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SA 610

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CHART BOOK

30 SA : 99 PAGES

LIST OF ALL STANDARDS

SR	SA	Standard Name
1	200	Overall Objectives of The Independent Auditor and The Conduct of Audit in Accordance with Standard on Auditing
2	210	Agreeing The Terms of Audit Engagement
3	220	Quality Control for An Audit of Financial Statements
4	SQC	Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, And Other Assurance and Related Services Engagements
5	230	Audit Documentation
6	260	Communication With TCWG
7	265	Communicating Deficiencies in Internal Control to TCWG & Management
8	299	Joint Audit of Financial Statements
9	300	Planning An Audit of Financial Statements
10	315	Identifying & Assessing the Risk of Material Misstatement Through Understanding the Entity and Its Environment
11	320	Materiality In Planning & Performing an Audit
12	330	The Auditor's Response to Assessed Risks
13	450	Evaluations Of Misstatements Identified During the Audit
14	500	Audit Evidence
15	501	Audit Evidence-Specific Considerations for Selected Items
16	505	External Confirmations
17	510	Initial Audit Engagements - Opening Balances
18	520	Analytical Procedures
19	530	Audit Sampling
20	550	Related Parties
21	560	Subsequent Events
22	570	Going Concern
23	580	Written Representations
24	600	Using The Work of Another Auditor
25	610	Using The Work of Internal Auditor
26	700	Forming An Opinion and Reporting on the Financial Statements
27	701	Communicating Key Audit Matters in the Independent Auditor's Report
28	705	Modifications to the Opinion in the Independent Auditor's Report
29	706	Emphasis Of Matier Paragraphs and Other Matier Paragraphs in The Independent Auditor's Report
30	710	Comparative Information - Corresponding Figures and Comparative Financial Statements

SA 200 - OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR and the CONDUCT of an AUDIT in ACCORDANCE WITH STANDARD ON AUDITING

OBJECTIVE OF SA 200

1. To Obtain reasonable assurance that whether the FS 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 FS are prepared, in all material respects, in accordance with an applicable FRFW; and
2. To report on the FS, and communicate as required by the SAs, in accordance with the auditor's findings.

INHERENT LIMITATIONS OF AUDIT

1. **Nature of financial reporting:**
   - Preparation of FS 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 FS are free from material misstatements due to frauds or errors.
   - One of the premises for conducting an audit is that management acknowledges its responsibility of preparation of FS in accordance with applicable FRFW and for devising suitable IC. However, such controls may not have operated to produce reliable financial information due to their own limitations.
2. **Nature of Audit procedures:**
   - 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.
   - 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
   - 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.
   - 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.
   - It is quite possible that entity may have entered into some transactions with related parties. Such transactions may be only paper transactions and may not have actually occurred. The auditor may not be aware of such related party relationships
3. **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.
4. **Timeliness of financial reporting and decrease in relevance of information over time:** 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 & cost of obtaining it.
5. **Future events:** Future events or conditions may affect an entity adversely. Adverse events may seriously affect ability of an entity to continue its business. 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.

SA 200 - OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR and The CONDUCT of an AUDIT in ACCORDANCE WITH STANDARD ON AUDITING

ASSERTIONS

Assertions refer to **representations by management**, explicit or otherwise, that are embodied in the FS, as **used by the auditor** to consider the different types of **potential misstatements** that may occur

In representing that the FS are in accordance with the applicable FRFW, management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of the various elements of FS and related disclosures.

Assertions used by the auditor to consider the different types of potential misstatements that may occur fall into the following three categories:

Classes of transactions and events (OCACC)	Account balances (Every one Require Valuable Components)	Presentation and Disclosure (COCA)
Occurrence	Existence	Occurrence & rights and obligations
Completeness	Rights and obligations	Completeness
Accuracy	Completeness	Classification and understandability
Cut - Off	Valuation & allocation	Accuracy and valuation
Classification		

When making assertions about the FS of certain entities, especially, for e.g., where the Govt is a major stakeholder, in addition to assertions, management may often assert that transactions and events have been carried out in accordance with legislation or proper authority. Such assertions may fall within the scope of the FS audit.

Negative assertions are also encountered in the FS and the same may be expressed or implied. For e.g. if it is stated that there is no contingent liability it would be an expressed negative assertion; On the other hand, if in the BS there is no item as "building", it would be an implied negative assertion that the entity did not own any building on the BS date.

PROFESSIONAL SKEPTICISM

Professional skepticism refers to an attitude that includes a **questioning mind**, **being alert to conditions** which may indicate possible misstatement due to error or fraud, and a **critical assessment of audit evidence**.

Professional skepticism includes being alert to, for example:

1. Audit evidence that **contradicts** other audit evidence obtained.
2. Information that brings into question the **reliability of documents** and responses to inquiries to be used as audit evidence.
3. Conditions that may **indicate possible fraud**.
4. Circumstances that suggest the need for **audit procedures in addition** to those required by the SAs.

Maintaining professional skepticism throughout the audit is necessary if the auditor is to reduce the risks of:

1. **Overlooking** unusual circumstances.
2. **Over generalising** when drawing conclusions from audit observations.
3. Using **inappropriate assumptions** in determining the NTE of the audit procedures and evaluating the results thereof.

Professional skepticism is necessary to the critical assessment of audit evidence. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances.

The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and TCWG.

Audit Risk

- Audit risk means the risk that the auditor gives an **inappropriate audit opinion when the financial statements are materially misstated.**
- Audit risk is a function of the **risks of material misstatement and detect**

INHERENT RISK

Inherent risk is the susceptibility of an assertion about a CTABD to a misstatement that could be material, either individually or when aggregated with other misstatements before consideration of any related controls

Few examples could include:

- An accounting standard provides guidance on some complex issue which might not be understood by the management. Therefore, recording of this issue in FS carries inherent risk of being misstated.
- There are large number of business failures in an industry. Therefore, assertions in FS of an entity operating in such an industry carry an inherent risk of being misstated.

CONTROL RISK

Control risk is the risk that a misstatement that could occur in an assertion about a COT/AB/D 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.

Examples of control risk could include:

- 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.
- 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 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.
- 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

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.

Detection risk comprises sampling and non-sampling risk.

- **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.
- **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.

Examples of detection risk could include:

- 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.
- 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.

What is not included in Audit Risk	Assessment of Risk – Matter of Professional Judgement
Audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of financial statements. For purposes of the SAs, 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.	The assessment of risks is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks is a matter of professional judgment, rather than a matter capable of precise measurement. 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 judgements.

Combined Assessment of Audit Risk

The SAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risks of material misstatement"

1. The auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations.
2. The assessment of the ROMM may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms.
3. 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.

SA 210 - AGREEING THE TERMS OF AUDIT ENGAGEMENT

OBJECTIVES

- Establishing whether the preconditions for an audit are present
- Confirming that there is a common understanding between the auditor and management and, where appropriate, TCWG of the terms of the audit engagement.

PRE-CONDITIONS

1. Determine whether the FRFW is acceptable and
2. Obtain the agreement of management that it acknowledges and understands its responsibility:
   - For the preparation of the financial statements in accordance with the applicable FRFW including where relevant their fair representation;
   - For such 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
3. To provide the auditor with:
   - Access to all information relevant to the preparation of the financial statements
   - Additional information that the auditor may request from management for the purpose of the audit; and
   - Unrestricted access to persons within the entity for purpose of audit evidence

AGREEMENT ON AUDIT ENGAGMENT TERMS

1. The objective and scope of the audit of the FS
2. The responsibilities of the auditor
3. The responsibilities of management
4. Identification of the applicable FRFW for the preparation of the FS and
5. 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.

If law or regulation prescribes in sufficient detail the terms of the audit 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

WHAT HAPPENS IF PRECONDITIONS FOR 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

LIMITATION ON SCOPE PRIOR TO AUDIT ENGAGEMENT ACCEPTANCE

If management or those charged with governance impose a limitation which 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, to unless required by law or regulation to do so.

ACCEPTANCE OF A CHANGE IN THE TERMS OF THE AUDIT ENGAGEMENT

Auditor to consider the appropriateness of accepting the reduced scope. Assess the reasons which could be -

1) Change in circumstances
2) Misunderstanding of Scope
3) Restriction caused by circumstances or by management

If justified then auditor MAY accept, but DO NOT give reference to initial engagement in the report to avoid confusion or of audit procedures applied in old engagement unless they are relevant for the changed scope (Agreed upon procedures). However, if change is not justified: DO NOT accept reduced scope.

SA 210 - AGREEING THE TERMS OF AUDIT ENGAGEMENT	
WITHDRAW FROM ENGAGEMENT	**TERMS OF ENGAGEMENT IN RECURRING AUDITS**
If auditor unable to continue/limitation imposed to continue then: • Withdraw from the audit engagement where possible under applicable law or regulation and • Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as TCWG, owners or regulators.	1. Any indication that the entity misunderstands the objective and scope of the audit. 2. Any revised or special terms of the audit engagement. 3. A recent change of senior management. 4. A significant change in ownership. 5. A significant change in nature or size of the entity's business. 6. A change in legal or regulatory requirements. 7. A change in the FRFW adopted in the preparation of the FS. 8. A change in other reporting requirements.

SA 220 - QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS	
Objective	**Overview of 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.	(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
A. Leadership responsibilities for quality on audits	**B. Relevant ethical requirements**
Responsibility of Engagement Partner 1. The importance to audit quality of: - • Performing work that complies with professional standards and regulatory and legal requirements; • Complying with the firm's quality control policies and procedures as applicable; • Issuing auditor's reports that are appropriate in the circumstances; and • The engagement team's ability to raise concerns without fear of reprisals. 2. The fact that quality is essential in performing audit engagements.	Responsibility of Engagement Partner 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.
C. Acceptance and Continuance of Client Relationships and audit Engagements	**D. Assignment of engagement teams**
The responsibility of an engagement partner in this regard in an audit engagement is on lines of SQC 1	It should be ensured by EP that the ET and any auditor 's experts who are not part of the ET, collectively have the appropriate competence and capabilities to perform the engagement in accordance with PS & R & LR.

SA 220 - QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

E. Engagement Performance

1. EP has the responsibility for direction, supervision and performance of audit engagement in accordance with Professional Standard and laws & regulation.
2. Auditor is responsible for auditor's report being appropriate in circumstances.
3. Review of audit documentation before issue of audit report is his responsibility.
4. EP is also responsible for ensuring undertaking appropriate consultation
5. on difficult or contentious matters by ET not only within the team but also with others at appropriate level within or outside the firm.
6. Additional responsibilities in case of listed entities and other entities where EQCR is to be appointed -
   - Determine that an EQCR has been appointed.
   - Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the EQCR.
   - Not date the auditor's report until the completion of the engagement quality control review.
7. If any diff of opinion between ET, with those consulted, or between EP and EQCR the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.

F. Monitoring

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. The EP shall consider the results as 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.

Documentation

Engagement Partner should document:

1. Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
2. Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
3. Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
4. The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement.

SQC 1-QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

Overview of SQC 1

1. Leadership responsibilities for quality within the firm
2. Ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Human resources
5. Engagement performance
6. Monitoring

1. Leadership responsibilities for quality within the firm

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.

persons assigned operational responsibilities by CEO or MP should have sufficient and appropriate experience, ability and the necessary authority

2. Ethical Requirements

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.

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

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.

3. Acceptance and continuance of client relationships and specific engagements

A firm before accepting an engagement should acquire info about:

(a) Integrity of Client

(b) Competence (including capabilities, time and resources) to perform engagement

(c) Compliance with ethical requirements

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.

With regard to the integrity, matters that the firm considers:

1. The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
2. The nature of the client's operations, including its business practices.
3. Information concerning the attitude of the people in point a above
4. Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
5. Indications of an inappropriate limitation in the scope of work.
6. Indications that the client might be involved in money laundering or other criminal activities.
7. The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.

SQC 1-QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

4. Human Resources

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 rules & regulations. and to enable the firm or EP to issue reports that are appropriate in the circumstances. Address relevant HR issues including recruitment, compensation, training, career development, performance evaluation etc. necessary authority.

6. 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.

5. Engagement Performance

1. Consistency in quality of engagement performance is achieved through briefing of engagement team 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.
3. Significant judgments made in an engagement should be reviewed by an EQCR for taking an objective view before the report is issued.
4. Engagement quality control review is mandatory for all audits of financial statements of listed entities. In respect of other engagements, firm should devise criteria to determine cases requiring performance of engagement quality control review.
5. If diff of opinion – refer to policies framed by firm in this regard.
6. 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.
7. 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.

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.

SA 230 - AUDIT DOCUMENTATION

DEFINITION

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

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

- A sufficient and appropriate record of the basis for the auditor's report; and
- 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:

- evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
- evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements

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

- The **size and complexity** of the entity.
- The **nature of the audit procedures** to be performed.
- The identified **risks of material misstatement**.
- The **significance of the audit evidence** obtained.
- The nature and extent of **exceptions** identified.
- The audit **methodology and tools** used.
- The need to **document a conclusion or the basis for a conclusion** not readily determinable from the documentation of the work performed or audit evidence obtained.

FORM, CONTENT AND EXTENT OF AUDIT DOCUMENTATION

The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

1. The **nature, timing and extent** of the audit procedures performed.
    - The identifying **characteristics of the specific items** or matters tested.
    - **Who performed** the audit work and the **date** such work was **completed**; and
    - **Who reviewed** the audit work performed and the **date and extent of such review**.
2. The **results of the audit procedures** performed and the audit evidence obtained.
3. **Significant matters** arising during the audit and the conclusions reached thereon and significant professional judgements made in reaching those conclusions.
    - The auditor shall document discussions of significant matters with management, TCWG, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
    - If the auditor identified information that is inconsistent with the auditor's final conclusion, the auditor shall document how the auditor addressed the inconsistency.

SA 230 - AUDIT DOCUMENTATION

DOCUMENTATION OF SIGNIFICANT MATTERS AND RELATED SIGNIFICANT PROFESSIONAL JUDGEMENTS

Examples of significant matters include: Matters that give rise to significant risks.

- Results of audit procedures indicating
  - (a) that the FS could be materially misstated, or
  - (b) a need to revise the auditor's previous assessment of the ROMM and the auditor's responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- 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.

