriateness is the measure of the **quality of audit evidence**; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.
2) The reliability of evidence is influenced by its **source and by its nature** and is dependent on the individual circumstances under which it is obtained.
3) **SA 330, "The Auditor's Responses to Assessed Risks"** requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained.
4) Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgement.
5) **SA 200** contains discussion of such matters as the nature of audit procedures, the timeliness of financial reporting, and the balance between benefit and cost, which are relevant factors when the auditor exercises professional judgement regarding whether su□cient appropriate audit evidence has been obtained.
6) In order to obtain reliable audit evidence, information produced by the entity ("IPE") that is used for performing audit procedures needs to be su□ciently complete and accurate.

AUDIT PROCEDURES TO OBTAIN AUDIT EVIDENCE

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

1) **Risk assessment procedures**; and **[Refer Note 1]**
2) **Further audit procedures**, which comprise: **[Refer Note 2]**
   a) **Test of controls**, when required by the SAs or when the auditor has chosen to do so; and
   b) **Substantive procedures**, including tests of details and substantive analytical procedures.

The audit procedures inspection, observation, confirmation, recalculation, re- performance and analytical procedures, often in some combination, in addition to inquiry described below may be used as risk assessment procedures, test of controls or substantive procedures, depending on the context in which they are applied by the auditor.

Audit procedures to obtain audit evidence can include:

a) **Inspection**
b) **Observation**
c) **External Confirmation**
d) **Recalculation**
e) **Reperformance**
f) **Analytical Procedures**
g) **Inquiry**

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Inspection	a) Inspection involves **examining records or documents**, whether **internal or external**, in **paper form**, **electronic form**, or other media, or **a physical examination of an asset**. b) Inspection of records and documents provides audit evidence of **varying degrees of reliability**, depending on **their nature and source** and, in the case of internal records and documents, on the effectiveness of the controls over their production.
Observation	a) Observation consists of **looking at a process or procedure** being performed by others. **Example:** The auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities. b) Observation provides **audit evidence about the performance of a process or procedure**, but is limited to the point in time at which the observation takes place, and **by the fact that the act of being observed** may affect how the process or procedure is performed.
External Confirmation	An **external confirmation** represents **audit evidence** obtained by the auditor as a **direct written response** to the auditor from a **third party** (the confirming party), in paper form, or by electronic or other medium. **(Refer SA 505** for more details.)
Recalculation	Recalculation consists of **checking the mathematical accuracy** of documents or records. Recalculation may be performed manually or electronically.
Re-performance	Re-performance involves the **auditor's independent execution of procedures or controls** that were originally performed as part of the entity's internal control. **Example:** Re-performing the reconciliation of bank statement, re-performing the aging of accounts receivable.
Analytical Procedures	a) Analytical procedures consist of **evaluations of financial information** made by a study of **plausible relationships** among both **financial and non- financial data**. b) Analytical procedures also encompass the **investigation of identified fluctuations** and **relationships that are inconsistent** with other relevant information or deviate significantly from predicted amounts.

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Inquiry	a) Inquiry consists of **seeking information of knowledgeable persons**, both financial and non-financial, within the entity or outside the entity. b) Inquiry is used extensively throughout the audit in addition to other audit procedures. c) Inquiries may range from **formal written inquiries to informal oral inquiries**. d) Evaluating responses to inquiries is an integral part of the inquiry process. Responses to inquiries **may provide the auditor with information not previously possessed** or with corroborative audit evidence. e) Alternatively, responses might provide information that di□ers significantly from other information that the auditor has obtained, for example, information regarding the possibility of management override of controls. f) In some cases, responses to inquiries **provide a basis for the auditor** to modify or perform additional audit procedures. g) In respect of some matters, the auditor may consider it necessary to **obtain written representations from management** and, where appropriate, those charged with governance to confirm responses to oral inquiries. h) Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, **inquiry alone ordinarily does not provide sufficient audit evidence** of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

NOTE 1 - RISK ASSESSMENT PROCEDURES

Risk assessment procedures refer to the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

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NOTE 2 - FURTHER AUDIT PROCEDURES

Further Audit Procedures comprise of:

(i) **Tests of controls**, when required by the SAs or when the auditor has chosen to do so; and

(ii) **Substantive procedures**, including **tests of details** and **substantive analytical procedures**.

Tests of controls

Test of controls may be defined as an audit procedure designed to **evaluate the operating effectiveness of controls** in preventing, or detecting and correcting, material misstatements at the assertion level.

Substantive Procedures- Tests of details and Substantive analytical procedures

a) Substantive procedures are **designed to detect material misstatements** at the assertion level. They comprise tests of details and substantive analytical procedures.

b) Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

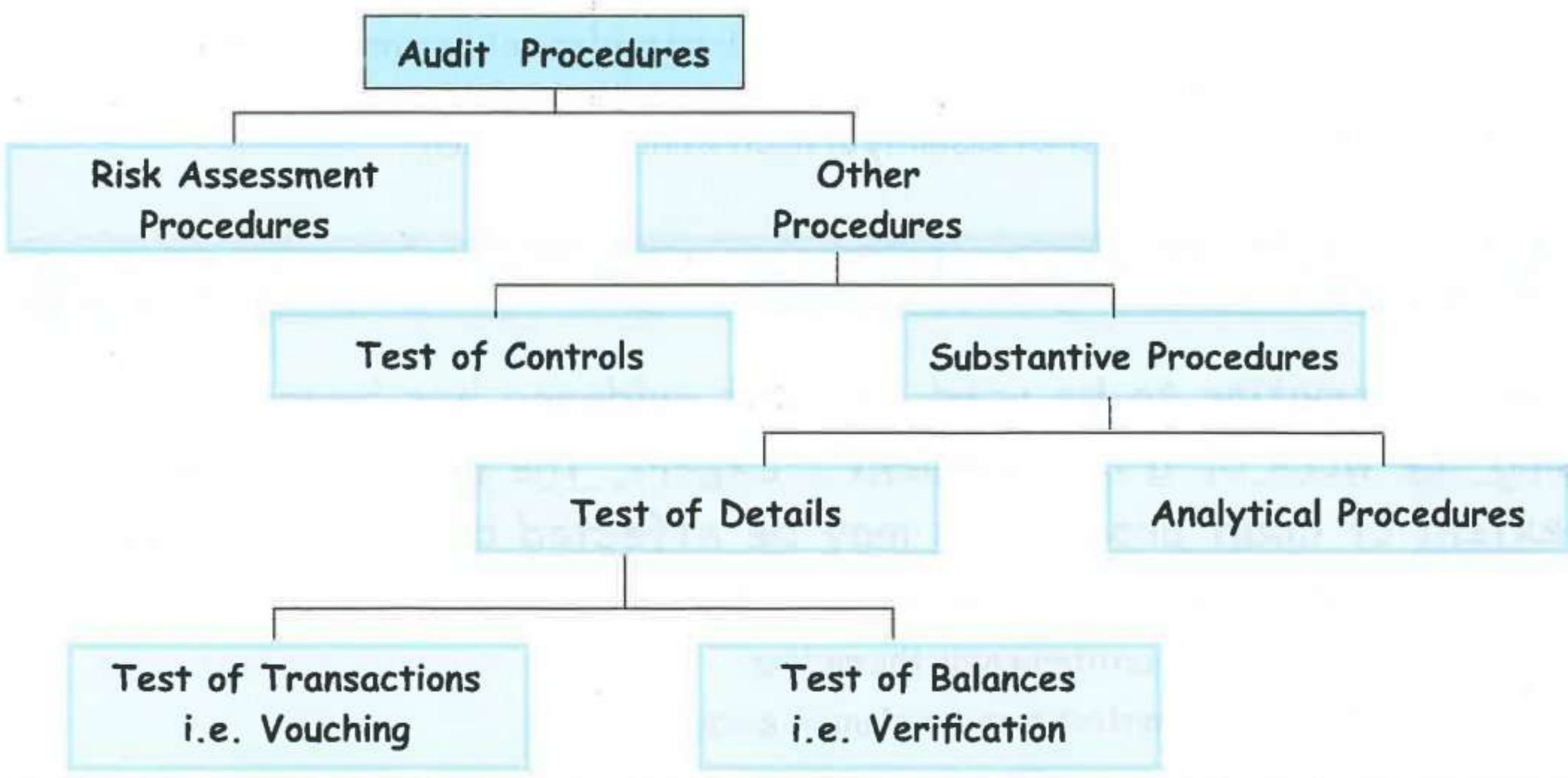
c) In other words, Substantive procedure may be defined as an audit procedure designed to detect material misstatements at the assertion level.

Substantive procedures comprise:

(I) Tests of details and

(ii) Substantive analytical procedures.

The following chart illustrates different audit procedures:



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NOTE 3 - AUDIT TRAIL

1) An audit trail is a **documented flow of a transaction**. It is used to investigate how a source document was translated into an account entry and from there it was inserted into financial statement of an entity.
2) It is used as audit evidence to **establish authentication and integrity** of a transaction. Audit trails help in **maintaining record of system** and **user activity**. Like, in case of banks, there is an audit trail keeping track of log-on activity detailing record of log-on attempts and device used.
3) It is a step-by-step record by which accounting, trade details, or other financial data can be traced to their source.
4) Audit trails are used to verify and track many types of transactions including accounting and financial transactions.
5) **Audit trails (or audit logs) act as record-keepers** that document evidence of certain events, procedures or operations, because their purpose is to reduce fraud, material errors, and unauthorized use. Audit trails help to **enhance internal controls and data security**.
6) Audit trails can **help in fixing responsibility**, **rebuilding events** and in **thorough analysis** of problem areas.
7) **For example**, audit trails can track activities of users thus fixing responsibility for users. These can also be used to rebuild events upon occurring of some problem. Audit trail analysis can specify reason of the problem. It can also help in ensuring operation of system as intended. In this way, audit trails can help entities in their regular system operations. However, audit trails involve costs. The cost is not only in terms of system expenditure but also in terms of time involved in analysing data made available by audit trails.
8) However, use of automated tools can be made to analyse large volume of data thrown up by audit trails.
9) Systems which have a **feature of audit trail inspires confidence in auditors**. It helps auditors in verifying whether controls devised by the management were operating effectively or not.
10) It aids in verification whether a transaction was indeed performed by a person authorised to do it. Since audit trails also enhance data security, these can be used by auditor while performing audit procedures thus increasing reliability of audit evidence obtained.

NOTE 4 - INFORMATION TO BE USED AS AUDIT EVIDENCE

When information to be used as audit evidence has been prepared using the work of a management's expert, the nature, timing and extent of audit procedures may be affected by such matters;

a) The **nature and complexity of the matter** to which the management's expert relates.
b) The **risks of material misstatement** in the matter.
c) The **availability of alternative sources** of audit evidence.

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d) The **nature, scope and objectives** of the management's expert's work.

e) Whether the **management's expert is employed by the entity**, or is a party **engaged by it** to provide relevant services.

f) The extent to which **management can exercise control or influence over the work** of the management's expert.

g) Whether the management's expert is subject to **technical performance standards or other professional or industry requirements.**

h) The **nature and extent of any controls** within the entity over the management's expert's work.

i) The **auditor's knowledge and experience** of the **management's expert's field of expertise.**

j) The **auditor's previous experience** of the work of that expert.

When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances:

a) Obtaining audit evidence about the **accuracy and completeness of the information**; and

b) Evaluating whether the **information is sufficiently precise and detailed** for the auditor's purposes.

NOTE 5 - SELECTING ITEMS FOR TESTING TO OBTAIN AUDIT EVIDENCE

When designing **tests of controls** and **tests of details,** the auditor shall determine **means of selecting items** for testing that are effective in meeting the purpose of the audit procedure. The means available to the auditor for selecting items for testing are:

a) Selecting all items (100% examination);

b) Selecting specific items; and

c) Audit sampling.

The application of **any one or combination of these means** may be appropriate depending on the auditors' judgement to obtain audit evidence.

Selecting All Items

a) The **auditor may decide** that it will be most appropriate to examine the **entire population of items** that make up a class of transactions or account balance (or a stratum within that population).

b) 100% examination is **unlikely in the case of tests of controls**; however, it is **more common** for **tests of details**. 100% examination may be appropriate when,

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c) **For example:**

(i) The population constitutes a **small number of large value items;**

(ii) There is a **significant risk** and other means do not provide sufficient appropriate audit evidence; or

(iii) The **repetitive nature of a calculation** or other process performed **automatically by an information system** makes a 100% examination cost effective.

Selecting Specific Items

a) The auditor may decide to select specific items from a population.

b) In making this decision, **factors** that may be relevant include the **auditor's understanding of the entity**, the **assessed risks of material misstatement**, and the **characteristics of the population** being tested.

c) The judgmental selection of specific items is subject to non-sampling risk.

d) **Specific items selected may include:**

(i) High value or key items.

The auditor may decide to select specific items within a population because they are of **high value, or exhibit some other characteristic.**

For example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.

(ii) All items over a certain amount.

The auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of a class of transactions or account balance.

(iii) Items to obtain information.

The auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions.

Audit Sampling

Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. (Refer SA 530 for details)

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NOTE 6 - EVALUATION OF AUDIT

1) Evidence SA 500 "Audit Evidence" is applicable to all the audit evidence obtained during the course of the audit to enable the auditor to obtain **sufficient appropriate audit evidence to be able to draw reasonable conclusions** on which to base the auditor's opinion.
2) Most of the auditor's work in forming the auditor's opinion consists of **obtaining and evaluating audit evidence**.
3) The auditor has to conclude whether sufficient appropriate audit evidence has been obtained **to reduce audit risk to an acceptably low level**, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a **matter of professional judgment**.

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SA 501

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SA 501 Audit Evidence- Specific Considerations for selected items

SA 501- "Audit Evidence- Specific Considerations for Selected Items" deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements.

The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:

(a) **Existence and condition of Inventory.**

(b) **Completeness of Litigation and Claims involving the entity; and**

(c) **Presentation and Disclosure of Segment Information in accordance with the applicable financial reporting framework.**

INVENTORY

When inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:

1) Attendance at physical inventory counting, unless impracticable, to:
   a) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;
   b) Observe the performance of management's count procedures;
   c) Inspect the inventory; and
   d) Perform test counts.
2) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.

Attendance at Physical Inventory Counting

Attendance at Physical Inventory Counting Involves:

1) Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts;
2) Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count; and
3) Obtaining audit evidence as to the reliability of management's count procedures.

These procedures may serve as test of controls or substantive procedures depending on the auditor's risk assessment, planned approach and the specific procedures carried out.

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Matters Relevant in Planning Attendance at Physical Inventory Counting

Matters relevant in planning attendance at physical inventory counting include, **for example**:

a) Nature of inventory.

b) Stages of completion of work in progress.

c) The risks of material misstatement related to inventory.

d) The nature of the internal control related to inventory.

e) Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.

f) The timing of physical inventory counting.

g) Whether the entity maintains a perpetual inventory system.

h) The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate

i) Whether the assistance of an auditor's expert is needed.

Physical Inventory Counting Conducted Other than at the Date of the Financial Statements

1) If physical inventory counting is conducted **at a date other than the date of the financial statements**, the auditor shall, in addition to the procedures required above, 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**.

2) Relevant matters for consideration when designing audit procedures to obtain audit evidence about whether changes in inventory amounts between the count date, or dates, and the final inventory records are properly recorded include:

   a) Whether the **perpetual inventory records** are **properly adjusted**.

   b) **Reliability** of the entity's **perpetual inventory records**.

   c) **Reasons for significant differences** between the information obtained during the **physical count** and the **perpetual inventory records**.

If the Auditor is unable to Attend Physical Inventory Counting due to Unforeseen Circumstances

If the auditor is unable to attend physical inventory counting **due to unforeseen circumstances**, the auditor shall make or observe some physical counts on an **alternative date** and perform audit procedures on **intervening transactions**.

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Attendance at Physical Inventory Counting Is Impracticable

1) 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**.
2) **In some cases,** attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, **for example,** where inventory is held in a location that may **pose threats** to the **safety of the auditor.**
3) The matter of general inconvenience to the auditor, however, is **not sufficient to support a decision** by the auditor that attendance is impracticable. Further, as explained in SA 200, the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.
4) **In some cases where attendance is impracticable,** alternative audit procedures, for **example** inspection of documentation of the **subsequent sale** of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory.
5) **In other cases,** however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, **SA 705** requires the auditor to modify the opinion in the auditor's report as a result of the scope limitation.

When inventory under the custody and control of a third party- What will the auditor do?

1) When inventory under the **custody and control of a third party** is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the **existence** and **condition** of that inventory by performing one or both of the following:
   a) **Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.**
   b) **Perform inspection or other audit procedures appropriate in the circumstances.**
2) **Other audit procedure** may include -
   a) **Inspecting documentation** regarding inventory held by third parties, for example, warehouse receipts.
   b) **Requesting confirmation** from other parties when inventory has been pledged as collateral.
   c) **Attending, or arranging for another auditor to attend,** the third party's physical counting of inventory, if practicable.
   d) **Obtaining another auditor's report, or a service auditor's report,** on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded.

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LITIGATION AND CLAIMS

1) The auditor shall **design and perform audit procedures** in order to **identify litigation and claims** involving the entity which may give rise to a risk of material misstatement, including:
   a) **Inquiry of management** and, where applicable, **others within the entity**, including **in-house legal counsel;**
   b) **Reviewing minutes of meetings** of those charged with governance and correspondence between the entity and its external legal counsel; and
   c) **Reviewing legal expense accounts.**
2) Litigation and claims involving the entity may have a material effect on the financial statements and thus may be required to be **disclosed or accounted** for in the financial statements. In addition to the procedures identified above other relevant procedures include,
3) **For example,** using information obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment to assist the auditor to become aware of litigation and claims involving the entity.
4) Audit evidence obtained for purposes of identifying litigation and claims that may give rise to a risk of material misstatement also may provide audit evidence regarding other relevant considerations, such as valuation or measurement, regarding litigation and claims.
5) **SA 540** establishes requirements and provides guidance relevant to the auditor's consideration of litigation and claims requiring **accounting estimates or related disclosures** in the financial statements.

If the Auditor Assesses a Risk of Material Misstatement regarding Litigation or Claims - Communication with the Entity's External Legal Counsel

1) If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, **in addition** to the procedures required by other SAs, seek **direct communication with the entity's external legal counsel.**
2) The auditor shall do so through **a letter of inquiry** requesting the **entity's external legal counsel** to **communicate directly** with the auditor.
3) **If law, regulation** or the respective legal professional body **prohibits** the entity's external legal counsel from communicating directly with **the auditor, the auditor shall perform alternative audit procedures.**
4) If it is **considered unlikely** that the **entity's external legal counsel will respond** appropriately to a letter of general inquiry, for example if the professional body to which the external legal counsel belongs prohibits response to such a letter, the auditor may seek direct communication through a letter of specific inquiry. For this purpose, a letter of specific inquiry includes:

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a) A list of litigation and claims;

b) Where available, management's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications, including costs involved; and

c) A request that the entity's external legal counsel confirm the reasonableness of management's assessments and provide the auditor with further information if the list is considered by the entity's external legal counsel to be incomplete or incorrect.

5) **In certain circumstances,** the auditor also may judge it **necessary to meet with the entity's external legal counsel** to discuss the likely outcome of the litigation or claims. This may be the case, for example, where:

a) The auditor determines that the matter is a **significant risk.**

b) The matter is **complex.**

c) There is **disagreement** between **management and the entity's external legal counsel.** Ordinarily, such meetings require **management's permission** and are held with a representative of management in attendance.

Note 1 : Further if

a) **Management refuses** to give the **auditor permission** to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and

b) The auditor is **unable to obtain sufficient appropriate audit evidence** by performing alternative audit procedures,

c) **the auditor shall modify the opinion in the auditor's report in accordance with SA 705.**

Note 2: Written Representations

The auditor shall request management and, where appropriate, those charged with governance to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

SEGMENT INFORMATION

Definition of segment- Information Segment Information refers to information about different types of products and services of an enterprise and its operations in different geographical areas.

The auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by:

1) Obtaining an **understanding of the methods** used by management in determining segment information. Further,

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a) Evaluating whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework; and

b) Where appropriate, testing the application of such methods; and

2) Performing **analytical procedures** or **other audit procedures** appropriate in the circumstances.

Auditor's responsibility regarding the presentation and disclosure of segment information

a) The auditor's responsibility regarding the presentation and disclosure of segment information is in relation to the financial statements taken as a whole.

b) Accordingly, **the auditor is not required** to perform audit procedures that would be necessary to express an opinion on the segment information **presented on a standalone basis**.

Understanding of the Methods Used by Management

Depending on the circumstances, **example of matters** that may be relevant when obtaining an understanding of the methods used by management in determining segment information and whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework include:

a) **Sales, transfers and charges** between segments, and **elimination of intersegment amounts**.

b) **Comparisons with budgets and other expected results**, for example, operating profits as a percentage of sales.

c) The **allocation** of assets and costs among segments.

d) **Consistency with prior periods**, and the **adequacy of the disclosures** with respect to inconsistencies.

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SA 505

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SA 505 External Confirmation

INTRODUCTION

1) The **Standard on Auditing (SA) 505 "External Confirmations"** deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of SA 500.
2) Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity.
3) SA505 is intended to assist the auditor in designing and performing external confirmations procedures to obtain relevant and reliable audit evidence.
4) Thus, the **objective of the auditor**, when using external confirmation procedures, is **to design and perform such procedures** to obtain relevant and reliable audit evidence.

DEFINITION OF OTHER IMPORTANT TERMS

1) **External confirmation** - It may be defined as 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.
2) **Positive confirmation request** - 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 or providing the requested information.
3) **Negative confirmation request** - A request that the confirming party respond directly to the auditor **only if the confirming party disagrees** with the **information provided** in the request.
4) **Non-response** - A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.
5) **Exception** - A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party. The exception needs to be assessed to the **entire population** after analyzing the reason for difference.

EXTERNAL CONFIRMATION PROCEDURES

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

(a) **Determining the information** to be confirmed or requested;

(b) **Selecting** the appropriate **confirming party**;

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(c) **Designing the confirmation requests**, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and

(d) **Sending the requests**, including **follow-up requests** when applicable, to the confirming party.

(A) DETERMINING THE INFORMATION TO BE CONFIRMED OR REQUESTED

External confirmation procedures frequently are performed to confirm or request information regarding **account balances and their elements**. They may also be used to confirm

a) terms of agreements,

b) contracts, or

c) transactions between an entity and other parties, or

d) to confirm the absence of certain conditions, such as a "side agreement".

(B) SELECTING THE APPROPRIATE CONFIRMING PARTY

Responses to confirmation requests provide **more relevant and reliable** audit evidence when confirmation requests are sent to a **confirming party** the auditor believes is **knowledgeable about the information to be confirmed**.

For example, a financial institution official who is knowledgeable about the transactions or arrangements for which confirmation is requested may be the most appropriate person at the financial institution from whom to request confirmation.

(C) DESIGNING CONFIRMATION REQUESTS

1) **Design of a confirmation request:**

The design of a confirmation request **may directly affect the confirmation response rate**, and **the reliability** and the **nature of the audit evidence** obtained from responses.

2) **Factors to consider when designing confirmation requests include:**

a) Specific identified risks of material misstatement, including fraud risks.

b) The layout and presentation of the confirmation request.

c) Prior experience on the audit or similar engagements.

d) The assertions being addressed.

e) The method of communication [**For example**, in paper form, or by electronic mode (like e-mail) or other medium].

f) Management's authorization or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request

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containing management's authorization.

g) The ability of the intended confirming party to confirm or provide the requested information (**For example**, individual invoice amount versus total balance).

3) Positive confirmation request:

a) A positive external confirmation request asks the confirming party to reply to the auditor **in all cases**, either by **indicating the confirming party's agreement** with the given information, or **by asking the confirming party to provide information.**

b) A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence.

c) There is a risk, however, that a confirming party may reply to the confirmation request **without verifying** that the information is correct.

d) The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request, and **ask the confirming party to fill in the amount** or furnish other information.

e) On the other hand, use of this type of "blank" confirmation request may result in lower response rates because additional effort is required of the confirming parties.

4) Determination of properly addressed requests:

Determining that requests are properly addressed includes testing the validity of some or all of the addresses on confirmation requests before they are sent out.

(D) FOLLOW-UP ON CONFIRMATION REQUESTS

The auditor may send an **additional confirmation request** when a reply to a previous request has **not been received** within a reasonable time.

For example, the auditor may, having **re-verified** the accuracy of the original address, send an additional or follow-up request.

MANAGEMENT'S REFUSAL TO ALLOW THE AUDITOR TO SEND A CONFIRMATION REQUEST - STEPS TAKEN BY AUDITOR

If management refuses to allow the auditor to send a confirmation request, the auditor shall:

(a) **Inquire as to management's reasons** for the refusal, and seek audit evidence as to their validity and reasonableness;

(b) 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

(c) Perform **alternative audit procedures** designed to obtain relevant and reliable audit evidence.

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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 **communicate** with those charged with governance in accordance with **SA 260**.

The auditor also shall determine the implications for the audit and the **auditor's opinion in accordance with SA 705**. **[Refer Note-1 for Detailed Procedure]**

NEGATIVE CONFIRMATIONS

1) Negative confirmations provide **less persuasive audit evidence than positive confirmations**.
2) Accordingly, the auditor **shall not use negative confirmation requests** as the **sole substantive audit procedure** to address an assessed risk of material misstatement at the assertion level **unless all of the following are present**:
   a) The auditor has assessed the **risk of material misstatement as low** and has obtained sufficient appropriate audit evidence regarding the **operating effectiveness of controls** relevant to the assertion;
   b) The population of items subject to negative confirmation procedures comprises a **large number of small, homogeneous**, account balances, transactions or conditions;
   c) A **very low exception rate** is expected; and
   d) The auditor is **not aware of circumstances** or conditions that would cause recipients of negative confirmation requests to **disregard such requests**.
3) The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request.
4) Accordingly, a failure of a confirming party to respond to a negative confirmation request **provides significantly less persuasive audit evidence** than does a response to a positive confirmation request.
5) Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise.

EVALUATING THE EVIDENCE OBTAINED

1) The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing further audit procedures is necessary.
2) When evaluating the results of individual external confirmation requests, the auditor may categorise such results as follows:
   a) A response by the appropriate confirming party indicating agreement with the information

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provided in the confirmation request, or providing requested information without exception;

b) A response deemed unreliable;

c) A non-response; or

d) A response indicating an exception.

3) The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether performing further audit procedures is necessary, as required by SA 330.

NOTE 1 - DETAILED PROCEDURE WHEN MANAGEMENT REFUSES

Reasonableness of Management's Refusal

a) A refusal by management to allow the auditor to send a confirmation request is a limitation on the audit evidence the auditor may wish to obtain. The auditor is therefore **required to inquire as to the reasons for the limitation.**

b) A common reason advanced is the **existence of a legal dispute or ongoing negotiation** with the intended confirming party, the resolution of which may be affected by an untimely confirmation request.

c) The auditor is required to seek audit evidence as to the **validity and reasonableness of the reasons** because of the risk that management may be attempting to deny the auditor access to audit evidence that may reveal fraud or error.

Implications for the Assessment of Risks of Material Misstatement

a) The auditor may conclude that it would be appropriate to **revise the assessment of the risks of material misstatement** at the assertion level and modify planned audit procedures.

b) **For example** if management's request to not confirm is unreasonable, this may indicate a fraud risk factor that requires evaluation in accordance with SA 240.

Alternative Audit Procedures

Examples of alternative audit procedures the auditor may perform include:

a) For **accounts receivable balances** - examining specific **subsequent cash receipts, shipping documentation**, and sales near the period-end.

b) For **accounts payable balances** - examining **subsequent cash disbursements** or correspondence from third parties, and other records, such as **goods received notes.**

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Practical Insight into draft Receivable Confirmation Request

31 Mar XX14

[Customer's name]

[Customer's address]

Our auditors, ABC Co LLP, are auditing our financial statements and wish to obtain direct confirmation of the amount receivable by us as of the date indicated below. Please compare the balance shown below with your records as of the date indicated and note the details of exceptions (if any) in the space provided below or on an attachment. Then please sign this request in the space provided and return it in the enclosed reply envelope directly to ABC Co LLP.

Confirmation Date 31 Mar XX14

Account Balance INR **[Amount]**

Yours truly

_____

Signature

XYZ Ltd

*****

Response:

_____

_____

_____

_____

Signature

Date:.....

_____

_____

Printed name and job title

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SA 510

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SA 510 Initial Audit Engagements

1) SA 510 - "Initial Audit Engagements- Opening Balances", deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
2) When the financial statements include comparative financial information, the requirements and guidance in SA 710 also apply.

DEFINITION OF INITIAL AUDIT ENGAGEMENT

1) Initial Audit Engagement - An engagement in which either:
   a) The financial statements for the prior period were not audited; or
   b) The financial statements for the prior period were audited by a predecessor auditor.
2) Opening balances - means those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.
3) Predecessor auditor - The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor.

OBJECTIVE OF AUDITOR WITH RESPECT TO OPENING BALANCES - IN CONDUCTING AN INITIAL AUDIT ENGAGEMENT

In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:

a) Opening balances contain misstatements that materially affect the current period's financial statements; and
b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

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OBTAINING SUFFICIENT APPROPRIATE AUDIT EVIDENCE ABOUT OPENING BALANCES BY THE AUDITOR

The auditor shall obtain **sufficient appropriate audit evidence** about whether the opening balances contain **misstatements that materially** affect the current period's financial statements by:

1) **Determining** whether the prior period's closing balances have been **correctly brought forward** to the current period or, when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss;
2) **Determining** whether the opening balances **reflect** the **application** of appropriate accounting policies; and
3) **Performing one or more of the following:**
   a) Where the **prior** year financial statements were **audited**, perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements;
   b) **Evaluating** whether audit procedures **performed** in the current period provide evidence relevant to the opening balances; or
   c) **Performing specific audit procedures** to obtain evidence regarding the opening balances.

If the **auditor obtains audit evidence** that the opening balances **contain** misstatements that could **materially affect** the current period's financial statements, **the auditor** shall **perform such additional audit procedures** as are **appropriate** in the circumstances to determine the effect on the current period's financial statements.

If the auditor **concludes** that such misstatements **exist** in the current period's financial statements, **the auditor** shall **communicate** the misstatements with the appropriate level of management and those charged with governance in accordance with **SA 450**.

PROCEDURES ADOPTED BY THE AUDITOR TO OBTAIN AUDIT EVIDENCE REGARDING OPENING BALANCES:

Nature and extent of Audit Procedures

The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances depend on such **matters** as:

a) The **accounting policies** followed by the entity.
b) The **nature of the account balances, classes of transactions and disclosures** and the risks of material misstatement in the current period's financial statements.
c) The **significance of the opening balances** relative to the current period's financial statements.
d) Whether the **prior period's** financial statements **were audited** and, if so, whether the predecessor auditor's opinion was modified.

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If the prior period's financial statements were audited by a predecessor auditor

a) If the prior period's financial statements **were audited** by a **predecessor auditor**, the auditor may be **able** to obtain sufficient appropriate audit evidence **regarding the opening balances** by perusing the copies of the audited financial **statements** including the other relevant documents relating to the prior period financial statements such as supporting schedules to the audited financial statements.

a) Ordinarily, the current auditor can **place reliance** on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

For current assets and liabilities

a) For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures.

For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.

b) In the case of inventories, however, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, **additional audit procedures** may be necessary, and one or more of the **following** may provide sufficient appropriate audit evidence:

(i) **Observing** a current **physical inventory count** and reconciling it to the opening inventory quantities.

(ii) **Performing** audit procedures on the **valuation of the opening inventory** items.

(iii) **Performing** audit procedures on **gross profit and cut-off**.

For non- current assets and liabilities

For non-current assets and liabilities,

a) such as property plant and equipment, investments and long-term debt, some audit evidence may be obtained by **examining the accounting records** and other information underlying the opening balances.

b) In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties.

For example, for long-term debt and investments audit evidence may be obtained through confirmation with third parties. In other cases, the auditor may need to carry out additional audit procedures.

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CONSISTENCY OF ACCOUNTING POLICIES RELATING TO OPENING BALANCES

The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been **consistently applied in the current period's financial** statements, and **whether changes in the accounting policies** have been properly **accounted** for and **adequately presented and disclosed** in accordance with the applicable financial reporting framework.

RELEVANT INFORMATION IN THE PREDECESSOR AUDITOR'S REPORT

If the prior period's financial statements were **audited by a predecessor auditor** and there was a **modification to the opinion**, the auditor shall **evaluate the effect of the matter** giving rise to the modification in assessing the risks of material misstatement in the **current period's financial statements** in accordance with SA 315.

REPORTING BY THE AUDITOR

Regarding Opening Balances

1) If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with **SA 705**.
2) If the auditor concludes that the **opening balances contain a misstatement** that materially affects the current period's financial statements, and the **effect of the misstatement is not properly accounted** for or **not adequately presented or disclosed**, the auditor shall express a **qualified opinion** or an **adverse opinion**, as appropriate, in accordance with **SA 705**.

Consistency of Accounting Policies

If the auditor concludes that:

a) the **current period's accounting policies are not consistently applied** in relation to opening balances in accordance with the applicable financial reporting framework; or

b) a **change in accounting policies** is **not properly accounted** for or not **adequately presented or disclosed** in accordance with the applicable financial reporting framework,

the auditor shall express a **qualified opinion or an adverse opinion** as appropriate in accordance with **SA 705(Revised)**.

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Modification to the Opinion in the Predecessor Auditor's Report

If the **predecessor auditor's opinion** regarding the prior period's financial statements included a **modification to the auditor's opinion** that remains **relevant and material** to the current period's financial statements, the auditor **shall modify the auditor's opinion** on the current period's financial statements in accordance with **SA 705(Revised) and SA 710.**

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SA 520

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SA 520 Analytical Procedures

MEANING OF ANALYTICAL PROCEDURES

- As per the Standard on Auditing (SA) 520 "Analytical Procedures", 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 di□er from expected values by a significant amount.

Examples of Analytical Procedures having consideration of comparisons of the entity's financial information with are:

a) Comparable information for prior periods.

b) Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.

c) Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

Particulars	Client		Industry	
Year	2021-22	2022-23	2021-22	2022-23
Inventory Turnover	2.8	2.9	3.1	2.8
Gross Margin	22.5%	22.7%	23.6%	22.2%

Various methods may be used to perform analytical procedures include:

a) Simple comparisons to performing complex analyses using advanced statistical techniques.

b) Analytical procedures may be applied to consolidated financial statements, components and individual elements of information.

Thus, we can say that Analytical Procedures may be segregated into following major types:

a) comparison of client and industry data,

b) comparison of client data with similar prior period data,

c) comparison of client data with client-determined expected results,

d) comparison of client data with auditor-determined expected results and

e) comparison of client data with expected results, using non financial data.

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SCOPE AND OBJECTIVE OF SA 520

1) SA 520 deals with the **auditor's use of analytical procedures** as **substantive procedures** ("substantive analytical procedures"), and as **procedures near the end of the audit** that assist the auditor when **forming an overall conclusion** on the financial statements.
2) **The objectives of the auditor are:**
   a) To obtain **relevant and reliable audit evidence** when using substantive analytical procedures; and
   b) To **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.

PURPOSE AND TIMING OF ANALYTICAL PROCEDURES

Purpose of Analytical Procedures

1) Analytical procedures use **comparisons and relationships** to assess whether account balances or other data appear reasonable.

Example I:

For instance, establishing the relationship that exists between certain balances included in the Balance Sheet and the Statement of Profit and Loss and comparing them with those that existed between the same set of balances in the previous year, reconciling the physical balances of assets with the relevant financial record; obtaining of account from the bankers, account receivables and account payables and reconciling with relevant balances in books of account; confirming amounts of outstanding income and expenses by preparing reconciliation statements, etc. These are helpful in the detection of unusual state of a□airs and mistakes in accounts.

The overall tests can be extended for **making inter-firm and intra-firm comparison** of trading results.

Example II:

If balances included in the Statement of Profit and Loss of an entity are compared with those contained in the Statement of Profit and Loss for the same period of another entity engaged in the same trade and working under similar circumstances, it would be possible to find out the cause of the variation in the rate of profitability that exists.

Similarly, it would also be possible **to compare the balances** on the Statement of Profit and Loss with that of the previous period, it would be possible to find out the reasons for increase or decrease in the amount of profits of those years.

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Example III:

By setting up certain expenses ratios on the basis of balances included in the Statement of Profit and Loss, for the year under audit, comparing them with the same ratios for the previous year, it is possible to ascertain the extent of increase or decrease in various items of expenditure in relation to sales and that of trading profit in relation to sales.

If **differences are found to be material**, the auditor would **ascertain the reasons thereof** and assess whether the accounts have been manipulated to inflate or suppress profits.

Example IV:

An abnormal fall in the cost of manufacture or that in the **administrative cost**, apart from economy in expenses, there could be no provision or less provision for expenses incurred in the year. When it is suspected, the auditor should compare the entries in the outstanding book with those in the previous year. He must also check the vouchers for one month immediately before the close of the following years.

To verify that none of the expenses in the accounts under audit have been charged to the accounts of the following years.

Often it is possible to independently verify the correctness of some of the items of expenses included in the Statement of Profit and Loss.

For instance, the cost of importing goods which are subjected to an ad-valorem duty at uniform rate can be verified from the amount of duty paid. Similarly, a quantity of sugar sold by sugar mill can be verified independently from the amount of excise duty paid.

Example V:

Similarly, the amount of any income or expenses which has a direct relationship with the amount of profits or that of sales can be verified independently, **e.g.**, commission paid to a manager calculated on the basis of net profits, commission paid to a selling agent as percentage of sales, etc. Such calculation of ratios, trends and comparisons is also termed as analytical review.

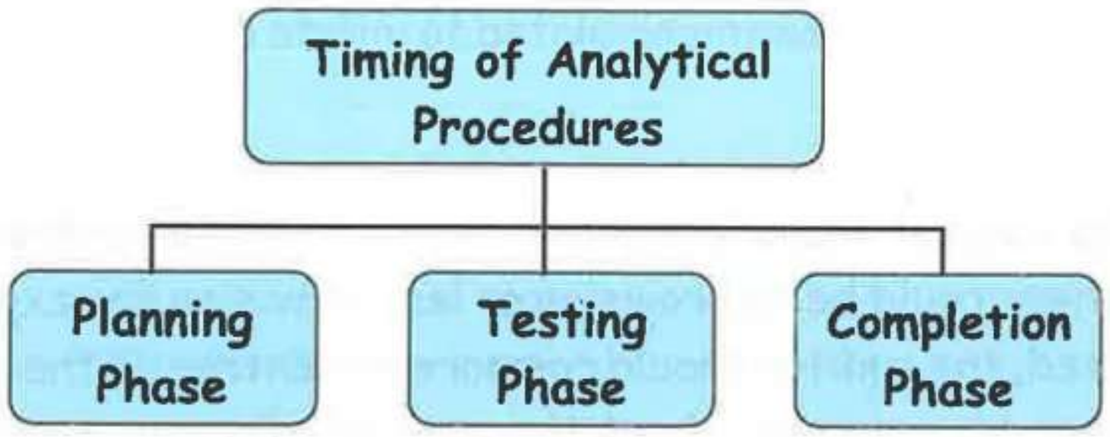
2) **Thus, it is important to note that Analytical procedures may help identify the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications.**

3) **Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.**

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TIMING OF ANALYTICAL PROCEDURES

Experienced auditors use analytical procedures in **all stages of the audit**. Analytical Procedures are required in the **planning phase** and it is often done during the **testing phase**. In addition these are also required during the **completion phase**



ANALYTICAL PROCEDURES IN PLANNING THE AUDIT

1) In the planning stage, analytical procedures assist the auditor in **understanding the client's business** and in **identifying areas of potential risk** by indicating aspects of and developments in the entity's business of which he was **previously unaware**.
2) This information will assist the auditor in **determining the nature, timing and extent** of his other **audit procedures**.
3) Analytical procedures in planning the audit use both **financial data and non-financial information**, such as **number of employees, square feet of selling space, volume of goods produced** and **similar information**.

SUBSTANTIVE ANALYTICAL PROCEDURES

1) The auditor's substantive procedures at the assertion level may be **tests of details**, **substantive analytical procedures**, or a **combination of both**.
2) The decision about which audit procedures to perform, including whether to use substantive analytical procedures, is based on the **auditor's judgment** about the **expected effectiveness and efficiency** of the available audit procedures **to reduce audit risk** at the assertion level to an **acceptably low level**.
3) The auditor may inquire of management as to the availability and reliability of information needed to apply substantive analytical procedures, and the results of any such analytical procedures performed by the entity.
4) It may be **effective to use analytical data** prepared by management, provided the **auditor is satisfied** that such data is properly prepared.

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FACTORS TO BE CONSIDERED FOR SUBSTANTIVE ANALYTICAL AUDIT PROCEDURES:

The auditor should consider the following factors for Substantive Audit Procedures:	
Availability of Data	The **availability of reliable and relevant data** will facilitate effective procedures.
Disaggregation Account Type	The degree of **disaggregation in available data** can directly affect the degree of its usefulness in detecting misstatements a) Substantive analytical procedures are **more useful** for certain types of accounts than for others. b) **Income statement accounts** tend to be **more predictable** because they reflect **accumulated transactions over a period**, whereas **balance sheet** accounts represent the **net effect of transactions at a point in time** or are subject to greater management judgment.
Source	a) Some classes of transactions tend to be more predictable because they consist of **numerous, similar transactions**, (e.g., through routine processes). b) Whereas the transactions recorded by **non-routine and estimation SCOTs (Significant Classes of Transactions)** are often subject to management judgment and therefore **more difficult to predict.**
Predictability	a) Substantive analytical procedures are more appropriate when an account balance or relationships between items of data are **predictable** (e.g., between sales and cost of sales or between trade receivables and cash receipts). b) A **predictable relationship** is one that may reasonably be expected to exist and continue over time.
Nature of Assertion	a) Substantive analytical procedures may be **more effective** in providing evidence for some assertions (e.g., completeness or valuation) than for others (e.g., rights and obligations). b) **Predictive analytical procedures** using data analytics can be used to address completeness, valuation/measurement and occurrence.
Inherent Risk or "What Can Go Wrong"	a) When we are designing audit procedures to address an inherent risk or **"what can go wrong"**, we consider the nature of the risk of material misstatement in order to determine if a substantive analytical procedure can be used to obtain audit evidence.

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	b) When inherent risk is higher, we may design tests of details to address the higher inherent risk. c) When significant risks have been identified, audit evidence **obtained solely** from substantive analytical procedures is unlikely to be sufficient.

TECHNIQUES AVAILABLE AS SUBSTANTIVE ANALYTICAL PROCEDURES

The design of a substantive analytical procedure is limited only by the availability of reliable data and the experience and creativity of the audit team. Substantive analytical procedures generally take one of the following forms:

Trend analysis	1) A commonly used technique is the **comparison of current data with the prior period balance or with a trend** in two or more prior period balances. 2) We evaluate whether the current balance of an account moves in line with the trend established with previous balances for that account or based on an understanding of factors that may cause the account to change. 3) In other words, trend analysis **implies analysing** account fluctuations by comparing current year to prior year information and, also, to information derived over several years. **Example:** The auditor may compare the salary paid by the company during the year under audit with the salary paid by the company for several earlier years. There may be some percentage increase in the salary expense over the years. However, an unusual increase in such expense amount may indicate that fraudulent payments are being made to fake employees.
Ratio analysis	1) Ratio analysis is useful for **analysing asset and liability** accounts as well as revenue and expense accounts. 2) An individual balance sheet account is difficult to predict on its own, but its relationship to another account is often more predictable (e.g., the trade receivables balance related to sales). 3) Ratios can also be compared over time or to the ratios of separate entities within the group, or with the ratios of other companies in the same industry. 4) **Example:** Financial ratios may include: a) Trade receivables or inventory turnover b) Freight expense as a percentage of sales revenue

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Reasonableness tests	1) Unlike trend analysis, this analytical procedure does **not rely** on events of prior periods, but upon **non-financial data** for the audit period under consideration (e.g., occupancy rates to estimate rental income or interest rates to estimate interest income or expense). 2) These tests are generally more **applicable to income statement accounts** and certain accrual or prepayment accounts. 3) In other words, these tests are made by **reviewing the relationship** of certain account balances to other balances for reasonableness of amounts. 4) **Example:** a) Interest expense against interest bearing obligations b) Raw Material Consumption to Production (quantity) c) Wastage & Scrap % against production & raw material consumption (quantity) d) Work-in-Progress based on issued of materials & Sales (quantity) e) Sales discounts and commissions against sales volume f) Rental revenues based on occupancy of premises
Structural modeling	A modeling tool **constructs a statistical model** from **financial and/or non-financial data** of prior accounting periods to predict current account balances (e.g., linear regression).

ANALYTICAL PROCEDURES USED AS SUBSTANTIVE TESTS

When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with **SA 330**, the auditor shall:

1) **Determine the suitability** of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;
2) **Evaluate the reliability of data** from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;
3) **Develop an expectation** of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and
4) Determine the amount of **any difference of recorded amounts** from expected values that is acceptable without further investigation.

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SUITABILITY OF PARTICULAR ANALYTICAL PROCEDURES FOR GIVEN ASSERTIONS

1) Substantive analytical procedures are generally **more applicable to large volumes** of transactions that tend **to be predictable** over time.
2) The application of planned analytical procedures is based on the **expectation** that **relationships** among data **exist and continue** in the absence of known conditions to the contrary.
3) However, the **suitability** of a **particular analytical procedure** will **depend** upon the **auditor's assessment** of **how effective** it will be in detecting a misstatement that, **individually or when aggregated** with other misstatements, may **cause** the financial statements to be materially misstated.
4) In some cases, even an **unsophisticated predictive model** may be **effective** as an analytical procedure.

Different types of analytical procedures provide different levels of assurance.

a) Analytical procedures involving, for example, the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details, provided the elements are appropriately verified.
b) In contrast, calculation and comparison of gross margin percentages as a means of confirming a revenue figure may provide less persuasive evidence but may provide useful corroboration if used in combination with other audit procedures.
c) The determination of the suitability of particular substantive analytical procedure is influenced by the nature of the assertion and the auditor's assessment of the risk of material misstatement.

For example, if controls over sales order processing are weak, the auditor may place more reliance on tests of details rather than on substantive analytical procedures for assertions related to receivables.

Particular substantive analytical procedures may also be considered suitable when tests of details are performed on the same assertion.

For example, when obtaining audit evidence regarding the valuation assertion for accounts receivable balances, the auditor may apply analytical procedures to an aging of customers' accounts in addition to performing tests of details on subsequent cash receipts to determine the collectability of the receivables.

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THE RELIABILITY OF DATA

1) The reliability of data is **influenced by its source and nature** and is dependent on the circumstances under which it is obtained.
2) Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:
   a) **Source of the information available**. **For example**, information may be more reliable when it is obtained from independent sources outside the entity;
   b) **Comparability of the information available**. **For example**, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;
   c) **Nature and relevance of the information available**. **For example**, whether budgets have been established as results to be expected rather than as goals to be achieved; and
   d) **Controls over the preparation of the information** that are designed to ensure its completeness, accuracy and validity. **For example**, controls over the preparation, review and maintenance of budgets.
3) The auditor may **consider testing the operating effectiveness** of controls, if any, over the entity's preparation of information used by the auditor in performing substantive analytical procedures in response to assessed risks.
4) When such **controls are effective**, the auditor generally has **greater confidence** in the reliability of the information and, therefore, in the results of analytical procedures.
5) The operating effectiveness of controls over non-financial information may often be tested **in conjunction** with other tests of controls.

EVALUATION OF WHETHER THE EXPECTATION IS SUFFICIENTLY PRECISE

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:

a) **The accuracy with which the expected results of substantive analytical procedures can be predicted.**

   For example, the auditor may expect greater consistency in comparing gross profit margins from one period to another than in comparing discretionary expenses, such as research or advertising.

b) **The degree to which information can be disaggregated.**

   For example, substantive analytical procedures may be more effective when applied to financial information on individual sections of an operation or to financial statements of components of a diversified entity, than when applied to the financial statements of the entity

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as a whole.

c) **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. If the information is available, the auditor may also consider the reliability of the information.

AMOUNT OF DIFFERENCE OF RECORDED AMOUNT FROM EXPECTED VALUES THAT IS ACCEPTABLE

1) The auditor's determination of the **amount of difference** from the expectation that can be accepted without further investigation is **influenced by materiality** and the consistency with the desired level of assurance, taking account of the possibility that a misstatement, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.
2) **SA 330** requires the auditor to obtain **more persuasive audit evidence** the higher the auditor's assessment of risk.
3) Accordingly, as the assessed risk increases, the achieve the amount of difference considered acceptable without investigation decreases in order to achieve the desired level of persuasive evidence.

INVESTIGATING RESULTS OF ANALYTICAL PROCEDURES

If analytical procedures performed in accordance with **SA 520** identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such di□erences by:

a) **Inquiring of management and obtaining appropriate audit evidence relevant to management's responses:** Audit evidence relevant to management's responses may be obtained by evaluating those responses taking into account the auditor's understanding of the entity and its environment, and with other audit evidence obtained during the course of the audit.

b) **Performing other audit procedures as necessary in the circumstances:** The need to perform other audit procedures may arise when, for example, management is unable to provide an explanation, or the explanation, together with the audit evidence obtained relevant to management's response, is not considered adequate.

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ANALYTICAL PROCEDURES THAT ASSIST WHEN FORMING AN OVERALL CONCLUSION

1) The conclusions drawn from the results of analytical procedures designed and performed in accordance with, are **intended to corroborate conclusions** formed during the audit of individual components or elements of the financial statements.
2) **This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.**
3) The results of such analytical procedures may identify a previously unrecognized risk of material misstatement.
4) In such circumstances, SA 315 requires the auditor to **revise** the auditor's assessment of the risks of material misstatement and **modify** the further planned audit procedures accordingly.

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SA 530

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SA 530 Audit Sampling

MEANING OF AUDIT SAMPLING

1) According to **SA 530 "Audit sampling"**, 'audit sampling' refers to the application of audit procedures to **less than 100% of items** within a population relevant under the audit, such that all sampling units (i.e., all the items in the population) have an equal chance of selection.
2) This is **to ensure** that the items selected represent the entire population which enables the auditor to draw conclusions and express his opinion based on a pre-determined objective.
3) The **objective of the auditor** when using audit sampling is to provide a reasonable basis for the auditor **to draw conclusions** about the population from which the sample is selected.

SCOPE OF SA 530

1) **SA 530** becomes applicable when the auditor has decided to use audit sampling in performing audit procedures. This standard deals with the auditor's use of -
   a) Statistical and
   b) Non-statistical sampling
2) When designing and selecting the-
   a) audit sample,
   b) performing tests of controls and tests of details, and
   c) evaluating the results from the sample.
3) **SA 500 "Audit Evidence"**, deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.
4) SA 500 lays down the means available to the auditor for selecting the items for testing. One of those is Audit Sampling. **Hence SA 530 complement SA 500.**

POPULATION

1) Population refers to the **entire set of data** from which a sample is selected and about which the auditor wishes to draw conclusions.
2) The auditor should select sample items in such a way that the sample can be expected to be **representative of the population**. This requires that all items in the population have an opportunity of being selected.

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CHARACTERISTICS OF POPULATION

(a) Appropriateness:

1) The auditor will need to determine that the population from which the sample is drawn is **appropriate** for the specific audit objective.
2) Appropriate means population from which the samples are drawn **shall be relevant** for the **specific objective** under audit this is because when the samples are drawn, the audit procedures are applied on the sample and the conclusions are projected on the population.
3) It is important for the auditor **to ensure** that the population is appropriate to the objective of the audit procedure, which will include consideration of the direction of testing.

Example:

a) If the auditor's objective were to **test for overstatement of accounts receivable**, the population could be defined as the **accounts receivable listing**.
b) **On the other hand**, when **testing for understatement of accounts payable**, the population would **not be the accounts payable listing**, but rather **subsequent disbursements, unpaid invoices, suppliers' statements, unmatched receiving reports**, or other populations that would provide audit evidence of understatement of accounts payable.

(b) Completeness:

1) The population also needs to be complete, which means that if the auditor intends to use the sample to draw conclusions about **whether a control activity is operated effectively** during the financial reporting period, the population **needs to include all relevant items** i.e., all the activities that form part of that relevant internal control, throughout the entire period.
2) If population is complete in all respects, the conclusions drawn on the population will be considered to be **reasonable**.

(c) Reliable:

1) When performing the audit sampling, the auditor performs audit procedures to ensure that the information upon which the audit sampling is performed **is sufficiently complete and accurate**.
2) Auditor should obtain evidence about the **reliability of population**. If population is not reliable with respect to accuracy and source, the sample drawn will definitely not be relevant for the specific audit objective.

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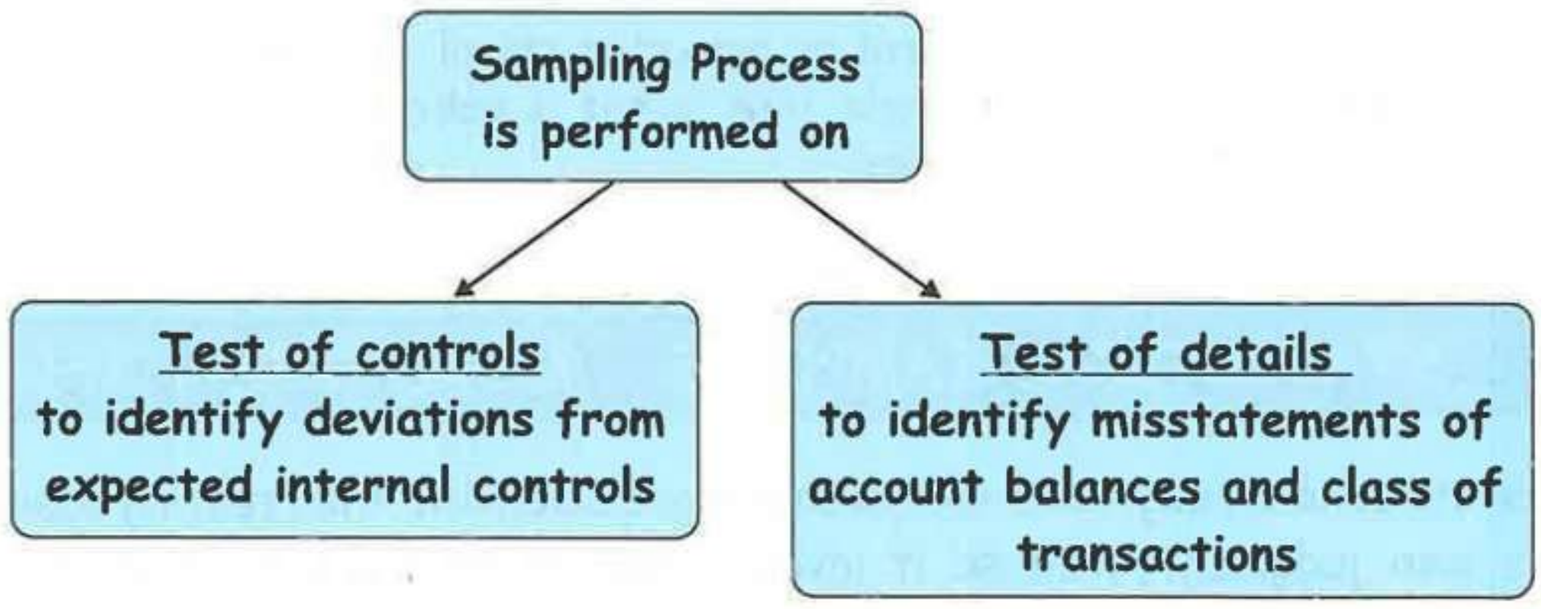
SAMPLING UNIT

1) The **individual items** that make up the population are known as sampling units. The population can be divided into sampling units in a variety of ways.
2) It is a selection from the population that is used as an extrapolation of the population. Audit procedures are applied on these units and the conclusions drawn from them are projected on the population.
3) In simple words, **conclusions drawn on the sample becomes the conclusion of the population from where it is drawn.**

For Example: If the auditor's objective were to test the validity of accounts receivables, the sampling unit could be defined as **customer balances or individual customer invoices.** The auditor defines the sampling unit in order to obtain an efficient and effective sample to achieve the particular audit objectives. The conclusion on the population is based on the audit procedures applied on the sampling unit.

SAMPLE MUST BE REPRESENTATIVE

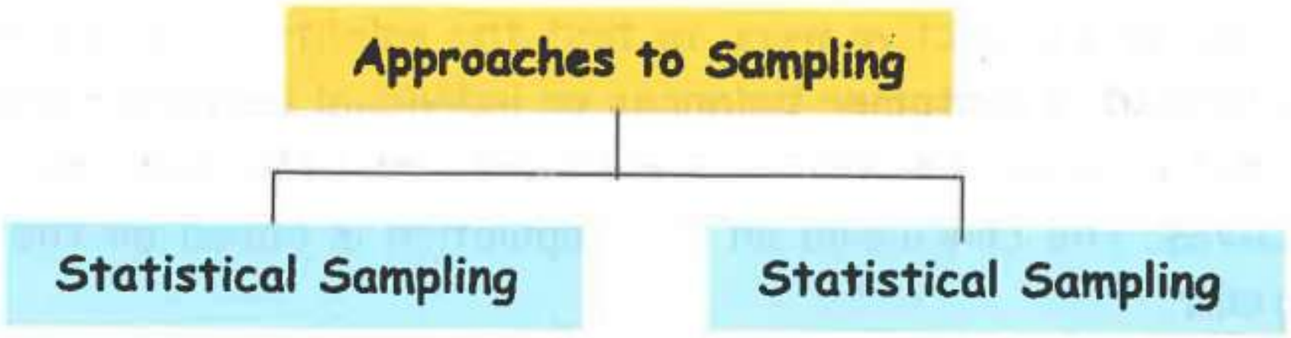
Whatever may be the approach non-statistical or statistical sampling, the sample must be representative. This means that it must be **closely similar to the whole population** although not necessarily exactly the same. The sample must be **large enough** to provide statistically **meaningful results.**



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APPROACHES TO SAMPLING

1) Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn.
2) Audit sampling can be applied using either
   a) **Non-statistical or**
   b) **Statistical sampling**



1) Statistical sampling is
   a) **An approach to sampling that has the random selection of the sample items; and**
   b) **The use of probability theory to evaluate sample results, including measurement of sampling risk characteristics.**
2) Sample is chosen by applying certain mathematical and statistical methods. A sampling approach that does not have above characteristics is considered non-statistical sampling.

The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's judgment; however, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.

STATISTICAL SAMPLING - MORE SCIENTIFIC

1) Audit testing done through this approach is more scientific than testing based entirely on the auditor's own judgment because it involves use of mathematical laws of probability in determining the appropriate sample size in varying circumstances.
2) Statistical sampling has reasonably wide application where a population to be tested consists of a large number of similar items and more in the case of transactions involving compliance testing, trade receivables' confirmation, payroll checking, vouching of invoices and petty cash vouchers.
3) There Is no personal bias of the auditor in case of statistical sampling. Since it is scientific, the results of sample can be evaluated and projected on the whole population in a more reliable manner.
4) In larger organisations, with huge transactions, **statistical sampling is always recommended** as it is unbiased and the samples selected are not prejudged.

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For Example: An auditor while verifying the Purchases during the year realised that the purchase transactions in that year are more than 45,000 in number, then in such case, statistical sampling will be highly recommended in the audit program. Random Sampling is the method you decide to choose sample in such a situation.

NON-STATISTICAL SAMPLING

1) Under this approach, the sample size and its composition are determined on the basis of the **personal experience and knowledge of the auditor**.
2) This approach has been in common application for many years because of **its simplicity in operation**.
3) Traditionally, the auditor on the basis of his **personal experience** will determine the size of the sample and express it in terms that number of pages or personal accounts in the purchases or sales ledger to be checked.

   For example, March, June and September may be selected in year one and different months would be selected in the next year.
4) An attempt would be made **to avoid establishing a pattern of selection** year after year to **maintain an element of surprise** as to what the auditor is going to check. It is a common practice to check large number of items towards the close of the year so that the **adequacy of cut-off procedures** can also be determined. Also, because year end transaction are prone to high risk of misappropriation.

The non-statistical sampling is criticized on the grounds that it is neither objective nor scientific:

a) **The expected degree of objectivity cannot be assured in non-statistical sampling** because the risk of personal bias in selection of sample items cannot be eliminated.
b) The closeness of the **qualities projected by the sample results with that of the whole population cannot be measured** because the sample has not been selected in accordance with the mathematically based statistical techniques.
c) However, it may be stated that **the auditor with his experience and knowledge of the client's business** can evaluate accurately enough the sample findings to make audit decision and the mathematical proof of accuracy in some cases may be a luxury which the auditor cannot afford.

Note: This method is **simple to operate** but sometimes the sample **may not be a true representative** of the total population because of **personal bias and no scientific method** of selection.

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SAMPLING VS TRADITIONAL METHOD OF AUDITING

1) In most of the circumstances, the evidence available is not conclusive and the auditor always takes a calculated risk in giving his opinion. Even by undertaking hundred percent checking of the transactions, the auditor does not derive absolute satisfaction.
2) This state of **uneasiness led pragmatic auditors to adopt the statistical theory of sampling** to derive the necessary satisfaction about the state of affairs by checking only a part of the total population of entries.
3) The satisfaction he used to derive earlier, by checking all the transactions, can be derived by a sample checking **provided he can put reliance on the internal controls** and checks within the client's organisation because they provide the reliability of the records.
4) What should be the extent of desirable checking in any particular matter is for auditor to judge on basis of his opinion about **the state of control in a particular area.**
5) If control is satisfactory in its design and implementation, **a much smaller sample can give the auditor the necessary reliability of the result he obtains.**
6) **On the other hand,** if in certain areas controls are slack or not properly implemented, the auditor may have to take a much larger sample for getting satisfactory result.
7) It can never bring **complete reliability; it cannot give precisely accurate results.**
8) It is a process of **estimation.**
9) It may have **some error.**
10) **What error is tolerable for a particular matter under examination is a matter of the individual's judgment in that particular case.**

The factors that should be considered for deciding upon the extent of checking on a sampling plan are following:

a) Size of the organisation under audit.
b) State of the internal control.
c) Adequacy and reliability of books and records.
d) Tolerable error range.
e) Degree of the desired confidence.