Some examples of circumstances in which it is appropriate to prepare audit documentation **relating to the use of professional judgement** include, where the matters and judgements are significant:

1. The rationale for the auditor's conclusion when a requirement provides that the auditor 'shall consider' certain information or factors, and that consideration is significant in the context of the particular engagement.
2. The basis for the auditor's conclusion on the reasonableness of areas of subjective judgements
3. The basis for the auditor's conclusions about the authenticity of a document when further investigation is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.

COMPLETION MEMORANDUM OR AUDIT DOCUMENTATION SUMMARY

It describes:

- the significant matters identified during the audit and
- how they were addressed.

Advantages:

1. Facilitate effective and efficient review and inspect ion of the audit documentation, particularly for large and complex audits.
2. Assist auditor's consideration of the significant matters.
3. 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

Standard on Quality Control (SQC) 1provides that, unless otherwise specified by law or regulation, audit documentation is the **property of the auditor**.

Auditor **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.

SA 260 COMMUNICATION WITH TCWG

SIGNIFICANCE OF COMMUNICATION WITH TCWG

(Not part of SA 260)

An effective two-way communication is important in assisting: -

1. The auditor and TCWG 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.
2. The auditor in obtaining from TCWG information relevant to the audit.
3. TCWG in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the FS

OBJECTIVES

The objectives of the auditor are:

1. To communicate clearly with TCWG the **responsibilities of the auditor** in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
2. To **obtain from TCWG information relevant** to the audit;
3. To provide TCWG with **timely observations** arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process and
4. To promote **effective two-way communication** between the auditor and TCWG

MATTERS TO BE COMMUNICATED BY AUDITOR

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

1. The auditor shall communicate with TCWG the responsibilities of the auditor, including that:
   (a) The auditor is responsible for forming and expressing an opinion on the FS that have been prepared by management with the oversight of TCWG
   (b) The audit of the financial statements does not relieve management or TCWG of their responsibilities.
2. Planned **scope and timing of the audit**
3. **Significant findings** from the audit
   - The auditor's views about **significant qualitative aspects of the entity's accounting practices**, including accounting policies, accounting estimates and financial statement disclosures.
   - **Significant difficulties**, if any, encountered during the audit;
   - Unless all of TCWG are involved in managing the entity: -
     (a) **Significant matters** arising during the audit that were discussed, or subject to correspondence, with management;
     (b) **Written representations** the auditor is requesting
   - Circumstances that affect form and content of the auditor's report
   - 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

THE COMMUNICATION PROCES

1. The auditor shall communicate with TCWG the form, timing and expected general content of communications.
2. Communicate in writing, if oral not adequate. Written communications need not include all matters that arose during the course of the audit.
3. The auditor shall communicate in writing with TCWG regarding auditor independence when required in case of listed entities.

<table>
<tr><th colspan="2">SA 260 COMMUNICATION WITH TCWG</th></tr>
<tr><th>COMMUNICATION OF AUDITORS INDEPENDENCE IN CASE OF LISTED ENTITIES</th><th>ADEQUACY OF COMMUNICATION PROCESS</th></tr>
<tr><td rowspan="3">1. A statement that the ET and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence and
2. 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 FS 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 to assist TCWG in assessing the effect of services on the independence of the auditor and the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.</td><td>It should be adequate and if not evaluate effect on auditor's assessment of ROMM, ability to obtain SAAE and take appropriate action.</td></tr>
<tr><th>DOCUMENTATION</th></tr>
<tr><td>1. Oral - Include in audit documentation and when and to whom they were communicated.
2. Writing - Retain a copy of the communication as part of the audit documentation.</td></tr>
</table>

SA 265 - COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO TCWG & MANAGEMENT

OBJECTIVE

The objective of the auditor is to **communicate appropriately to TCWG and management deficiencies in IC** 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.

UNDERSTANDING DEFICIENCY IN IC & SIGNIFICANT DEFICIENCY

1. **Deficiency** in **IC**- 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 TCWG**.

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 misstatement could occur** and the potential magnitude of the misstatement. Significant deficiencies may, therefore, exist even though the auditor has not identified misstatements during the audit.

Examples of matters that auditor may consider in determining whether a deficiency or combination of deficiencies in IC 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:
   - General monitoring controls (such as oversight of management).
   - Controls over the prevention and detection of fraud.
   - Controls over the selection and application of significant accounting policies.
   - Controls over significant transact ions with related parties.
   - Controls over significant transactions outside the entity's normal course of business.
   - Controls over the period-end financial reporting process
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.

SA 265 - COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO TCWG & MANAGEMENT

<table>
<tr><th>Examples of indicators of significant deficiencies in internal control</th><th>COMMUNICATION OF Significant Deficiency in Internal Control To TCWG</th></tr>
<tr><td>
1. Evidence of ineffective aspects of the control environment, such as:
✓ Indications that significant transactions in which management is financially interested are not being appropriately scrutinised by TCWG
✓ Identification of management fraud, whether or not material, that was not prevented by the entity's internal control.
✓ 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.
3. Evidence of an ineffective entity risk assessment process, such as management's failure to identify a ROMM that the auditor would expect the entity's risk assessment process to have identified.
4. Evidence of an ineffective response to identified significant risks
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 FS.
</td><td>
The auditor shall communicate in Writing SD in IC identified during the audit to TCWG on a timely basis.
The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis:
✓ In writing, SD in IC that the auditor has communicated or intends to communicate to TCWG, unless it would be inappropriate to communicate directly to management in the circumstances; and
✓ Other deficiencies in IC 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.
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 TCWG and management to understand the context of the communication.
In particular, the auditor shall explain that:
✓ The purpose of audit was for the auditor to express an opinion on the FS;
✓ 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 IC;
✓ 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 TCWG.
</td></tr>
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SA 299- JOINT AUDIT OF FINANCIAL STATEMENTS

ADVANTAGES

- Sharing of expertise.
- Advantage of mutual consultation.
- Lower workload.
- Better quality of performance.
- Improved service to the client.
- Lower staff development costs.
- Lower costs to carry out the work
- In respect of MNC, 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.

DISADVANTAGES

- The fees being shared.
- Psychological problem where firms of different standing are associated in the joint audit.
- General superiority complex of some auditors.
- Problems of co-ordination of the work.
- Areas of work of common concern being neglected.
- Uncertainty about the liability for the work done

SPECIAL CONSIDERATIONS IN CARRYING JOINT AUDIT

1. The EP and other key members of the ET from **each** of the joint auditors should be **involved in planning the audit**.
2. The joint auditors should **jointly establish an overall audit strategy** which sets the scope, timing and direction of the audit, and also guides the development of the audit plan.
3. Before the commencement of the audit, the joint auditors should **discuss and develop a joint audit plan**. In developing the joint audit plan, the joint auditors should:
    - Identify **division** of audit areas and **common** audit areas;
    - **Ascertain the reporting objectives** of the engagement;
    - Consider and **communicate** among all joint auditors the **factors that are significant** in directing the engagement team's efforts;
    - Consider the **results of preliminary engagement activities**, or similar engagements performed earlier.
    - Ascertain the **nature, timing and extent of resources** necessary to accomplish the engagement.
4. **Each** of the joint auditors should consider and **assess the risks of material misstatement and communicate to other joint auditors**.
5. The joint auditors should **discuss and document the nature, timing, and the extent** of the audit procedures for (I) common and (II) specific allotted areas of audit to be performed.
6. The joint auditors should obtain **common engagement letter and common management representation letter**.
7. The **work allocation document should be signed by all** the joint auditors and communicated to TCWG

SA 299- JOINT AUDIT OF FINANCIAL STATEMENTS

REPORTING

- It may be noted that the joint auditors are **required to issue common audit report**. However, where the joint auditors are **in disagreement** 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**. In such circumstances, the audit report(s) issued by the joint auditor(s) **shall make a reference to each other's audit report**(s).
- A joint auditor is **not bound by the views of majority** of the joint auditors regarding the opinion on matters to be covered in the audit report and shall express opinion formed by the separate audit report in case of disagreement.

BASIC ASSUMPTIONS

Each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work in accordance with the generally accepted audit procedures.

It is not necessary for a joint auditor to review the work performed by other joint auditors 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 auditors for bringing to his notice any departure from GAAP or any material error noticed in the course of the audit formed by the separate audit report in case of disagreement.

RESPONISBILITV OF JOINT AUDITORS

Separate Responsibility - Each joint auditor shall be **responsible only for the work allocated** to such joint auditor including proper execution of the audit procedures.

Joint Responsibility - On the other hand, all the joint auditors shall be jointly and severally responsible for:

1. The audit **work which is not divided** among the joint auditors and is carried out by all joint auditors;
2. **Decisions taken by all** the joint auditors under audit planning **in respect of common audit areas**;
3. **Matters** which are **brought to the notice** of the joint auditors **by any one of them and there is an agreement** among the joint auditors on such matters;
4. Examining that the **FS of the entity comply** with the requirements of the **relevant statutes;**
5. **Presentation and disclosure** of the FS as required by the applicable FRFW;
6. Ensuring that the **audit report complies** with the requirements of the relevant statutes, applicable SA and other relevant pronouncements issued by ICAI.

Other Responsibility - In case 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.

SA 300 - PLANNING AN AUDI T OF FINANCIAL STATEMENTS

WHY PLANNING AN AUDIT IS NECESSARY? – BENEFITS

1) Helping the auditor to devote appropriate attention to important areas of the audit.
2) Helping the auditor identify and resolve potential problems on a timely basis.
3) Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
4) Assisting in the selection of ET members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work
5) Facilitating the direction & supervision of ET members and the review of their work.
6) Assisting, where applicable, in coordination of work done by others such as experts

NATURE OF AUDIT PLANNING

Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. 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. For example:

1) The analytical procedures to be applied as RAP.
2) Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
3) The determination of materiality.
4) The involvement of experts.
5) The performance of other RAP.

Involvement of key ET members in planning the audit - EP & other key ET member shall be involved due to their experience & insight - enhances effectiveness and efficiency.

Discussion of elements of planning with entity's management - Should not compromise the effectiveness of audit

ELEMENTS OF PLANNING

The elements of planning can be categorized as under: -

1) Preliminary engagement activities
2) Planning activities

PRELIMINARY ENGAGEMENT ACTIVITIES

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

- Appropriate procedures have been followed
- Refer SQC
- 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

- Independence - Definition
- EP shall remain alert through observation and inquiries to identify non-compliance with relevant ethical requirements and if found, EP in consultation with others take appropriate action.
- Refer SA 220

(C) Establishing an understanding of terms of engagement help avoid misunderstandings with respect to the audit. It ensures that there is no confusion with the client on terms of engagement.

SA 300 - PLANNING AN AUDI T OF FINANCIAL STATEMENTS

PLANNING ACTIVITIES

(A) Establishing the overall audit strategy- Assistance for the auditor

Overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. The process of establishing the overall audit strategy assists the auditor to determine:

1) 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.
2) 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
3) When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates
4) How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how EP and manager reviews are expected to take place and whether to complete engagement quality control reviews

(B) Development of Audit plan

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. Understanding client's business is one of the important principles in developing an audit plan. audit plan that shall include description of-

1) The nature, timing and extent of planned risk assessment procedures
2) The nature, timing and extent of planned further audit procedures at assertion level and
3) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

RELATIONSHIP BETWEEN AUDIT STRATEGY AND AUDIT PLAN

Audit strategy sets the broad overall approach to the audit whereas audit plan addresses the various matters identified in the overall audit strategy. Audit strategy determines scope, timing and direction of audit. Audit plan describes how strategy is going to be implemented. The audit plan is more detailed than the overall audit strategy that includes the NTE of audit procedures to be performed by ET members.

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.

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.

SA 300 - PLANNING AN AUDI T OF FINANCIAL STATEMENTS

Factors to be taken into consideration by auditor for establishing audit strategy

1) Identify the characteristics of the engagement that define its scope

a. Applicable FRFW to the entity
b. Industry specific reporting requirements required by industry regulators
c. Nature of business segments to be audited
d. Expected use of audit evidence obtained in previous audits

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

a. The entity's timetable for reporting
b. 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.
c. Organization of meetings to discuss of nature, timing and extent of audit work with management
d. Discussion with management regarding the expected communications on the status of audit work throughout the engagement.
e. Discussion with management regarding the expected type and timing of reports to be issued including the auditor's report

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

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.

4) 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

a. 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.
b. 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.

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

SA 300 - PLANNING AN AUDI T OF FINANCIAL STATEMENTS	
OVERALL AUDIT STRATEGY & PLAN: AUDITOR'S RESPONSIBILITY	**PLANNING SUPERVISION & REVIEW OF ET WORK**
The overall audit strategy and the audit plan remain the auditor's responsibility. The auditor may discuss the elements of planning with client for better facilitation of audit but it should not compromise the effectiveness of audit.	Depending on many factors, including: ♦ The size and complexity of the entity. ♦ The area of the audit. ♦ The assessed ROMM ♦ The capabilities & competence of the individual team members
CHANGES TO PLANNING DECISIONS	**DOCUMENTATION**
The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures	The auditor shall document: 1) The overall audit strategy - record of the key decisions considered necessary to properly plan the audit and to communicate significant matters to the ET. 2) The audit plan record of the planned nature, timing and extent of RAP and FAP at the assertion level in response to the assessed risks. Serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. 3) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. 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.

SA 315 - PLANNING AN AUDI T OF FINANCIAL STATEMENTS	
OBJECTIVE	**RISK ASSESSMENT PROCEDURES**
The auditor shall identify and assess the ROMM at: 1) the FS level 2) the assertion level for COT AB & D level to provide a basis for designing and performing FAP For the purpose of identifying and assessing the ROMM, the auditor shall: 1) 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 CTABD in the FS 2) Assess the identified risks, and evaluate whether they relate more pervasively to the FS as a whole and potentially affect many assertions 3) 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 4) 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.	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 ROMM, whether due to fraud or error, at the FS and assertion level are defined as risk assessment procedures. What is included in risk assessment procedures? **A) INQUIRIES OF MANAGEMENT & OTHERS WITHIN THE ENTITY** 1. Inquiries may be directed towards management and those responsible for financial reporting. 2. Other Inquiries - • 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. • Inquiries of employees involved in initiating, processing or recording complex or unusual transact ions may help the auditor to evaluate the appropriateness of the selection and application of certain accounting policies. • 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 • 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. • 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. • Inquiries directed to information systems personnel may provide information about system changes, system or control failures, or other information system related risks.