APPROPRIATENESS OF SAMPLING APPROACHES

In statistical sampling, the sample results are measurable as to the adequacy and reliability of the audit objectives whereas in non-statistical sampling the auditor's opinion determines the sample size but it cannot be measured how far the sample size would fulfill the audit objective.

The advantages of statistical sampling may be summarized as follows:

a) The amount of testing (sample size) does not increase in proportion to the increase in the size of the area (universe) tested.

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b) The sample selection is more objective and thereby more defensible.

c) The method provides a means of estimating the minimum sample size associated with a specified risk and precision.

d) It provides a means for deriving a **"calculated risk"** and corresponding precision (sampling error) i.e. the probable difference in result due to the use of a sample in lieu of examining all the records in the group (universe), using the same audit procedures.

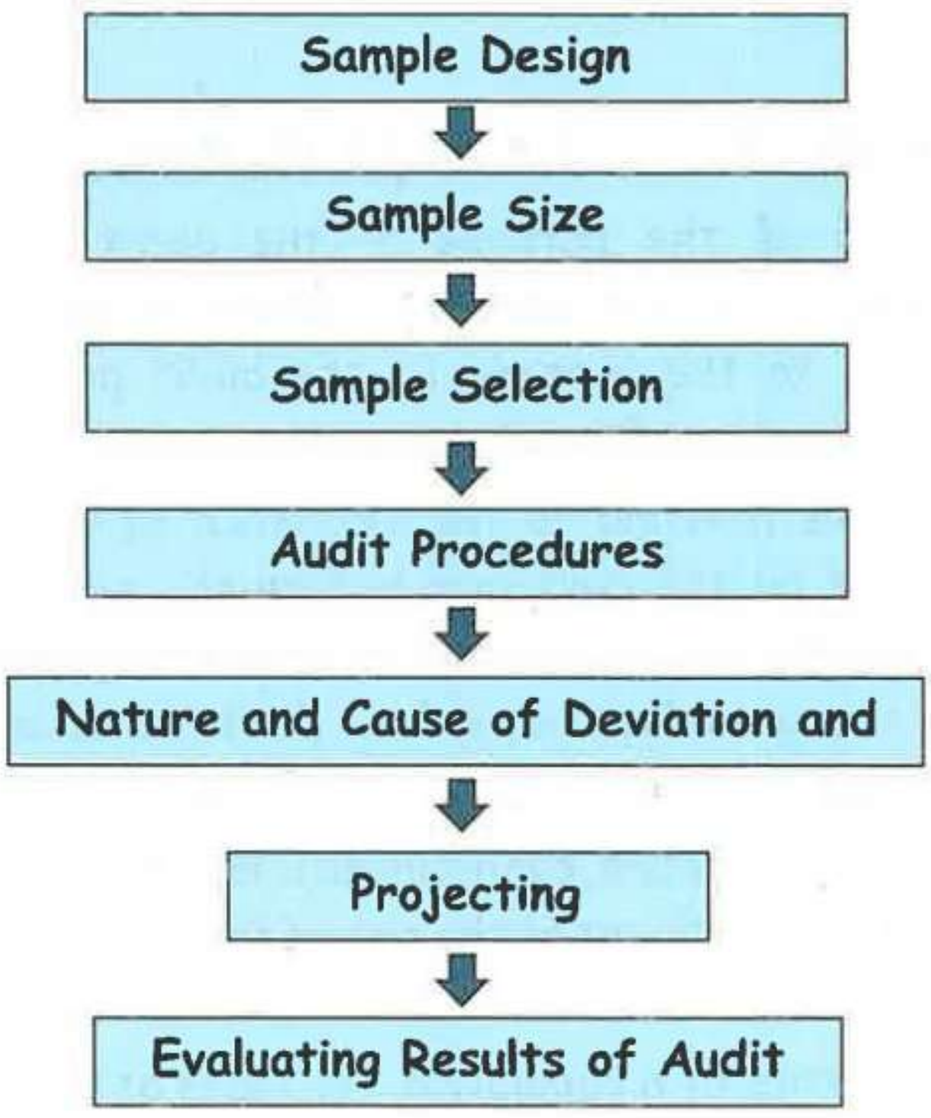
e) It may provide a better description of a large mass of data than a complete examination of all the data, since non-sampling errors such as processing and clerical mistakes are not as large.

f) It is widely accepted way of sampling as it is more scientific, without personal bias and the result of sample can be evaluated and projected in more reliable way.

Under some audit circumstances, **statistical sampling methods may not be appropriate**. The auditor **should not attempt** to use statistical sampling when **another approach** is either necessary or will **provide satisfactory information** in **less time or with less effort**, for instance when exact accuracy is required or in case of legal requirements etc.

Sometimes the audit **staff has no knowledge about sampling technique** used, in such circumstances using **statistical sampling becomes complex and inappropriate**.

SAMPLING PROCESS



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SAMPLE DESIGN, SIZE AND SELECTION OF ITEMS FOR TESTING

1) When designing an audit sample, the auditor shall **consider the purpose of the audit procedures** and the **characteristics of the population** from which the sample will be drawn.
2) The auditor shall determine a **sample size sufficient** to **reduce sampling risk to an acceptably low level.**
3) The auditor shall select items for the sample in such a way that each **sampling unit in the population has a chance of selection.**
4) Sample selected must be representative of the population.

Sample Design

When designing an audit sample,

a) The auditor's consideration includes the **specific purpose** to be achieved and the **combination of audit procedures** that is likely to best achieve that purpose.

b) Consideration of the **nature of the audit evidence** sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling.

c) In fulfilling the requirement of **SA 500 Audit Evidence**, when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.

Aspects to be kept in mind:

a) The auditor's consideration of the purpose of the audit procedure includes a **clear understanding of what constitutes a deviation or misstatement** so that all, and only, those conditions that are relevant to the purpose of the audit procedure are included in the evaluation of deviations or projection of misstatements.

Example: In a test of details relating to the existence of accounts receivable, such as confirmation, payments made by the customer before the confirmation date but received shortly after that date by the client, are not considered a misstatement. Also, a mis-posting between customer accounts does not affect the total accounts receivable balance.

b) Therefore, it may not be appropriate to consider this a misstatement in evaluating the sample results of this particular audit procedure, even though it may have an important effect on other areas of the audit, such as the assessment of the risk of fraud or the adequacy of the allowance for doubtful accounts.

c) In considering the characteristics of a population, for tests of controls, the auditor makes an **assessment of the expected rate of deviation** based on the auditor's understanding of the relevant controls or on the examination of a small number of items from the population. This assessment is made in order to design an audit sample and to determine sample size.

Example: If the expected rate of deviation is unacceptably high, the auditor will normally

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decide not to perform tests of controls.

d) Similarly, for tests of details, the auditor makes an **assessment of the expected misstatement** in the population. If the expected misstatement is high, 100% examination or use of a large sample size may be appropriate when performing tests of details.

STRATIFICATION AND VALUE-WEIGHTED SELECTION

In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection technique is appropriate. **SA 530** provides guidance to the auditor on the use of stratification and value-weighted sampling techniques.

Stratification

1) Audit efficiency may be improved if the auditor stratifies a population by dividing it into discrete sub-populations which have an identifying characteristic.
2) **The objective of stratification is to reduce the variability of items** within each stratum and therefore allow sample size to be reduced without increasing sampling risk.
3) When performing tests of details, the population **is often stratified by monetary value**. This allows **greater audit effort to be directed to the larger value items**, as these items may contain the greatest potential misstatement in terms of overstatement.
4) Similarly, a population may be stratified according to a **particular characteristic that indicates a higher risk of misstatement**, for example, when testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age.
5) The results of audit procedures applied to a sample of items within **a stratum can only be projected to the items that make up that stratum**. To draw a conclusion on the entire population, the auditor will need to consider the risk of material misstatement in relation to whatever other strata make up the entire population
6) The results of samples from the units drawn under each sub population are projected to that respective stratum. In order to draw an opinion on the overall population, the auditor needs to combine the results of all the stratum to check for possible deviation or risk of material misstatement.
7) Projected misstatements of each **stratum** will be combined together to consider the possible effect of misstatement in the account balances and class of transactions.

Stratification: Dividing a population into discrete sub population which have identifying characteristics is called as **Stratification**. Each Sub population is called as **Stratum** and units under those sub population are referred to as **Strata**.

Example - 20% of the items in a population may make up 90% of the value of an account balance. The auditor may decide to examine a sample of these items. The auditor evaluates the results of this

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sample and reaches a conclusion on the 90% of value separately from the remaining 10% (on which a further sample or other means of gathering audit evidence will be used, or which may be considered immaterial).

Value-Weighted Selection

1) When performing tests of details, it may be efficient to identify the sampling unit as the individual monetary units that make up the population. Having selected specific monetary units from within the population.

   For example, the accounts receivable balance, the auditor may then examine the particular items,

   For example, individual balances, that contain those monetary units.

2) One benefit of this approach to defining the sampling unit is that audit effort is directed to the larger value items because they have a greater chance of selection and can result in smaller sample sizes.

3) This approach may be used in conjunction with the **systematic method of sample selection** and is most efficient when **selecting items using random selection.**

4) **In value weighted selection, the sample size, its selection and evaluation will result in a conclusion in monetary amounts.**

SAMPLE SELECTION METHODS

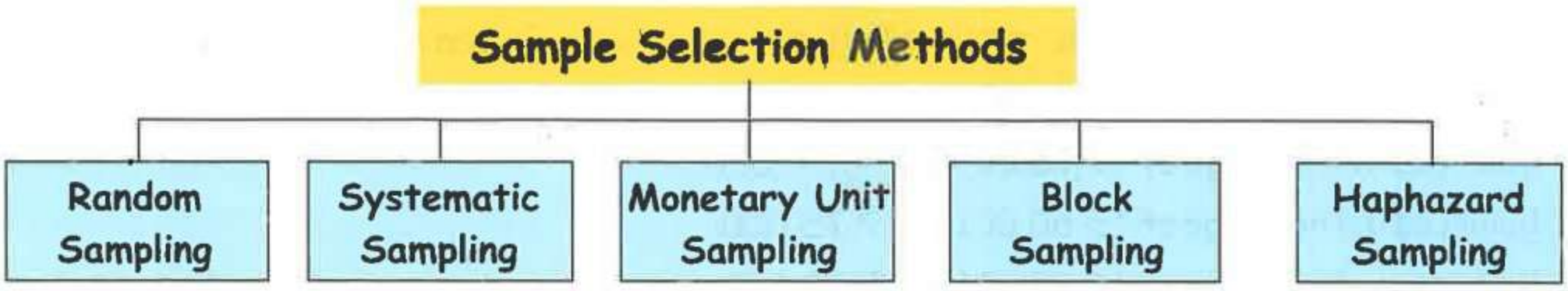
1) Sample should be selected in such a manner that it is representative of the population from which the sample is being selected. It will necessitate that each item in the population has an equal chance of being included in the sample.

2) With **statistical sampling**, sample items are selected in a way that each sampling unit has a **known probability** of being selected.

3) With **non-statistical sampling**, judgment is used to select sample items. Because the purpose of sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected, it is important that the **auditor selects a representative sample**, so that bias is avoided, by choosing sample items which have characteristics typical of the population.

4) **The principal methods of selecting samples are the use of random selection, systematic selection and haphazard selection.**

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RANDOM SAMPLING

Random selection ensures that all items in the population or within each stratum have a known chance of selection. It may involve use of **random number tables**. Random sampling includes two very popular methods which are discussed below -

(i) Simple Random Sampling:

a) Under this method **each unit** of the whole population e.g. purchase or sales invoice has an equal chance of being selected.

b) It is considered that random number tables are **simple and easy to use** and also provide assurance that the auditors' bias does not a□ect the selection.

c) Each item in a population is selected by **use of random number table** either with a help of **computer** or picking up a number in a random way (may be randomly from **a drum**).

d) Today random numbers are also generated using various applications on the cellphones like the random number generator.

e) This method is considered appropriate provided the **population to be sampled** consists of **reasonably similar units** and **fall within a reasonable range** i.e it is suitable for a **homogeneous population** having a similar range.

Example: The population can be considered homogeneous, if say, trade receivables balances fall within the range of ₹ 55,000 to ₹ 2,25,000 and not in the range between ₹ 525 to ₹ 10,50,000.

(ii) Stratified Sampling:

a) This method involves dividing the whole population to be tested in a few separate groups called **strata** and taking a sample from each of them. Each stratum is treated as if it was a **separate population** and if proportionate of items are selected from each of these stratum.

b) The number of groups into which the whole population has to be divided is determined on the basis of **auditor judgment**.

c) The reasoning behind the stratified sampling is that for a **highly diversified population**, weights should be allocated to reflect these di□erences. This is achieved by selecting **di□erent proportions** from **each strata**. It can be seen that the **stratified sampling is simply an extension of simple random sampling**.

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Example: In the above case, trade receivables balances may be divided into four groups as follows:

(i) balances in excess of ₹ 10,00,000;

(ii) balances in the range of ₹ 7,75,001 to ₹ 10,00,000;

(iii) balances in the range of ₹ 5,50,001 to ₹ 7,75,000;

(iv) balances in the range of ₹ 2,25,001 to ₹ 5,50,000; and

(v) balances ₹ 2,25,000 and below.

From these above groups the auditor may pick up different percentage of items from each of the group. From the top group i.e. balances in excess of ₹ 10,00,000, the auditor may examine all the items; from the second group 25 per cent of the items; from the third group 10 per cent of the items; and from the lowest group 2 per cent of the items may be selected.

Random sample is chosen from each **stratum using random number tables.** Therefore, we can say that **random selection method** is applied through **random number generators**, for example, random number tables.

Note:

Stratification means dividing heterogeneous (Diversified) population into Homogeneous (having similar characteristics) sub population, where samples are drawn from each sub population.

INTERVAL SAMPLING OR SYSTEMATIC SAMPLING

1) Systematic selection is a selection method in which 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.
2) 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 **computerized random number generator** or random number tables.
3) When using systematic selection, the auditor would need to determine that sampling units within the population are **not structured** in such a way that the sampling interval **corresponds with a particular pattern** in the population.
4) To **minimize the effect of the possible known** buyers through a pattern in the population, **more than one starting point may be taken.** The **multiple random starting point** is taken because it **minimize the risk of interval sampling pattern** with that of the population being sampled.

MONETARY UNIT SAMPLING

It is a type of value-weighted selection in which **sample size, selection and evaluation results** in a conclusion in **monetary amounts.**

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HAPHAZARD SAMPLING

1) Haphazard selection, in which 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 **(for example, avoiding di□cult to locate items, or always choosing or avoiding the first or last entries on a page)** and thus attempt to ensure that all items in the population have a chance of selection.
2) Haphazard selection is **not appropriate** when using **statistical sampling**.
3) **Haphazard sampling has no structured approach, does not involve judgement and does not even use the random number tables.**

BLOCK SAMPLING

1) This method involves **selection of a block(s) of contiguous items** from within the population. Block selection cannot ordinarily be used in audit sampling because **most populations are structured** such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population.
2) Although in **some circumstances it may be an appropriate** audit procedure to examine a block of items, it would **rarely be an appropriate sample selection technique** when the auditor **intends to draw valid inferences about the entire population** based on the sample.
3) Usually, a range of continuous transaction shall have similar characteristics, therefore, selection of a group at one time will not give a reasonable basis for opinion on the overall population as different types of transactions and unusual transactions may not be covered in the group taken all at once.
4) Further, if the client has the idea of the block selection pattern of the auditor, then material misstafements and deviations can be easily overlooked by management's practice of recording them.
5) There is a **close similarity between this method and non-statistical sampling**.
6) Consequently, it has similar characteristics, namely, **simplicity and economy**. On the other hand, there is a **risk of bias** and of establishing a pattern of selection which may be noted by the auditees.

Example: Take the first 200 sales invoices from the sales day book in the month of September; alternatively take any four blocks of 50 sales invoices.

Therefore, once the first item in the block is selected, the rest of the block follows items to the completion.

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SAMPLE SIZE

1) The auditor shall determine a **sample size sufficient to reduce sampling risk** to an acceptably low level.
2) The level of sampling risk that the auditor is willing to accept affects the sample size required.
3) **The lower the risk the auditor is willing to accept, the greater the sample size will need to be.**
4) The sample size can be determined by the **application of a statistically-based formula** or through the **exercise of professional judgment**. There are various factors typically have on the determination of sample size.
5) When circumstances are similar, **the effect on sample size of factors will be similar regardless of whether a statistical or non- statistical approach is chosen.**

EXAMPLES OF FACTORS AFFECTING SAMPLE SIZE

For Test of Controls

The following are factors that the auditor may consider when determining the sample size for tests of controls. These factors, which need to be considered together, assume the auditor does not modify the nature or timing of tests of controls or otherwise modify the approach to substantive procedures in response to assessed risks.

1) **When there is an increase in the extent to which the auditor's risk assessment takes into account relevant controls.**
   a) **The more assurance the auditor intends to obtain from the operating effectiveness of controls, the lower the auditor's assessment of the risk of material misstatement will be, and the larger the sample size will need to be.**
   b) When the auditor's assessment of the risk of material misstatement at the assertion level includes an expectation of the operating effectiveness of controls, the auditor is required to perform tests of controls.
   c) Other things being equal, **the greater the reliance the auditor places on the operating effectiveness of controls in the risk assessment, the greater is the extent of the auditor's tests of controls (and therefore, the sample size is increased). Thus, sample size will increase.**

2) **If there is an increase in the tolerable rate of deviation. Then sample size will decrease, as lower the tolerable rate of deviation, larger the sample size needs to be.**

   Note: Tolerable error is the maximum error in the population that auditor is ready to accept in a given sample size. Smaller the tolerable error, larger will be the sample size.

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3) **When there is an increase in the expected rate of deviation of the population to be tested then sample size will increase, as higher the expected rate of deviation, larger the sample size needs to be so that the auditor is in a position to make a reasonable estimate of the actual rate of deviation.**

Factors relevant to the auditor's consideration of the expected rate of deviation include

a) the auditor's understanding of the business (in particular, risk assessment procedures undertaken to obtain an understanding of internal control),

b) changes in personnel or in internal control,

c) the results of audit procedures applied in prior periods and the results of other audit procedures.

4) **An increase in the auditor's desired level of assurance that the tolerable rate of deviation is not exceeded by the actual rate of deviation in the population will increase the sample size.** Thus, the greater the level of assurance that the auditor desires that the results of the sample are in fact indicative of the actual incidence of deviation in the population, the larger the sample size needs to be.

5) **In case of large populations, the actual size of the population has little, if any, effect on sample size.** For **small populations** however, audit sampling may **not be as efficient** as alternative means of obtaining sufficient appropriate audit evidence. Therefore, there will be **negligible effect on sample size** due to increase in the number of sampling units in the population.

For Test of Details

The following are factors that the auditor may consider when determining the sample size for tests of details. These factors, which need to be considered together, assume the auditor does not modify the approach to tests of controls or otherwise modify the nature or timing of substantive procedures in response to the assessed risks.

1) **The higher the auditor's assessment of the risk of material misstatement, the larger the sample size needs to be.**

a) The auditor's assessment of the risk of material misstatement is a□ected by inherent risk and control risk.

For example, if the auditor does not perform tests of controls, the auditor's risk assessment cannot be reduced for the effective operation of internal controls with respect to the particular assertion.

b) Therefore, in order to reduce audit risk to an acceptably low level, the auditor needs a low detection risk and will rely more on substantive procedures.

c) The more audit evidence that is obtained from tests of details (that is, the lower the detection risk), the larger the sample size will need to be.

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d) Thus we can say that there will be an increase in sample size in case of an increase in the auditor's assessment of the risk of material misstatement.

2) **The more the auditor is relying on other substantive procedures (tests of details or substantive analytical procedures) to reduce to an acceptable level the detection risk regarding a particular population, the less assurance the auditor will require from sampling and, therefore, the smaller the sample size can be.**

Hence, if there is an increase in the use of other substantive procedures directed at the same assertion, the size of sample will decrease.

3) **An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population will increase the sample size.**

Hence, greater the level of assurance that the auditor requires that the results of the sample are in fact indicative of the actual amount of misstatement in the population, the larger the sample size needs to be.

4) **An increase in tolerable misstatement will decrease the sample size as lower the tolerable misstatement, the larger the sample size needs to be.**

5) **The greater the amount of misstatement the auditor expects to find in the population, the larger the sample size needs to be in order to make a reasonable estimate of the actual amount of misstatement in the population.**

Factors relevant to the auditor's consideration of the expected misstatement amount include:

a) the extent, to which item values are determined subjectively,

b) the results of risk assessment procedures,

c) the results of tests of control, the results of audit procedures applied in prior periods, and

d) the results of other substantive procedures.

So, sample size will increase in case of an increase in the amount of misstatement the auditor expects to find in the population.

6) **When stratification of the population is appropriate then sample size will decrease as when there is a wide range (variability) in the monetary size of items in the population, it may be useful to stratify the population.**

When a population can be appropriately stratified, the aggregate of the sample sizes from the strata generally will be less than the sample size that would have been required to attain a given level of sampling risk, had one sample been drawn from the whole population.

7) **There will be negligible effect on sample size due to number of sampling units in the**

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population.

a) For large populations, the actual size of the population has little, if any, effect on sample size. Thus, for small populations, audit sampling is often not as efficient as alternative means of obtaining sufficient appropriate audit evidence.

b) However, when **using monetary unit sampling**, an **increase in the monetary value** of the population **increases sample size**, unless this is **offset by a proportional increase** in **materiality for the financial statements** as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures as per **SA 320**).

NOTE TO FACTORS AFFECTING SAMPLE SIZE

Factors	1) Tolerable Error 2) Expected Error 3) Sampling Risk	
1) Tolerable Error	Maximum Error in population that auditor is ready to accept for a given sample size. If smaller tolerable error, big sample size is needed.	
	In compliance procedure	Maximum rate of deviation from established procedure of Internal Control.
	In substantive procedure	Maximum monetary error.
2) Expected Error	If auditor expects possibility of error in population, larger sample size is required. If population is expected to be free of misstatement, smaller sample size is needed.	
3) Sampling Risk	a) It arise from possibility that Auditor's conclusion based upon sample, may be different from, conclusion that would have been reached, if same audit procedures were applied on entire population. b) **If acceptable sampling risk is low, large sample is needed.** c) It arises in both **compliance procedures & substantive procedure.**	
	In case of Compliance Procedure — **Risk of under reliance**	Based upon sample, auditor concludes that Internal Control System is not adequate, however actually it is not so.
		Based upon sample, auditor concludes that Internal Controls are very effective & thus decides to rely on them, however it is not so in reality.

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	In case of Substantive Procedure	**Risk of incorrect Rejection**	Based upon sample, auditor concludes that transactions/ balances are materially misstated, whereas in fact these are not.
		Risk of incorrect Acceptance	Based upon sample auditor concludes that transactions/ balances are not materially misstated while in fact these are misstated.

Risk of under reliance on Test on Controls

⬇

Risk of incorrect rejection in substantive Procedures

Leads to **inefficiency** in the conduct of audit.

Risk of over reliance on Test of Controls

⬇

Risk of incorrect acceptance in case of substantive procedures

Effects the **effectiveness** of audit. It leads to erroneous audit opinion

SAMPLING AND NON-SAMPLING RISK

Sampling Risk

The risk that the auditor's conclusion based on a sample may be di□erent from the conclusion if the entire population were subjected to the same audit procedure.

This risk will **always be in existence** when auditor **uses sampling technique** in conducting his audit

IF THE ACCEPTABLE SAMPLING RISK IS LOW, LARGER SAMPLE SIZE IS NEEDED

Sampling risk can lead to two types of erroneous conclusions:

a) In the case of a **test of controls**, that **controls are more effective than they actually are**, or in the case of a **test of details**, that a **material misstatement does not exist when in fact it does**. The auditor is primarily concerned with this type of erroneous conclusion because it a□ects **audit effectiveness** and is more likely to lead to an **inappropriate audit opinion**.

b) In the case of a **test of controls**, that **controls are less effective than they actually are**, or in the case of a **test of details**, that a **material misstatement exists when in fact it does not**. This type of erroneous conclusion **affects audit efficiency** as it would usually lead to **additional work to establish that initial conclusions were incorrect**.

Non-Sampling Risk

The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling

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risk. **Non-sampling risk can never be mathematically measured.**

Sources of Non-Sampling risk are:

a) Human Mistakes
b) Misinterpreting the sample results
c) Applying audit procedures not appropriate to the objectives of audit
d) Relying on erroneous information e.g., erroneous confirmation

Examples of non-sampling risk include use of inappropriate audit procedures, or misinterpretation of audit evidence and failure to recognize a misstatement or deviation.

NATURE AND CAUSE OF DEVIATIONS AND MISSTATEMENTS

1) In analyzing the deviations and misstatements identified, the auditor may observe that many have a **common feature, for example**, type of transaction, location, product line or period of time.
2) In such circumstances, the auditor may decide to **identify all items in the population** that **possess the common feature** and extend audit procedures to those items. In addition, **such deviations** or **misstatements** may be **intentional**, and may indicate the **possibility of fraud.**
3) Therefore, the auditor **shall investigate** the nature and causes of any deviations or misstatements identified and **evaluate their possible effect** on the purpose of the audit procedure and on other areas of the audit.
4) In the **extremely rare circumstances** when the auditor considers a misstatement or deviation discovered in a sample to be an **anomaly**, the auditor shall obtain a **high degree of certainty** that such **misstatement or deviation is not representative of the population.**
5) The auditor shall obtain this **degree of certainty** by performing additional audit procedures to obtain **sufficient appropriate audit evidence** that the misstatement or deviation **does not affect the remainder of the population.**

Anomaly may be defined as a misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

PROJECTING MISSTATEMENTS

1) The auditor is required **to project misstatements** for the population to obtain a **broad view** of the scale of misstatement but this projection **may not be sufficient** to determine an amount to be recorded.
2) When a misstatement has been established as **an anomaly**, it may be **excluded when projecting misstatements** to the population. However, the **effect of any such misstatement**, if **uncorrected**, still **needs to be considered** in addition to the **projection of the non-anomalous**

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misstatements.

3) For **tests of details**, the auditor shall **project misstatements** found in the **sample** to the **population** whereas for **tests of controls**, no **explicit projection** of deviations is necessary since the **sample deviation rate** is also the **projected deviation rate** for the **population as a whole**.

EVALUATING RESULTS OF AUDIT SAMPLING

The auditor shall **evaluate**-

a) The results of the sample; and

b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

PERFORMING AUDIT PROCEDURES

1) The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.

2) If the audit procedure is not applicable to the selected item, **the auditor shall perform the procedure on a replacement item.**

3) If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, **the auditor shall treat that item as a deviation from the prescribed control**, in the case of tests of controls, **or a misstatement**, in the case of tests of details.

4) **An example** of when it is necessary to perform the procedure on a replacement item is when a voided check (Cancelled cheque) is selected while testing for evidence of payment authorization. If the auditor is satisfied that the check has been properly cancelled such that it does not constitute a deviation, an appropriately chosen replacement is examined. A replacement would then mean a proper and valid cheque through which payment has been made.

5) **An example** of when the auditor is unable to apply the designed audit procedures to a selected item is when documentation relating to that item has been lost. If the documentation of a sales is lost, like the sales order record, sales invoice, document for dispatch etc, then confirmation can be sought from the debtor as per SA 505. If it is a cash sale, the cash book can be cross verified for the existence of such transactions.

6) **An example** of a suitable alternative procedure might be the examination of subsequent cash receipts together with evidence of their source and the items they are intended to settle when no reply has been received in response to a positive confirmation request.

7) **Another example** for replacement of a sample could be, if all transactions of computerized sales are being checked, for example sales recorded through a bar code scanner, and incidentally a sample of manual billing gets selected, then such item can be replaced after adequately checking the correctness of the manual bill with the supporting documents available. If replacement is not possible or reasonable, alternative audit procedure can be applied.

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FEW IMPORTANT TERMS TO MAKE THE UNDERSTANDING BETTER

1) **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).

2) **Tolerable misstatement:** A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.

3) **Tolerable rate of deviation:** A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

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SA 540 [E]

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SA 550

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SA 550 Related Parties

SCOPE OF THIS SA

1) **SA 550 "Related Parties"**, deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements.
2) Specifically, it applies in relation to risks of material misstatement associated with related party relationships and transactions.

DEFINITION OF RELATED PARTY

A party that is either:

1) A related party as defined in the **applicable financial reporting framework**; or
2) Where the applicable financial reporting framework 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:
      (i) Common controlling ownership;
      (ii) Owners who are close family members; or
      (iii) Common key management.

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.

MEANING OF CONTROL AND SIGNIFICANT INFLUENCE IN REFERENCE TO RELATED PARTY

Many financial reporting frameworks discuss the concepts of control and significant influence. They generally explain that:

a) **Control is the power to govern** the financial and operating policies of an entity so as to obtain benefits from its activities; and
b) **Significant influence** (which may be gained by share ownership, statute or agreement) is the **power to participate in the financial and operating policy decisions** of an entity, but is not control over those policies.

The existence of the following relationships may indicate the presence of control or significant

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influence:

a) **Direct or indirect** equity holdings or other financial interests in the entity.

b) The entity's **holdings of direct or indirect equity or other financial interests** in other entities.

c) Being **part of those charged with governance or key management** (i.e., those members of management who have the authority and responsibility for planning, directing and controlling the activities of the entity).

d) **Being a close family member** of any person referred to in subparagraph (iii).

e) Having **a significant business relationship** with any person referred to in subparagraph (iii).

MEANING OF RELATED PARTIES WITH DOMINANT INFLUENCE

1) Related parties, by virtue of their ability **to exert control or significant influence**, may be in a position to exert dominant influence over the entity or its management.
2) Consideration of such behaviour is **relevant** when identifying and assessing the risks of material misstatement due to fraud.

MEANING OF SPECIAL-PURPOSE ENTITIES AS RELATED PARTIES

In some circumstances, a special-purpose entity may be a related party of the entity because the entity may in substance control it, even if the entity owns little or none of the special-purpose entity's equity.

NATURE OF RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1) Many related party transactions are in **the normal course of business**. In such circumstances, they may carry **no higher risk of material misstatement** of the financial statements than similar transactions with unrelated parties.
2) However, the **nature of related party relationships** and transactions may, in some circumstances, **give rise to higher risks of material misstatement** of the financial statements than transactions with unrelated parties.

Example:

a) Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.

b) Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.

c) Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

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UNDERSTANDING THE ENTITY'S RELATED PARTY RELATIONSHIPS & TRANSACTIONS

1) The auditor shall **inquire of management** regarding:
   a) The **identity of the entity's related parties**, including changes from the prior period;
   b) The **nature of the relationships** between the entity and these related parties; and
   c) Whether the entity **entered into any transactions** with these related parties during the period and, if so, the type and purpose of the transactions.
2) The auditor shall **inquire of management** and others within the entity, and **perform other risk assessment procedures** considered appropriate, **to obtain an understanding** of the controls, if any, that management has established to -
   a) **Identify, account for, and disclose** related party relationships and transactions in accordance with the applicable financial reporting framework;
   b) **Authorise and approve** significant transactions and arrangements **with related parties**; and
   c) **Authorise and approve** significant transactions and arrangements **outside the normal course of business**.

CONSIDERATIONS SPECIFIC TO SMALLER ENTITIES BY THE AUDITOR

1) Control environment in smaller entities is likely to be different from larger entities. In particular those charged with governance may **not include** an outside member, and the role of governance may be undertaken **directly by the owner-manager** where no other owner exists.
2) **Control activities** in smaller entities are likely to be **less formal** and smaller entities may have **no documented processes** for dealing with related party relationships and transactions.
3) An owner-manager may **mitigate** some of the risks arising from related party transactions, or potentially increase those risks, through active involvement in all the main aspects of the transactions.
4) For such entities, the auditor may **obtain an understanding** of the related party relationships and transactions, and **any controls** that may **exist** over these, through **inquiry of management** combined with other procedures, such as observation of management's oversight and review activities, and inspection of available relevant documentation.

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Sample Question:

How can an auditor verify the existence of related party relationships and transactions?

Answer: During the audit, the auditor should maintain alertness for related party information while reviewing records and documents. He may inspect the following records or documents that may provide information about related party relationships and transactions,

For example:

a) Entity income tax returns.
b) Information supplied by the entity to regulatory authorities
c) Shareholder registers to identify the entity's principal shareholders.
d) Statements of conflicts of interest from management and those charged with governance.
e) Records of the entity's investments and those of its pension plans.
f) Contracts and agreements with key management or those charged with governance.
g) Significant contracts and agreements not in the entity's ordinary course of business.
h) Specific invoices and correspondence from the entity's professional advisors.
i) Life insurance policies acquired by the entity.
j) Significant contracts re-negotiated by the entity during the period.
k) Internal auditors' reports.
l) Documents associated with the entity's filings with a securities regulator.

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SA 560

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SA 560 Subsequent Events

Meaning of Subsequent Events and Its Examples	1) Events occurring **between the date of the financial statements and the date of the auditor's report**, and facts that become known to the auditor after the date of the auditor's report. 2) Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify **two types of events**: a) Those that provide **evidence of conditions that existed** at the date of the financial statements; and b) Those that provide **evidence of conditions that arose after the date** of the financial statements. **3) Examples of events providing evidence of conditions that existed at the date of the financial statements** a) Declaration of insolvency of a major debtor of the entity between the date of financial statements and the date of auditor's report providing evidence on the recoverability of the money due from debtor as on date of the financial statements. b) Settling a legal claim outside the court at a reduced amount between the date of financial statements and the date of auditor's report for which provision has already been made in financial statements. It provides evidence on adjustment in provision amount already made in financial statements, if any. **4) Examples of events providing evidence of conditions that arose after the date of the financial statements** a) Issue of new share capital. b) Planned merger of the company. c) Destruction of substantial inventories due to fire between the date of the financial statements and the date of auditor's report.
Objectives	**SA 560, "Subsequent Events"** deals with the auditor's responsibilities relating to **subsequent events** in an audit of financial statements. **The objectives of the auditor are to:** a) **Obtain sufficient appropriate audit evidence** about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements; and b) **Respond appropriately** to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to **amend the auditor's report.**

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Audit Procedures relating to Events Occurring Between the Date of the Financial Statements and the Date of the Auditors Report	1) The auditor shall **perform audit procedures** designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that **require adjustment of, or disclosure in**, the financial statements **have been identified**. 2) The auditor is **not, however, expected** to perform additional audit procedures **on matters** to which **previously applied** audit procedures have **provided satisfactory conclusions**. 3) The auditor shall perform the procedures required above so that they **cover the period** from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. 4) The auditor shall take into account the **Risk Assessment which includes the following**: a) **Obtain an understanding of any procedures management** has **established** to ensure that subsequent events are identified. b) **Inquiring of management** and TCWG as to whether any subsequent events have occurred which might affect the financial statements. c) **Read minutes**, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. d) Read the **entity's latest subsequent interim financial statements**, if any. 5) Such information may also be **obtained by auditor** from **accounting records** pertaining to period after date of financial statements, reading entity's latest available budgets etc. 6) When, as a result of the procedures performed, the auditor identifies events that **require adjustment of, or disclosure in**, the financial statements, the auditor shall **determine** whether each such event is **appropriately reflected** in those financial statements.
Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued	1) The auditor has **no obligation** to perform any audit procedures regarding the financial statements after the date of the auditor's report. 2) However, when, after the date of the auditor's report but before the date the financial statements are issued, 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: a) Discuss the **matter with management** and, where appropriate, those charged with governance. b) Determine whether the Financial statements **need amendment** and, if

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	so, c) Inquire how **management intends to address** the matter in the financial statements. **[Refer Note 2 for more details]**
Facts Which Become Known to the Auditor After the Financial Statements have been Issued	1) After the Financial statements have been issued, the auditor has **no obligation** to perform any audit procedures regarding such Financial statements. 2) However, when, after the Financial statements have been issued, 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: a) Discuss the **matter with management** and, where appropriate, those charged with governance. b) Determine whether the Financial statements **need amendment** and, if so, c) Inquire how **management intends to address** the matter in the Financial statements. **[Refer Note 3 for more details]**
Written Representations with respect to subsequent events	The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with **SA 580, "Written Representations"** that **all events occurring subsequent to the date of the financial statements** and for which the applicable financial reporting framework requires adjustment or disclosure have been **adjusted or disclosed**.

NOTE 1 - MEANING OF "DATE THE FINANCIAL STATEMENTS ARE ISSUED"

1) It **reflects** the **date** that the **auditor's report and audited financial statements** are **made** available to **third parties**.
2) The date the financial statements are issued generally **depends** on the **regulatory environment** of the entity.
3) In some circumstances, the **date** the financial statements are **issued** may be the **date that** they are **filed** with a **regulatory authority**.
4) Since audited financial statements **cannot** be issued without an auditor's report, the date that the audited financial statements are issued must not only be at or later than the date of the auditor's report, but must also be at or later than the date the auditor's report is provided to the entity.

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NOTE 2 - AUDIT PROCEDURE FOR FACTS BECOME KNOWN AFTER AUDITOR'S REPORT DATE BUT BEFORE FS ISSUED DATE

1) If **management amends the financial statements**, the Auditor shall
   a) **Carry out** the audit procedures necessary in the circumstances on the amendment.
   b) Unless the circumstances in succeeding para apply: -
      (i) **Extend** the audit procedures, already referred, to the date of the new auditor's report and
      (ii) Provide a new auditor's report on the amended financial statements.

   The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

2) When **law, regulation or the financial reporting framework** does **not prohibit** management from **restricting the amendment** of the financial statements to the effects of the subsequent events or events **causing that amendments** and those **responsible** for approving the financial statements are not prohibited from restricting their approval to that amendment, the **auditor is permitted to restrict** the audit procedures on subsequent events to that amendment. In such cases, **the auditor shall** either: -
   a) **Amend the auditor's report** to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements or
   b) **Provide a new or amended auditor's report** that includes a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.

3) In some entities, management may **not be required by the applicable law, regulation or the financial reporting framework** to issue amended financial statements and, accordingly, the **auditor need not** provide an amended or new auditor's report. However, when **management does not amend** the financial statements in circumstances where the **auditor believes** they **need to be amended**, then: -
   a) If the auditor's report has not yet been provided to the entity, the auditor shall **modify the opinion** as required by **SA 705** and then provide the auditor's report or
   b) If the auditor's report has already been provided to the entity, the auditor shall **notify management** and, unless all of those charged with governance are involved in managing the entity, those charged with governance, **not to issue** the financial statements to third parties before the necessary amendments have been made. If the financial statements are **nevertheless subsequently issued** without the necessary amendments, the **auditor shall take appropriate action**, to seek to **prevent reliance** on the auditor's report.

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NOTE 3 - AUDIT PROCEDURE FOR FACTS AFTER FS ISSUED DATE

1) If the **management amends the financial statements, the Auditor shall**
   a) **Carry out** the audit procedures necessary in the circumstances on the amendment.
   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.
   c) **Unless** such circumstances when **law, regulation or the financial reporting framework** does **not prohibit** management from restricting the amendment of the financial statements to the effects of the subsequent events or events causing that amendments and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment apply: -
      (i) **Extend the audit procedures**, already referred, to the date of the new auditor's report, and the date the new auditor's report no earlier than the date of approval of the amended financial statements and
      (ii) **Provide a new auditor's report** on the amended financial statements.
   d) When the **circumstances** are such that **law, regulation or the financial reporting framework does not prohibit** management from restricting the amendment of the financial statements to the effects of the subsequent events or events causing that amendments and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment, amend the auditor's report, or provide a new auditor's report as already discussed.
2) **The auditor** shall include in the **new or amended auditor's report** an **Emphasis of Matter paragraph or Other Matter(s) paragraph** referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.
3) If **management does not** take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the **auditor shall notify** management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, that the **auditor will seek to prevent future reliance** on the auditor's report.
4) If, despite such notification, management or those charged with governance **do not** take these necessary steps, the **auditor shall take appropriate action** to seek to **prevent reliance** on the auditor's report.

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SA 570

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SA 570 Going Concern

MEANING OF GOING CONCERN AND ITS SIGNIFICANCE

1) **Going concern** is one of the fundamental accounting assumptions. The enterprise is normally viewed as a going concern, that is, as **continuing in operation** for the foreseeable future. It is assumed that the enterprise has **neither the intention nor the necessity of liquidation** or of curtailing materially the scale of the operations.
2) Under the going concern basis of accounting, the financial statements are **prepared on the assumption** that the entity is a going concern and will continue its operations for the foreseeable future.
3) **General purpose financial statements** are prepared using the going concern basis of accounting, **unless** management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
4) The significance of Going Concern is **due to its effect** on preparation of financial statements. Ability or otherwise of an enterprise to be viewed as going concern affects its preparation of financial statements.
5) When the use of the going concern basis of accounting is **appropriate,** assets and liabilities are recorded on the basis that the entity will be **able to realize its assets and discharge its liabilities** in the normal course of business.
6) When an enterprise is **not viewed** as a going concern, the financial statements are **prepared on liquidation basis**. For example, inventories may need to be written down as these may be sold for a lower price. Assets may have to be recorded at the likely prices they will fetch.

SCOPE OF THIS SA

SA 570 (Revised) on "Going concern" deals with:

a) The **auditor's responsibilities** in the audit of financial statements relating to going concern and
b) The **implications** for the **auditor's report**.

OBJECTIVES OF THE AUDITOR REGARDING GOING CONCERN

The objectives of the auditor are:

a) To **obtain sufficient appropriate audit evidence** regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
b) To **conclude**, based on the audit evidence obtained, whether a material uncertainty exists

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related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

c) To **report in accordance with this SA**.

RESPONSIBILITY FOR ASSESSMENT OF THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

1) The preparation of the financial statements requires **management to assess** the **entity's ability** to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
2) Management's assessment of the entity's ability to continue as a going concern **involves making a judgment**, at a particular point in time, about inherently uncertain future outcomes of events or conditions.
3) The following **factors** are relevant to that judgment:
   a) The **degree of uncertainty** associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs.
   b) The **size and complexity** of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
   c) **Any judgment** about the future is based on **information available** at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

RESPONSIBILITIES OF THE AUDITOR

1) The auditor's responsibilities are
   a) To **obtain sufficient appropriate audit evidence** regarding, and conclude on, the **appropriateness of management's use of the going concern** basis of accounting in the preparation of the financial statements, and
   b) To conclude, based on the audit evidence obtained, whether a **material uncertainty exists** about the **entity's ability to continue as a going concern**.
2) These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements **does not** include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
3) However, as described in **SA 200**, the **potential effects of inherent limitations** on the auditor's ability to **detect material misstatements** are greater for **future events or conditions** that may cause an entity to cease to continue as a going concern.
4) The auditor **cannot predict such future events or conditions**. Accordingly, the absence of any

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reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report **cannot be viewed as a guarantee** as to the **entity's ability to continue as a going concern.**

RISK ASSESSMENT PROCEDURES AND RELATED ACTIVITIES

1) When performing risk assessment procedures as **required by SA 315**, the auditor shall consider whether events or conditions exist that may cast **significant doubt on the entity's ability** to continue as a going concern.
2) In so doing, the auditor shall determine whether **management has already performed a preliminary assessment** of the entity's ability to continue as a going concern, and:
   a) If such an **assessment has been performed**, the auditor shall **discuss the assessment** with management and determine whether management **has identified events or conditions** that, individually or collectively, may **cast significant doubt on the entity's ability** to continue as a going concern and, if so, **management's plans to address them**; or
   b) If such an **assessment has not yet been performed**, the auditor shall discuss with management the **basis for the intended use of the going concern basis** of accounting, and **inquire of management** whether **events or conditions exist** that, individually or collectively, **may cast significant doubt on the entity's ability** to continue as a going concern.
3) The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
4) **SA 315 requires** the auditor to **revise the auditor's risk assessment** and **modify** the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.

EXAMPLES OF EVENTS OR CONDITIONS THAT MAY CAST SIGNIFICANT DOUBT ON THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

1) **Financial**
   a) Net liability or net current liability position.
   b) Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
   c) Indications of withdrawal of financial support by creditors.
   d) Negative operating cash flows indicated by historical or prospective financial statements.
   e) Adverse key financial ratios.
   f) Substantial operating losses or significant deterioration in the value of assets used to generate cash flows

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g) Arrears or discontinuance of dividends
h) Inability to pay creditors on due dates
i) Inability to comply with the terms of loan agreements
j) Change from credit to cash-on-delivery transactions with suppliers
k) Inability to obtain financing for essential new product development or other essential investments

2) **Operating**
a) Management intentions to liquidate the entity or to cease operations.
b) Loss of key management without replacement.
c) Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
d) Labor difficulties.
e) Shortages of important supplies.
f) Emergence of a highly successful competitor.

3) **Other**
a) Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
b) Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
c) Changes in law or regulation or government policy expected to adversely affect the entity.
d) Uninsured or underinsured catastrophes when they occur.

EVALUATING MANAGEMENT'S ASSESSMENT

1) **The auditor** shall evaluate management's assessment of the entity's ability to continue as a going concern. Management's assessment of the entity's ability to continue as a going concern is a **key part** of the **auditor's consideration** of management's use of the going concern basis of accounting.
2) It is **not** the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances.
3) **For example**, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances.

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4) In other circumstances, **evaluating management's assessment** of the entity's ability to continue as a going concern, may **include an evaluation** of the process management followed to make its assessment, **the assumptions** on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

5) In **evaluating** management's assessment of the entity's ability to continue as a going concern, the **auditor shall cover** the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period.

6) If management's assessment of the entity's ability to continue as a going concern **covers less than twelve months** from the date of the financial statements, **the auditor** shall **request management** to extend its assessment period to at least twelve months from that date.

ADDITIONAL AUDIT PROCEDURES WHEN EVENTS OR CONDITIONS ARE IDENTIFIED

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. **These procedures shall include**:

a) Where management has **not yet performed an assessment** of the entity's ability to continue as a going concern, requesting management to make its assessment.

b) Evaluating **management's plans for future actions** in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.

c) Where the **entity has prepared a cash flow forecast**, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:

   (i) **Evaluating the reliability** of the underlying data generated to prepare the forecast; and

   (ii) **Determining** whether there is **adequate support** for the assumptions underlying the forecast.

d) **Considering** whether any **additional facts or information** have become available since the date on which management made its assessment.

e) **Requesting written representations** from management regarding their future action plans and the feasibility of these plans.

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Examples of audit procedures when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as going concern:

a) Analyzing and discussing cash flow, profit and other relevant forecasts with management.

b) Analyzing and discussing the entity's latest available interim financial statements.

c) Reading the terms of debentures and loan agreements and determining whether any have been breached.

d) Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

e) Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.

f) Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.

g) Evaluating the entity's plans to deal with unfilled customer orders.

h) Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

i) Confirming the existence, terms and adequacy of borrowing facilities.

j) Obtaining and reviewing reports of regulatory actions.

k) Determining the adequacy of support for any planned disposals of assets.

AUDITOR'S CONCLUSIONS

1) The auditor shall **evaluate** whether sufficient appropriate audit evidence has been obtained regarding, and shall **conclude** on, the **appropriateness of management's use of the going concern basis** of accounting in the preparation of the financial statements.

2) Based on the audit evidence obtained, **the auditor shall conclude** whether, in the auditor's judgment, **a material uncertainty exists** related to events or conditions that, **individually or collectively**, may **cast significant doubt** on the entity's ability to continue as a going concern.

3) A material uncertainty **exists** when the **magnitude of its potential impact and likelihood of occurrence** is such that, in the auditor's judgment, **appropriate disclosure** of the nature and implications of the uncertainty is necessary

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ADEQUACY OF DISCLOSURES WHEN EVENTS OR CONDITIONS HAVE BEEN IDENTIFIED AND A MATERIAL UNCERTAINTY EXISTS

If the **auditor concludes** that management's use of the going concern basis of accounting is **appropriate** in the circumstances **but a material uncertainty exists**, the auditor shall determine whether the financial statements: -

a) **Adequately disclose** the principal **events or conditions** that may **cast significant doubt** on the **entity's ability to continue as a going concern** and management's plans to deal with these events or conditions and

b) **Disclose** clearly that there is **a material uncertainty** related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

ADEQUACY OF DISCLOSURES WHEN EVENTS OR CONDITIONS HAVE BEEN IDENTIFIED BUT NO MATERIAL UNCERTAINTY EXISTS

If **events or conditions** have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the **auditor concludes** that **no material uncertainty exists**, the auditor shall **evaluate** whether, in view of the **requirements of the applicable financial reporting framework**, the financial statements **provide adequate disclosures** about these events or conditions.

IMPLICATIONS FOR THE AUDITOR'S REPORT

(I) Use of Going Concern Basis of Accounting is Inappropriate

If the financial statements have been prepared using the going concern basis of accounting but, in the **auditor's judgment, management's use of the going concern basis** of accounting in the preparation of the financial statements **is inappropriate**, the auditor shall express an **adverse opinion**.

Note:

a) When the use of the going concern basis of accounting is **not appropriate** in the circumstances, **management may be required**, or may elect, to **prepare the financial statements on another basis** (For Example - **Liquidation Basis**).

b) The **auditor may be able to perform** an audit of those financial statements provided that the auditor determines that the **other basis of accounting is acceptable** in the circumstances.

c) The auditor may be able to **express an unmodified opinion** on those financial statements,

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provided there is **adequate disclosure** therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or **necessary to include** an **Emphasis of Matter** paragraph in accordance with **SA 706** (Revised) in the auditor's report **to draw the user's attention** to that **alternative basis of accounting** and the reasons for its use.

(II) Use of the Going Concern Basis of Accounting is Appropriate but a Material Uncertainty Exists

The identification of a material uncertainty is a matter that is important to users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance.

1) **Adequate Disclosure of a Material Uncertainty is Made in the Financial Statements**

   If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express **an unmodified opinion** and the auditor's report shall include a separate section under the heading **"Material Uncertainty Related to Going Concern."**

   a) **Draw attention to the note** in the financial statements that **discloses such matters**.

   b) **State** that these events or conditions **indicate that a material uncertainty exists** that may cast significant doubt on the entity's ability to continue as a going concern and that the **auditor's opinion is not modified** in respect of the matter.

2) **Adequate Disclosure of a Material Uncertainty is Not Made in the Financial Statements:**

   If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

   a) Express a **qualified opinion or adverse opinion**, as appropriate, in accordance with SA 705 (Revised); and

   b) In the **Basis for Qualified (Adverse) Opinion** section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the **financial statements do not adequately disclose this matter**.

(III) Management unwilling to make or extend its assessment

a) If **management is unwilling** to make or extend its assessment when requested to do so by the auditor, the **auditor** shall **consider the implications** for the auditor's report.

b) In such a situation, **a qualified opinion or a disclaimer of opinion** in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements.

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Going concern assumption being **inappropriate**, and management prepares financial statements on Another basis **(For E.g. Liquidation basis)**	Use of Going Concern Basis of Accounting Is **Appropriate** but a **Material Uncertainty Exists** & **Adequate Disclosure** of a Material Uncertainty **Is Made** in the Financial Statements	Use of Going Concern Basis of Accounting Is **Appropriate** but a Material Uncertainty **Exists** & **Adequate Disclosure** of a Material Uncertainty **Is Not Made** in the Financial Statements	Going concern assumption being **inappropriate**, but management still prepares financial statements on Going Concern Basis
Unmodified Opinion, & Emphasis of Matter Paragraph (To draw users' attention to that alternative basis of accounting and reasons for its use)	**Unmodified Opinion,** but with **Material Uncertainty Related to Going Concern** (As a separate heading in the Audit Report)	**Qualified Opinion** or **Adverse Opinion**	**Adverse Opinion**

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Revision in SA 570 (Audit Report Example)

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion:

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, (statement of changes in equity)16 and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)].

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 20XX, and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Basis for Opinion:

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern:

We draw attention to Note XX in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note XX, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters:

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Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with SA 701 .]

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Auditor's Responsibilities for the Audit of the Financial Statements

Report on Other Legal and Regulatory Requirements

For XYZ & Co Chartered Accountants

(Firm's Registration No.)

Signature:

(Name of the Member signing the Audit Report)

(Designation)

(Membership No. XXXXX)

Place of Signature:

Date:

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SA 580

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SA 580 Written Representations

Written Representation as Audit Evidence	1) SA 580- "Written Representations" deals with the **auditor's responsibility** to obtain **written representations from management** and, where appropriate, those charged with governance. 2) Written Representations may be defined as a **written statement by management** provided to the auditor **to confirm certain matters** or to **support another Audit Evidence**. Similar to responses to inquiries, written representations are audit evidence. 3) Written representations are an **important source** of audit evidence. If management **modifies or does not** provide the requested written representations, it may **alert the auditor** to the **possibility** that one or more **significant issues** may **exist**. 4) Further, a request for written, rather than oral, representations in many cases may **prompt management** to consider such matters more rigorously, thereby enhancing the quality of the representations. 5) Although written representations provide necessary audit evidence, **they do not provide sufficient appropriate audit evidence** on their own about any of the matters with which they deal. 6) Furthermore, the fact that management has provided reliable written representations **does not affect** the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions. 7) Written representations are **requested from those responsible** for the preparation and presentation of the financial statements. 8) Written representations in this context do **not include** financial statements, the assertions therein, or supporting books and records.
Objectives of the auditor	**1) To obtain written representations** **To obtain** written representations from management. Also that management believes that it has **fulfilled its responsibility for the preparation** of the financial statements and for the completeness of the information provided to the auditor; **2) To support other evidence** **To support** other audit evidence **relevant to the financial statements or specific assertions** in the financial statements by means of written representations; and **3) To respond appropriately** **To respond** appropriately to written representations provided by management or if management does **not** provide the written representations requested by the auditor.

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From Whom Written Representation are Requested by Auditor?	1) The auditor shall **request** written representations **from management** with appropriate responsibilities for the financial statements and knowledge of the matters concerned. 2) Written representations **relate to fulfilment of management's responsibilities** or **to support** other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements. **(Refer Note 1 attached below)**
Date of and Periods covered by Written Representation	1) The date of the written representations shall be **as near as practicable** to, but not after, the **date of the auditor's report** on the financial statements. 2) The written representations shall be for all financial statements and periods referred to in the auditor's report. 3) Because written representations are **necessary audit evidence**, the auditor's **opinion cannot be expressed**, and the **auditor's report cannot be dated**, before the date of the written representations. 4) Furthermore, because the auditor is concerned with **events** occurring up to the **date of the auditor's report** that may require adjustment to or disclosure in the financial statements, the **written representations are dated** as near as practicable to, but not after, the **date of the auditor's report** on the financial statements. 5) The written representations are for all periods referred to in the auditor's report because management **needs to reaffirm** that the written representations it previously made with respect to the prior periods remain appropriate. 6) Situations may arise where current management were **not present** during all periods referred to in the auditor's report. Such persons may assert that they are **not in a position** to provide some or all of the written representations because they were not in place during the period. 7) This fact, however, does **not diminish** such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies.
Form of Written Representation	1) The written representations shall **be in the form** of a representation letter addressed to the auditor. 2) If **law or regulation** requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required, the relevant matters covered by such statements need not be included in the representation letter.

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Doubt as to the Reliability of Written Representation	1) If the auditor has **concerns** about the **competence, integrity, ethical values** or **diligence of management**, or about **its commitment** to or enforcement of these, the auditor shall determine the **effect that such concerns** may have on the **reliability of representations** (oral or written) and audit evidence in general. 2) In particular, if **written representations are inconsistent with other audit evidence**, the auditor shall perform audit procedures to attempt to resolve the matter. 3) If the matter **remains unresolved**, the auditor shall reconsider the assessment of the **competence, integrity, ethical values or diligence of management**, or of its commitment to or enforcement of these, and shall determine the **effect that this may have on the reliability of representations** (oral or written) and audit evidence in general. 4) If the **auditor concludes that the written representations are not reliable**, the auditor shall take appropriate actions, including determining the **possible effect on the opinion** in the auditor's report in accordance with **SA 705**, having regard to the requirement of disclaimer of opinion.
Requested Written Representation Not Provided	If management does **not provide** one or more of the requested written representations, the auditor shall: a) **Discuss** the matter with management; b) **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 c) **Take appropriate actions**, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 having regard to the requirement of disclaimer of opinion.
Disclaimer of opinion in case of non-reliability of Written Representations about management's responsibilities or failure to provide such Written Representations	The auditor shall **disclaim an opinion** on the financial statements in accordance with **SA 705** if: a) The auditor **concludes** that there is sufficient doubt about the integrity of management such that the written representations about management fulfilling its responsibilities regarding preparation of financial statements and about information provided and completeness of transactions are not reliable; or b) Management does **not** provide the written representations relating to fulfilling its responsibilities regarding preparation of financial statements and about information provided and completeness of transactions.

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NOTE 1: WRITTEN REPRESENTATIONS ABOUT MANAGEMENT'S RESPONSIBILITIES

Written representation about management's responsibilities **involves confirmation of fulfilment** of management's responsibilities in following areas: -

Preparation of the financial statements

1) The auditor shall **request** management **to provide** a written representation that it has fulfilled its responsibility for the preparation of the financial statements in **accordance with the applicable financial reporting framework**, including, where relevant, their fair presentation, as set out in the terms of the audit engagement.
2) Due to its responsibility for the preparation and presentation of the financial statements and its responsibilities for the conduct of the entity's business, **management** would **be expected** to have **sufficient knowledge** of the process followed by the entity in preparing and presenting the financial statements and the assertions therein on which to base the written representations.
3) In some cases, however, management may decide to **make inquiries** of others who participate in **preparing and presenting** the financial statements and assertions therein, including individuals who have specialized knowledge relating to the matters about which written representations are requested.
4) Such individuals may **include**:
   a) **An actuary** responsible for actuarially determined accounting measurements.
   b) **Staff engineers** who may have responsibility for and specialized knowledge about environmental liability measurements.
   c) **Internal counsel** who may provide information essential to provisions for legal claims.
5) In some cases, management may include in the written representations **qualifying language** to the effect that representations are made to the best of its knowledge and belief.
6) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.
7) To reinforce the need for management to make informed representations, the auditor may request that management include in the written representations, confirmation that it has made such inquiries as it considered appropriate to place it in the position to be able to make the requested written representations.

Information provided and completeness of transactions

The auditor shall request management **to provide** a written representation that:

a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement and

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b) All transactions have been recorded and are reflected in the financial statements.

Note

Management's responsibilities shall be described in the "Written representations required about management responsibilities" in the manner in which these responsibilities are described in the terms of the audit engagement.

NOTE 2 - WHY WRITTEN REPRESENTATIONS ABOUT MANAGEMENT RESPONSIBILITIES ARE NECESSARY?

1) **Audit evidence** obtained during the audit that **management has fulfilled** its responsibilities regarding preparation of financial statements and about information provided and **completeness of transactions** is **not sufficient** without obtaining confirmation from management that it believes that it has fulfilled those responsibilities.
2) This is because the **auditor is not able** to judge solely on other audit evidence whether management has **prepared and presented** the financial statements and provided information to the auditor on the basis of the agreed acknowledgement and understanding of its responsibilities.
   For example, the auditor could not conclude that management has provided the auditor with all relevant information agreed in the terms of the audit engagement without asking it whether, and receiving confirmation that, such information has been provided.
3) The written representations **requiring** fulfilment of management responsibilities in relation to above draw on the agreed acknowledgement and understanding of management of its responsibilities in the terms of the audit engagement by requesting confirmation that it has fulfilled them.
4) The auditor may also ask management **to reconfirm** its acknowledgement and understanding of those responsibilities in written representations.
5) This is **particularly appropriate when**:
   a) **Those who signed** the terms of the audit engagement on behalf of the entity **no longer** have the relevant responsibilities;
   b) The **terms** of the audit engagement were **prepared** in a previous year;
   c) There is **any indication** that management misunderstands those responsibilities; or
   d) **Changes** in circumstances make it appropriate to do so.

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NOTE 3 - OTHER WRITTEN REPRESENTATIONS

1) Other SAs require **the auditor** to request written representations. If, in addition to such required representations, the **auditor determines** that it is **necessary** to obtain one or more written representations **to support** other audit evidence relevant to the financial statements or one or more **specific assertions** in the financial statements, the **auditor shall request** such other written representations.
2) In addition to the written representation about management's responsibilities regarding preparation of financial statements, the auditor may consider it necessary to request other written representations about the financial statements.
3) Such written representations may **supplement**, but do **not form part of, the written representation** relating to management's responsibilities regarding preparation of financial statements.
4) They may **include** representations about the following:
   a) Whether the **selection and application** of accounting policies are appropriate; and
   b) Whether **matters** such as the following, where relevant under the applicable financial reporting framework, have been **recognized, measured, presented or disclosed** in accordance with that framework:
      (i) **Plans or intentions** that may affect the **carrying value or classification** of assets and liabilities;
      (ii) **Liabilities**, both actual and contingent;
      (iii) **Title to, or control over**, assets, the liens or encumbrances on assets, and assets pledged as collateral; and
      (iv) **Aspects of laws, regulations and contractual agreements** that may affect the financial statements, including non-compliance.

NOTE 4 - ADDITIONAL WRITTEN REPRESENTATIONS ABOUT INFORMATION PROVIDED TO THE AUDITOR

In addition to the written representation required by auditor regarding management responsibility about information provided to auditor, **the auditor** may **consider** it necessary to **request management** to provide a written representation that it has **communicated to the auditor** all **deficiencies in internal control** of which management is aware.