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

ANALYTICAL PROCEDURES

Analytical procedures performed as RAP may identify aspects of the entity of which the auditor was unaware and may assist in assessing the ROMM in order to provide a basis for designing and implementing responses to the assessed risks. Analytical procedures performed as RAP may include both financial and non-financial information, for e.g. relationship between sales and square footage of selling space or volume of goods sold.

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 ROMM, especially ROMM due to fraud. However, when such analytical procedures use data aggregated at a high level (which may be the situation with analytical procedures performed as RAP), the results of those analytical procedures only provide a broad initial indication about whether a material misstatement may exist.

Accordingly, in such cases, consideration of other information that has been gathered when identifying the ROMM together with the results of such analytical procedures may assist the auditor in understanding and evaluating the results of the AP.

OBSERVATION & INSPECTION

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

Examples:

- The entity's operations.
- Documents (such as business plans and strategies), records and IC manuals.
- Reports prepared by management (such as
- quarterly management reports and interim financial statements) and TCWG (such as minutes of board of director's meetings)
- The entity's premises and plant facilities

UNDERSTANDING THE ENVIROMENT - A CONTINUOUS PROCESS

It is a continuous, dynamic process of gathering, updating and analysing information throughout the audit. The understanding establishes a frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit, for example, when:

1. Assessing ROMM of the financial statements
2. Determining materiality in accordance with SA 320
3. Considering the appropriateness of the selection and application of accounting policies
4. Identifying areas where special audit consideration may be necessary, for example, RPT, the appropriateness of management's use of the GC assumption, or considering the business purpose of transactions
5. Developing expectations for use when performing analytical procedures
6. Evaluating the sufficiency and appropriateness of audit evidence obtained such as the appropriateness of assumptions and of management's oral and written representations

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

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

Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments.

Relevant regulatory factors include the regulatory environment. The regulatory environment includes, among other matters, the applicable financial reporting framework and the legal and political environment.

Examples of other external factors affecting the entity that the auditor may consider include the general economic conditions, interest rates and availability of financing, and inflation etc.

The nature of the entity, including:

1. its operations;
2. its ownership and governance structures;
3. the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
4. the way that the entity is structured and how it is financed; to enable the
5. auditor to understand the CTABD to be expected in the FS.

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

- 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
- Investment and investment activities such as capital investment activities and planned or recently executed acquisitions
- Financing and financing activities such as major subsidiaries, debt structure etc.
- Financial reporting such as accounting principles & revenue recognition practices

The entity's objectives and strategies, and those related business risks that may result in ROMM

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

The entity's objectives and strategies, and those related business risks that may result in ROMM.

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. An understanding of the business risks facing the entity increases the likelihood of identifying ROMM, since most business risks will eventually have financial consequences and, therefore, an effect on the FS.

Examples:

- 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).
- New products and services (a potential business risk might be, for e.g., there is increased product liability). Expansion of the business (a potential business risk might be, for e.g., demand has not been accurately estimated).

The measurement and review of the entity's financial performance

Examples:

- Key performance indicators (financial and non-financial) and key ratios, trends and operating statistics.
- Period-on-period financial performance analyses.
- Budgets, forecasts, variance analyses, and departmental.
- Credit rating agency reports

SA 315 - PLANNING AN AUDI T OF FINANCIAL STATEMENTS

INTERNAL CONTROL

Definition:

The process designed, implemented and maintained by TCWG, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations.

Benefits:

- Identifying types of potential misstatements;
- Identifying factors that affect the ROMM, and
- Designing the NTE of FAP

Limitations of Internal Control:

1. Limited Assurance: Internal control provides only reasonable assurance for achieving financial reporting objectives due to inherent limitations.
2. Human Judgment and Errors: Human judgment in decision-making introduces the potential for errors and breakdowns in internal control.
3. Lack of Understanding: Ineffective operation of controls can result from a lack of understanding of their purpose, leading to overlooked information or failure to take appropriate action.
4. Collusion and Management Override: Controls can be bypassed through collusion or management override, allowing for practices like altered contract terms or disabling system checks.
5. Management Judgments: Design and implementation of controls involve management judgments, impacting the nature and extent of controls and risks assumed.
6. Limitations in Small Entities: Smaller entities may face challenges in segregating duties, but owner-managers may compensate with more effective oversight. However, the less structured control system increases the risk of management override, considered by auditors when assessing the risk of fraud.

Components of Internal Control

A) Control environment
B) Entity's risk assessment process
C) The information system
D) Control activities
E) Monitoring of controls

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

CONTROL ENVIRONMENT

The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:

- Management has created and maintained a culture of honesty and ethical behaviour and
- The strengths in the CE elements collectively provide an appropriate foundation for the other components of internal control

What is included in Control Environment? The control environment includes:

- the governance and management functions and
- the attitudes, awareness, and actions of TCWG and management.
- the control environment sets the tone of an organization, influencing the control consciousness of its people

Elements of the Control Environment include the following:

1) **Communication and enforcement of integrity and ethical values:** The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Integrity and ethical behaviour are the product of the entity's ethical and behavioural standards, how they are communicated, and how they are reinforced in practice.
2) **Commitment to competence**: Matters such as management's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.
3) **Participation by those charged with governance:** It includes attributes of those charged with governance such as their independence from management, their experience and stature, the extent of their involvement and the information they receive and the scrutiny of activities.
4) **Management's philosophy and operating style:** Management's philosophy and operating style encompass a broad range of characteristics.
5) **Organisational structure:** The framework within which an entity's activities for achieving its objectives are planned, executed, controlled, and reviewed. Establishing a relevant organisational structure includes considering key areas of authority and responsibility and appropriate lines of reporting. The appropriateness of an entity's organisational structure depends, in part, on its size and the nature of its activities.
6) **Assignment of authority and responsibility:** Matters such as how authority and responsibility for operating activities are assigned and how reporting relationships and authorisation hierarchies are established.
7) **Human resource policies and practices:** Policies and practices that relate to, for example, recruitment, orientation, training, evaluation, counselling, promotion, compensation, & remedial actions. Human resource policies and practices often demonstrate important matters in relation to the control consciousness of an entity.

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

B) ENTITY'S RISK ASSESSEMENT PROCESS

The auditor shall obtain an understanding of whether the entity has a process for:

1) Identifying business risks relevant to financial reporting objectives
2) Estimating the significance of the risks
3) Assessing the likelihood of their occurrence
4) Deciding about actions

C) THE INFORMATION SYSTEM

The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the areas: -

1) The COT in the entity's operations that are significant to the FS
2) The procedures by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements
3) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions
4) How the information system captures events and conditions that are significant to the financial statements
5) The financial reporting process used to prepare the entity's FS
6) Controls surrounding journal entries.

D) CONTROL ACTIVITIES

The auditor shall obtain an understanding of control activities relevant to the audit, which the auditor considers necessary to assess the ROMM. An audit requires an understanding of only those control activities related to significant COTABD in FS and the assertions which the auditor finds relevant in his risk assessment process. Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Control activities relevant to audit generally include policies and procedures relating to performance reviews (reviews of actual performance with budgets), information processing (for example controls over checking arithmetical accuracy of records, program change controls etc), physical controls (like controls over physical security of assets) and segregation of duties (controls over ensuring that different people are assigned the responsibilities of authorising

E) MONITORING OF CONTROLS

Monitoring of controls is a process to assess the effectiveness of IC performance over time. It helps in assessing the effectiveness of controls on a timely basis. It involves assessing the effectiveness of controls on a timely basis and taking necessary remedial actions. It includes considering whether controls are operating as intended and that they are modified as appropriate for change in conditions.

Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular management and supervisory activities.
Management's monitoring activities may include using information from communications from external parties such as customer complaints and regulator comments that may indicate problems or highlight areas in need of improvement.

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

ARE ALL CONTROLS RELEVANT TO AUDIT?

Factors relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit may include such matters as the following:

- Materiality.
- The significance of the related risk.
- The size of the entity.
- The nature of the entity's business, including its organisation and ownership characteristics.
- The diversity and complexity of the entity's operations.
- Applicable legal and regulatory requirements.
- The circumstances and the applicable component of IC
- The nature and complexity of the systems that are part of the entity's IC.
- Whether, and how, a specific control, individually or in combination with others, prevents, or detects and corrects material misstatement.

INTERNAL CONTROL OVER SAFEGUARDING OF ASSETS

IC over safeguarding of assets against unauthorised acquisition, use, or disposition may include controls relating to both financial reporting and operations objectives. The auditor's consideration of such controls is generally limited to those relevant to the reliability of financial reporting. For e.g., use of access controls, such as passwords, that limit access to the data and programs that process cash disbursements may be relevant to a FS audit. Conversely, safeguarding controls relating to operations objectives, such as controls to prevent the excessive use of materials in production, generally are not relevant to a FS audit.

CONTROLS OVER COMPLETENESS AND ACCURACY OF INFORMATION

Controls over the completeness and accuracy of information produced by the entity may be relevant to the audit if the auditor intends to make use of the information in designing and performing FAP. For e.g. in auditing revenue by applying standard prices to records of sales volume, the auditor considers the accuracy of the price information and the completeness and accuracy of the sales volume data. Controls relating to operations and compliance objectives may also be relevant to an audit if they relate to data the auditor evaluates or uses in applying audit procedures.

NATURE & EXTENT OF UNDERSTANDI NG OF RELEVANT CONTROLS

RAP to obtain audit evidence about the design and implementation of relevant controls may include-

- Inquiring of entity personnel.
- Observing the application of specific controls.
- Inspecting documents and reports.
- Tracing transactions through the information system relevant to financial reporting.

CONTROLS RELATING TO OBJECTIVES THAT ARE NOT RELEVANT TO AUDIT

An entity generally has controls relating to objectives that are not relevant to an audit and therefore need not be considered. For example, an entity may rely on a sophisticated system of automated controls to provide efficient and effective operations, but these controls ordinarily would not be relevant to the audit. Further, although IC applies to the entire entity or to any of its operating units or business processes, an understanding of IC relating to each of the entity's operating units and business processes may not be relevant to the audit.

In certain circumstances, the statute or the regulation governing the entity may require the auditor to report on compliance with certain specific aspects of IC as a result, the auditor's review of IC may be broader and more detailed

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS	
RISK THAT REQUIRE SPECIAL CONSIDERATIONS	**EVALUATION OF INTERNAL CONTROL SYSTEM**
In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following: 1) Whether the risk is a risk of fraud 2) Whether the risk is related to recent significant economic, accounting, or other developments like changes in regulatory environment, etc. and, therefore, requires specific attention 3) The complexity of transactions 4) Whether the risk involves significant transactions with related parties 5) The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty and 6) Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual	1. Adequacy of internal control system 2. Identify likelihood of errors and frauds 3. Effectiveness of internal auditing department 4. Administrative control impact on audit work 5. Safeguarding assets 6. Recording function discharge by management 7. Reliability of reports, records, and certificates 8. Extent and depth of examination 9. Appropriate audit technique and procedure 10. Weak or excessive control areas 11. Suggestions for improving control system

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

METHODS OF EVALUATION OF INTERNAL CONTROL

NARRATIVE RECORD -This is a complete and exhaustive description of the system as found in operation by the auditor. Actual testing and observation are necessary before such a record can be developed. It may be recommended in cases where no formal control system is in operation and would be more suited to small business. The basic disadvantages of narrative records are:

To comprehend the system in operation is quite difficult.

To identify weaknesses or gaps in the system.

To incorporate changes arising on account of reshuffling of manpower, etc.

CHECK LIST - This is a series of instructions and/or questions which a member of the auditing staff must follow and/or answer. When he completes instruction, he initials the space against the instruction. Answers to the check list instructions are usually Yes, No or Not Applicable. This is again an on-the-job requirement and instructions are framed having regard to the desirable elements of control. The complete check list is studied by the Principal/Manager/Senior to ascertain existence of internal control and evaluate its implementation and efficiency.

INTERNAL CONTROL QUESTIONNAIRE - This is a comprehensive series of questio1ns concerning internal control. This is the most widely used form for collecting information about the existence, operation and efficiency of internal control in an organisation. An important advantage of the questionnaire is that oversight or omission of significant internal control review procedures is less likely to occur with this method.

In the questionnaire, generally questions are so framed that a 'Yes' answer denotes satisfactory position and a 'No' answer suggests weakness. Provision is made for an explanation or further details of 'No' answers. In respect of questions not relevant to the business, 'Not Applicable' reply is given. The questionnaire is usually

issued to the client and the client is requested to get it filled by the concerned executives and employees. If on a perusal of the answers, inconsistencies or apparent incongruities are noticed, the matter is further discussed by auditor's staff with the client's employees for a clear picture. The concerned auditor then prepares a report of deficiencies and recommendations for improvement.

FLOW CHART - It is a graphic presentation of each part of the company's system of internal control. A flow chart is considered to be the most concise way of recording the auditor's review of the system. It minimises the amount of narrative explanation and thereby achieves a consideration or presentation not possible in any other form. It gives bird's eye view of the system and the flow of transactions and integration and in documentation, can be easily spotted and improvements can be suggested. It is also necessary for the auditor to study the significant features of the business carried on by the concern, the nature of its activities and various channels of goods and materials as well as cash, both inward and outward and also a comprehensive study of the entire process of manufacturing, trading and administration

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

TESTING OF INTERNAL CONTROL

After assimilating the internal control system, the auditor needs to examine whether and how far the same is actually in operation. For this, he resorts to actual testing of the system in operation. This he does on a selective basis: he can plan this testing in such a manner that all the important areas are covered in a period of, say, three years.

Test of controls are performed to obtain audit evidence about the effectiveness of the-

1. Design of the accounting and internal control system
2. Operation of the internal control throughout the period

Test of controls may include:

- Inspection of documents supporting transactions and other events to gain audit evidence that internal controls have operated properly, for example, verifying that a transaction has been authorised.
- Inquiries about, and observation of, internal controls which leave no audit trail, for example, determining who actually performs each function and not merely who is supposed to perform it.
- Re-performance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's IC, for e.g., reconciliation of bank accounts, to ensure they were correctly performed by the entity.
- Testing of IC operating on specific computerised applications or over the overall information technology function, for e.g., access or program change controls.