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NOTE 5 - WRITTEN REPRESENTATIONS ABOUT SPECIFIC ASSERTIONS

1) When **obtaining** evidence about, **or evaluating**, judgments and intentions, **the auditor** may consider **one or more** of the following:
   a) The entity's **past history** in carrying out its stated intentions.
   b) The entity's **reasons** for choosing a particular course of action.
   c) The entity's **ability to pursue** a specific course of action.
   d) The **existence or lack** of any other information that might have been obtained during the course of the audit that may be inconsistent with management's judgment or intent.
2) In addition, **the auditor** may **consider** it necessary to **request management** to provide written representations about **specific assertions** in the financial statements, in particular, **to support** an understanding that the **auditor has obtained** from other audit evidence of **management's judgment or intent** in relation to, or the completeness of, a specific assertion.
3) **For example**, if the intent of management is important to the valuation basis for investments, it may not be possible to obtain sufficient appropriate audit evidence without a written representation from management about its intentions. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

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Practical Insight into draft Management Representation Letter

To RJ & Co.
Chartered Accountants

15th July, 2022

Dear Sir,

This representation letter is provided in connection with your audit of the financial statements of XXXX Limited for the year ended March 31, 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the applicable accounting standards in India.

We confirm that (to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves):

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated 17th August 2021, for the preparation of the financial statements in accordance with financial reporting Standards, in particular, the financial statements give a true and fair view in accordance with the applicable accounting standards in India.
2) Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3) Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of applicable accounting standards in India. (SA 550)
4) All events subsequent to the date of the financial statements and for which applicable accounting standards in India require adjustment or disclosure have been adjusted or disclosed. (SA 560)
5) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (SA 450)

Information provided

1) We have provided you with:
   a) Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   b) Additional information that you have requested from us for the purpose of the audit; and
   c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2) All transactions have been recorded in the accounting records and are reflected in the financial statements.

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3) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4) We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:

   a) Management;

   b) Employees who have significant roles in internal control; or

   c) Others where the fraud could have a material effect on the financial statements.

5) We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

6) We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

7) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (SA 550)

Chief Financial Officer

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SA 600

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SA 600 Using the work of Another Auditor

DEFINITIONS

1) **Principal auditor** means the auditor with responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor.
2) **Other auditor** means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.
3) **Component** means a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by the principal auditor.

USING THE WORK OF ANOTHER AUDITOR

1) When the accounts of the branch are audited by a **person other than the company's auditor** (or principal auditor), there is **need** for a **clear understanding** of the role of such other auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole; also, there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit.
2) In recognition of these needs, the Council of the Institute of Chartered Accountants of India has dealt with these issues in **SA 600, "Using the Work of another Auditor"**.
3) It makes **clear** that in certain situations, the statute governing the entity may **confer a right** on the principal auditor **to visit a component and examine** the books of account and other records of the said component, if he thinks it necessary to do so.
4) Where **another auditor** has been **appointed** for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.
5) Further, it requires that the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.
6) **When using the work of another auditor, the principal auditor should ordinarily perform the following procedures:**
   a) **advise** the other auditor of the use that is to be made of the other auditor's work and report and make sufficient arrangements for co-ordination of their efforts at the

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planning stage of the audit. The **principal auditor** would inform the other auditor of matters such as are as requiring special consideration, procedures for the identification of inter -component transactions that may require disclosure and the time-table for completion of audit; and

b) advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

7) The **principal auditor** might **discuss** with the **other auditor** the audit procedures applied or **review** a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list.

8) The principal auditor may also **wish to visit the other auditor**. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

NOTE 1 - AUDIT OF BRANCH OFFICE ACCOUNTS

Section 128 - Books of account, etc., to be kept by company

1) As per **section 128(1) of the Companies Act, 2013**, **every company** shall **prepare and keep** at its registered office **books of account and other relevant books and papers and financial statement** for every financial year which give **a true and fair view** of the state of the affairs of the company, **including that of its branch office or offices**, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on **accrual basis and according to the double entry system** of accounting.

2) It may be noted that all or any of the books of account aforesaid and other relevant papers may **be kept at such other place** in India as the **Board of Directors may decide** and where such a decision is taken, the company shall, **within 7 days** thereof, file with the Registrar a notice in writing giving the full address of that other place.

3) Students may also note that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

4) **Sub-section (2)** provides that where a company has a branch office in India or outside India, it shall be **deemed to have complied** with the provisions of sub-section (1), **if proper books** of account relating to the transactions effected at the branch office are kept at that office and proper summarised returns periodically are sent by the branch office to the company at its registered office or the other place referred in (1).

Section 143(8)- Branch Audit

1) Further, **sub-section (8) of section 143** of the Companies Act, 2013, prescribes the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor.

2) Where a company has a **branch office**, the accounts of that office shall be audited either

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a) by the **auditor appointed for the company** (herein referred to as the company's auditor) under this Act or

b) by **any other person qualified** for appointment as an auditor of the company under this Act and appointed as such under section 139, or

c) where the **branch office** is situated in a **country outside India**, the accounts of the branch office shall be **audited** either

(i) by the **company's auditor** or

(ii) by an **accountant** or

(iii) by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and

d) the **duties and powers** of the company' s auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed:

3) It may be noted that the **branch auditor** shall **prepare a report** on the accounts of the branch examined by him and **send it to the auditor** of the company who shall deal with it in his report in such manner as he considers necessary.

4) Further as per **Rule 12 of the Companies (Audit and Auditors) Rules, 2014**, the branch auditor shall submit his report to the company's auditor and reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

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SA 610

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SA 610 Using the work of Internal Auditor

DEFINITION OF INTERNAL AUDIT FUNCTION

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

The **objectives and scope** of internal audit functions typically include assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance processes, risk management and internal control such as the following:

(1) Activities Relating to Governance

The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

(2) Activities Relating to Risk Management

a) The internal audit function may assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control (including effectiveness of the financial reporting process).

b) The internal audit function may perform procedures to assist the entity in the detection of fraud.

(3) Activities Relating to Internal Control

a) **Evaluation of internal control**. The internal audit function may be assigned specific responsibility for reviewing controls, evaluating their operation, and recommending improvements thereto. In doing so, the internal audit function provides assurance on the control.

For example, the internal audit function might plan and perform tests or other procedures to provide assurance to management and those charged with governance regarding the design, implementation and operating effectiveness of internal control, including those controls that are relevant to the audit.

b) **Examination of financial and operating information**. The internal audit function may be assigned to review the means used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.

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c) **Review of operating activities.** The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity.

d) **Review of compliance with laws and regulations.** The internal audit function may be assigned to review compliance with laws, regulations, and other external requirements, and with management policies and directives and other internal requirements.

WAYS IN WHICH THE EXTERNAL AUDITOR MAY MAKE USE OF THE FUNCTION FOR PURPOSES OF THE AUDIT.

1) While the **objectives** of an entity's internal audit function and the external auditor **differ**, the function may perform audit procedures similar to those performed by the external auditor in an audit of financial statements.
2) If so, the **external auditor** may make use of the function for purposes of the audit in one or more of the **following ways**:
   a) **To obtain** information that is **relevant to the external auditor's assessments** of the risks of material misstatement due to error or fraud.
   b) **Unless prohibited, or restricted** to some extent, by law or regulation, the **external auditor**, after appropriate evaluation, may **decide** to use **work** that has been **performed by the internal audit function** during the period in partial substitution for audit evidence to be obtained directly by the external auditor.
   c) **Unless prohibited, or restricted** to some extent, by law or regulation, the **external auditor** may **use** internal auditors to **perform audit procedures** under the direction, supervision and review of the external auditor (referred to as "direct assistance").

SCOPE OF SA 610

Standard on Auditing **(SA) 610** deals with the **external auditor's responsibilities** if using the work of internal auditors. **This includes**

a) Using the work of the internal audit function in **obtaining audit evidence** and
b) Using internal auditors **to provide direct assistance** under the direction, supervision and review of the external auditor.

Nothing in this SA requires the external auditor to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor; it remains a decision of the external auditor in establishing the overall audit strategy.

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EXTERNAL AUDITOR'S RESPONSIBILITY FOR THE AUDIT

1) **The external auditor** has **sole responsibility** for the audit opinion expressed, and that responsibility is **not reduced** by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement.
2) Although they may perform audit procedures similar to those performed by the external auditor, **neither the internal audit function nor the internal auditors are independent** of the entity as is required of the external auditor in an audit of financial statements in accordance with SA 200.
3) This SA, therefore, **defines the conditions** that are necessary for the external auditor to be able to use the work of internal auditors.
4) It also **defines the necessary work effort** to obtain sufficient appropriate evidence that the work of the internal audit function, or internal auditors providing direct assistance, is adequate for the purposes of the audit.
5) The requirements are **designed to provide a framework** for the external auditor's judgments regarding the use of the work of internal auditors to prevent over or undue use of such work.

OBJECTIVES OF THE EXTERNAL AUDITOR, WHERE THE ENTITY HAS AN INTERNAL AUDIT FUNCTION

The **objectives of the external auditor**, where the entity has an internal audit function and the external auditor expects to use the work of the function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, or to use internal auditors to provide direct assistance, are:

a) **To determine** whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent; and having made that determination:
b) **If using** the work of the internal audit function, **to determine** whether that work is adequate for purposes of the audit; and
c) **If using** internal auditors **to provide direct assistance**, to appropriately direct, supervise and review their work.

EVALUATING THE INTERNAL AUDIT FUNCTION

The external auditor shall **determine** whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:

1) **The extent** to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors;
2) The **level of competence** of the internal audit function; and

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3) Whether the internal audit function **applies a systematic and disciplined** approach, including quality control.

Objectivity and Competence

a) The external auditor **exercises professional judgment** in determining whether the work of the internal audit function can be used for purposes of the audit, and the nature and extent to which the work of the internal audit function can be used in the circumstances.

b) **The extent** to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances

OBJECTIVITY AND ITS EVALUATION

Objectivity refers to the ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgments.

Factors that may affect the external auditor's evaluation in relation to Objectivity include the following:

1) Whether the organizational status of the internal audit function, including the function's authority and accountability, supports **the ability of the function to be free from bias, conflict of interest or undue influence of others** to override professional judgments.

   For example whether the internal audit function reports to those charged with governance or an officer with appropriate authority, or if the function reports to management, whether it has direct access to those charged with governance.

2) Whether those charged with governance **oversee employment decisions** related to the internal audit function.

   For example determining the appropriate remuneration policy.

3) Whether there are **any constraints or restrictions** placed on the internal audit function by management or those charged with governance, for example, in communicating the internal audit function's findings to the external auditor.

4) Whether the internal audit function is **free of any conflicting responsibilities, for example,** having managerial or operational duties or responsibilities that are outside of the internal audit function.

COMPETENCE AND ITS EVALUATION

1) **Competence** of the internal audit function refers to the **attainment and maintenance** of knowledge and skills of the function as a whole at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards.

2) **Factors** that may **affect the external auditor's determination** in relation to competence

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include the following:

a) Whether the internal audit function is adequately and appropriately resourced relative to the size of the entity and the nature of its operations.

b) Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements.

c) Whether the internal auditors have adequate technical training and proficiency in auditing.

d) Whether the internal auditors possess the required knowledge relating to the entity's financial reporting and the applicable financial reporting framework.

Objectivity and competence may be viewed as a continuum.

1) Objectivity and competence may be viewed as a continuum. The more the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the higher the level of competence of the function, the more likely the external auditor may make use of the work of the function and in more areas.

2) However, an organizational status and relevant policies and procedures that provide strong support for the objectivity of the internal auditors cannot compensate for the lack of sufficient competence of the internal audit function.

3) Equally, a high level of competence of the internal audit function cannot compensate for an organizational status and policies and procedures that do not adequately support the objectivity of the internal auditors.

APPLICATION OF A SYSTEMATIC AND DISCIPLINED APPROACH

1) The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring control activities that may be performed within the entity.

2) **Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:**

   a) The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.

   b) Whether the internal audit function has appropriate quality control policies and procedures.

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CIRCUMSTANCES WHEN WORK OF THE INTERNAL AUDIT FUNCTION CANNOT BE USED

The external auditor shall **not** use the work of the internal audit function if the external auditor determines that:

a) The function's organizational status and relevant policies and procedures do **not adequately** support the objectivity of internal auditors;

b) The function **lacks sufficient competence**; or

c) The function does **not apply** a systematic and disciplined approach, including quality control.

DETERMINING THE NATURE AND EXTENT OF WORK OF THE INTERNAL AUDIT FUNCTION THAT CAN BE USED

1) As a **basis** for determining **the areas and the extent** to which the work of the internal audit function can be used, the **external auditor** shall consider the **nature and scope** of the work that has been **performed, or is planned to be performed**, by the internal audit function and its **relevance** to the external auditor's overall audit strategy and audit plan.

2) In other words, once the external auditor has **determined** that the work of the internal audit function can be used for purposes of the audit, a **first consideration** is whether the planned nature and scope of the work of the internal audit function that has been **performed, or is planned to be performed**, is relevant to the overall audit strategy and audit plan that the external auditor has established.

Examples of work of the internal audit function that can be used by the external auditor include the following:

a) Testing of the operating effectiveness of controls.

b) Substantive procedures involving limited judgment.

c) Observations of inventory counts.

d) Tracing transactions through the information system relevant to financial reporting.

e) Testing of compliance with regulatory requirements.

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CIRCUMSTANCES IN WHICH THE EXTERNAL AUDITOR SHALL PLAN TO USE LESS OF THE WORK OF THE INTERNAL AUDIT FUNCTION AND PERFORM MORE OF THE WORK DIRECTLY

The external auditor shall make all **significant judgments** in the audit engagement and, to **prevent** undue use of the work of the internal audit function, shall plan to use less of the work of the function and perform more of the work directly **if**:

a) The more judgment is involved in:
   (i) **Planning and performing** relevant audit procedures; and
   (ii) **Evaluating** the audit evidence gathered;
b) The **higher** the assessed risk of material misstatement at the assertion level, with special consideration given to risks identified as significant;
c) the **less** the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and
d) the **lower** the level of competence of the internal audit function.

USING THE WORK OF THE INTERNAL AUDIT FUNCTION

If the external auditor plans to use the work of the internal audit function, the external auditor shall

1) **Discuss** the planned use of its work with the function as a basis for coordinating their respective activities.
2) **Read the reports** of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.
3) **Perform sufficient audit procedures** on the body of work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit.

Discussion and Coordination with the Internal Audit Function

In **discussing the planned use** of their work with the internal audit function as a basis for coordinating the respective activities, it may be useful to address the following:

1) The **timing** of such work.
2) The **nature** of the work performed.
3) The **extent** of audit coverage.
4) **Materiality** for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures), and performance materiality.

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5) **Proposed methods** of item selection and sample sizes.
6) **Documentation** of the work performed.
7) **Review and reporting** procedures.

Coordination between the external auditor and the internal audit function is effective when, for example;

1) **Discussions** take place at **appropriate intervals** throughout the period.
2) The external auditor informs the internal audit function of **significant matters** that may affect the function.
3) The external auditor is **advised of and has access** to relevant reports of the internal audit function and is informed of any significant matters that come to the attention of the function when such matters may affect the work of the external auditor so that the external auditor is able to consider the implications of such matters for the audit engagement.

DETERMINING WHETHER, IN WHICH AREAS, AND TO WHAT EXTENT INTERNAL AUDITORS CAN BE USED TO PROVIDE DIRECT ASSISTANCE

1) **Direct assistance** refers to the use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.
2) The external auditor may be **prohibited** by law or regulation from obtaining direct assistance from internal auditors.
3) If using internal auditors to provide direct assistance is **not prohibited** by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance.
4) The external auditor's evaluation of the existence and significance of threats to the internal auditors' objectivity shall **include inquiry** of the internal auditors regarding interests and relationships that may create a threat to their objectivity.
5) **The external auditor shall not use an internal auditor to provide direct assistance if:**
   a) There are significant threats to the objectivity of the internal auditor; or
   b) The internal auditor lacks sufficient competence to perform the proposed work.
6) **The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:**
   a) **Involve** making significant judgments in the audit;
   b) **Relate to higher assessed risks** of material misstatement where the judgment required in

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performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;

c) **Relate to work** with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or

d) **Relate to decisions** the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance.

7) **Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:**

a) Obtain written agreement from an **authorized representative** of 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 the internal auditor performs for the external auditor; and

b) Obtain written agreement from the **internal auditors** that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

BASICS OF INTERNAL FINANCIAL CONTROL AND REPORTING REQUIREMENTS

Distinction between Internal Financial Control and Internal Control over financial reporting

1) The term **Internal Financial Controls (IFC)** refers to the **policies and procedures** put in place by companies

a) For **ensuring reliability** of financial reporting,

b) **Effectiveness and efficiency** of operations,

c) **Compliance with applicable laws and regulations**,

d) **Safeguarding of assets** and prevention and detection of frauds.

2) On the other hand, Internal controls over financial reporting is required where **auditors** are **required to express an opinion** on the **effectiveness** of an entity's internal controls over financial reporting, such opinion is in addition to and distinct from the opinion expressed by the auditor on the financial statements.

3) Therefore, "internal financial control" is **a wider term** where as "internal controls over financial reporting" is **a narrower term** restricted to entity's internal controls over financial reporting only.

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SA 620[E]

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SA 700

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SA 700 Forming an Opinion and Reporting on Financial Statements

Introduction	1) This SA deals with the following: a) **Auditor's responsibility** to form an opinion on the financial statements. b) **Form and content** of the auditor's report issued as a result of an audit of financial statements. 2) The requirements of this SA are aimed at **addressing an appropriate balance** between the **need for consistency and comparability** in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. 3) This SA **promotes consistency** in the auditor's report, but recognizes the **need for flexibility** to accommodate particular circumstances of individual jurisdictions. 4) **Consistency** in the auditor's report, when the audit has been conducted in accordance with SAs, **promotes credibility** in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. 5) It also helps to **promote** the user's understanding and to identify unusual circumstances when they occur.
Objective of the Auditor	**The objectives of the auditor as per SA 700 (Revised) are:** a) **To form an opinion on the financial statements** based on an evaluation of the conclusions drawn from the audit evidence obtained; and b) **To express clearly that opinion through a written report.**
To form an opinion – Auditor to obtain reasonable assurance	1) The auditor shall **form an opinion** on whether the financial statements are prepared, in all material respects, in accordance with the **applicable financial reporting framework.** 2) In order to form that opinion, the auditor shall **conclude** as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. 3) That conclusion shall take into account: a) Whether **sufficient appropriate audit evidence** has been obtained; b) Whether **uncorrected misstatements are material**, individually or in aggregate; c) The **evaluations**

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Form of Opinion	**Unmodified Opinion**	The auditor shall express an unmodified opinion when the **auditor concludes** that the **financial statements are prepared, in all material respects,** in accordance with the applicable financial reporting framework.
	Modified Opinion	The auditor shall modify the opinion in the auditor's report in accordance with SA 705 if the auditor: a) Concludes that, based on the audit evidence obtained, **the financial statements as a whole are not free from material misstatement; or** b) **Is unable to obtain sufficient appropriate audit evidence** to conclude that the financial statements as a whole are free from material misstatement.

AUDITOR'S REPORT

The **auditor's report shall be in writing**. This SA- 700 requires the use of specific headings, which are intended to assist in making auditor's report more recognizable, where audit is conducted in accordance with the relevant Standards on Auditing.

- Title
- Addressee
- Auditor's Opinion
- Basis for Opinion
- Going Concern
- Key Audit Matters
- Responsibilities for the Financial Statements
- Auditor's Responsibilities for the Audit of the Financial Statements
- Location of the description of the auditor's responsibilities
- Other Reporting Responsibilities
- Signature of the Auditor
- Place of Signature
- Date of the Auditor's Report

1) Title (Independent Auditor's Report)	The auditor's report shall have **a title** that clearly **indicates** that it is the report of an independent auditor. **For example,** "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.

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2) Addressee (To the Members of the Company)	a) The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. b) The auditor's report is **normally addressed** to those for whom the report is prepared, often either to the **shareholders** or to **those charged with governance** of the entity whose financial statements are being audited. c) In case of a company, the report is addressed to the **shareholders** of the company.
3) Auditor's Opinion	The **first section of the auditor's report** shall include the auditor's opinion, and shall have the heading **"Opinion."** The **Opinion section** of the auditor's report shall also: a) **Identify** the entity whose financial statements have been audited; b) **State** that the financial statements have been audited; c) **Identify the title** of each statement comprising the financial statements; d) **Refer to the notes**, including the summary of significant accounting policies; and e) **Specify the date of, or period covered** by, each financial statement comprising the financial statements. **Note: While expressing unmodified opinion he shall use the following** a) **In case of Fair Presentation Framework** In our opinion, the **accompanying financial statements present fairly, in all material respects,** .... in accordance with the applicable FRF, **or** In our opinion, the accompanying financial statements **give a true and fair view** of .... In accordance with applicable FRF. The phrases **"present fairly, in all material respects," and "give a true and fair view"** are regarded as **being equivalent** b) **In case of Compliance Framework** The accompanying financial statements **are prepared** in all material respects in accordance with applicable FRF.
4) Basis for Opinion	The auditor's report shall include a section, directly following the Opinion section, with the heading **"Basis for Opinion"**, that: a) States that the audit was conducted in accordance with Standards on Auditing; b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs; c) Includes a statement that the auditor is independent of the entity in

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	accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion. Thus, the Basis for opinion section provides important context about the auditor's opinion.
5) Going Concern	Where applicable, the auditor shall report in accordance with **SA 570 (Revised)**.
6) Key Audit Matters	1) For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with **SA 701**. 2) Law or regulation may require communication of key audit matters for audits of entities other than listed entities. 3) The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business.
7) Management's Responsibilities for the Financial Statements:	The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." **This section of the auditor's report shall describe management's responsibility for:** a) **Preparing the financial statements** in accordance with the **applicable financial reporting framework,** and for such **internal control** as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. b) **Assessing the entity's ability to continue as a going concern** and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. **Note:** a) The **description of management's responsibilities** in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted. b) **SA 210** requires the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement. c) **Oversight of the financial reporting process:** This section of the

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	auditor's report shall also **identify** those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from Management. In this case, the **heading** of this section shall also refer to **"Those Charged with Governance"** or such term that is appropriate in the context of the legal framework applicable to the entity.
8) Auditor's Responsibilities for the Audit of the Financial Statements	The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements." **(Refer Note 1 discussed below.)**
9) Location of the description of the auditor's responsibilities for the audit of the financial statements	The description of the auditor's responsibilities for the audit of the financial statements required by this SA shall be included: a) **Within the body** of the auditor's report; b) **Within an appendix** to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so.
10) Other reporting responsibilities (Report on other legal & Regulatory Requirements)	a) If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled- b) **"Report on Other Legal and Regulatory Requirements"** or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the SAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the SAs. c) If other reporting responsibilities are presented in the same section as the related report elements required by the SAs, the auditor's report shall clearly di□erentiate the other reporting responsibilities from the reporting that is required by the SAs. d) If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements stated above shall be included under a section with a heading "Report on the Audit of the

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	Financial Statements." **The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Statements."**
11) Signature of auditor	a) The auditor's report shall be signed. The report is **signed by the auditor** (i.e. the engagement partner) in his **personal name**. b) Where the **firm is appointed** as the auditor, the report is signed in the **personal name of the auditor** and in the **name of the audit firm**. c) The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. d) They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them.
12) Place of Signature (Auditor's Address)	The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.
13) Date of Auditor's report	1) The auditor's report shall be dated no earlier than the date on which the auditor has obtained su□cient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: a) All the statements that comprise the financial statements, including the related notes, have been prepared; and b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements. 2) The date of the auditor's report informs the user of the auditor's report that the auditor has considered the e□ect of events and transactions of which the auditor became aware and that occurred up to that date. 3) The responsibility for events and transactions after the date of auditor's report is **addressed in SA 560**.

UDIN

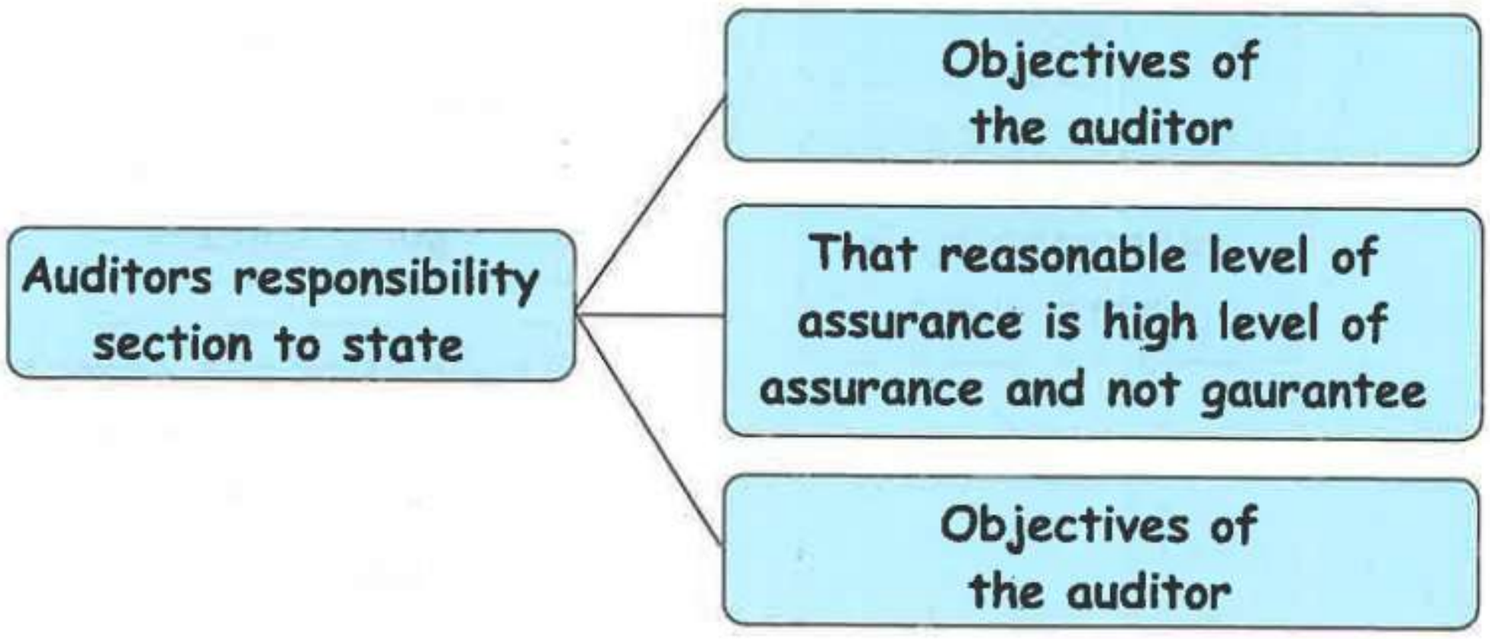
1) It was noticed that financial documents/ certificates attested by third person **misrepresenting** themselves as CA Members were misleading the Authorities and Stakeholders.
2) ICAI also received number of complaints of signatures of CAs being forged by non CAs. To curb the malpractices, the Professional Development Committee of ICAI implemented in phased manner an innovative **concept of UDIN** i.e. Unique Document Identification Number.
3) All Certificates were made **mandatory** with effect from **1st February, 2019** as per the Council decision taken at its 379th Meeting held on 17th - 18th December, 2018.

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4) Chartered Accountants having full-time Certificate of Practice can register on **UDIN Portal and generate UDIN** by registering the certificates attested/certified by them.
5) Accordingly, an auditor is required to **mention the UDIN** with respect to each audit report being signed by him, along with his membership number while signing an audit report.

NOTE 1: AUDITOR'S RESPONSIBILITIES FOR AUDIT OF FINANCIAL STATEMENT

(I)This section of the auditor's report shall state:

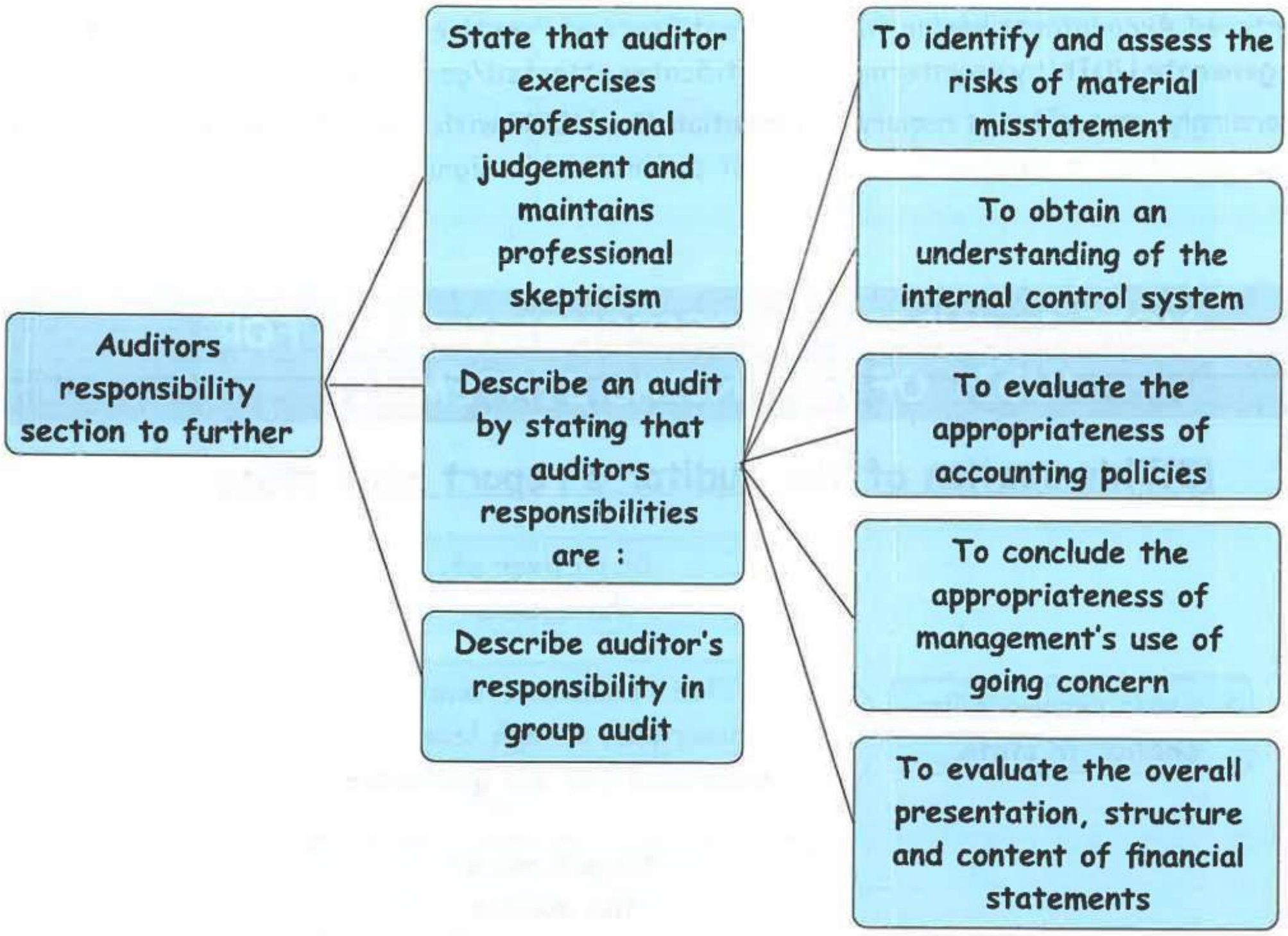


1) That the **objectives of the auditor** are to:
   a) **Obtain reasonable assurance** about whether the Financial statements as a whole are free from material misstatement, whether due to fraud or error; and
   b) **Issue an auditor's report** that includes the auditor's opinion.
2) **That reasonable assurance is a high level of assurance, but is not a guarantee**

   that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and
3) **That misstatements can arise from fraud or error, and either:**
   a) **Describe** that they are **considered material** if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial statements; or
   b) **Provide a definition or description** of materiality in accordance with the applicable financial reporting framework.