Based on the results of the TOC, the auditor should evaluate whether the IC are designed and operating as contemplated in the preliminary assessment of control risk. The evaluation of deviations may result in the auditor concluding that the assessed level of control risk needs to be revised. In such cases, the auditor would modify the nature, timing and extent of planned substantive procedures.

Before the conclusion of the audit, based on the results of substantive procedures and other AE obtained by the auditor, the auditor should consider whether the assessment of control risk is confirmed. In case of deviations from the prescribed accounting and IC systems, the auditor would make specific inquiries to consider their implications. Where, on the basis of such inquiries, the auditor concludes that the deviations are such that the preliminary assessment of control risk is not supported, he would amend the same unless the AE obtained from other TOC supports that assessment. Where the auditor concludes that the assessed level of control risk needs to be revised, he would modify the NTE of his planned substantive procedures

DOCUMENTATION

The auditor shall document:

1. The discussion among the engagement team and the significant decisions reached
2. 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
3. The identified and assessed risks of material misstatement at the financial statement level and at the assertion level and
4. The risks identified, and related controls about which the auditor has obtained an understanding.

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

1) DEFINITION - AUTOMATED ENVIROMENT

An automated environment basically refers to a business environment where the processes, operations, accounting and even decisions are carried out by using computer systems - also known as Information Systems (IS) or Information Technology (IT) systems

2) KEY FEATURES OF AUTOMATED ENVIROMENT

- Enables faster business operation
- Accuracy in data processing and computation
- Ability to process large volume of transactions
- Integration amongst business operations
- Better security and controls
- Less prone to human errors
- Provides latest information
- Connectivity and networking capability

4) RISK ARISING FROM USE OF IT SYSTEM

- ⇨ Inaccurate processing of data, pro- cessing inaccurate data, or both.
- ⇨ Unauthorized access to data.
- ⇨ Direct data changes (backend changes).
- ⇨ Excessive access I Privileged ac- cess (super users).
- ⇨ Lack of adequate segregation of duties.
- ⇨ Unauthorized changes to systems or programs.
- ⇨ Failure to make necessary changes to systems or programs.
- ⇨ Loss of data.

3)UNDERSTANDING & DOCUMENTING AUTOMATED ENVIROMENT

1. Information systems being used (one or more application systems and what they are)
2. Their purpose (financial and non-financial)
3. Location of IT systems - local vs global
4. Architecture (desktop based, client-server, web application, cloud based)
5. Version (functions and risks could vary in different versions of same application).
6. Interfaces within systems (in case multiple systems exist).
7. In-house vs Packaged.
8. Outsourced activities (IT maintenance and support).
9. Key persons (CIO, CISO, Administrators).

5) IMPACT OF IT RELATED RISKS

1. Impact on substantive checking - Inability to address above discussed risks may lead to non-reliance of data obtained from systems. In such a case, all information, data, and reports would have to be tested thoroughly for their completeness and accuracy. It could lead to increased substantive checking i.e., detailed checking.
2. Impact on controls - It can lead to non-reliance on automated controls, system calculations and accounting procedures built into applications. It may result in additional audit work.
3. Impact on reporting - Due to regulatory requirements in respect of internal financial controls (discussed in subsequent paras) in case of companies, it may lead to modification of auditor's report in some instances.

SA 315 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS

A) GENERAL IT CONTROLS

General IT controls are policies and procedures that relate to many applications and support the effective functioning of application controls. These are IT controls generally implemented to mitigate the IT specific risks and applied commonly across multiple IT systems, applications and business processes. Hence, General IT controls are known as "pervasive" controls or "indirect" controls.

(a) General IT-controls that maintain the integrity of information and security of data commonly include controls over the following:

(b) Controls over Data centre and network operations - The objective of controls over Data centre and network operations is to ensure that production systems are processed to meet financial reporting objectives. These include activities such as overall management of computer operation activities, preparing, scheduling and executing of batch jobs, monitoring, storage and retention of backups.

(c) Program Change The objective of program change controls is to ensure that modified systems continue to meet financial reporting objectives. It includes activities such as change management process, recording, managing and tracking change requests, making and testing changes etc

(d) Access Security The objective of controls over access security is to ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives. It includes activities such as security organization & mgmt., security policies & procedures, application security, data security, operating system security, network security, physical security etc.

(e) Application system acquisition, development, and maintenance - The objective of such controls is to ensure that systems are developed, configured and implemented to meet financial reporting objectives. It includes overall management of development activities, project initiation, analysis & design, construction, testing & quality assurance etc.

B) APPLICATION CONTROLS

Application controls include both automated or manual controls that operate at a business process level. Automated Application controls are embedded into IT applications viz., ERPs and help in ensuring the completeness, accuracy and integrity of data in those systems. Examples of automated applications include edit checks and validation of input data, sequence number checks, user limit checks, reasonableness checks, mandatory data fields.

C) IT DEPENDENT CONTROLS

IT dependent controls are basically manual controls that make use of some form of data or information or report produced from IT systems and applications. In this case, even though the control is performed manually, the design and effectiveness of such controls depends on the reliability of source data. Due to the inherent dependency on IT, the effectiveness and reliability of automated application controls and IT dependent controls require the General IT controls to be effective.

GENERAL IT v/s APPLICATI ON CONTROLS

These two categories of control over IT systems are interrelated. The relationship between the application controls and the General IT Controls is such that General IT Controls are needed to support the functioning of application controls, and both are needed to ensure complete and accurate information processing through IT systems.

7) TESTING METHODS IN AUTOMATED ENVIROMENT

There are basically four types of audit tests that should be used. These are inquiry, observation, inspection and reperformance.

Inquiry is the most efficient audit test but it also gives the least audit evidence. Hence, inquiry should always be used in combination with any one of the other audit testing methods. Inquiry alone is not sufficient. Reperformance is most effective as an audit test and gives the best audit evidence. However, testing by reperformance could be very time consuming and least efficient most of the time. Generally, applying inquiry in combination with inspection gives the most effective and efficient audit evidence.

When testing in an automated environment, some of the more common methods are as follows:

1. Obtain an understanding of how an automated transaction is processed by doing a walkthrough of one end-to-end transaction using a combination of inquiry, observation and inspection.
2. Observe how user processes transactions under different scenarios.
3. Inspect the configuration defined in an application.

Where the general IT controls are not existing or existing but ineffective, the auditor should assess the impact of IT risks and complexity of the automated environment in which the business operations take place and plan alternative audit procedures in order to rely on the system-based information.

8) CHARACTERISTICS OF MANUAL AND AUTOMATED ELEMENTS OF IC RELEVANT TO THE AUDITOR'S RISK ASSESSMENT

The use of manual or automated elements in internal control also affects the manner in which transactions are initiated, recorded, processed, and reported:

(a) Controls in a manual system may include such procedures as approvals and reviews of transact ions, and reconciliations and follow-up of reconciling items. Alternatively, an entity may use automated procedures to initiate, record, process, and report transactions, in which case records in electronic format replace paper documents.

(b) Controls in IT systems consist of a combination of automated controls (for example, controls embedded in computer programs) and manual controls. Further, manual controls may be independent of IT, may use information produced by IT, or may be limited to monitoring the effective functioning of IT and of automated controls, and to handling exceptions.

8.1) Manual elements vs automated elements in entity's internal control Manual elements in internal control may be more suitable where judgment and discretion are required such as for the following circumstances:

(a) Large, unusual or non-recurring transactions.
(b) Circumstances where errors are difficult to define, anticipate or predict.
(c) In changing circumstances that require a control response outside the scope of an existing automated control.
(d) In monitoring the effectiveness of automated controls.

Manual control elements may be less suitable for the following circumstances:

- High volume or recurring transactions, or in situations where errors that can be anticipated or predicted can be prevented, or detected and corrected, by control parameters that are automated.
- Control activities where the specific ways to perform the control can be adequately designed and automated.

12) ASSESS AND REPORT AUDIT FINDINGS

At the conclusion of each audit, it is possible that there will be certain findings or exceptions in IT environment and IT controls of the company that need to be assessed and reported to relevant stakeholders including management and those charged with governance viz., Board of directors, Audit committee. Some points to consider are as follows:

1. Are there any weaknesses in IT controls?
2. What is the impact of these weaknesses on overall audit?
3. Report deficiencies to management - IC memo or Management letter.
4. Communicate in writing any significant deficiencies to TCWG.

10) DATA ANALYTICS

The combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information is called data analytics.

The tools and techniques that auditors use in applying the principles of data analytics are known as Computer Assisted Auditing Techniques or CAATs in short. Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz., IDEA and ACL to perform the following:

Check completeness of data and population that is used in either test of controls or substantive audit tests.

Selection of audit samples - random sampling, systematic sampling.

- Re-computation of balances - reconstruct ion of trial balance from transact ion data.
- Reperformance of mathematical calculations – depreciation, bank interest calculation.
- Analysis of journal entries
- Fraud investigation.
- Evaluating impact of control deficiencies

11) DIGITAL AUDIT

Automation is key to digitization. In such a business environment, use of digital techno logy is being made by auditors right from planning to expression of final opinion. Auditors are making use of artificial intelligence, data analytics and other latest technologies to help understand business processes in a better way. By using such tools, auditors can conduct audit in a better way and devote more attention to areas requiring greater focus. Digital audit is helping auditors to better identify risks making use of technology.

SA 320 - MATERIALITY IN PLANNING & PERFORMING AN AUDIT

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.

MATERIALITY IN P&P AUDIT - AUDITOR'S RESPONSIBILITY

FRFW often discuss the concept of materiality in the context of the preparation and presentation of financial statements. They generally explain 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 FS;
- 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
- 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. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

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

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

- Determining the NTE of RAP;
- Identifying and assessing the ROMM; and
- Determining the NTE of FAP.

DETERMINATION - MATTER OF PROFESSIONAL JUDGEMENT

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 FS with reasonable diligence;
(b) Understand that FS 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 FS

PERFORMANCE MATERIALITY

Performance materiality means the amount or amounts set by the auditor at less than materiality for the FS as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the FS as a whole. 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. When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole and for particular classes of transactions, account balances or disclosures.

MATERIALITY FOR PARTICULAR CTABD

Whether law, regulations or the applicable FRFW affect users' expectations regarding the measurement or disclosure of certain items like in case of RPT, and the remuneration of management and TCWG.

The key disclosures in relation to the industry in which the entity operates. For example, research and development costs for a pharmaceutical company.

Whether attention is focused on a particular aspect of the entity's business that is disclosed in the FS like in case of newly acquired business

SA 320 - MATERIALITY IN PLANNING & PERFORMING AN AUDIT

USE OF BENCHMARKS IN DETERMINING MATERIALITY FOR FS AS WHOLE

A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the FS as a whole. Factors that may affect the identification of an appropriate benchmark include the following:

- ✓ The elements of the FS like assets, liabilities, equity, revenue, expenses
- ✓ Whether there are items on which the attention of the users of the particular entity's FS tends to be focused.
- ✓ 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, the entity's ownership structure and the way it is financed.
- ✓ The relative volatility of the benchmark.

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: -

- ✓ Prior -periods financial results and financial positions,
- ✓ The period to-date financial results and financial position, and
- ✓ Budgets or forecasts for the current period, adjusted for significant changes in the circumstances of the entity and relevant changes of conditions in the industry or economic environment in which the entity operates.

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.

DOCUMENTATION

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

1) Materiality for the financial statements as a whole
2) If applicable, the materiality level or levels for particular CTABD
3) Performance materiality and
4) Any revision of (a)-(c) as the audit progressed

MATERIALITY & AUDIT RISK

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 FS and in forming the opinion in the auditor's report.

SA 200 objectives and Audit Risk definition

Materiality and Audit Risk are considered throughout the audit, in particular, when:

- ♦ Identifying and assessing the ROMM;
- ♦ Determining the NTE of FAP; and
- ♦ Evaluating the effect of uncorrected misstatements, if any, on the FS and in forming the opinion in the auditor's report.

SA 330 – The Auditor's Response to Assessed RISK

OVERVIEW

The objective of the auditor is to obtain SAAE about the assessed ROMM, through designing and implementing appropriate responses to those risks.

SA 330 states that:

1) The auditor shall design and implement overall responses to address the assessed ROMM at the FS level.
2) The auditor shall design and perform FAP whose NTE are based on and are responsive to the assessed ROMM at the assertion level.

In designing the FAP to be performed, the auditor shall:

a) Consider the reasons for the assessment given to the ROMM at the assertion level for each CTABD, including:
   - The likelihood of material misstatement due to the particular characteristics of the relevant CTABID (i.e. the inherent risk); and
   - 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 NTE of substantive procedures); and
b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk.

NATURE AND EXTENT OF TOC

In designing and performing test of controls, the auditor shall:

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
ii. The consistency with which they were applied
iii. By whom or by what means they were applied

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.

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

1. The frequency of the performance of the control by the entity during the period.
2. The length of time during the audit period that the auditor is relying on the operating effectiveness of the control.
3. The expected rate of deviation from a control
4. The relevance and reliability of the AE to be obtained regarding the operating effectiveness of the control at the assertion level.
5. The extent to which audit evidence is obtained from tests of other controls related to the assertion.

TEST OF CONTROLS

The auditor shall design and perform TOC to obtain SAAE as to the operating effectiveness of relevant controls when:

- The auditor's assessment of ROMM 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
- Substantive procedures alone cannot provide SAAE at the assertion level

TIMING OF TOC

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.

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. 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.

SA 330 – The Auditor's Response to Assessed RISK

USING AE OBTAINED IN PREVIOUS AUDITS	EVALUATING OPERATING EFFECTIVENESS OF IC	SPECIFIC ENQUIRIES BY AUDITOR WHEN DEVIATIONS FROM CONTROL ARE DETECTED
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	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. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective. A material misstatement detected by the auditor's procedures is a strong indicator of the existence of a significant deficiency in IC.	The auditor shall determine whether: (a) The TOC that have been performed provide an appropriate basis for reliance on the controls (b) Additional TOC are necessary or (c) The potential risks of misstatement need to be addressed using substantive procedures.

SUBSTANTIVE PROCEDURES

Substantive procedures are audit procedures designed to detect material misstatements at the assertion level. Substantive procedures comprise: (i) Tests of details (of classes of transactions, account balances, and disclosures), and (ii) Substantive analytical procedures.