(II) The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further:

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1) State that, as part of an audit in accordance with SAs, the **auditor exercises professional judgment** and maintains professional skepticism throughout the audit; and
2) **Describe an audit** by stating that the auditor's responsibilities are:
   a) **To identify and assess** the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
   b) **To obtain an understanding of internal control** relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
   c) **To evaluate the appropriateness** of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
   d) **To conclude on the appropriateness** of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
   e) When the financial statements are prepared in accordance with **a fair presentation framework**, **to evaluate** the overall pre**sentation, structure and content** of the financial statements, including the disclosures, and whether the financial statements represent

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the underlying transactions and events in a manner that achieves fair presentation.

3) When **SA 600** applies, further describe the auditor's responsibilities in a group audit engagement by stating:

The **division of responsibility** for the financial information of the entity by **indicating the extent** to which the financial information of components is 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.

(III) The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall:

1) **State** that the **auditor communicates with those charged with governance** regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;

2) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a **statement** that the auditor has **complied** with **relevant ethical requirements** regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and

3) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with **SA 701**, state that, from the matters communicated with those charged with governance, the auditor determines **those matters that were of most significance** in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure.

NOTE 2: SPECIFIC EVALUATIONS BY THE AUDITOR

The auditor shall evaluate whether:

a) The **financial statements adequately disclose the significant accounting policies** selected and applied;

b) The **accounting policies selected and applied are consistent** with the applicable financial reporting framework and are appropriate;

c) The **accounting estimates made by management are reasonable;**

d) The **information presented in the financial statements is relevant, reliable, comparable and understandable;**

e) The **financial statements provide adequate disclosures** to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and

f) The **terminology used in the financial statements**, including the title of each financial statement, **is appropriate.**

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Note:

Further, when the financial statements are prepared in accordance with a fair presentation framework, the evaluation mentioned above shall also include an evaluation by the auditor as to whether the financial statements achieve fair presentation which shall include consideration of:

a) The overall presentation, structure and content of the financial statements; and

b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

NOTE 3: QUALITATIVE ASPECTS OF THE ENTITY'S ACCOUNTING PRACTICES

1) Management makes a number of judgments about the amounts and disclosure sin the financial statements.
2) **SA 260 (Revised)** contains a discussion of the qualitative aspects of accounting practices.
3) In considering the **qualitative aspects** of the entity's accounting practices, the auditor may become **aware of possible bias** in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated.
4) Indicators of a lack of neutrality include the following:
   a) The **selective correction** of misstatements brought to management's attention during the audit.
   b) **Possible management bias** in the making of accounting estimates.
5) **SA 540** addresses possible management bias in making accounting estimates.

NOTE 4 - DEFINITION

1) **General purpose financial statements** – Financial statements prepared in accordance with a general purpose framework.
2) **General purpose framework** – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a **fair presentation framework or a compliance framework.**

Note:

a) **Fair presentation framework** – The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

   (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial

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statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

For example – FS of a company under Companies Act 2013.

b) **Compliance framework** - FRF requiring compliance with requirements of the framework that does not contain acknowledgement as above.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

NOTE 5: AUDITOR'S REPORT PRESCRIBED BY LAW OR REGULATION (ONLY FOR REFERENCE)

1) SA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to SAs. When the differences between the legal or regulatory requirements and SAs relate only to the layout and wording of the auditor's report, the requirements stated below in points (a)-(m) set out the minimum elements to be included in the auditor's report to enable a reference to the Standards on Auditing.

2) Where specific requirements in a particular law or regulation do not conflict with SAs, the layout and wording required by this SA assist users of the auditor's report in more readily recognizing the auditor's report as a report of an audit conducted in accordance with SAs.

3) If the auditor is required by law or regulation to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

a) A title.

b) An addressee, as required by the circumstances of the engagement.

c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements.

d) An identification of the entity's financial statements that have been audited.

e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI.

f) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements relating to going concern as per SA 570 (Revised).

g) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements relating to going concern as per SA

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570 (Revised).

h) Where applicable, a section that includes the information required by SA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that SA.

i) **A description of management's responsibilities** for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements as contained in this SA 700.

j) **A reference to Standards on Auditing** and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements as contained in this SA 700.

k) The **auditor's signature.**

l) The **Place of signature.**

m) The **date of the auditor's report.**

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INDEPENDENT AUDITOR'S REPORT (Sample Report Format)

To the **Members** of ABC Company Limited

Report on the Audit of the Standalone Financial Statements

Opinion:

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at 31st March 20XX, and the statement of Profit and Loss, (statement of changes in equity) and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information [in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)].

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of a□airs of the Company as at March 31, 20XX, and profit/loss, (changes in equity) and its cash flows for the year ended on that date..

Basis for Opinion:

We conducted our audit in accordance with the **Standards on Auditing (SAs)** specified under section **143(10) of the Companies Act, 2013**. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the **Code of Ethics issued by the Institute of Chartered Accountants of India** together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is su□cient and appropriate to provide a basis for our opinion.

Key Audit Matters:

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with SA 701 .]

Management's Responsibility for the Standalone Financial Statements:

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the

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Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, (changes in equity) and cash flows of the Company in accordance with6 the accounting principles generally accepted in India, including the accounting Standards specified under section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate implementation and maintenance of accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating e□ectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors are also responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 40(b) of this SA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 40(c) explains that when law, regulation or applicable auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is su□cient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions,

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misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter:

We did not audit the financial statements/ information of ..... (number) branches included in the stand alone financial statements of the Company whose financial statements/financial information reflect total assets of ` ..... as at 31st March 20XX and the total revenue of ` ..... for the year ended on that date, as considered in the standalone financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and

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disclosures included in respect of branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of these matters.

Report on Other Legal and Regulatory Requirements:

As required by the Companies (Auditor's Report) Order, 2020 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

As required by Section 143(3) of the Act, we report that:

a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.]

c) [The reports on the accounts of the branch o□ces of the Company audited under Section 143(8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this report.]

d) The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from the branches not visited by us].

e) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

f) We do not have any observation or comment on the financial statements or matters which have any adverse effect on the functioning of the company.

g) On the basis of the written representations received from the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164 (2) of the Act.

h) We do not have any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected herewith.

i) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating e□ectiveness of such controls, refer to our separate Report in "Annexure A".

j) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

1) The Company has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Note XX to the financial statements; [or the Company does not have any pending litigations which would impact its financial position]

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2) The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer Note XX to the financial statements; [or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.]

3) There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company}.

4)

(i) The management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;

(ii) The management has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and

(iii) Based on such audit procedures that we have considered reasonable and appropriate in the circumstances, nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) and (ii) contain any material mis-statement.

5) The dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.

6) The company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.

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For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation)
(Membership No. XXXXX)

Place of Signature:

Date:

UDIN: 20037320AAAAAH1111

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SA 701

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SA 701 Communicating Key Audit Matters In The Independent Auditor's Report

Introduction	**SA 701** deals with the auditor's **responsibility to communicate** key audit matters in the auditor's report. It is **intended to address** both the auditor's judgement as to what to communicate in the auditor's report and the form and content of such communication.
Definition	Those matters that, in the **auditor's professional judgment**, were of **most significance in the audit of the financial statements** of the current period. Key audit matters are selected from matters communicated with those charged with governance.
Objectives of the Auditor regarding Key Audit Matters	As per **SA 701**, **"Communicating Key Audit Matters in The Independent Auditor's Report"**, the objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.
Purpose of Communicating Key Audit Matters	a) As per SA 701, **"Communicating Key Audit Matters** in the Auditor's Report", the **purpose of communicating key audit** matters is **to enhance the communicative value of the auditor's report** by providing **greater transparency** about the audit that was performed. b) Communicating key audit matters provides **additional information to intended users of the financial statements to assist them in understanding those matters that**, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. c) Communicating key audit matters may also **assist intended users in understanding the entity and areas of significant management judgment** in the audited financial statements.
Determining Key Audit Matters	1) The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. 2) In making this determination, the auditor shall take into account the following: a) **Areas of higher assessed risk of material misstatement**, or **significant risks identified in accordance with SA 315.** b) **Significant auditor judgments** relating to areas in the financial statements that involved **significant management judgment**, including accounting estimates that have been identified as having high estimation uncertainty.

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	c) The **effect on the audit of significant events or transactions** that occurred during the period. 3) The auditor shall determine which of the matters determined, as stated above, were of **most significance** in the audit of the financial statements of the current period and **therefore are the key audit matters.**
Communicating Key Audit Matters	The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading **"Key Audit Matters"**. The introductory language in this section of the auditor's report shall state that: a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.
Communicating Key Audit Matters- not a substitute for disclosure in the Financial Statements etc.	Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not: a) **A substitute for disclosures in the financial statements** that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; b) **A substitute for the auditor expressing a modified opinion** when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised); c) **A substitute for reporting in accordance with SA 570 when a material uncertainty exists** relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or d) **A separate opinion on individual matters.**
Communication with Those Charged with Governance	The auditor shall communicate with those charged with governance: a) Those matters the auditor has determined to be the key audit matters; or b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report.

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APPLICABILITY OF SA 701

1) It is **intended** to address both the **auditor's judgment** as to what to communicate in the auditor's report and the **form and content** of such communication
2) This **SA applies** to audits of complete sets of general purpose financial statements of :
   a) **listed entities** and
   b) **circumstances** when the auditor otherwise decides to communicate key audit matters in the auditor's report and
   c) required by law or regulation to communicate key audit matters in the auditor's report
3) However, **SA 705** (Revised) **prohibits** the auditor from communicating key audit matters when the **auditor disclaims an opinion** on the financial statements, unless such reporting is required by law or regulation

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SA 705

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SA 705 Modification To The Opinion In The Independent Auditor's Report:

Introduction	SA 705 "Modifications to the Opinion in the Independent Auditor's Report" deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised) "Forming an Opinion and Reporting on Financial Statements", the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary	
Objective of the Auditor (Circumstances when a modification to the Auditor's opinion is required)	As per **SA 705** the objective of the auditor is to **express clearly an appropriately modified opinion** on the financial statements when: a) The **auditor concludes** based on the audit evidence obtained, that the **financial statements as a whole are not free from material misstatements**; or b) The **auditor is unable to obtain sufficient appropriate audit evidence** to **conclude** that the financial statements as a whole are free from material misstatements.	
Types of Modified Opinions	a) A qualified opinion b) An adverse opinion c) A disclaimer of opinion	
Nature of matter giving rise to the modification	**Auditor's judgment about the pervasiveness of the effects or possible effects of the matter on financial statements**	
	Material but not pervasive	**Material and pervasive**
Financial statements are materially misstated	Qualified Opinion	Adverse Opinion
Inability to obtain sufficient and appropriate evidence	Qualified Opinion	Disclaimer of Opinion
Description of Auditor's Responsibilities for the Audit of the Financial Statements	When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall **amend the description of the auditor's responsibilities** required by SA 700 (Revised) to **include only the following**:	

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When the Auditor Disclaims an Opinion on the Financial Statements	a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Standards on Auditing and to issue an auditor's report; b) A statement that, however, **because of the matter(s)** described in the **Basis for Disclaimer of Opinion section**, the auditor was **not able to obtain sufficient appropriate audit evidence** to provide a basis for an audit opinion on the financial statements; and c) The statement about auditor independence and other ethical responsibilities required by SA 700 (Revised).
Considerations When the Auditor Disclaims an Opinion on the Financial Statements	Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with **SA 701**.
Communication with those charged with governance	When the auditor **expects to modify** the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification.

NOTE 1: DEFINITION OF PERVASIVE

A term used, in the **context of misstatements**, to describe the **effects on the financial statements** of **misstatements** or **the possible effects** on the financial statements of misstatements, if any, that are **undetected due** to an inability to obtain sufficient appropriate audit evidence.

Pervasive effects on the financial statements are those that, in the auditor's judgment:

a) **Are not confined** to specific elements, accounts or items of the financial statements;

b) If so **confined, represent or could represent** a substantial proportion of the financial statements; or

c) In relation to disclosures, are **fundamental to users'** understanding of the financial statements.

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NOTE 2: MEANING OF QUALIFIED, ADVERSE AND DISCLAIMER OF OPINION [AS PER ICAI MODULE]

Qualified Opinion

The auditor shall express a qualified opinion when:

a) The auditor, **having obtained sufficient appropriate audit evidence**, concludes that **misstatements, individually or in the aggregate, are material**, but **not pervasive**, to the financial statements; or

b) The auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, but the auditor concludes that **the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.**

Adverse Opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that **misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.**

Disclaimer of Opinion

a) The auditor shall disclaim an opinion when the auditor **is unable to obtain sufficient appropriate audit evidence on which to base the opinion**, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, **could be both material and pervasive.**

b) The auditor shall disclaim an opinion when, in **extremely rare circumstances** involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the **potential interaction of the uncertainties** and their **possible cumulative effect** on the financial statements.

FORM & CONTENT OF AUDITOR'S REPORT WHEN THE OPINION IS MODIFIED

When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section.

Wordings of Qualified Opinion

When the auditor expresses a qualified opinion due to a **material misstatement** in the financial statements, the auditor shall state in the opinion paragraph that, in the auditor's opinion, **except for the effects of the matters described in the Basis for Qualified Opinion paragraph:**

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a) The **financial statements present fairly,** in all material respects (or give a true and fair view) in accordance with the applicable financial reporting framework **when reporting** in accordance with a **fair presentation framework**; or

b) The **financial statements** have been **prepared**, in all material respects, in accordance with the applicable financial reporting framework. **(Compliance framework)**

Note: When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase **"except for the possible effects of the matter(s)..."** for the modified opinion.

Wordings of Adverse

When the auditor expresses an adverse opinion, the auditor shall state that, **In the auditor's opinion, because of the significance of the matter(s)** described in the **Basis for Adverse Opinion paragraph:**

a) The **financial statements do not present fairly** (or give a true and fair view) in accordance with the applicable financial reporting framework **when reporting** in accordance with a **fair presentation framework;**

or

b) The **financial statements have not been prepared,** in all material respects, in accordance with the applicable financial reporting framework. **(Compliance framework).**

Wordings of Disclaimer of Opinion

When the auditor **disclaims an opinion** due to inability to obtain sufficient appropriate audit evidence, the auditor shall:

a) State that the auditor **does not express an opinion** on the accompanying FS.

b) State that, because of the **significance of the matter(s) described in the Basis for Disclaimer of Opinion section,** the auditor has not been able to obtain SAAE to provide a basis for an audit opinion on the Financial statements.

c) **Amend the statement** in the **opinion section**, which indicates that the financial statements have been audited, to state that the **auditor was engaged** to **audit** the financial statements.

NOTE 4 - WHICH TYPE OF OPINION IS APPROPRIATE?

The decision regarding which type of modified opinion is appropriate depends upon:

a) The **nature of the matter** giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

b) The **auditor's judgment about the pervasiveness** of the effects or possible effects of the matter on the financial statements.

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NOTE 5 - BASIS FOR OPINION

When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised):

a) Amend the heading **"Basis for Opinion"** required by para of SA 700 (Revised) to **"Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion,"** as appropriate; and

b) Within this section, include a description of the matter giving rise to the modification.

Following points should be kept in mind while including content under "Basis for Opinion" Paragraph:

1) If there is a material misstatement of the financial statements that **relates to specific amounts** in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable.

2) If it is **not practicable to quantify the financial effects**, the auditor shall so state in this section.

3) If there is a material misstatement of the financial statements that **relates to narrative disclosures**, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

4) If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:
   a) **Discuss** the **non-disclosure** with those charged with governance;
   b) **Describe** in the Basis for Opinion section the **nature of the omitted** information; and
   c) **Unless prohibited by law or regulation**, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

5) If the **modification** results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.

6) When the auditor **expresses a qualified or adverse opinion**, the auditor shall **amend the statement** about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by SA 700 (Revised) to include the word "**qualified**", or "**adverse**", as appropriate.

7) When the auditor **disclaims an opinion** on the financial statements, the auditor's report shall not include the following elements required by SA 700 (Revised).
   a) ***A reference*** to the section of the auditor's report where the auditor's responsibilities are described; and
   b) ***A statement*** about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

8) Even if the auditor has **expressed an adverse opinion or disclaimed an opinion** on the financial

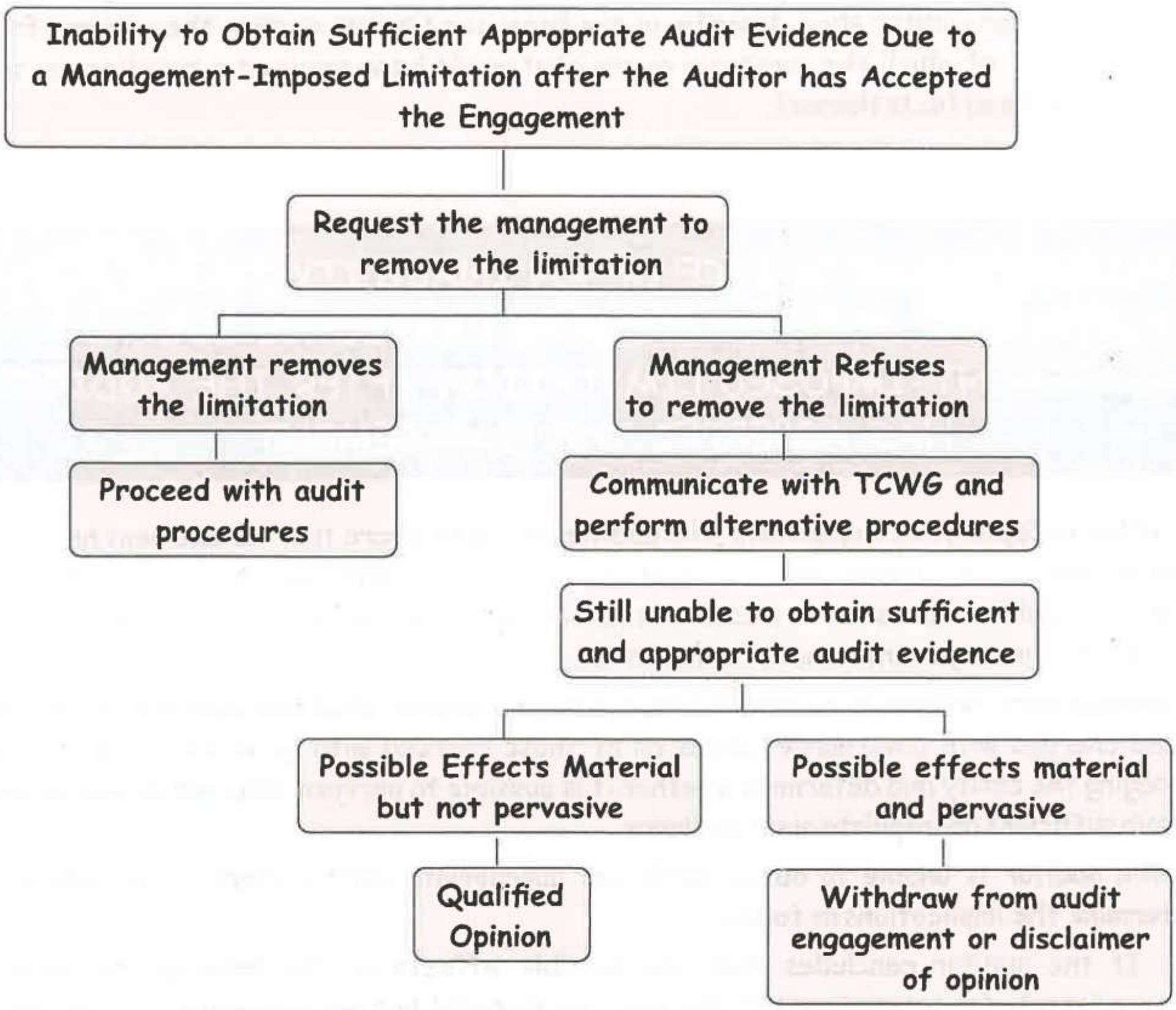
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statements, the auditor shall **describe** in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

NOTE 6: CONSEQUENCE OF AN INABILITY TO OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE DUE TO A MANAGEMENT-IMPOSED LIMITATION AFTER THE AUDITOR HAS ACCEPTED THE ENGAGEMENT

1) If, **after accepting** the engagement, the **auditor becomes aware** that management has **imposed a limitation** on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.
2) If **management refuses** to remove the limitation, the **auditor shall communicate** the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
3) If the **auditor is unable** to obtain sufficient appropriate audit evidence, the auditor shall **determine the implications** as follows:
   a) If the auditor **concludes** that the **possible effects** on the financial statements of undetected misstatements, if any, could be **material but not pervasive**, the auditor shall **qualify the opinion**; or
   b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both **material and pervasive** so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, **the auditor shall**:
      (i) **Withdraw from the audit**, where practicable and possible under applicable law or regulation; or
      (ii) If **withdrawal** from the audit before issuing the auditor's report is **not practicable or possible**, **disclaim an opinion** on the financial statements.
4) If the auditor **withdraws as contemplated above** , before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

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Practical Insight into Modification to the Opinion

Illustration 1: Qualified Opinion due to a Material Misstatement of the Financial Statement

INDEPENDENT AUDITOR'S REPORT

To the **Members** of *ABC* Company Limited

Report on the Audit of the Standalone Financial Statements

Qualified Opinion -

We have audited the standalone financial statements of *ABC* Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20XX, and the statement of Profit and Loss, (statement of changes in equity)13 and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches))14.

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 2XX and profit/loss, (changes in equity) and its cash flows for the year ended on that date.

Basis for Qualified Opinion -

The Company's inventories are carried in the Balance Sheet at ₹ XXX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the Accounting Standards prescribed under section 133 of the Companies Act, 2013. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of ₹ xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by ₹ xxx, and income tax, net income and shareholders' funds would have been reduced by ₹ xxx, ₹ xxx and ₹ xxx, respectively.

We conducted our audit in accordance with Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence we have obtained is sufficient and

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appropriate to provide a basis for our qualified opinion.

Key Audit Matters -

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Auditor's Responsibilities for the Audit of the Financial Statements

Other Matter -

We did not audit the financial statements/information of (number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of ` yyyy as at 31st March, 20XX and total revenues of ` zzzz for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

For XYZ & Co

Chartered Accountants

(Firm's Registration No.)

Signature

(Name of the Member Signing the Audit Report)

(Designation)

Place of Signature: (Membership No. XXXXX)

Date:

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Illustration 2: Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Adverse Opinion –

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 2XXX, the consolidated statement of profit and Loss, (consolidated statement of changes in equity)18 and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, of its consolidated profit/loss, (consolidated position of changes in equity)19 and the consolidated cash flows for the year then ended.

Basis for Adverse Opinion –

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20XX because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under the accounting principles generally accepted in India, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with Standards on Auditing (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group, its associates and jointly controlled entities, in accordance with the Code of Ethics and provisions of the Companies Act, 2013 that are relevant to our audit of the consolidated financial statements in India under the

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Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the requirements under the Companies act, 2013. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Key Audit Matters -

Except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Report on Other Legal and Regulatory Requirements

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)
(Designation)
(Membership No. XXXXX)

Place of Signature:
Date:

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Illustration 3: Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion -

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 20XX, and the consolidated statement of Profit and Loss, (consolidated statement of changes in equity)23 and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as "the consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of their consolidated state of affairs as at March 31, 2XXX, consolidated profit/loss, (consolidated changes in equity), consolidated cash flows for the year then ended.

Basis for Qualified Opinion -

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at ` xxx on the consolidated balance sheet as at March 31, 20XX, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at March 31, 2XXX and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Standards on Auditing (SAs) prescribed under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group and its associates and joint ventures in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in India in terms of the Code of Ethics issued by the Institute

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of Chartered Accountants of India and the relevant provisions of the Companies Act, 2013, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters -

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Report on Other Legal and Regulatory Requirement

For XYZ & Co

Chartered Accountants

(Firm's Registration No.)

Signature

(Name of the Member signing the Audit Report)

(Designation)

(Membership No. XXXXX)

Place of Signature:

Date:

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Illustration 4: Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the **Members** of ABC Company Limited

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion -

We were engaged to audit the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group), which comprise the consolidated balance sheet as at March 31, 20XX, the consolidated statement of Profit and Loss, (consolidated statement of changes in equity) 28 and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "Consolidated Financial Statements").

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion -

The Group's investment in its joint venture XYZ Company is carried at ` xxx on the Group's consolidated balance sheet, which represents over 90% of the Group's net assets as at March 31, 20XX. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, (and the elements making up the consolidated statement of changes in equity) 29 and the consolidated cash flow statement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in

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accordance with Standards on Auditing and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Report on Other Legal and Regulatory Requirements

For XYZ & Co

Chartered Accountants

(Firm's Registration No.)

Signature

(Name of the Member signing the Audit Report)

(Designation)

(Membership No. XXXXX)

Place of Signature:

Date:

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SA 706

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SA 706 Emphasis of Matter Paragraph & other Matter Paragraph in the Independent Auditor's Report

SA 706 deals with additional communication in the auditor's report when the auditor considers it necessary to:

a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or

b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report.

OBJECTIVE OF THE AUDITOR AS PER SA 706

As per SA 706 (Revised) on "Emphasis of Matter Paragraphs and Other Matter Paragraphs In The Independent Auditor's Report", the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or

b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

EMPHASIS OF MATTER PARAGRAPH

Meaning	A paragraph included in the auditor's report that refers to a **matter appropriately presented or disclosed in the financial statements** that in the auditor's judgment, is of such **importance that it is fundamental to users understanding of the financial statements.**
Emphasis of Matter Paragraphs in the Auditor's Report	If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report **provided:** a) The auditor would not be required to modify the opinion in **accordance with SA 705 (Revised)** as a result of the matter; and b) When **SA 701 applies**, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

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Separate section for Emphasis of Matter paragraph	**When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:** a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term **"Emphasis of Matter"**; b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and c) Indicate that the auditor's opinion **is not modified** in respect of the matter emphasized.
Examples where EOM may be necessary	a) An **uncertainty** relating to the future outcome of **exceptional litigation** or regulatory action. b) A **significant subsequent event** that occurs between the date of the financial statements and the date of the auditor's report. c) **Early application (where permitted) of a new accounting standard** that has a material effect on the financial statements. d) A **major catastrophe** that has had, or continues to have, a significant effect on the **entity's financial position.**
The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion	An Emphasis of Matter paragraph is **not a substitute** for: a) A **modified opinion** in accordance with **SA 705** (Revised) when required by the circumstances of a specific audit engagement; b) **Disclosures in the financial statements** that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or c) Reporting in accordance with **SA 570 (Revised)** when a **material uncertainty exists** relating to events or conditions that may cast significant **doubt on an entity's ability to continue as a going concern.**

OTHER MATTER PARAGRAPH

Meaning	A paragraph included in the auditor's report that refers to a **matter other than those presented or disclosed in the financial statements** that in the auditor's judgment, is **relevant to users understanding of the audit, the auditor's responsibilities or the auditor's report.**

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Separate section for Other Matter paragraph	When the auditor includes an other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.
OM Para in the Auditor's Report	If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided: a) This is not **prohibited** by law or regulation; and b) When **SA 701 applies, the matter has not been determined to be a key audit matter** to be communicated in the auditor's report. **Note: Examples where OM para might be suitable –** • **Refer SA 510, 710, 600, 560 & 720** • Other reporting responsibilities

Note 1: Communication with Those Charged with Governance

If the auditor expects to include an **Emphasis of Matter or an Other Matter** Paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph.

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INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Standalone Financial Statements [12]

Opinion

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20X1, and the statement of Profit & Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at *(location of branches)*) [13].

In our opinion, and to the best of our information and according to the explanations given to us the aforesaid financial statements, *give a true and fair view*, in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 2XXX and profit/loss, *(changes in equity)* and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing (SAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements as per the *ICAI's Code of Ethics and the provisions of the Companies Act, 2013*, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter [14]

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with SA 701.*]

Other Matter

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12 1 The sub-title 'Report on the Audit of the Standalone Financial Statements" is unnecessary in circumstances when the second sub-title 'Report on Other Legal and Regulatory Requirements' is not applicable.

13 As may be applicable

14 As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph.

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The financial statements of ABC Company for the year ended March 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

[*Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).*]

Auditor's Responsibilities for the Audit of the Financial Statements

[*Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).*]

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with SA 700 (Revised) – see Illustration 1 in SA 700 (Revised).*]

For XYZ & Co
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member signing the Audit Report)
(Designation [15])
(Membership No. XXXXX)

Place of Signature:

Date:

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SA 710

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SA 710 "Comparative Information - Corresponding figures and Comparative Financial Statements"

Introduction	1) This SA deals with the auditor's responsibilities regarding **comparative information** in an audit of financial statements. 2) When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510 regarding opening balances also apply.
Meaning	1) **Comparative information** The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework. 2) **Comparative financial statements** Comparative information where amounts and other disclosures for the prior period are **included for comparison** with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period. 3) **Corresponding figures** a) Comparative information where amounts and other disclosures for the prior period are **included as an integral part** of the current period financial statements and are **intended to be read only** in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). b) The level of detail presented in the corresponding amounts and disclosures is **dictated primarily by its relevance** to the current period figures.
Audit Reporting (difference between two approaches)	The essential **audit reporting differences** between the approaches are: a) **Comparative financial statements:** Auditor's Opinion **refers to each period** for which financial statements are presented and on which an audit opinion is expressed. b) **Corresponding Figures:** Auditor's Opinion on financial statements **refers to current period only.**

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Objectives	As per SA 710, the objectives of the auditor are: a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and b) To report in accordance with the auditor's reporting responsibilities.
Audit Procedure regarding comparative information	1) The auditor shall determine whether the Financial statements include the comparative information required by the applicable Financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether: a) The comparative information agrees with the amounts and other disclosures presented in the prior period; and b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed. 2) **Evaluating the impact on financial statement:** If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, a) the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. b) If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560 3) **Written Representation:** As required by SA 580, the auditor should also request written representation for all the period referred in the auditor's opinion. He should also obtain a specific written representation regarding any prior period item that is separately disclosed in current year's financial statement.

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AUDIT REPORTING REGARDING CORRESPONDING FIGURES

When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances:

1) If the auditor's report on the prior period, as previously issued, included a qualified **opinion, a disclaimer of opinion, or an adverse opinion** and the matter which gave rise to the modification is **unresolved**, the auditor shall **modify** the auditor's opinion on the **current period's financial statements**. In the **Basis for Modification paragraph** in the auditor's report, the auditor shall either:
   a) **Refer to both the current period's figures and the corresponding figures** in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
   b) In other cases, **explain** that the audit **opinion** has been **modified** because of the **effects or possible effects** of the unresolved matter on the comparability of the current period's figures and the corresponding figures.
2) **If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements** on which an **unmodified opinion** has been previously issued, the auditor shall **verify** whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall **express a qualified opinion or an adverse opinion** in the auditor's report on the current period financial statements, **modified** with respect to the corresponding figures included therein.
3) **Prior Period Financial Statements Not Audited** - If the prior period financial statements were not audited, the auditor shall state in an **Other Matter paragraph** in the auditor's report that the corresponding figures are unaudited.