TEST OF DETAILS

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. Such tests of transactions help in establishing the authenticity of transactions recorded in books of accounts.

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. 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.

SA 330 – The Auditor's Response to Assessed RISK

SUBSTANTIVE ANALYTICAL PROCEDURES

Substantive analytical procedures refer to analytical procedures used as substantive procedures by auditor.

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.

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. 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 - Depending on the circumstances, the auditor may determine that:

- 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.
- Only TOD are appropriate.
- A combination of substantive analytical procedures and tests of details are most responsive to the assessed risks.

SA 450 - EVALUATIONS OF MISSTATEMENTS I DENTIFIED DURING THE AUDIT

OBJECTIVE

The objective of the auditor is to evaluate:

The effect of identified misstatements on the audit and

The effect of uncorrected misstatements, if any, on the FS

ACCUMULATION OF MISSTAEMENTS IDENTIFIED

The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. A misstatement may arise from a variety of factors. For example, an inaccuracy in gathering or processing data from which FS are prepared or an omission of an amount or disclosure can result into a misstatement.

COMMUNICATION & CORRECTION OF MISSTATEMENT

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. The auditor shall request management to correct those misstatements.

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 ROMM of future FS because of the cumulative effect of immaterial uncorrected misstatements related to prior periods.

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 FS as a whole are free from material misstatement

CONSIDERATION OF IDENTIFIED MISSTATEMENT AS AUDIT PROGRESS

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

- ⇨ 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
- ⇨ The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320.

The auditor may request management to examine a COT or AB or D in order for management to understand the cause of a misstatement, perform procedures to determine the amount of the actual misstatement in the COT or AB or D, and to make appropriate adjustments to the FS.

If, at the auditor's request, management has examined a COT or AB or D and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain

EVALUATING EFFECT OF UNCORRECTED MISSTATEMENTS

Prior to this, confirm materiality as per SA 320 remains appropriate.

The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:

- ⇨ The size and nature of the misstatements, both in relation to particular CTAB D and the FS as a whole, and the particular circumstances of their occurrence and
- ⇨ The effect of uncorrected misstatements related to prior periods on the relevant CTABD, and the FS as a whole.

SA 450 - EVALUATIONS OF MISSTATEMENTS I DENTIFIED DURING THE AUDIT	
COMMUNICATION WITH TCWG	**DOCUMENTATION**
The auditor shall communicate with TCWG 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. The auditor shall request that uncorrected misstatements be corrected. The auditor shall also communicate with TCWG the effect of uncorrected misstatements related to prior periods on the relevant to COT or AB or D, and the FS as a whole.	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. **Written Representation** The auditor shall request a WR from management and, where appropriate TCWG whether they believe the effects of uncorrected misstatements are immaterial, individually or in aggregate, to the FS as a whole. A summary of such items shall be included in or attached to WR.

SA 500 – AUDIT EVIDENCE	
MEANING	**TYPES 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 (A) underlying the FS and other information(B). There exists a very important relationship between Audit Evidence and opinion of the Auditor. On the basis of audit evidence, audit opinion is formed. A. Information contained in the accounting records: 1. The records of initial accounting entries and supporting records, such as cheques and records of electronic fund transfers; 2. Invoices; 3. Contracts; 4. The general and subsidiary ledgers, journal entries and other adjustments to the FS that are not reflected in journal entries; and 5. Records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures. B. Other information: 1. Minutes of the meetings, 2. Written confirmations from trade receivables and trade payables, 3. Manuals containing details of internal control etc.	**Depending upon nature:** • Visual: For example, observing physical verification of inventory conducted by the client's staff. • Oral: For example, discussion with the management and various officers of the client. • Documentary: For example, fixed deposit certificate, loan agreement, sales bill etc. **Depending upon source:** Internal Evidence: Evidence which originates within the organisation being audited is internal evidence. E.g. - Sales invoice, Copies of sales challan and forwarding notes, goods received note External evidence: The evidence that originates outside the client's organization is external evidence. E.g. - Purchase invoice, supplier's challan and forwarding note, debit notes and credit notes coming from parties, The external evidence is generally considered to be more reliable as they come from third parties who are not normally interested in manipulation of the accounting information of others. However, if the auditor has any reason to doubt the independence of any third party who has provided any material evidence e.g. an invoice of an associated concern, he should exercise greater vigilance in that matter. As an ordinary rule, the auditor should try to match internal and external evidence as far as practicable.

SA 500 – AUDIT EVIDENCE	
RELEVANCE	**RELIABILITY**
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 affected 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. 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. 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. **On the other hand, audit evidence from different sources or**	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. Generalisations about reliability of audit evidence - (D CODE) The reliability of AE is increased when it is obtained from independent sources outside the entity. The reliability of AE that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective. AE obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference AE in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally AE obtained as original documents is more reliable than AE obtained as photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form

Sufficiency and Appropriateness are interrelated

- ⇨ The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence.
- ⇨ 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.

SA 500 – AUDIT EVIDENCE

Obtaining Sufficient and appropriate Audit Evidence by the Auditor

1. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits.
2. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence.
3. Also, information that may be used as audit evidence may have been prepared using the work of a management's expert.
4. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.
5. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.
6. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. The auditor uses various audit procedures to obtain audit evidence such as inspection, observation, confirmation, recalculation, reperformance and analytical procedures, often in some combination, in addition to inquiry.

Factors that affect Auditor's judgement as to sufficiency

1. Materiality: It may be defined as the significance of CTABD to the users of the FS. Less evidence would be required in case assertions are less material to users of the FS. But on the other hand, if assertions are more material to the users of the FS, more evidence would be required.
2. Risk of material misstatement: It may be defined as the risk that the FS are materially misstated prior to audit. This consists of two components described as follows at the assertion level:
   - Inherent risk- Refer SA 200
   - Control risk- Refer SA 200

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

3. 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.

The following points are also relevant in respect of audit procedures for auditor's consideration:

1. The above audit procedures, often in some combination, in addition to inquiry may be used as RAP, TOC or substantive procedures, depending on the context in which they are applied by the auditor.
2. Audit evidence obtained from previous audits may, in certain circumstances, provide appropriate AE where the auditor performs audit procedures to establish its continuing relevance.

Nature and Timing of the Audit Procedures

It may be affected by fact that some of accounting data and other information may be available only in electronic form or only at certain points or periods in time.

For e.g. source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce, or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference.

Certain electronic information may not be retrievable after a specified period of time. For e.g. - if files are changed and if backup files do not exist.

Accordingly, the auditor may find it necessary as a result of an entity's data retention policies to request retention of some information for the auditor's review or to perform audit procedures at a time when the information is

SA 500 – AUDIT EVIDENCE

INFORMATION TO BE USED AS AUDIT EVIDENCE

When information to be used as AE has been prepared using the work of a management's expert, the NTE of audit procedures may be affected by matters;

- ⇨ The nature and complexity of the matter to which the management's ex- pert relates.
- ⇨ The ROMM in the matter.
- ⇨ The availability of alternative sources of audit evidence.
- ⇨ The nature, scope and objectives of the management's expert's work.
- ⇨ Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- ⇨ The extent to which management can exercise control or influence over the work of the management's expert.
- ⇨ Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- ⇨ The nature and extent of any controls within the entity over the management's expert's work.
- ⇨ The auditor's knowledge and experience of the management's expert's field of expertise.
- ⇨ The auditor's previous experience of the work of that expert.

8.2 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:

- ♦ Obtaining AE about the accuracy and completeness of the information; and
- ♦ Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.

AUDIT TRAIL

- ✓ 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 FS of an entity. 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.
- ✓ It is a step-by-step record by which accounting, trade details, or other financial data can be traced to their source. Audit trails are used to verify and track many types of transactions.
- ✓ Audit trails (or audit logs) act as record-keepers that document evidence of certain, because their purpose is to reduce fraud, material errors, and unauthorised use. Audit trails help to enhance internal controls and data security. Audit trails can help in fixing responsibility, rebuilding events and in thorough analysis of problem areas. 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 ana lysis can specify reason of the problem. It can also help in ensuring operation of system as intended.
- ✓ However, it involves 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. However, use of automated tools can be made to ana lyse large volume of data thrown up by audit trails.
- ✓ 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. 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 AE obtained.

SA 500 – AUDIT EVIDENCE

SELECTING ITEMS FOR TESTING TO OBTAIN AE

The means available to the auditor for selecting items for testing are:

(a) Selecting all items (100% examination) - 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). 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, For example:

- The population constitutes a small number of large value items;
- There is a significant risk and other means do not provide sufficient appropriate audit evidence; or
- The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective

(b) Selecting specific items - The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- 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.
- 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.
- 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.

(c) Audit sampling - Audit sampling is designed to enable conclusions to be drawn a bout an entire population on the basis of testing a sample drawn from it. Audit sampling is discussed in SA 530.

INCONSISTENCY IN OR DOUBTS OVER RELIABILITY OF AE

If:

(a) AE 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 AE, 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.

RELYING ON THE WORK OF MANAGEMENT EXPERT

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;

- ⇨ Evaluate the competence, capabilities and objectivity of that expert;
- ⇨ Obtain an understanding of the work of that expert; and
- ⇨ Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

SA 501 - AUDIT EVIDENCE - CONSIDERATIONS FOR SELECTED ITEMS

The auditor shall obtain SAAE regarding the existence and condition of inventory by:

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

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

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

PIC Conducted other than at the Date of the FS 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 FS are properly recorded.

Relevant matters for consideration include:

- Whether the perpetual inventory records are properly adjusted.
- Reliability of the entity's perpetual inventory records.
- Reasons for significant differences between the information obtained during the physical count and the perpetual inventory records

ATTENDANCE AT PHYSICAL INVENTORY COUNTING

Inspecting the inventory to check its existence and condition, & performing test counts;

Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the PIC; and

Obtaining audit evidence as to the reliability of management's count procedures.

MATTERS RELEVANT IN PLANNING ATTENDANCE AT PIC

1. Nature of inventory.
2. Stages of completion of work in progress.
3. The ROMM related to inventory.
4. The nature of the internal control related to inventory.
5. Whether adequate procedures are issued for PIC.
6. The timing of physical inventory counting.
7. Whether the entity maintains a perpetual inventory system.
8. The locations at which inventory is held, including the materiality of the inventory and the ROMM at different locations
9. Whether the assistance of an auditor's expert is needed to obtain SAAE.

Attendance at PIC becomes impractical

- If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain SAAE regarding the existence and condition of inventory. for example- inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the PIC, may provide SAAE about 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 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.
- The matter of general inconvenience to the auditor, however, is not sufficient to support a decision that attendance is impracticable

SA 501 – AUDIT EVIDENCE – CONSIDERATIONS FOR SELECTED ITEMS

When inventory under the custody and control of a third party

1. Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
2. Perform inspection or other audit procedures appropriate in the circumstances. Other audit procedure may include -For Example
   (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.

SEGMENT INFORMATION	Auditor's responsibility regarding presentation & disclosure of segment information
1. Obtaining an understanding of the methods used by management in determining segment information, and: 2. Evaluating whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework; and 3. Where appropriate, testing the application of such methods; and 4. Performing analytical or other audit procedures appropriate in the circumstances.	The auditor's responsibility is in relation to the financial statements taken as a whole. 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

⇨ Sales, transfers and charges between segments, and elimination of intersegment amounts.
⇨ Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
⇨ The allocation of assets and costs among segments.
⇨ Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.

SA 501 – AUDIT EVIDENCE – CONSIDERATIONS FOR SELECTED ITEMS

LITIGATION AND CLAIMS

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:

- Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;
- Reviewing minutes of meetings of TCWG and correspondence between the entity and its external legal counsel; and
- Reviewing legal expense accounts.

In addition to the procedures identified above other relevant procedures include, 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.

If the Auditor Assesses a ROMM regarding Litigation or Claims – Communication with the Entity's External Legal Counsel

The auditor shall do so through a letter of inquiry requesting the entity's external legal counsel to communicate directly with the auditor. If law, regulation or respective legal professional body prohibits the entity's external legal counsel from communicating directly with auditor, the auditor shall perform alternative audit procedures.

If it is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general inquiry, the auditor may seek direct communication through a letter of specific inquiry. For this purpose, a letter of specific inquiry includes:

- ⇨ A list of litigation and claims;
- ⇨ 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
- ⇨ 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.

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:

- ⇨ The auditor determines that the matter is a significant risk.
- ⇨ The matter is complex.
- ⇨ 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.

Further if:

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 the auditor is unable to obtain SAAE by performing alternative audit procedures, the auditor shall modify the opinion in in accordance with SA 705.

SA 505 – EXTERNAL CONFIRMATIONS

INTRODUCTION

SA 500 also includes the following generalisations applicable to AE:

- AE is more reliable when it is obtained from independent sources outside the entity.
- AE obtained directly by the auditor is more reliable than AE obtained indirectly or by inference.
- AE is more reliable when it exists in documentary form, whether paper, electronic or other medium.

DEFINITION

External confirmation - 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.

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.

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.

Non-response - A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

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.

NEGATIVE CONFIRMATION REQUEST

Provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed ROMM at the assertion level unless all of the following are present:

The auditor has assessed the ROMM as low and has obtained SAAE regarding the operating effectiveness of controls relevant to the assertion;

The population of items comprises a large number of small, homogeneous, account balances, transactions or conditions;

A very low exception rate is expected; and

The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

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.

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.

For example, Holders of bank deposit accounts may be more likely to respond if they believe that the balance in their account is understated in the confirmation request, but may be less likely to respond when they believe the balance is overstated. Therefore, sending negative confirmation requests to holders of bank deposit accounts may be a useful procedure in considering whether such balances may be understated, but is unlikely to be effective if the auditor is seeking evidence regarding overstatement.

SA 505 – EXTERNAL CONFIRMATIONS

(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 terms of agreements, contracts, or transactions between an entity and other parties, or 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 e.g. a bank official who is knowledgeable about the transact ions or arrangements for which confirmation is requested may be the most appropriate person at the financial institution from

(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 e.g., the auditor may, having re-verified the accuracy of the original address, send an additional or follow-up request.