   Such a statement **does not**, however, **relieve** the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

Prior Period Financial Statements Audited by a Predecessor Auditor

If the financial statements of the **prior period** were **audited** by a **predecessor auditor** and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall **state in an Other Matter paragraph** in the auditor's report:

a) That the **financial statements** of the **prior period** were **audited by the predecessor auditor**;
b) The **type of opinion expressed by the predecessor auditor** and, if the opinion was modified, the reasons therefore; and
c) The date of that report.

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AUDIT REPORTING REGARDING COMPARATIVE FINANCIAL STATEMENTS

When reporting on prior period financial statements in connection with the current period's audit.

If the auditor's opinion on such prior period financial statements **differs from the opinion the auditor previously expressed**, the auditor shall **disclose the substantive reasons** for the di□erent opinion in an **Other Matter paragraph** in accordance with **SA 706**.

Prior Period Financial Statements Audited by a Predecessor Auditor

1) If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in **an Other Matter paragraph**:
   a) That the financial statements of the prior period **were audited by a predecessor auditor;**
   b) The **type of opinion** expressed by the **predecessor auditor** and, if the **opinion was modified**, the reasons therefor; and
   c) The **date of that report**,
2) Unless the predecessor auditor's report on the prior period's financial statements is revised with the financial statements.
3) If the auditor **concludes** that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had **previously reported** without modification, the auditor shall communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed.
4) If the prior period financial statements are **amended**, and the predecessor auditor **agrees to issue** a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period.

Prior Period Financial Statements Not Audited

1) If the prior period financial statements were **not audited**, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited.
2) Such a statement **does not**, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

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Example A - Corresponding Figures

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements -

We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20X1, and the statement of profit and loss, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements -

Management is responsible for the preparation and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations and cash flows of the Company in accordance with the Accounting Standards referred to in sub- section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility-

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, **but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control**. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion -

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which constitutes a departure from the Accounting Standards referred to in

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sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This is the result of a decision taken by management at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by ` XXX in 20X1 and ` XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of ` XXX in 20X1 and ` XXX in 20X0, and the accumulated loss should be increased by ` XXX in 20X1 and ` XXX in 20X0.

Qualified Opinion -

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1, and of its results of operations and its cash flows for the year then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

Other Matters -

The financial statements of the Company for the year ended March 31, 20X1, were audited by another auditor who expressed an unmodified opinion on those statements on June 30, 20X1.

Report on Other Legal and Regulatory Requirements -

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

For XYZ and Co.
Chartered Accountants
Firm's Registration Number
Signature
(Name of the Member Signing the Audit Report)
(Designation)
Membership Number

Place of Signature:

Date:

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Example for Comparative Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements -

We have audited the accompanying financial statements of ABC Company Ltd. ("the Company"), which comprise the balance sheets as at March 31, 20X1 and 20X0, and the statements of profit & loss, and cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements -

Management is responsible for the preparation and presentation of these financial statements that give a true and fair view of the state of affairs, results of operations and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility -

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, **but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control**. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

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Basis for Qualified Opinion -

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which constitutes a departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by ` XXX in 20X1 and ` XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of ` XXX in 20X1 and ` XXX in 20X0, and the accumulated loss should be increased by ` XXX in 20X1 and ` XXX in 20X0.

Qualified Opinion -

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the state of affairs of the Company as of March 31, 20X1 and 20X0 and of its results of operations and its cash flows for the years then ended in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act").

Report on Other Legal and Regulatory Requirements -

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

For XYZ and Co.
Chartered Accountants Firm's
Registration Number

Signature
(Name of the Member Signing the Audit Report)
(Designation)
Membership Number

Place of Signature:

Date:

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Practical Insight

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Practical Insight into Emphasis of Matter Paragraph in an audit report

SpiceJet

INDEPENDENT AUDITOR'S REPORT

To the Members of SpiceJet Limited

Report on the Financial Statements

We have audited the accompanying financial statements of SpiceJet Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2014, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 1956, read with General Circular 8/2014 dated April 4, 2014, issued by the Ministry of Corporate Affairs. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

As more detailed in note 34 (a) (i) of the financial statements, no provision has been made for interest of Rs. 74.71 million up to March 31, 2014 (Rs. 74.71 million in the previous year), relating to earlier years, on the outstanding inter-corporate deposits taken by the Company. Had the same been accounted for, the net loss for the year ended March 31, 2014 and accumulated losses as at that date would have been higher by Rs. 74.71 million (Rs. 74.71 million in the previous year). Our audit report for the year ended March 31, 2013 was also qualified in respect of the above matter.

Qualified opinion

In our opinion and to the best of our information and according to the explanations given to us, *except for the effects of the matter described in the Basis for Qualified Opinion paragraph*, the financial statements give the information required by the Companies Act, 1956 ("the Act") in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2014;

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

(c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

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SUN GROUP

SpiceJet

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 (a) which indicates that the Company has incurred a net loss of Rs 10,032.44 million during the year ended March 31, 2014 and as of that date, the Company's total liabilities exceed its total assets by Rs 10,194.76 million. These conditions, along with other matters as set forth in Note 2 (a), indicate the existence of a material uncertainty regarding the Company's ability to continue as a going concern. Management's plans in this regard are more fully described in the said note.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

2. As required by section 227(3) of the Act, we report that:

   (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

   (b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   (c) The Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

   (d) *Except for the matter described in the Basis for Qualified Opinion paragraph*, in our opinion, the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards notified under the Companies Act, 1956, read with General Circular 8/2014 dated April 4, 2014, issued by the Ministry of Corporate Affairs; and

   (e) On the basis of written representations received from the directors as on March 31, 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For S.R. BATLIBOI & ASSOCIATES LLP
Chartered Accountants
ICAI Firm Registration Number: 101049W

per S. Balasubrahmanyam
Partner
Membership Number: 053315

Place : Chennai
Date : May 16, 2014

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SpiceJet

INDEPENDENT AUDITOR'S REPORT

To the Members of SpiceJet Limited

Report on the Financial Statements

We have audited the accompanying financial statements of SpiceJet Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2015, the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial control that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, as specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial controls system over financial reporting and the effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2015, its loss and its cash flows for the year ended on that date.

Emphasis of Matter

a. We draw attention to Note 2 (a) of the financial statements which indicates that the Company has incurred a net loss of Rs. 6,870.54 million during the year ended March 31, 2015, and as of that date, the Company's total liabilities exceed its total assets by Rs. 12,645.20 million. These conditions, along with other matters as set forth in Note 2 (a), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

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b. We draw attention to Note 42 of the financial statements regarding certain non-compliances of the requirements of the Companies Act, and classification of advances received towards securities proposed to be issued.

Our opinion is not qualified in respect of the above matters.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's report) Order, 2015 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure 1 a statement on the matters specified in paragraphs 3 and 4 of the Order.

2. As required by section 143 (3) of the Act, we report that:

   (a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

   (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;

   (c) The Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

   (d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;

   (e) The going concern matter described in the Emphasis of Matters paragraph above, in our opinion, may have an adverse effect on the functioning of the Company;

   (f) On the basis of written representations received from the directors as on March 31, 2015, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2015, from being appointed as a director in terms of section 164 (2) of the Act;

   (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

      i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note 35 to the financial statements;

      ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.

      iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

For S.R. BATLIBOI & ASSOCIATES LLP
Chartered Accountants
ICAI Firm Registration Number: 101049W

Aniruddh Sankaran
Partner
Membership Number: 211107

Place: Gurgaon
Date: May 28, 2015

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TATA CONSULTANCY SERVICES LIMITED
Annual Report 2016-17

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF
TATA CONSULTANCY SERVICES LIMITED

Report on the Consolidated Ind AS Financial Statements

We have audited the accompanying consolidated Ind AS financial statements of **Tata Consultancy Services Limited** ('the Company') and its subsidiary companies (the Company and its subsidiary companies together referred to as 'the Group') comprising the Consolidated Balance Sheet as at March 31, 2017, the Consolidated Statement of Profit and Loss (including other comprehensive income), the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and a summary of the significant accounting policies and other explanatory information ('the consolidated Ind AS financial statements').

Management's Responsibility for the Consolidated Ind AS Financial Statements

The Company's Board of Directors is responsible for the preparation of these consolidated Ind AS financial statements in terms of the requirements of the Companies Act, 2013 ('the Act') that give a true and fair view of the consolidated financial position, consolidated financial performance including other comprehensive income, consolidated changes in equity and consolidated cash flows of the Group in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) prescribed under Section 133 of the Act. The respective Board of Directors of the Company and its subsidiary companies included in the Group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the consolidated Ind AS financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated Ind AS financial statements by the Board of Directors of the Company.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated Ind AS financial statements based on our audit.

In conducting our audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated Ind AS financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated Ind AS financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated Ind AS financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the consolidated Ind AS financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Board of Directors, as well as evaluating the overall presentation of the consolidated Ind AS financial statements.

We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in the 'Other Matter' below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated Ind AS financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of reports of the other auditors on separate financial statements of the subsidiary companies referred to in the 'Other Matter' below, the aforesaid consolidated Ind AS financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, as at March 31, 2017, and their consolidated profit, consolidated total comprehensive income, consolidated changes in equity and consolidated cash flows for the year ended on that date.

Other Matter

We did not audit the financial statements of 9 subsidiaries, whose financial statements reflect total assets of ₹ 10,572 crores as at March 31, 2017, total revenues of ₹ 17,102 crores and net cash inflows amounting to ₹ 648 crores for the year ended on that date, as considered in the consolidated Ind AS financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us by the management and our opinion on the consolidated Ind AS financial statements in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, and our report in terms of Section 143(3) of the Act, insofar as it relates to the aforesaid subsidiaries is based solely on the reports of the other auditors.

Our opinion on the consolidated Ind AS financial statements above, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors.

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Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, based on our audit and on the consideration of the report of the other auditors on separate financial statements and the other financial information of the subsidiary companies, referred in the 'Other Matter' paragraph above, we report, to the extent applicable, that:

(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated Ind AS financial statements.

(b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated Ind AS financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors.

(c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss (including other comprehensive income), the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated Ind AS financial statements.

(d) In our opinion, the consolidated Ind AS financial statements comply with the Indian Accounting Standards prescribed under Section 133 of the Act, as applicable.

(e) On the basis of the written representations received from the Directors of the Company as on March 31, 2017 taken on record by the Board of Directors of the Company and the reports of the statutory auditors of its subsidiary companies incorporated in India, none of the directors of the Group companies, incorporated in India is disqualified as on March 31, 2017 from being appointed as a director in terms of Section 164 (2) of the Act.

(f) With respect to the adequacy of the internal financial controls over financial reporting and the operating effectiveness of such controls, refer to our separate Report in 'Annexure A', which is based on the auditors' reports of the Company and its subsidiary companies incorporated in India. Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the internal financial controls over financial reporting of Company and its subsidiary companies incorporated in India.

(g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, as amended, in our opinion and to the best of our information and according to the explanations given to us:

i) The consolidated Ind AS financial statements disclose the impact of pending litigations on the consolidated financial position of the Group.

ii) Provision has been made in the consolidated Ind AS financial statements, as required under the applicable law or accounting standards, for material foreseeable losses on long term contracts including derivative contracts.

iii) There has been no delay in transferring amounts required to be transferred, to the Investor Education and Protection Fund by the Company and its subsidiary companies incorporated in India.

iv) The Company has provided requisite disclosures in the consolidated Ind AS financial statements as regards the holding and dealings in Specified Bank Notes as defined in the Notification S.O. 3407(E) dated November 8, 2016 of the Ministry of Finance, during the period from November 8, 2016 to December 30, 2016 of the Group entities as applicable. Based on audit procedures performed and the representations provided to us by the management we report that the disclosures are in accordance with the relevant books of account maintained by those entities for the purpose of preparation of the consolidated Ind AS financial statements and as produced to us by the management of the respective Group entities.

For **DELOITTE HASKINS & SELLS LLP**
Chartered Accountants
(Firm's Registration No. 117366W / W - 100018)

P. R. RAMESH
Partner
(Membership No. 70928)

Mumbai, April 18, 2017

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Consolidated **Financial Statements**



Independent Auditors Report

To the Members of

Tata Consultancy Services Limited (Holding Company)

Report on the Audit of the Consolidated Ind AS Financial Statements

We have audited the accompanying consolidated Ind AS nancial statements of Tata Consultancy Services Limited (the Holding Company) and its subsidiary companies listed in Annexure I (collectively referred to as the Group), which comprise the Consolidated Balance Sheet as at 31 March 2018, the Consolidated Statement of Prot and Loss, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows, for the year then ended, including a summary of signicant accounting policies and other explanatory information (hereinafter referred to as the consolidated Ind AS nancial statements).

Managements Responsibility for the Consolidated Ind AS Financial Statements

The Holding Companys Board of Directors is responsible for the preparation of these consolidated Ind AS nancial statements in terms of the requirement of the Companies Act, 2013 (hereinafter referred to as the Act) that give a true and fair view of the consolidated state of affairs, consolidated prot/loss (including other comprehensive income), consolidated changes in equity and consolidated cash ows of the Group in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) prescribed under Section 133 of the Act. The respective Board of Directors of the companies included in the Group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal nancial controls that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the consolidated Ind AS nancial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated Ind AS nancial statements by the Directors of the Holding Company, as aforesaid.

In preparing the consolidated Ind AS nancial statements, the respective Board of Directors of the companies included in the Group are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors Responsibility

Our responsibility is to express an opinion on these consolidated Ind AS nancial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specied under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated Ind AS nancial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated Ind AS nancial statements. The procedures selected depend on the auditors judgment, including the assessment of the risks of material misstatement of the consolidated Ind AS nancial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal nancial control relevant to the Holding Companys preparation of the consolidated Ind AS nancial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made, as well as evaluating the overall presentation of the consolidated Ind AS nancial statements.

We are also responsible to conclude on the appropriateness of managements use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast signicant doubt on the ability of the Group to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors report to the related disclosures in the consolidated

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nancial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We believe that the audit evidence obtained by us is sufcient and appropriate to provide a basis for our audit opinion on the consolidated Ind AS nancial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated Ind AS nancial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group as at 31 March 2018, its consolidated prot (including other comprehensive income), its consolidated changes in equity and its consolidated cash ows for the year ended on that date.

Other Matter

Corresponding gures of the Group for the year ended 31 March 2017 have been audited by another auditor who expressed an unmodied opinion dated 18 April 2017 on the consolidated Ind AS nancial statements of the Group for the year ended 31 March 2017.

Our opinion on the consolidated Ind AS nancial statements is not modied in respect of the above matter.

Report on Other Legal and Regulatory Requirements

As required by Section 143(3) of the Act, based on our audit we report, to the extent applicable, that:

a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated Ind AS nancial statements.

b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated Ind AS nancial statements have been kept so far as it appears from our examination of those books.

c) The Consolidated Balance Sheet, the Consolidated Statement of Prot and Loss, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flow dealt with by this Report are in agreement with the books of account maintained for the purpose of preparation of the consolidated Ind AS nancial statements.

d) In our opinion, the aforesaid consolidated Ind AS nancial statements comply with the Indian Accounting Standards prescribed under Section 133 of the Act.

e) On the basis of the written representations received from the directors of the Holding Company and its subsidiary companies which are incorporated in India, as on 31 March 2018 and taken on record by the Board of Directors of respective companies, none of the directors of the Group companies incorporated in India is disqualied as on 31 March 2018 from being appointed as a director in terms of Section 164(2) of the Act.

f) With respect to adequacy of the internal nancial controls with reference to nancial statements of the Holding Company and its subsidiary companies incorporated in India and the operating effectiveness of such controls, refer to our separate Report in Annexure A.

g) With respect to the other matters to be included in the Auditors Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

   i. The consolidated Ind AS nancial statements disclose the impact of pending litigations on the consolidated nancial position of the Group Refer Note 32 to the consolidated Ind AS nancial statements;

   ii. Provision has been made in the consolidated Ind AS nancial statements, as required under the applicable law or Ind AS, for material foreseeable losses, on long-term contracts including derivative contracts. Refer Note 20 to the consolidated Ind AS nancial statements;

   iii. There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company and its subsidiary companies incorporated in India during the year ended 31 March 2018; and

   iv. The disclosures regarding details of specied bank notes held and transacted during 8 November 2016 to 30 December 2016 has not been made since the requirement does not pertain to nancial year ended 31 March 2018.

For **B S R & Co. LLP**
Chartered Accountants
Firms Registration No: 101248W/W-100022

Yezdi Nagporewalla
Partner
Membership No: 049265

Mumbai
19 April 2018

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INDEPENDENT AUDITOR'S REPORT

To the Members of
ICICI Bank Limited

Report on the Audit of the Standalone Financial Statements

Opinion

1. We have audited the accompanying standalone financial statements of ICICI Bank Limited ('the Bank'), which comprise the Standalone Balance Sheet as at 31 March 2023, the Standalone Profit and Loss Account, and Standalone Cash Flow Statement for the year then ended, and notes to the standalone financial statements, including a summary of significant accounting policies and other explanatory information ('the standalone financial statements').

2. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 ('the Act') and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time ('RBI Guidelines') in the manner so required for Banking companies and give a true and fair view in conformity with the Accounting Standards prescribed under section 133 of the Act read with the Companies (Accounting Standards) Rules, 2021 and other accounting principles generally accepted in India, of the state of affairs of the Bank as at 31 March 2023, and its profit, and its cash flows for the year ended on that date.

Basis for Opinion

3. We conducted our audit in accordance with the Standards on Auditing ('SAs') specified under section 143(10) of the Act. Our responsibilities under those SAs are further described in the 'Auditor's Responsibilities for the Audit of the Standalone Financial Statements' section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India ('ICAI') together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

4. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current year. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the Key Audit Matter
Identification and provisioning of non-performing advances (NPA): Total Loans and Advances (Net of Provision) as at 31 March 2023: ₹ 10,196,383,053 (in '000s) Provision for NPA as at 31 March 2023: ₹ 248,358,100 (in '000s) *(Refer Schedule 9, Schedule 17(3) and Schedule 18(17))*	
The Reserve Bank of India's ("RBI") guidelines on Income recognition and asset classification & Provisioning ("IRAC") and other circulars and directives issued by the RBI from time to time, which prescribe the prudential norms for identification and	Our audit procedures with respect to this matter included: Tested the design and operating effectiveness of key controls (including application controls) over approval, recording, monitoring and recovery of loans,

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

Key Audit Matter	How our audit addressed the Key Audit Matter
classification of performing & non-performing assets ("NPA") and the minimum provision required for such assets. The Bank is required to have Board approved policy as per IRAC guidelines for NPA identification & classification of advances and provision thereon. The provision on NPA is estimated based on ageing and classification of NPAs, recovery estimates, nature of loan product, value of security and other qualitative factors and is subject to the minimum provisioning norms specified by RBI and approved policy of the Bank in this regard. The Bank is also required to apply its judgement to determine the identification and provision required against NPAs by applying quantitative as well as qualitative factors. The risk of identification of NPAs is affected by factors like stress and liquidity concerns in certain sectors. Additionally, the Bank makes provisions on exposures that are not classified as NPA including advances to certain sectors and identified advances or group advances. These are classified as contingency provisions. Since the identification of NPAs and provisioning for advances require significant level of estimation and given its significance to the overall audit including possible observation by RBI which could result into disclosure in the financial statements, we have ascertained identification and provisioning for NPAs as a key audit matter.	monitoring overdue / stressed accounts, identification of NPA, provision for NPA and valuation of security and collateral on a test check basis. Further obtained an understanding of the contingency provision carried by the Bank and verified the underlying assumptions used by the Bank for such estimate. Tested application controls included test of automated controls, reports and system reconciliations. Reviewed existence and effectiveness of monitoring mechanisms such as Internal Audit, Systems Audit, and Concurrent Audit as per the policies and procedures of the Bank; Evaluated the governance process and review controls over calculations of provision of non-performing advances, basis of provisioning in accordance with the Board approved policy. Selected a sample of borrowers based on quantitative and qualitative risk factors for their assessment of appropriate identification & classification as NPA including computation of overdue ageing to assess its correct classification and provision amount as per extant IRAC norms and the Bank policy. Performed other substantive procedures included and not limited to the following: › Selected samples of performing loans and assessed independently as to whether those should be classified as NPA; › For samples selected, reviewed the collateral valuations, financial statements and other qualitative information › Considered the accounts reported by the Bank and other Banks as Special Mention Accounts ("SMA") in RBI's Central Repository of Information on Large Credits (CRILC) to identify stress. › For selected samples, assessed independently, the accounts that can potentially be classified as NPA and Red flagged accounts. › Inquired with the credit and risk departments to ascertain if there were indicators of stress or an occurrence of an event of default in a particular loan account or any product category which needed to be considered as NPA.

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

Key Audit Matter	How our audit addressed the Key Audit Matter
	› Examined the accounts under watchlist report provided by the risk department. › Discussed with the management of the Bank on sectors where there is a perceived credit risk and the steps taken to mitigate the risks to identified sectors. › Selected and tested samples for accounts which are restructured as per RBI Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances; and › Assessed appropriateness & the adequacy of disclosures against the relevant accounting standards and RBI requirements relating to NPAs.

Evaluation of Litigations included in contingent liabilities.

(Included under contingent liabilities) (in '000)

Particulars	As at 31 March 2023	As at 31 March 2022
Legal Cases	**3,027,295**	3,201,365
Taxes	**78,935,723**	79,637,364
Total Claims against Bank not acknowledged as Debt	**81,963,017**	**82,838,729**

(Refer Schedule 12 I, Schedule 17(12) and Schedule 18(36))

The Bank has material open tax litigations including matters under dispute which involve significant judgement to determine the possible outcome of these disputes. Significant management judgement is needed in determining whether an obligation exists and whether a provision should be recognised as at the reporting date, in accordance with the accounting criteria set under Accounting Standard 29 - Provisions, Contingent Liabilities and Contingent Assets ('AS 29'), or whether it needs to be disclosed as a contingent liability. Further, significant judgements are also involved in measuring such obligations, the most significant of which are: › Assessment of Liability: Judgement is involved in determination of whether outflow in respect of identified material matters are probable and can be estimated reliably.	Our Audit procedures with respect to this matter included: Tested the design and operating effectiveness of the Bank's key controls over the estimation, monitoring and disclosure of provisions and contingent liabilities on test check basis. Our substantive audit procedures included and were not limited to the following: › Obtained an understanding of Bank's process for determining tax liabilities, tax provisions and contingent liabilities pertaining to legal and taxation matters; › Obtained a list of cases /matters in respect of which the litigations were outstanding as at reporting date:

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

Key Audit Matter	How our audit addressed the Key Audit Matter
› Adequacy of provisions: The appropriateness of assumption and judgements used in estimation of significant provisions; and › Adequacy of disclosures of provision for liabilities and charges, and contingent liabilities. The Bank's assessment is supported by the facts of matter, their own judgement, experience, and advises from legal and independent tax consultants wherever considered necessary. Since the assessment of these open litigations requires significant level of judgement in interpretation of law, we have included this as a key audit matter.	• For significant legal matters, we obtained external confirmations and corroborated with management's documented conclusions on the assessment of outstanding litigations against the Bank; • For significant taxation matters, we involved our tax specialists to gain an understanding of status of the litigations including understanding of various orders/ notices received by the Bank and management's grounds of appeals before the relevant appellate authorities. › Evaluated the merit of the subject matter under consideration with reference to the grounds presented therein and available independent legal / tax advice; › Inquired with appropriate level of the management including status update, expectation of outcomes with the basis, and the future course of action contemplated by the Bank; › Reviewed minutes of meetings with Board, and Audit committee in this regard › Agreed underlying tax balances to supporting documentation including correspondence with the Tax authorities; and › Assessed the appropriateness & adequacy of disclosures within the standalone financial statements in accordance with the applicable accounting standards and requirements of RBI in this regard.

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Information Technology ('IT') systems and controls impacting financial controls.	
The Bank has a complex IT architecture to support its day-to-day business operations. High volume of transactions is processed and recorded on single or multiple applications. The reliability and security of IT systems plays a key role in the business operations of the Bank. Since large volume of transactions are processed daily, the IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner.	Our Audit procedures with respect to this matter included: For testing the IT general controls, application controls and IT dependent manual controls, we involved IT specialists as part of the audit. The team also assisted in testing the accuracy of the information produced by the Bank's IT systems. Obtained a comprehensive understanding of IT applications landscape implemented at the Bank. It was followed by process understanding, mapping of applications to the same and understanding financial risks posed by people-process and technology.
Appropriate IT general controls and application controls are required to ensure that such IT systems are able to process the data, as required, completely, accurately and consistently for reliable financial reporting. We have identified 'IT systems and controls' as key audit matter because of the high level automation, significant number of systems being used by the management and the complexity of the IT architecture and its impact on the financial reporting system.	Key IT audit procedures includes testing design and operating effectiveness of key controls operating over user access management (which includes user access provisioning, de-provisioning, access review, password configuration review, segregation of duties and privilege access), change management (which include change release in production environment are compliant to the defined procedures and segregation of environment is ensured), program development (which include review of data migration activity), computer operations (which includes testing of key controls pertaining to, backup, Batch processing (including interface testing), incident management and data centre security), System interface controls. This included testing that requests for access to systems were appropriately logged, reviewed, and authorized. In addition to the above, the design and operating effectiveness of certain automated controls, that were considered as key internal system controls over financial reporting were tested. Using various techniques such as inquiry, review of documentation / record / reports, observation, and re-performance. We also tested few controls using negative testing technique. Tested compensating controls and performed alternate procedures, where necessary. In addition, understood where relevant changes made to the IT landscape during the audit period.

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of Derivatives (Included under contingent liabilities) (in '000) **Particulars** / **As at 31 March 2023** / **As at 31 March 2022** Notional amounts / **40,984,024,707** / **37,056,016,613** *(Refer Schedule 12.III, 12.VI, 12.VII and 18(14))*	
Derivatives are valued through models with external inputs. The derivatives portfolio of the Bank primarily includes transactions which are carried out on behalf of its clients (and are covered on a back-to-back basis) and transactions to hedge the Bank's interest and foreign currency risk.	Our audit procedures included, but were not limited to, the following: We obtained an understanding, evaluated the design, and tested the operating effectiveness of the key controls over the valuation processes, including: › independent price verification performed by a management expert; and model governance and validation.
A significant degree of management judgement is involved in the application of valuation techniques through which the value of the Bank's derivatives is determined. The financial statement risk arises particularly with respect to complex valuation models, valuation parameters, and inputs that are used in determining fair values. Considering the significance of the above matter to the financial statements, significant management estimates and judgements, and auditor attention required to test such estimates and judgements, we have identified this as a key audit matter for current year audit.	On a sample basis, we performed an independent reassessment of the valuation of derivatives and evaluated significant models and methodologies used in valuation, to ensure compliance with the relevant RBI regulations, reasonableness of the valuation methodology and the inputs used.

Information Other than the Standalone Financial Statements and Auditor's Report Thereon

6. The Bank's Board of Directors are responsible for the other information. The other information comprises the information included in the Annual Report but does not include the standalone financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the standalone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements, or knowledge obtained in the audit, or otherwise appears to be materially misstated.

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action as applicable under the relevant laws and regulations.

Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

7. The Bank's Board of Directors are responsible for the matters stated in section 134(5) of the Act with respect to the preparation and presentation of these standalone financial statements that give a true and fair view of the financial position, financial performance, and cash flows of the Bank in accordance with accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with the Companies (Accounting Standards) Rules, 2021, and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the RBI from time to time ('RBI Guidelines'). This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act and the RBI Guidelines for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

8. In preparing the standalone financial statements, Board of Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

9. The Board of Directors are also responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Standalone Financial Statements

10. Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

11. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Bank has adequate internal financial controls with reference to standalone financial statements in place and the operating effectiveness of such controls;

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management;
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone[1] financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current year, and are therefore, the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

15. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 and Section 133 of the Act and the relevant rules issued thereunder.

16. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:

    a. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;

    b. The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.

    c. Since the key operations of the Bank are automated with the key applications integrated to the core banking system, the audit is carried out centrally as all the necessary records and data required for the purposes of our audit are available therein. We have visited 156 branches to examine the records maintained at the branches for the purpose of our audit.

17. As required by Section 143(3) of the Act, we report that:

    a. We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

    b. In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;

    c. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

d. In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act read with relevant rules issued thereunder, to the extent they are not inconsistent with the accounting policies prescribed by the RBI;

e. On the basis of the written representations received from the directors as on 31 March 2023 taken on record by the Board of Directors, none of the directors are disqualified as on 31 March 2023 from being appointed as a director in terms of Section 164(2) of the Act;

f. With respect to the adequacy of the internal financial controls with reference to standalone financial statements of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A"; and

g. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our information and according to the explanations given to us:

i. The Bank has disclosed the impact of pending litigations on its financial position in its standalone financial statements (Refer Schedule 12, Schedule 17(12) and Schedule 18(41));

ii. The Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts ((Refer Schedule 17(12) and Schedule 18(41));

iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank during the year ended 31 March 2023;

iv. (1) The Management has represented that, to the best of its knowledge and belief, as disclosed in schedule 18(57) to the standalone financial statements, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Bank to or in any other person(s) or entity(ies), including foreign entities ('Intermediaries'), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Bank ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;

(2) The Management has represented that, to the best of it's knowledge and belief, as disclosed in schedule 18(57) to the standalone financial statements, no funds have been received by the Bank from any person(s)/entity(ies), including foreign entities ("Funding Parties"), that the Bank has directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and

(3) Based on such audit procedures performed, as considered reasonable and appropriate in the circumstances, nothing has come to our attention that causes us to believe that the management representations under sub-clauses (1) and (2) above contain any material misstatement.

v. The Bank has declared and paid dividend during the year which is in compliance with section 123 of the Act and the Banking Regulation Act, 1949.

vi. As the proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014 (as amended), which provides for the accounting software used by the Bank for maintaining its books of account to have the feature for recording of audit trail (edit log) facility and related matters, is applicable for the Bank only with effect from financial year beginning 1 April 2023, the reporting under clause (g) of Rule 11 is currently not applicable.

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INDEPENDENT AUDITOR'S REPORT *(Contd.)*

h. With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of Section 197(16) of the Act, as amended, the Bank is a banking Company as defined under Banking Regulation Act, 1949. Accordingly, the requirements prescribed under Section 197 of the Act do not apply.

For M S K A & Associates
Chartered Accountants
ICAI Firm Registration No.105047W

Tushar Kurani
Partner
Membership Number.: 118580
UDIN: 23118580BGXROY2671

Place: Mumbai
Date: 22 April 2023

For KKC & Associates LLP
Chartered Accountants
(Formerly Khimji Kunverji & Co LLP)
ICAI Firm Registration No.105146W/W100621

Gautam Shah
Partner
Membership Number.: 117348
UDIN: 23117348BGSZHO1617

Place: Mumbai
Date: 22 April 2023

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Annexure "A" to the Independent Auditor's report on the Standalone Financial Statements of ICICI Bank Limited for the year ended 31 March 2023

[Referred to in paragraph "17(f)" under 'Report on Other Legal and Regulatory Requirements' section of our report of even date]

Report on the Internal Financial Controls with reference to the aforesaid Standalone Financial Statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013.