(c) Designing Confirmation Requests

1. Design of a confirmation request - It may directly affect the confirmation response rate, and the reliability and the nature of the audit evidence obtained from response
2. Factors to be considered by auditor when designing confirmation requests Factors to consider when designing confirmation requests include:
   - The assertions being addressed.
   - Specific identified ROMM, including fraud risks.
   - The layout and presentation of the confirmation request.
   - Prior experience on the audit or similar engagements.
   - The method of communication
   - Management's authorisation or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management's authorisation.
   - The ability of the intended confirming party to confirm or provide the requested information
3. Positive confirmation request 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. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence. There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. The auditor may reduce this risk by using positive confirmation requests that do not state the amount on the confirmation request, and ask the confirming party to fill in the amount or furnish other information. 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 the addresses on confirmation requests before they are sent out.

SA 505 – EXTERNAL CONFIRMATIONS

(A) Reasonableness of Management's Refusal

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.

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.

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

(B) Implications for the Assessment of Risks of Material Misstatement

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.

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.

(C) Alternative Audit Procedures

Examples of alternative audit procedures the auditor may perform include:

- For accounts receivable balances - examining specific subsequent cash receipts, shipping documentation, and sales near the period-end.
- For accounts payable balances - examining subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes.

EVALUATING THE EVIDENCE OBTAINED

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. When evaluating the results of individual external confirmation requests, the auditor may categorise such results as follows:

A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;

- A response deemed unreliable;
- A non-response; or
- A response indicating an exception.

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

SA 510 – Initial Audit Engagements – Opening Balances

DEFINITION	OBJECTIVE
1. Initial audit engagement refers to an engagement in which either: ⇨ The FS for the prior period were not audited; or ⇨ The FS for the prior period were audited by 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 FS of an entity in the prior period and who has been replaced by the current auditor.	Obtain SAAE whether - (a) Opening balances contain misstatements that materially affect the current period's FS; and (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's FS, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable FRFW.

OBTAINING SAAE ON OPENING BALANCES

The auditor shall obtain SAAE about whether the opening balances contain misstatements that materially affect the current period's FS by:

(a) 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;

(b) Determining whether the opening balances reflect the application of appropriate accounting policies; and

(c) Performing one or more of the following:

⇨ Where the prior year FS were audited, perusing the copies of the audited FS including the other relevant documents relating to the prior period FS;

⇨ Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or

⇨ Performing specific audit procedures to obtain evidence regarding the opening balances.

If there are misstatements that could materially affect the current period's FS, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's FS.

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 TCWG.

SA 510 – Initial Audit Engagements – Opening Balances

PROCEDURES ADOPTED BY AUDITOR TO OBTAIN AUDIT EVIDENCE

4.1 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:

- ⇨ The accounting policies followed by the entity.
- ⇨ The nature of the CTABD and the ROMM in the current period's FS.
- ⇨ The significance of the opening balances relative to the current period's FS.
- ⇨ Whether the prior period's FS were audited and, if so, whether the predecessor auditor's opinion was modified.

4.2) If the prior period's FS were audited by a predecessor auditor –

If the prior period's FS were audited by a predeces-sor auditor, the auditor may be able to obtain SAAE regarding the opening balances by perusing the copies of the audited FS including the other relevant documents relating to the prior period FS such as supporting schedules to the audited FS

Ordinarily, the auditor can place reliance on the 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

Some audit evidence through current audit procedures. Additional audit procedure to obtain SAAE. For e.g. Inventory

1. Observing a current physical inventory count and reconciling it to the opening inventory quantities.
2. Performing audit procedures on the valuation of the opening inventory items.
3. Performing audit procedures on gross profit and cut-off.

For Non-current assets and liabilities

1. Such as PPE, investments and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances.
2. In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties.

CONSISTENCY OF ACCOUNTI NG POLICIES (AP)

If the auditor concludes that:

(a) The current period's AP are not consistently applied in relation to opening balances in accordance with the applicable FRFW; or
(b) A change in AP is not properly accounted for or not adequately presented or disclosed in accordance with the applicable FRFW,

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

REPORTING

(a) Unable to obtain SAAE – Qualified opinion or a disclaimer of opinion
(b) Opening balance contain a misstatement that materially affects the current period's FS and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or adverse opinion.

SA 520 – Analytical Procedures

MEANING OF ANALYTICAL RELATIONSHIPS

Means evaluations of financial information through ana lysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Analytical procedures include the consideration of comparisons of the entity's financial information with as well as consideration of relationships. Examples of Analytical Procedures having consideration of comparisons of the entity's financial information are:

Comparable information for prior periods.

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

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

Examples of Analytical Procedures having consideration of relationships are:

- Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, like gross margin %.
- Between financial information and relevant non-financial information, such as payroll costs to number of employees.

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

- comparison of client and industry data,
- comparison of client data with similar prior period data,
- comparison of client data with client-determined expected results,
- comparison of client data with auditor-determined expected results and
- comparison of client data with expected results, using non-financial data.

OBJECTIVE OF SA 520

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 FS are consistent with the auditor's understanding of the entity

SA 520 – Analytical Procedures	
FACTORS TO BE CONSIDERED FOR SUBSTANTIVE AUDIT PROCEDURE	**TECHNIQUES AVAILABLE AS SAP**
• Availability of Data - The availability of reliable and relevant data will facilitate effective analytical procedures. • Disaggregation - The degree of disaggregation in available data can directly affect the degree of its usefulness in detecting misstatements. • Account Type - Substantive analytical procedures are more useful for certain types of accounts than for others. 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 - Some classes of transactions tend to be more predictable because they consist of numerous, similar transactions, Whereas the transactions recorded by nonroutine and estimation SCOTs (Significant Classes of Transactions) are often subject to management judgment and therefore more difficult to predict. • Predictability - Substantive analytical procedures are more appropriate when an account balance or relationships between items of data are predictable • Nature of Assertion - 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). Predictive analytical procedures using data analytics can be used to address completeness, valuation/measurement and occurrence. • Inherent Risk or "What Can Go Wrong" - When we are designing audit procedures to address an inherent risk or "what can go wrong", we consider the nature of the ROMM in order to determine if a substantive analytical procedure can be used to obtain AE. When inherent risk is higher, we may design tests of details to address the higher inherent risk. When significant risks have been identified, audit evidence obtained solely from substantive analytical procedures is unlikely to be sufficient.	1. Trend analysis -Trend analysis is a commonly used technique. It is the comparison of current data with the prior period balance or with a trend in two or more prior period balances. The auditor evaluates 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. 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. 2. Ratio analysis - Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts. 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). 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. 3. Reasonableness tests - 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). These tests are generally more applicable to income statement accounts and certain accrual or prepayment accounts. 4. Structural modelling - A modelling 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).

SA 520 – Analytical Procedures

ANALYTICAL PROCEDURES USED AS SUBSTANTIVE TESTS A) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed ROMM and TOD, if any, for these assertions; Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. 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. 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 FS to be materially misstated. In some cases, even unsophisticated predictive model may be effective as an analytical procedure. The determination of the suitability of particular SAP is influenced by the nature of the assertion and the auditor's assessment of the ROMM. Particular SAP may also be considered suitable when TOD are performed on the same assertion.	C) 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 FS to be materially misstated; Matters relevant to the auditor's evaluation - (a) The accuracy with which the expected results of substantive analytical procedures can be predicted. (b) The degree to which information can be disaggregated (c) The availability of the information, both financial and non-financial.
B) 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; (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.	D) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation. 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 FS to be materially misstated. SA 330 requires the auditor to obtain more persuasive AE the higher the auditor's assessment of risk. Accordingly, as the assessed risk increases, the amount of difference considered acceptable without investigation decreases in order to achieve the desired level of persuasive evidence.

SA 520 – Analytical Procedures	
INVESTIGATING RESULTS OF ANALYTICAL PROCEDURES The auditor shall investigate such differences 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 AE obtained relevant to management's response, is not considered adequate.	**ANALYTICAL PROCEDURES THAT ASSIST WHILE FORMING AN OVERALL OPINION** 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. This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.

SA 530 – Audit Sampling

MEANING OF AUDIT SAMPLING

Definition - '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.

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 -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 Statistical and Non-statistical sampling when designing and selecting the:

(i) audit sample, (ii) performing TOC & TOD, and (iii) evaluating the results from the sample

SAMPLING UNIT

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

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.

APPROACHES TO SAMPLING (TYPES OF SAMPLING)

1. Statistical sampling is an approach to sampling that has the random selection of the sample units; and the use of probability theory to evaluate sample results, including measurement of sampling risk characteristics. Sample is chosen by applying certain mathematical and statistical methods.
2. A sampling approach that does not have the above features is considered as nonstatistical sampling.

POPULATION

Population refers to the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

Characteristics of Population

1. Appropriateness: The auditor will need to determine that the population from which the sample is drawn is appropriate for the specific audit objective. 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.
2. Completeness: 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. If population is complete in all respects, the conclusions drawn on the population will be considered to be reasonable.
3. Reliable: 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. 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.

SA 530 - Audit Sampling	
STATISTICALSAMPLING - MORE SCIENTIFIC	**NON STATISTICALSAMPLING**
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.	Under this approach, the sample size and its composition are determined on the basis of the personal experience and knowledge of the auditor. This approach has been in common application for many years because of its simplicity in operation. The non-statistical sampling is criticized on the grounds that it is neither objective nor scientific. 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. 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. 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. 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

APPROPRIATENESS OF SAMPLING APPROACHES

The advantages of statistical sampling may be summarized as follows -

1. The amount of testing (sample size) does not increase in proportion to the increase in the size of the area (universe) tested.
2. The sample selection is more objective and thereby more defensible.
3. The method provides a means of estimating the minimum sample size associated with a specified risk and precision.
4. 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.
5. 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.
6. 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.
7. 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.

SA 530 – Audit Sampling

SAMPLING vs TRADITIONAL METHOD OF AUDITING

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.

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.

Auditors realised that they can derive good satisfaction by undertaking a much lesser checking by adoption of this technique in the auditing process. It is a mathematical truth that the sample, if picked purely on a random basis would reveal the features and characteristics of the population.

By adopting the sampling technique, the auditor only checks a part of the whole mass of transactions.

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. Sampling is used as a part of Tests of controls. Auditor will check few internal controls and their operating effectiveness. Based on the conclusion derived, he can then design the sample size for tests of details (i.e. checking of transact ions and balances)

1. If the internal control is satisfactory in its design and implementation, a much smaller sample can give the auditor the necessary reliability of the result he obtains.
2. 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.
3. Another truth about the sampling technique should be noted. It can never bring complete reliability; it cannot give precisely accurate results. It is a process of estimation. It may have some error. What error is tolerable for a particular matter under examination is a matter of the individual's judgment in that particular case.
4. Very often we come across this term when an audit is conducted on the basis of a part checking.
5. This, it is said, owes its origin to the statistical theory of sampling.
6. The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's judgement. However, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.

Factors that should be considered for deciding upon the extent of checking on a sampling plan	SAMPLE DESIGN, SIZE AND SELECTION OFITEMS FOR TESTING
1) Size of the organisation under audit. 2) State of the internal control. 3) Adequacy and reliability of books and records. 4) Tolerable error range. 5) Degree of the desired confidence.	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. The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. Sample selected must be representative of the population.

SA 530 – Audit Sampling

SAMPLE DESIGN

1) 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.
2) 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.
3) 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. 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 wrong posting between customer accounts does not affect the total accounts receivable balance.

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.

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 decide not to perform tests of controls.

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.

SA 530 – Audit Sampling

STRATIFICATION	VALUE WEIGHTED SELECTION
Stratification: Audit efficiency may be improved if the auditor stratifies a population by dividing it into discrete subpopulations which have an identifying characteristic. 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. 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. When performing TOD, 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. 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. 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 ROMM in relation to whatever other strata make up the entire population. 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 ROMM. Projected misstatements of each stratum will be combined together to consider the possible effect of misstatement in the account balances and class of transactions. 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 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: When performing TOD, 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. 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. This approach may be used in conjunction with the systematic method of sample selection and is most efficient when selecting items using random selection. In value weighted selection, the sample size, its selection and evaluation will result in a conclusion in monetary amounts.

SA 530 – Audit Sampling	
SAMPLE SIZE	
The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.	
FACTORS INFLUENCING SAMPLE SIZE FOR TOC	**FACTORS INFLUENCING SAMPLE SIZE FOR TOD**
1) 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 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. Tolerable error is the maximum error in the population that auditor is ready to accept in a given sample size. 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 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. 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 SAAE. Therefore, there will be negligible effect on sample size due to increase in the number of sampling units in the population.	1) The higher the auditor1s assessment of the ROMM, the larger the sample size needs to be. The auditor's assessment of the risk of material misstatement is affected by inherent risk and control risk. 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. 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. 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. 6) When stratification of the population is appropriate then sample size will decrease as when there is a w ide range (variability) in the monetary size of items in the population, it may be useful to stratify the population. 7) There will be negligible effect on sample size due to number of sampling units in the population. 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.

SA 530 – Audit Sampling

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-

Simple Random Sampling: Under this method each unit of the whole population has an equal chance of being selected. It is considered that random number tables are simple and easy to use and also provide assurance that the auditors' bias does not affect the selection. 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). Today random numbers are also generated using various applications on the cell phones like the random number generator. This method is considered appropriate provided the population to be sampled is a homogeneous population having a similar range.

Stratified Sampling: 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. The number of groups into which the whole population has to be divided is determined on the basis of auditor judgment. Random sample is chosen from each stratum using random number tables. The reasoning behind the stratified sampling is that for a highly diversified population, weights should be allocated to reflect these differences. This is achieved by selecting different proportions from each strata. It can be seen that the stratified sampling is simply an extension of simple random sampling. Therefore, we can say that random selection method is applied through random number generators, for example, random number tables.

INTERVAL OR SYSTEMATIC SAMPLI NG

Systematic selection is a selection method in which the number of sampling units in the population as divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected.

Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerized random number generator or random number tables. 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.

The multiple random starting point is taken because it minimises 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.

HAPHAZARD SAMPLING

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 and thus attempt to ensure that all items in the population have a chance of selection. It is not appropriate when using statistical sampling.

BLOCK SAMPLING

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.

Further, if the client has the idea of the block selection pattern of the auditor, then material misstatements and deviations can be easily overlooked by management's practice of recording them.

SA 530 – Audit Sampling

PERFROMING 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 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, etc., then confirmation can be sought from the debtor as per SA SOS. If it is a cash sa le, 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.