Opinion

1. We have audited the internal financial controls with reference to standalone financial statements of ICICI Bank Limited ("the Bank") as at 31 March 2023 in conjunction with our audit of the standalone financial statements of the Bank for the year ended on that date.

2. In our opinion, the Bank has, in all material respects, an adequate internal financial controls with reference to standalone financial statements and such internal financial controls with reference to standalone financial statements were operating effectively as at 31 March 2023, based on the internal control with reference to standalone financial statements criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI) (the "Guidance Note").

Management's Responsibility for Internal Financial Controls

3. The Bank's Management is responsible for establishing and maintaining internal financial controls based on the internal control with reference to standalone financial statements criteria established by the Bank considering the essential components of internal control stated in the Guidance Note. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditors' Responsibility

4. Our responsibility is to express an opinion on the Bank's internal financial controls with reference to standalone financial statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to standalone financial statements was established and maintained and if such controls operated effectively in all material respects.

5. Our audit involves performing procedures to obtain audit evidence about the adequacy of internal financial controls with reference to standalone financial statements and their operating effectiveness. Our audit of internal financial controls with reference to standalone financial statements included obtaining an understanding of internal financial controls with reference to standalone financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error.

6. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls with reference to standalone financial statements.

Meaning of Internal Financial Controls with Reference to Standalone Financial Statements

7. Bank's internal financial control with reference to standalone financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of standalone financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control with reference to standalone financial statements includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and

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Annexure A *(Contd.)*

dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of standalone financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the bank's assets that could have a material effect on the standalone financial statements.

Inherent Limitations of Internal Financial Controls with Reference to Standalone Financial Statements

8. Because of the inherent limitations of internal financial controls with reference to standalone financial statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to standalone financial statements to future periods are subject to the risk that the internal financial control with reference to standalone financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

For M S K A & Associates
Chartered Accountants
ICAI Firm Registration No.105047W

Tushar Kurani
Partner
Membership Number.: 118580
UDIN: 23118580BGXROY2671

Place: Mumbai
Date: 22 April 2023

For KKC & Associates LLP
Chartered Accountants
(Formerly Khimji Kunverji & Co LLP)
ICAI Firm Registration No.105146W/W100621

Gautam Shah
Partner
Membership Number.: 117348
UDIN: 23117348BGSZHO1617

Place: Mumbai
Date: 22 April 2023

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INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITORS REPORT

To The Members of Reliance Industries Limited

Report on the Audit of the Standalone Financial Statements

Opinion

We have audited the accompanying Standalone Financial Statements of RELIANCE INDUSTRIES LIMITED (the Company) which includes its joint operations, which comprise the Balance Sheet as at 31st March, 2023, and the Statement of Profit and Loss (including Other Comprehensive Income), the Statement of Cash Flow and the Statement of Changes in Equity for the year then ended, and notes to the Standalone Financial Statements including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid Standalone Financial Statements give the information required by the Companies Act, 2013 (the Act) in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, (Ind AS) and other accounting principles generally accepted in India, of the state of affairs of the Company as at 31st March, 2023, and its profit, total comprehensive income, its cash flows and the changes in equity for the year ended on that date.

Basis for Opinion

We conducted our audit of the Standalone Financial Statements in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those Standards are further described in the Auditors Responsibility for the Audit of the Standalone Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the ethical requirements that are relevant to our audit of the Standalone Financial Statements under the provisions of the Act and the Rules made thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAIs Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the Standalone Financial Statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Standalone Financial Statements of the current period. These matters were addressed in the context of our audit of the Standalone Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Sr. No.	Key Audit Matter	Auditors Response
1.	**Estimates of Oil and Gas Reserves**	
	Significant judgment and estimates are involved in estimating oil and gas reserves which require consideration of factors such as the availability of geological and engineering data, reservoir performance data, acquisition and divestment activity, drilling of new wells and commodity prices. The quantum of oil and gas reserves have a direct impact on determination of depletion charge for the Companys oil and gas assets and on the assessment of the recoverability of the carrying values of development rights. Accordingly, the estimation of oil and gas reserves has been considered as a key audit matter in view of the significant judgements and estimates involved. Refer Notes B.2 (d) and Note C (A) to the Standalone Financial Statements.	Our audit procedures included and were not limited to the following: Performed walk-through of the estimation process associated with the oil and gas reserves. Tested the design, implementation and operating effectiveness of the controls established by the Company in the process of estimation of oil and gas reserves. Assessed the objectivity and competence of the Companys internal specialists involved in estimating oil and gas reserves. Performed substantive testing of the depletion computation. Involved internal specialists to assess the reasonableness of valuation assumptions and appropriateness of the valuation methodology used in assessing the recoverability of the carrying value of exploration and evaluation assets included in intangible assets under development. Reviewed the disclosures made by the Company in the Standalone Financial Statements for compliance with the applicable authoritative pronouncements.

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Sr. No.	Key Audit Matter	Auditors Response
2.	**Litigation matters**	
	The Company has certain significant ongoing legal proceedings for various complex matters with the Government of India and other parties, continuing from earlier years, which are as under: **1. Matters in relation to Oil and Gas:** (a) Disallowance of certain costs under the production sharing contract, relating to Block KG-DWN-98/3 and consequent deposit of differential revenue on gas sales from D1D3 field to the gas pool account maintained by Gail (India) Limited. (b) Claim against the Company in respect of gas said to have migrated from neighbouring blocks (KGD6). (c) Claims relating to limits of cost recovery, profit sharing and audit and accounting provisions of the public sector corporations etc., arising under two production sharing contracts entered into in 1994. (d) Suit for specific performance of a contract for supply of natural gas before the Honble Bombay High Court. Refer Notes 36.3, and 36.4 to the Standalone Financial Statements. **2. Matter relating to trading in shares of Reliance Petroleum Limited (RPL):** Securities Appellate Tribunal judgement dated November 5, 2020, dismissing the Companys appeal made in relation to Order passed by the Securities and Exchange Board of India (SEBI) under Section 11B of the SEBI Act, 1992 in connection with trades by the Company in the stock exchanges in 2007 in the shares of Reliance Petroleum Limited, then subsidiary of the Company. Refer Note 37.(IV) to the Standalone Financial Statements. Due to complexity involved in these litigation matters, managements judgement regarding recognition, measurement and disclosure of provisions for these legal proceedings is inherently uncertain and might change over time as the outcomes of the legal cases are determined. Accordingly, it has been considered as a key audit matter.	Our audit procedures included and were not limited to the following: Tested the design, implementation and operating effectiveness of the controls established by the Company in the process of evaluation of litigation matters. Assessed the managements position through discussions with the in-house legal expert and external legal opinions obtained by the Company (where considered necessary) on both, the probability of success in the aforesaid cases, and the magnitude of any potential loss. Discussed with the management on the developments in respect of these litigations during the year ended 31st March 2023 till the date of approval of the financial statements. Rolled out of enquiry letters to the Companys legal counsel and assessed the responses received. Assessed the objectivity and competence of the Companys legal counsel involved in the process. Reviewed the disclosures made by the Company in the financial statements. Obtained Management representation letter on the assessment of these matters.
3.	**Fair Valuation of Investments**	
	As at 31st March, 2023, the Company has investments of ₹ 78,093 crore in Equity and Preference Shares of Jio Digital Fibre Private Limited (JDFPL) which are measured at fair value as per Ind AS 109 read with Ind AS 113. These investments are Level 3 investments as per the fair value hierarchy in Ind AS 113 and accordingly determination of fair value is based on a high degree of judgement and input from data that is not directly observable in the market. Further, the fair value is significantly influenced by the expected pattern of future benefits of the tangible assets of JDFPL (fibre assets). Accordingly, it has been considered as a key audit matter. Refer Notes 2 and 39A to the Standalone Financial Statements.	Our audit procedures included and were not limited to the following: Tested the design, implementation and operating effectiveness of the controls established by the Company in the process of determination of fair value of the investments. Reviewed the fair valuation reports provided by the management by involvement of internal valuation specialists. Assessed the assumptions around the cash flow forecasts including discount rates, expected growth rates and its effect on business and terminal growth rates used and the valuation methodology inter-alia through involvement of the internal specialists. Discussed potential changes in key drivers as compared to previous year / actual performance with management to evaluate the inputs and assumptions used in the cash flow forecasts. Assessed the objectivity and competence of our internal specialist and Companys external experts involved in the process. Reviewed the disclosures made by the Company in the financial statements. Obtained Management Representation Letter as regards to fair valuation of these investments

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Sr. No.	Key Audit Matter	Auditors Response
4.	**Information Technology (IT) systems and controls over financial reporting**	
	We identified IT systems and controls over financial reporting as a key audit matter for the Company because its financial accounting and reporting systems are fundamentally reliant on IT systems and IT controls to process significant transaction volumes, specifically with respect to revenue and raw material consumption. Also, due to such large transaction volumes and the increasing challenge to protect the integrity of the Companys systems and data, cyber security has become more significant. Automated accounting procedures and IT environment controls, which include IT governance, IT general controls over program development and changes, access to program and data and IT operations, IT application controls and interfaces between IT applications, are required to be designed and to operate effectively to ensure accurate financial reporting.	Our procedures included and were not limited to the following: Assessed the complexity of the IT environment by engaging IT specialists and through discussion with the head of IT and internal audit at the Company and identified IT applications that are relevant to our audit. Tested the design, implementation and operating effectiveness of IT general controls over program development and changes, access to program and data and IT operations by engaging IT specialists. Performed inquiry procedures with the head of cybersecurity at the Company in respect of the overall security architecture and any key threats addressed by the Company in the current year. Tested the design, implementation and operating effectiveness of IT application controls in the key processes impacting financial reporting of the Company by engaging IT specialists. Tested the design, implementation and operating effectiveness of controls relating to data transmission through the different IT systems to the financial reporting systems by engaging IT specialists.

Information Other than the Financial Statements and Auditors Report Thereon

The Companys Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Consolidated Financial Statements, Standalone Financial Statements and our auditors report thereon.

Our opinion on the Standalone Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Standalone Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Standalone Financial Statements, or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements

The Companys Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these Standalone Financial Statements that give a true and fair view of the financial position, financial performance including other comprehensive income, cash flows and changes in equity of the Company in accordance with the Ind AS and other accounting principles generally accepted in India. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the Standalone Financial Statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the Standalone Financial Statements, management is responsible for assessing the Companys ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Companys Board of Directors are also responsible for overseeing the Companys financial reporting process.

Auditors Responsibility for the Audit of the Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the Standalone Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted

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in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Standalone Financial Statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the Standalone Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls with reference to Standalone Financial Statements in place and the operating effectiveness of such controls.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

Conclude on the appropriateness of managements use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Companys ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors report to the related disclosures in the Standalone Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the Standalone Financial Statements, including the disclosures, and whether the Standalone Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

Materiality is the magnitude of misstatements in the Standalone Financial Statements that, individually or in aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the Standalone Financial Statements may be influenced.

We consider quantitative materiality and qualitative factors (i) in planning the scope of our audit work and in evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatements in the Standalone Financial Statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Standalone Financial Statements of the current year and are therefore the key audit matters. We describe these matters in our auditors report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

The Standalone Financial Statements of the Company for the year ended 31st March, 2022, prepared in accordance with Ind AS have been audited by the predecessor auditors. The report of the predecessor auditors dated 6th May, 2022, expressed an unmodified opinion.

Report on Other Legal and Regulatory Requirements

1. As required by Section 143(3) of the Act, based on our audit, we report that:

   a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

   b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.

   c) The Balance Sheet, the Statement of Profit and Loss including Other Comprehensive Income, the Statement of Cash Flow and Statement of Changes in Equity dealt with by this Report are in agreement with the books of account.

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d) In our opinion, the aforesaid Standalone Financial Statements comply with the Ind AS specified under section 133 of the Act.

e) On the basis of the written representations received from the directors as on 31st March, 2023 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2023 from being appointed as a director in terms of section 164(2) of the Act.

f) With respect to the adequacy of the internal financial controls with reference to Standalone Financial Statements of the Company and the operating effectiveness of such controls, refer to our separate Report in Annexure A Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Companys internal financial controls with reference to Standalone Financial Statement.

g) With respect to the other matters to be included in the Auditors Report in accordance with the requirements of section 197(16) of the Act, as amended, in our opinion and to the best of our information and according to the explanations given to us, the remuneration paid by the Company to its directors during the year is in accordance with the provisions of section 197 read with Schedule V of the Act.

h) With respect to the other matters to be included in the Auditors Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, as amended in our opinion and to the best of our information and according to the explanations given to us:

i. The Company has disclosed the impact of pending litigations on its financial position in its Standalone Financial Statements Refer Note 37 to the Standalone Financial Statements.

ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts.

iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company except for an amount of ₹ 2 crore which are held in abeyance due to pending legal cases.

iv. (a) The Management has represented that, to the best of its knowledge and belief, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (Intermediaries), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (Ultimate Beneficiaries) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

(b) The Management has represented, that, to the best of its knowledge and belief, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (Funding Parties), with the understanding, whether recorded in writing or otherwise, that the Company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

(c) Based on the audit procedures performed that have been considered reasonable and appropriate in the circumstances, nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) and (ii) of Rule 11(e) of the Companies (Audit and Auditors) Rules, 2014, as provided under (a) and (b) above, contain any material misstatement.

v. The final dividend proposed in the previous year, declared and paid by the Company during the year is in accordance with section 123 of the Act.

As stated in Note 46 to the Standalone Financial Statements, the Board of Directors of the Company have proposed final

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dividend for the year which is subject to the approval of the members at the ensuing Annual General Meeting. The dividend proposed is in accordance with section 123 of the Act.

vi. Proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014 for maintaining books of account using accounting software which has a feature of recording audit trail (edit log) facility is applicable to the Company w.e.f. 1st April, 2023, and accordingly, reporting under Rule 11(g) of Companies (Audit and Auditors) Rules, 2014 is not applicable for the financial year ended 31st March, 2023.

2. As required by the Companies (Auditors Report) Order, 2020 (the Order) issued by the Central Government in terms of section 143(11) of the Act, we give in Annexure B a statement on the matters specified in paragraphs 3 and 4 of the Order.

For **Deloitte Haskins & Sells LLP**
Chartered Accountants
Firms Registration No. 117366W/W-100018

Abhijit A. Damle
Partner
Membership No.102912
UDIN: 23102912BGXWAX6993

Place: Mumbai
Date: July 21, 2023

For **Chaturvedi & Shah LLP**
Chartered Accountants
Firms Registration No. 101720W/W-100355

Sandesh Ladha
Partner
Membership No. 047841
UDIN: 23047841BGVNMN5908

Place: Mumbai
Date: July 21, 2023

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Annexure A

To The Independent Auditors Report
(Referred to in paragraph 1(f) under Report on Other Legal and Regulatory Requirements section of our report of even date)

Report on the Internal Financial Controls with reference to Standalone Financial Statements under Clause (i) of sub-section 3 of section 143 of the Companies Act, 2013 (the Act)

We have audited the internal financial controls with reference to Standalone Ind AS Financial Statements of RELIANCE INDUSTRIES LIMITED (the Company) which includes its joint operations as of 31st March, 2023 in conjunction with our audit of the Standalone Financial Statements of the Company for the year ended on that date.

Managements Responsibility for Internal Financial Controls

The Companys management is responsible for establishing and maintaining internal financial controls based on the internal control with reference to Standalone Financial Statements criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to companys policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditors Responsibility

Our responsibility is to express an opinion on the Companys internal financial controls with reference to Standalone Financial Statements of the Company based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the Guidance Note) issued by the Institute of Chartered Accountants of India and the Standards on Auditing prescribed under -section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to Standalone Financial Statements. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to Standalone Financial Statements was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to Standalone Financial Statements and their operating effectiveness. Our audit of internal financial controls with reference to Standalone Financial Statements included obtaining an understanding of internal financial controls with reference to Standalone Financial Statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditors judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Companys internal financial controls with reference to Standalone Financial Statements.

Meaning of Internal Financial Controls With reference to Standalone Financial Statements

A companys internal financial control with reference to Standalone Financial Statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A companys internal financial control with reference to Standalone Financial Statements includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the companys assets that could have a material effect on the financial statements.

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Inherent Limitations of Internal Financial Controls With reference to Standalone Financial Statements

Because of the inherent limitations of internal financial controls with reference to Standalone Financial Statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to Standalone Financial Statements to future periods are subject to the risk that the internal financial control with reference to Standalone Financial Statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

For **Deloitte Haskins & Sells LLP**
Chartered Accountants
Firms Registration No. 117366W/W-100018

Abhijit A. Damle
Partner
Membership No.102912
UDIN: 23102912BGXWAX6993

Place: Mumbai
Date: July 21, 2023

Opinion

In our opinion, to the best of our information and according to the explanations given to us, the Company has, in all material respects, an adequate internal financial controls with reference to Standalone Financial Statements and such internal financial controls with reference to Standalone Financial Statements were operating effectively as at 31st March, 2023, based on the criteria for internal financial control with reference to Standalone Financial Statements established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

For **Chaturvedi & Shah LLP**
Chartered Accountants
Firms Registration No. 101720W/W-100355

Sandesh Ladha
Partner
Membership No. 047841
UDIN: 23047841BGVNMN5908

Place: Mumbai
Date: July 21, 2023

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Annexure B

To the Independent Auditors Report of even date on the Standalone Financial Statements of Reliance Industries Limited
(Referred to in paragraph 2 under Report on Other Legal and Regulatory Requirements section of our report of even date)

In terms of the information and explanations sought by us and given by the Company and the books of account and records examined by us in the normal course of audit and to the best of our knowledge and belief, we state that:

(i) a) (A) The Company has maintained proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment.

(B) The Company has maintained proper records showing full particulars of Intangible assets.

b) The Company has a program of verification of Property, Plant and Equipment so as to cover all the items once in every three years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the program, certain items of Property, Plant and Equipment were due for verification during the year and were physically verified by the Management during the year. According to the information and explanations given to us, no material discrepancies were noticed on such verification.

c) With respect to immovable properties (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the Company) disclosed in the Standalone Financial Statements included in Property, Plant and Equipment, according to information and explanations given to us and based on verification of the registered sale deed/ Transfer deed/ Conveyance deed provided to us, we report that, the title deeds of such immovable properties are held in the name of the Company as at balance sheet date, except for leasehold land as disclosed in Note 1.7 to the Standalone Financial Statements in respect of which the allotment letters are received and supplementary agreements entered; however, lease deeds are pending execution.

d) The Company has not revalued any of its Property, Plant and Equipment and intangible assets during the year.

e) No proceedings have been initiated during the year or are pending against the Company as at 31st March, 2023 for holding any benami property under the Prohibition of Benami Property Transactions Act, 1988 and Rules made thereunder.

(ii) a) The inventories except for goods in transit were physically verified during the year by the Management at reasonable intervals. In our opinion and according to the information and explanations given to us, the coverage and the procedure of such verification by the Management is appropriate having regard to size of the Company and the nature of its operations. In respect of goods in transit, the said goods have been received subsequent to the year-end. No discrepancies of 10% or more in the aggregate for each class of inventories were noticed on such physical verification when compared with books of account.

b) According to the information and explanations given to us, the Company has been sanctioned working capital limits in excess of ₹ 5 crore, in aggregate, at points of time during the year, from banks on the basis of security of current assets. In our opinion and according to information and explanations given to us, and as disclosed in Note 21.4 of the Standalone Financial Statements, the quarterly returns or statements filed by the Company with such banks are in agreement with the books of account of the Company of the respective quarters.

(iii) The Company has made investments in, provided guarantee or security and granted loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties during the year, in respect of which:

a) The Company has provided loans and guarantee (in respect of loans) during the year and details of which are given below:

(₹ in crore)

	Loans	Guarantees
Aggregate amount granted/ provided during the year		
- Subsidiaries	70,297	-
- Joint Ventures	-	1,900
Balance outstanding as at balance sheet date		
- Subsidiaries	23,043	2,966
- Joint Ventures	-	1,900

The Company has not provided advances in the nature of loans or security to any other entity during the year.

b) The investments made, guarantees provided and the terms and conditions of the grant of all the above-mentioned loans and guarantees provided during the year are, in our opinion, prima facie, not prejudicial to the Companys interest.

c) In respect of loans granted by the Company, the schedule of repayment of principal and payment of interest has been stipulated and the repayments or receipts are regular.

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d) According to information and explanations given to us and based on the audit procedures performed, in respect of loans granted by the Company, there is no overdue amount remaining outstanding as at the balance sheet date.

e) No loans granted by the Company which had fallen due during the year, that have been renewed or extended or fresh loans granted to settle the overdue of existing loans given to the same parties.

f) According to information and explanations given to us and based on the audit procedures performed, the Company has not granted any loans either repayable on demand or without specifying any terms or period of repayment during the year. Hence, reporting under clause 3(iii)(f) of the Order is not applicable.

(iv) The Company has not granted loans or provided any guarantees or securities to parties covered under section 185 of the Act. The Company has complied with the provisions of section 186 of the Companies Act, 2013 in respect of loans granted, investments made and guarantees and securities provided, as applicable.

(v) The Company has neither accepted deposits from the public nor accepted any amount which are deemed to be deposits within the meaning of sections 73 to 76 of the Act and the Rules made thereunder. Hence, reporting under clause 3(v) of the Order is not applicable.

(vi) We have broadly reviewed the books of account maintained by the Company pursuant to the Companies (Cost Records and Audit) Rules, 2014, as amended, prescribed by the Central Government for the maintenance of cost records under section 148(1) of the Companies Act, 2013, related to the manufacturing activities and are of the opinion that, prima facie, the prescribed cost records have been made and maintained by the Company.

(vii) (a) In respect of statutory dues:

Undisputed statutory dues, including goods and services tax, provident fund, employees state insurance, income tax, sales tax, service tax, duty of customs, duty of excise, value added tax, cess and other material statutory dues applicable to the Company have generally been regularly deposited by it with the appropriate authority.

There were no undisputed amounts payable in respect of goods and services tax, provident fund, employees state insurance, income tax, sales tax, service tax, duty of customs, duty of excise, value added tax, cess and other material statutory dues in arrears as at 31st March, 2023 for a period of more than six months from the date they became payable.

(b) Details of statutory dues referred to in sub-clause (a) above which have not been deposited as on 31st March, 2023 on account of any dispute are given below:

Name of the statute	Nature of the dues	Amount (₹ in crore)	Period to which the amount relates	Forum where the dispute is pending
Central Excise Act, 1944	Excise Duty and Service Tax	-*	FY 1990-91 to FY 1996-97	Commissioner of Central Excise (Appeals)
		89	FY 1991-92 to FY 2017-18	The Customs, Excise and Service Tax Appellate Tribunal
Central Sales Tax Act, 1956 and Sales Tax Act of various States	Sales Tax/ VAT/Octroi and Entry Tax	26	FY 2000-01 to FY 2017-18	Joint Commissioner / Commissioner (Appeals) of Sales Tax
		34	FY 1999-00 to FY 2019-20	Sales Tax Appellate Tribunal
		97	FY 2004-05 to FY 2013-14	High Court
Customs Act, 1962	Customs Duty	20	FY 2017-18	The Customs, Excise and Service Tax Appellate Tribunal
Goods and Services Tax Act, 2017	Goods and Services Tax	1	FY 2017-18 to 2021-22	Commissioner (Appeals)
		-*	FY 2017-18 to 2021-22	Tribunal
Income Tax Act, 1961	Income Tax	356	AY 2013-14, AY 2014-15, AY 2015-16, AY 2016-17, AY 2017-18, AY 2021-22, AY 2022-23	Commissioner of Income Tax (Appeals)

* Less than ₹ 1 crore

(viii) There were no transactions relating to previously unrecorded income that were surrendered or disclosed as income in the tax assessments under the Income Tax Act, 1961 (43 of 1961) during the year.

(ix) (a) In our opinion, the Company has not defaulted in the repayment of loans or other borrowings or in the payment of interest thereon to any lender during the year.

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(b) The Company has not been declared willful defaulter by any bank or financial institution or government or any government authority.

(c) To the best of our knowledge and belief, in our opinion, term loans availed by the Company were, applied by the Company during the year for the purposes for which the loans were obtained.

(d) On an overall examination of the Standalone Financial Statements of the Company, funds raised on short-term basis have, prima facie, not been used during the year for long-term purposes by the Company.

(e) On an overall examination of Standalone Financial Statements of the Company, the Company has not taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures.

(f) The Company has not raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies.

(x) (a) In our opinion, monies received during the year towards unpaid calls related to right issue of equity shares in the previous year have been, prima facie, applied by the Company for the purposes for which they were raised. The Company has not raised moneys by way of Initial Public Offer/ further public offer through debt instruments.

(b) During the year, the Company has not made any preferential allotment or private placement of shares or convertible debentures (fully or partly or optionally) and hence reporting under clause 3 (x) (b) of the Order is not applicable.

(xi) (a) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the Standalone Financial Statements and according to the information and explanations given by the management, no fraud by the Company or no material fraud on the Company has been noticed or reported during the year.

(b) To the best of our knowledge, no report under sub-section (12) of section 143 of the Companies Act, 2013 has been filed by Cost Auditor or Secretarial Auditor and us, in Form ADT 4 as prescribed under Rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government, during the year and upto the date of this report.

(c) We have taken into consideration the whistle blower complaints received by the Company and provided to us during the year when performing our audit.

(xii) The Company is not a Nidhi Company and hence reporting under clause 3(xii) of the Order is not applicable.

(xiii) In our opinion, the Company is in compliance with sections 177 and 188 of the Act, where applicable, for all transaction with related parties and details of related party transactions have been disclosed in the Standalone Financial Statements as required by the applicable accounting standards.

(xiv) (a) In our opinion, the Company has an adequate internal audit system commensurate with the size and nature of its business.

(b) We have considered, the internal audit reports issued during the year and till the date of the audit report covering period upto 31st March, 2023.

(xv) In our opinion, during the year, the Company has not entered into any non-cash transactions with its directors or persons connected with its directors and hence provisions of section 192 of the Act are not applicable to the Company.

(xvi) (a) The provisions of section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) are not applicable to the Company. Accordingly, the requirement to report on clause 3(xvi)(a) of the Order is not applicable to the Company.

(b) The Company has not conducted any Non-Banking Financial or Housing Finance activities and is not required to obtain CoR for such activities from the Reserve Bank of India.

(c) The Company is not a Core Investment Company as defined in the regulations made by Reserve Bank of India. Accordingly, the requirement to report on clause 3(xvi)(c) of the Order is not applicable to the Company.

(d) As represented by the management, the Group does not have more than one Core Investment Company (CIC) as part of the Group as per the definition of Group contained in the Core Investment Companies (Reserve Bank) Directions, 2016.

(xvii) The Company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

(xviii) There has been no resignation of the statutory auditors of the Company during the year.

(xix) On the basis of the financial ratios disclosed in Note 42 to the Standalone Financial Statements, ageing and expected dates of realization of financial assets and payment of financial liabilities, other information accompanying the Standalone Financial Statements and our knowledge of the Board of Directors and management plans and based on our examination of

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the evidence supporting the assumptions, nothing has come to our attention, which causes us to believe that any material uncertainty exists as on the date of the audit report that Company is not capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date. We, however, state that this is not an assurance as to the future viability of the Company. We further state that our reporting is based on the facts up to the date of the audit report and we neither give any guarantee nor any assurance that all liabilities falling due within a period of one year from the balance sheet date, will get discharged by the Company as and when they fall due.

(xx) The Company has fully spent the required amount towards Corporate Social responsibility (CSR) and there are no unspent CSR amounts for the year requiring a transfer to a fund specified in Schedule VII of the Act or special account in compliance with the provision of sub-section (6) of section 135 of the said Act. Accordingly, reporting under clause 3(xx) of the Order is not applicable for the year.

For **Deloitte Haskins & Sells LLP**
Chartered Accountants
Firms Registration No. 117366W/W-100018

Abhijit A. Damle
Partner
Membership No.102912
UDIN: 23102912BGXWAX6993

Place: Mumbai
Date: July 21, 2023

For **Chaturvedi & Shah LLP**
Chartered Accountants
Firms Registration No. 101720W/W-100355

Sandesh Ladha
Partner
Membership No. 047841
UDIN: 23047841BGVNMN5908

Place: Mumbai
Date: July 21, 2023

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With the Blessings of
My Dear Parents,
Brother, Sister
and Wife

Dedicated to All
My
Beloved Students

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PREFACE

Dear students,

It gives me immense joy and pleasure to present a completely updated **CA Inter – Auditing & Ethics Module 1 strictly** as per **ICAI New Syllabus**.

This new version of **Standards on Auditing (SA) Module** contains the following:

A: **Detailed discussion** on **SA 200 Series to 700 Series**

B: **Practical Insight** of **respective SA's** with the help of **"Real Life Examples"**

C: **Practical Insight into Audit Reports** of **RIL, TCS, ICICI Bank etc.**

This book was prepared with the aim of making sure that anyone who reads this gets not only a **substantial coverage over the SA syllabus** but also, **resounding confidence over their practical applicability when you are working in the corporate world.**

Having been a professor for 10 years and counting, I have observed that, for you to succeed in exam and your professional career you need a great understanding of the concept and its real-life application. Majority students get stuck in the rat race of just passing the exam by any means, this may help you to pass a competitive exam but not in the exam of your professional life.

I have worked for more than **6 years** in **Big 4's like PWC** and **Deloitte** in my initial years of professional career and the lessons learned during that time has inspired me to ensure that my students get a **"Practical Approach"** to this so called **"Theoretical world of Auditing"**.

The journey of a Chartered Accountant is not a rapid T-20 match. **It is equivalent to a 5-day test match, if you will.** Rather than rushing and blasting through your preparation, it is crucial to be consistent and disciplined. **My cricket coach once said to me something that has stuck with me since my college days – 'Wicket pe bane raho, runs aapne aap ban jaayenge!'**

I wish you all the best and hope that you be greatly benefited from this book!

Happy Learning,

Regards

CA Rishabh Jain

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'Failure will never overtake me if my determination to succeed is strong enough!'

- Late Dr. A P J Abdul Kalam

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About the Author



CA Rishabh Jain

- Having cracked the CA exam at the **age of 21**. RJ Sir became one of the youngest Chartered Accountants in India.
- He simplifies all concepts in the easiest way possible.
- His Extra-ordinary rapport/contact with students, make him highly accessible for their numerous difficulties.
- He is always available for Advice, related to CA course and beyond the course.
- He applies **simulation techniques** used by MNC's and Big 4's and provides example of actual & audit setting which in turn gives students a peek into industry methodologies.
- Only Audit Professor in India with more than **6 years'** experience in Big 4s **(PWC & Deloitte)**.
- He has mentored over 20,000 students in a short span of **10 years**.
- Engages students with real-world scenarios, from his prior experience with Fortune 500 clients.
- Mentored many of his students who are now successful professionals.
- Placed many of his students in Big Four firms across India.
- Conducts exclusive speaker sessions on Startups and New Emerging Technologies.

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