NATURE AND CAUSE OF DEVIATION & STATEMENTS MISSTATEMENTS

1) In analysing 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.
6) Anomaly may be defined as a misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

SA 530 – Audit Sampling

PROJECTING MISSTAEMENTS

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 misstatements.
3) For TOD, the auditor shall project misstatements found in the sample to the population whereas for TOC, 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.

UNDERSTANDINIG SOME TERMS

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.

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.

550 RELATED PARTIES	
DEFINITION	**UNDERSTANDING CONTROL AND SIGNIFICANT INFLUENCE**
A party that is either 1) A related party (RP) as defined in the applicable FRFW; or 2) Where applicable FRFW establishes minimal or no RP requirements: (a) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity; (b) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or (c) Another entity that is under common control with the reporting entity through having: • Common controlling ownership; • Owners who are close family members; or • Common key management. EXCEPTION - 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.	Many FRFW 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.
OTHER DEFINITION	
Related Parties with Dominant Influence - 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. Relevant while assessing ROMM due to fraud. 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	

550 RELATED PARTIES

WHY RPT CARRY HIGHER ROMM THAN UNRELATED PARTY TRANSACTIONS?	SPECIFIC CONSIDERATIONS FOR SMALLER ENTITIES
(A) RP may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of RPT. (B) Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties. (C) RPT may not be conducted under normal market terms and conditions; for example, some RPT may be conducted with no exchange of consideration	There might be no TCWG and Owner Manager actively involves in transactions. For such entities, the auditor may obtain an understanding of the RPR & RPT, 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.
UNDERSTANDING RPR & RPT	**How can an auditor verify the existence of RPR & RPT?**
The auditor shall inquire of management regarding: 1) The identity of the entity's RP, including changes from the prior period; 2) The nature of the relationships between the entity and these RP; and 3) Whether the entity entered into any transactions with these RP during the period and, if so, the type and purpose of the transactions. The auditor shall inquire of management and others within the entity, and perform other RAP considered appropriate, to obtain an understanding of the controls, if any, that management has established to - 1) Identify, account for, & disclose RPR and RPT as per applicable FRFW; 2) Authorise and approve significant transactions and arrangements with RP; and 3) Authorise and approve significant transact ions and arrangements outside the normal course of business.	He may inspect the following records or documents that may provide information about related party relationships and transactions, for example: (Contract -3, Reports - 4, Shares/Investment -3, Others - 2) 1) Contracts and agreements with key management or TCWG. 2) Significant contracts and agreements not in the entity's ordinary course of business. 3) Significant contracts re-negotiated by the entity during the period. 4) Entity income tax returns. 5) Information supplied by the entity to regulatory authorities. 6) Internal auditors' reports. 7) Documents associated with the entity's filings with a securities regulator e.g., prospect uses) 8) Records of the entity's investments and those of its pension plans. D Shareholder registers to identify the entity's principal shareholders. D Statements of conflicts of interest from management and TCWG. 9) Specific invoices and correspondence from the entity's professional advisors. 10) Life insurance policies acquired by the entity.

SA 560: Subsequent Events

Definition

OBJECTIVE

(a) Obtain SAAE about whether events occurring between the date of the FS and the date of the auditor's report (TYPE A) that require adjustment of, or disclosure in, the FS are appropriately reflected in those FS and
(b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report (TYPE B), that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report

AUDIT PROCEDURES FOR TYPE A EVENTS

The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures include the following: -

(a) Obtaining 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 FS.
(c) Reading minutes, if any, of the meetings, of the entity's owners, management and TCWG, 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) Reading the entity's latest subsequent interim FS, if any.

AUDIT PROCEDURES FOR TYPE B EVENTS

The auditor has no obligation to perform any audit procedures regarding the FS after the date of the auditor's report. However, the auditor shall:

(a) Discuss the matter with management and, where appropriate, TCWG
(b) Determine whether the FS need amendment and, if so,
(c) Inquire how management intends to address the matter in the FS

If management amends the FS, the auditor shall:

(a) Carry out the audit procedures necessary in circumstances on amendment.
(b) Unless the circumstances in succeeding para apply: -
    - Extend the audit procedures, already referred, to the date of the new auditor's report and
    - Provide a new auditor's report on the amended FS

The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

SA 560: Subsequent Events	
When law, regulation or the FRFW does not prohibit management from restricting the amendment of the FS to the effects of the subsequent events or events causing that amendments and those responsible for approving the FS 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 FS described in the relevant note to the FS 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 FS as described in the relevant note to the FS.	In some entities, management may not be required by the applicable law, regulation or the FRFW to issue amended FS and, accordingly, the auditor need not provide an amended or new auditor's report. However, when management does not amend the FS 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 TCWG are involved in managing the entity, TCWG, not to issue the FS to third parties before the necessary amendments have been made. If the FS are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action, to seek to prevent reliance on the auditor's report.

SA 580: Written Representation

1) DEFINITION

A WR is a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. WR in this context do not include FS, the assertions therein, or supporting books and records.

2) OBJECTIVE

The objectives of the auditor are: -

1) To obtain WR from management and, where appropriate, TCWG that they believe that they have fulfilled their responsibility for the preparation of the FS and for the completeness of the information provided to the auditor;
2) To support other AE relevant to the FS or specific assertions in the FS by means of WR, if determined necessary by the auditor or required by other SAs;
3) To respond appropriately to WR provided by management and, where appropriate, TCWG, or if management or, where appropriate, TCWG do not provide the WR requested by the auditor.

3) WRITTEN REPRESENTATION AS AUDIT EVIDENCE

AE is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. WR are necessary information that the auditor requires in connection with the audit of the entity's FS. Accordingly, similar to responses to inquiries, written representations are audit evidence.

Although WR provide necessary audit evidence, they do not provide SAAE on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable WR does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.

4) WR ABOUT MANAGEMENT RESPONSIBILITIES

(I) Preparation of the financial statements

The auditor shall request management to provide a WR that it has fulfilled its responsibility for the preparation of the FS in accordance with the applicable FRFW, including, where relevant, their fair presentation, as set out in the terms of the audit engagement.

In some cases, however, management may decide to make inquiries of others who participate in preparing and presenting the FS and assertions therein, such as:

An actuary responsible for actuarially determined accounting measurements.

Staff engineers who may have responsibility for and specialized knowledge about environmental liability measurements.

Internal counsel who may provide information essential to provisions for legal claims.

(II) Information provided and completeness of transactions

The auditor shall request management to provide a written representation that: -

- It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement and
- All transactions have been recorded and are reflected in the FS.

5) DESCRIPTION OF MANAGEMENT RESPONSIBILITIES IN WR

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.

<table>
<tr><th colspan="2">SA 580: Written Representation</th></tr>
<tr><td>

WHY WR ABOUT MANAGEMENT RESPONSIBILITIES ARE NECESSARY?

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. The auditor may also ask management to reconfirm its acknowledgement and understanding of those responsibilities in written representations. This is particularly appropriate when: -

- ⇨ Those who signed the terms of the audit engagement on behalf of the entity no longer have the relevant responsibilities;
- ⇨ The terms of the audit engagement were prepared in a previous year;
- ⇨ There is any indication that management misunderstands those responsibilities; or
- ⇨ Changes in circumstances make it appropriate to do so.

</td><td>

ADDITIONAL WR ABOUT INFO PROVIDED TO AUDITOR

The auditor may consider it necessary to request management to provide a WR that it has communicated to the auditor all deficiencies in internal control of which management is aware.

</td></tr>
<tr><td>

ADDITIONAL WR ABOUT FS

1) Whether the selection and application of accounting policies are appropriate; and
2) Whether matters such as the following, where relevant under the applicable FRFW, have been recognized, measured, presented or disclosed in accordance with that framework:
    - Plans or intentions that may affect the carrying value or classification of assets and liabilities; Liabilities, both actual and contingent;
    - Title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral; and
    - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

</td><td>

WR ABOUT SPECIFIC ASSERTIONS

When obtaining evidence about, or evaluating, judgments and intentions, the auditor may consider one or more of the following:

The entity's past history in carrying out its stated intentions.

The entity's reasons for choosing a particular course of action.

The entity's ability to pursue a specific course of action.

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

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AE is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. WR are necessary information that the auditor requires in connection with the audit of the entity's FS. Accordingly, similar to responses to inquiries, written representations are audit evidence.

Although WR provide necessary audit evidence, they do not provide SAAE on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable WR does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assert ions.</td><td>REQUESTED WR 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 and audit evidence in general;
(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</td></tr>
<tr><td colspan="2">FORM OF WR

The WR shall be in the form of a representation letter addressed to the auditor. 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 regarding management responsibilities, the relevant matters covered by such statements need not be included in the WR.</td></tr>
<tr><td colspan="2">DOUBT AS TO RELIABILITY OF WR

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 and audit evidence in general.

In particular, if WR are inconsistent with other AE, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of above values, and shall determine the effect that this may have on the reliability of representations and AE in general.

If the auditor concludes that the WR are not reliable, the auditor shall take appropriate actions, including deter mining 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.</td></tr>
</table>

SA 600
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. 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. Further, it requires that the principal auditor should perform procedures to obtain SAAE, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment. 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 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. 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. 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.

SA 610 - USING THE WORK OF INTERNAL AUDITORS

DEFINITION OF INTERNAL AUDIT FUNCTION

Internal audit function (IAF) 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.

1. Activities Relating to Governance: The IAF may assess the governance process in its accomplishment of objectives on ethics and values, performance management & accountability, communicating risk and control information to appropriate areas of the entity & effectiveness of communication among those TCWG, external & internal auditors, & management.
2. Activities Relating to Risk Management: The IAF may assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control The IAF may perform procedures to assist the entity in the detection of fraud.
3. Activities Relating to Internal Control:
   - Evaluation of internal control: The IAF 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.
   - Examination of financial and operating information: The IAF 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.
   - Review of operating activities: The IAF may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity.
   - Review of compliance with laws and regulations: The IAF 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. To obtain information that is relevant to the external auditor's assessments of the ROMM due to error or fraud.
2. 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 IAF during the period in partial substitution for AE to be obtained directly by the external auditor.
3. Unless prohibited, or restricted to some extent, by law or regulation, the external auditor may use IA to perform audit procedures under the DSR of the external auditor (referred to as "direct assistance").

OBJECTIVE

(a) To determine whether the work of the IAF 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 IAF, to determine whether that work is adequate for purposes of the audit; and

If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work

SCOPE

This includes using the work of the internal audit function in obtaining audit evidence and using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.

No impact on NTE of AP to be performed directly by the external auditor - remains decision of EA

SA 610 - USING THE WORK OF INTERNAL AUDITORS	
A) The extent to which the IAF organizational status and relevant policies and procedures support the objectivity of the internal auditors; **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- 1. Whether the organizational status of the IAF, 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. 2. Whether TCWG oversee employment decisions related to the internal audit function. 3. Whether there are any constraints or restrictions placed on the IAF by management or TCWG, for example, in communicating the internal audit function's findings to the external auditor. 4. Whether the IAF is free of any conflicting responsibilities, for e.g., having managerial or operational duties or responsibilities that are outside of IAF.	**B) The level of competence of the internal audit function** 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. Factors that may affect the external auditor's determination in relation to competence: 1. Whether the IAF is adequately and appropriately resourced relative to the size of the entity and the nature of its operations. 2. Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements. 3. Whether the IA have adequate technical training and proficiency in auditing. 4. Whether the internal auditors possess the required knowledge relating to the entity's financial reporting and the applicable FRFW.
(C) Whether the IAF applies a systematic and disciplined approach, including quality control. Factors that may include the following: 1. 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. 2. Whether the IAF has appropriate quality control policies and procedures.	**Note related to A and B - Objectivity and competence may be viewed as a continuum.** The more the IAF organizational status and relevant policies and procedures adequately support the objectivity of the IA and the higher the level of competence of the function, the more likely the EA may make use of the work of the function and in more areas. However, an organizational status and relevant policies and procedures that provide strong support for the objectivity of the IA cannot compensate for the lack of sufficient competence of the IAF. Equally, a high level of competence of the IAF cannot compensate for an organisational status and policies and procedures that do not adequately support the objectivity of the IA.

SA 610 - USING THE WORK OF INTERNAL AUDITORS

EXTERNAL AUDITOR RESPONSIBILITY FOR AUDIT

The external auditor has sole responsibility for the audit opinion expressed, and it is not reduced by the external auditor's use of the work of the IAF or internal auditors to provide direct assistance on the engagement

CIRCUMSTANCES WHEN WORK OF IAF CAN'T BE USED

(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 & EXTENT OF WORK OF IAF THAT CAN BE USED

EA shall consider the nature and scope of the work that has been performed, or is planned to be performed, by the IAF and its relevance to the EA overall audit strategy and audit plan.

Examples of work of the IAF that can be used by the EA include:

1. Testing of the operating effectiveness of controls.
2. Substantive procedures involving limited judgment.
3. Observations of inventory counts.
4. Tracing transactions through the information system relevant to financial reporting.
5. Testing of compliance with regulatory requirements

CIRCUMSTANCES IN WHICH EA PLAN TO USE LESS WORK OF IAF & PERFORM MORE WORK DIRECTLY

1. The more judgment is involved in:
   - Planning and performing relevant audit procedures; and
   - Evaluating the audit evidence gathered;
2. Higher assessed ROMM at the assertion level, with special consideration given to risks identified as significant;
3. Less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and
4. Lower the level of competence of the internal audit function.

SA 610 - USING THE WORK OF INTERNAL AUDITORS

USING THE WORK OF IAF

(A) Discuss the planned use of its work with the function as a basis for coordinating their respective activities.

(B) 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.

(C) Perform sufficient audit procedures on the body of work of the IAF 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

- The timing of such work.
- Documentation of the work performed.
- The nature of the work performed.
- Review and reporting procedures.
- Methods of item selection and sample sizes.
- The extent of audit coverage.
- Materiality for the FS as a whole and performance materiality.

Coordination between the EA and the IAF is effective when, for example;

1. Discussions take place at appropriate intervals throughout the period.
2. The EA informs the IAF of significant matters that may affect the function.
3. The EA is advised of and has access to relevant reports of the IAF and is informed of any significant matters that come to the attention of the function when such matters may affect the work of the EA so that the EA is able to consider the implications of such matters for the audit engagement.

DETERMINING WHETHER, IN WHICH AREAS AND TO WHAT EXTENT IA CAN BE USED TO PROVIDE DIRECT ASSISTANCE

Direct assistance refers to the use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor. The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors.

If 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

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.

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 ROMM where the judgment required in 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 TCWG by the IAF; 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.

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.

SA 700 - FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

OBJECTIVE

The objectives of the auditor as per SA 700 (Revised) are:

(a) To form an opinion on the FS 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 OPINION - AUDITOR TO OBTAIN REASONABLE ASSURANCE

That conclusion shall take into account:

(a) Whether SAAE has been obtained;
(b) Whether uncorrected misstatements are material, individually or in aggregate;
(c) The evaluations.

EVALUATIONS BY THE AUDITOR

Qualitative Aspects of the Entity's Accounting Practices

- ⇨ Management makes a number of judgement s about the amounts and disclosures in the FS.
- ⇨ SA 260 contains a discussion of the qualitative aspects of accounting practices.
- ⇨ In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements.
- ⇨ SA 540 addresses possible mgmt. bias in making accounting estimates.
- ⇨ The auditor may conclude that the cumulative effect of lack of neutrality, together with the effect of uncorrected misstatements, causes the FS as a whole to be materially misstated. Indicators of a lack of neutrality:
    - The selective correction of misstatements brought to management's attention during the audit.
    - Possible management bias in the making of accounting estimates

SPECIFIC EVALUATIONS BY AUDITOR

In particular, the auditor shall evaluate whether:

(a) The FS adequately disclose the significant accounting policies selected and applied;

(b) The accounting policies selected and applied are consistent with the applicable FRFW and are appropriate;

(c) The accounting estimates made by management are reasonable;

(d) The information presented in the FS is relevant, reliable, comparable, and understandable;

(e) The FS provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the FS; and

(f) The terminology used in the FS, including the title of each FS, is appropriate.

Further, when the FS 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 FS achieve fair presentation which shall include consideration of:

(a) The overall presentation, structure and content of the FS; and

(b) Whether the FS, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

FORM OF OPINION

Unmodified Opinion: The auditor shall express an unmodified opinion when the auditor concludes that the FS are prepared, in all material respects, in accordance with the applicable FRFW.

Modified Opinion: If the auditor:

- Concludes that based on the AE obtained the FS as a whole are not free from material misstatement
- Is unable to obtain SAAE to conclude that the FS are free from material misstatement the auditor shall modify the opinion in the auditor's report in accordance with SA 705.

SA 700 - FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

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.

1) TITLE

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

2) ADDRESSEE

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.

The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to TCWG of the entity whose FS are being audited. In case of a company, the report is addressed to the SH of the company

4) BASIS FOR OPINION

The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:

1) States that the audit was conducted in accordance with Standards on Auditing;
2) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs;
3) Includes 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.
4) States whether the auditor believes that the audit evidence the auditor has obtained is SAAE to provide a basis for the auditor's opinion.

3) AUDITOR'S OPINION

The Opinion section (first section) of the auditor's report shall:

1) Identify the entity whose FS have been audited;
2) State that the FS have been audited;
3) Identify title of each statement comprising the FS;
4) Refer to the notes, including the summary of significant accounting policies; and
5) Specify the date of, or period covered by, each FS comprising the FS.

SA 700 - FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

5) GOING CONCERN

Where applicable, the auditor shall report in accordance with SA 570 (Revised).

1) Under the GC basis of accounting, the FS are prepared on the assumption that the entity is a GC and will continue its operations for the foreseeable future. General purpose FS are prepared using the GC basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
2) When the use of the GC 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.
3) The auditor shall evaluate whether SAAE has been obtained regarding, and shall conclude on, the appropriateness of management's use of the GC basis of accounting in the preparation of the FS.
4) Based on the AE obtained, the auditor shall conclude whether, in the auditor's judgement, a MU exists related to E/C that, individually or collectively, may cast SD on the entity's ability to continue as a GC.
5) A MU exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgement, appropriate disclosure of the nature and implications of the uncertainty is necessary for:
   (a) In the case of a fair presentation FRFW, the fair presentation of the FS, or
   (b) In the case of a compliance framework, the FS not to be misleading.

6) KEY AUDIT MATTERS

Law or regulation may require communication of KAM for audits of entities other than listed entities. Example - Entities characterized in such law or regulation as public interest entities.

The auditor may also decide to communicate KAM 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. Examples of such entities may include financial institutions and other entities such as charitable institutions

7) RESPONSIBILITIES FOR FS

It shall describe management's responsibility:

- ⇨ Preparing the FS in accordance with the applicable FRFW, and for such internal control as management determines is necessary to enable the preparation of FS that are free from material misstatement, whether due to fraud or error.
- ⇨ Assessing the entity's ability to continue as a GC and whether the use of the GC basis of accounting is appropriate as well as disclosing, if applicable, matters relating to GC

LOCATION OF THE DESCRIPTION OF THE AUDITOR 'S RESPOSIBILITIES FOR THE AUDIT OF FS

The description of the auditor's responsibilities for the audit of the FS shall be included:

- ⇨ Within the body of the auditor's report
- ⇨ 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
- ⇨ 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.

SA 700 - FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

9) OTHER REPORTING RESPONSIBILITIES

- If the auditor addresses other reporting responsibilities in the auditor's report on the FS that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate sect ion in the auditor's report with a heading titled "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.
- 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 differentiate the other reporting responsibilities from the reporting that is required by the SAs.
- 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 FS." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the FS."

10) PLACE OF SIGNATURE

The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

12) DATE OF AUDITOR'S REPORT

The auditor's report shall be dated no earlier than the date on which the auditor has obtained SAAE on which to base the auditor's opinion on the FS, including evidence that:

→ All the statements that comprise the FS, including the related notes, have been prepared; and

→ Those with the recognized authority have asserted that they have taken responsibility for those FS

The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date.

11) Auditor's Address

The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

UDIN

It was noticed that financial documents/ certificates attested by third person misrepresenting themselves as CA Members were misleading the Authorities and Stakeholders. 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. 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. CA having full-time Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them. 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.

SA 700 - FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS		
The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements." 1. State 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. State 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. State that misstatements can arise from fraud or error, and either 4. Describe that misstatements 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 5. Provide a definition or description of materiality in accordance with the applicable financial reporting framework.	The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: 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; (b) To obtain an understanding of internal control system (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 on the entity's ability to continue as a going concern.	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 TCWG 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 TCWG 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 TCWG, 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.

SA 700

AUDITOR'S REPORT PRESCRIBED BY LAW OR REGULATION

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. In those circumstances, the requirements stated in paragraph 3.1 above that are not included in points (a)-(m) need not be applied.

For example, the required ordering of the Opinion and the Basis of Opinion sections need not be applied.

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.

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 ICA I.

(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 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.

SA 701 COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

DEFINITION

Key Audit Matters are those matters that, in the auditor's professional judgement were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated with TCWG.

3) OBJECTIVE OF THE AUDITOR REGARDING KAM

The objectives of the auditor are to determine KAM and, having formed an opinion on the FS, communicate those matters by describing them in the auditor's report.

2) PURPOSE OF COMMUNICATING KAM

- To enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed.
- Provides additional information to intended users of the FS to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the FS of the current period.
- Assist intended users in understanding the entity and areas of significant management judgement in the audited FS.

4) DETERMINING KAM

- Areas of higher assessed ROMM, or significant risks identified in accordance with SA 315.
- Significant auditor judgements relating to areas in the FS that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty.
- The effect on the audit of significant events or transactions that occurred during the period.

5) COMMUNICATING KAM

The auditor shall describe each KAM, 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) KAM are those matters that, in the auditor's professional judgement, 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 FS as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

6) COMMUNICATING KAM - NOT A SUBSTITUTE FOR DISCLOSURE IN FS

Communicating key audit matters in the auditor's report is not:

(a) A substitute for disclosures in the FS that the applicable FRFW 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

(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.

7) COMMUNICATING WITH TCWG

The auditor shall communicate with TCWG:

(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 KAM to communicate in the auditor's report.

SA 705 – Modification to the Opinion in the Independent Auditor's Report

1) CIRCUMSTANCES WHEN A MODIFICATION TO THE AUDITOR'S OPINION IS REQUIRED

The auditor shall modify the opinion in the auditor's report in the following circumstances:

(a) The auditor concludes that, based on the audit evidence obtained, the FS as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain SAAE to conclude that the FS as a whole are free from material misstatement.

2) OBJECTIVE OF AUDITOR - TO CLEARLY EXPRESS AN APPROPRIATE MODIFIED OPINION

The objective of the auditor is to express clearly an appropriately modified opinion on the FS that is necessary when:

(a) The auditor concludes, based on the AE obtained, that the FS as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain SAAE to conclude that the FS as a whole are free from material misstatement

Types of Opinion

A. QUALIFIED OPINION

The auditor shall express a qualified opinion when:

(a) The auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the FS; or

(b) The auditor is unable to obtain SAAE on which to base the opinion, but the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be material but not pervasive.

B. ADVERSE OPINION

The auditor shall express an adverse opinion when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the FS

DEFINITION OF PERVASIVE

A term used, in the context of misstatements, to describe the effects on the FS of misstatements or the possible effects on the FS of misstatements, if any, that are undetected due to an inability to obtain SAAE.

Pervasive effects on the financial statements are those that, in the auditor's judgement:

(a) Are not confined to specific elements, accounts or items of the FS;

(b) If so confined, represent or could represent a substantial proportion of the FS;

(c) In relation to disclosures, are fundamental to user's understanding of the FS

C. DISCLAIMER OFOPINION

The auditor shall disclaim an opinion when the auditor is unable to obtain SAAE on which to base the opinion, and the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained SAAE regarding each of the individual uncertainties, it is not possible to form an opinion on the FS due to the potential interaction of the uncertainties and their possible cumulative effect on the FS

SA 705 – Modification to the Opinion in the Independent Auditor's Report

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 FS are materially misstated or, in the case of an inability to obtain SAAE, may be materially misstated;

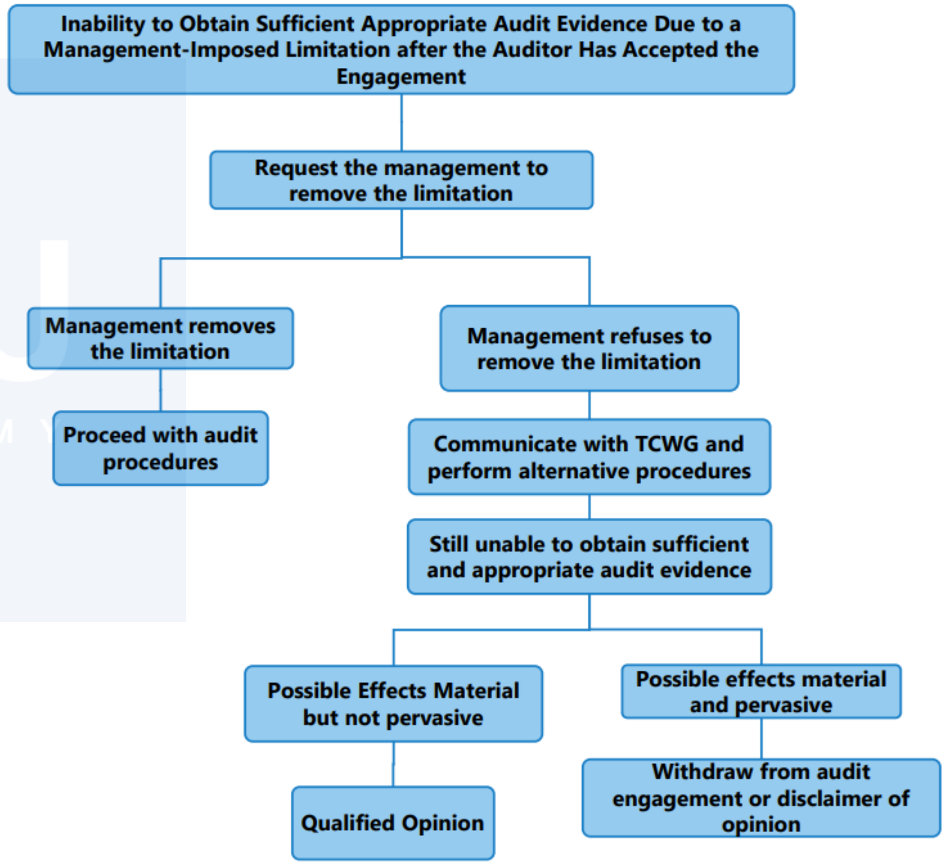
(b) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the FS.

Nature of Matter Giving Rise to the Modification	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

COMMUNICATION WITH TCWG

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

Consequence of an Inability to Obtain SAAE Due to a Management Imposed Limitation after the Auditor Has Accepted the Engagement



SA 705 – Modification to the Opinion in the Independent Auditor's Report

FORM AND CONTENT OF AUDIT REPORT WHEN THE OPINION IS MODIFIED

Qualified Opinion

When the auditor expresses a qualified opinion due to a material misstatement in the FS, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section,

(a) When reporting in accordance with a fair presentation framework, the accompanying FS present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable FRFW]; or
(b) When reporting in accordance with a compliance framework, the accompanying FS have been prepared, in all material respects, in accordance with [the applicable FRFW].

When the modification arises from an inability to obtain SAAE, the auditor shall use the corresponding phrase "except for the **possible** effects of the matter(s) ..." for the modified opinion.

Adverse Opinion

When the auditor expresses 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 section,

(a) When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
(b) When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

Disclaimer of Opinion

When the auditor disclaims an opinion due to an inability to obtain SAAE, 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 FS; and
(c) Amend the statement required by SA 700 (Revised), which indicates that the FS have been audited, to state that the auditor was engaged to audit the FS.

SA 705 – Modification to the Opinion in the Independent Auditor's Report
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):

Amend the heading "Basis for Opinion" required by SA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and

Within this section, include a description of the matter giving rise to the modification.

- If there is a material misstatement of the FS that relates to **specific amounts** in the FS (**including quantitative disclosures** in the notes to the FS), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable.
- If it is not practicable to quantify the financial effects, the auditor shall so state in this section.
- If there is a material misstatement of the FS that relates to **narrative disclosures**, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.
- 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.
- If the modification results from an inability to obtain SAAE, the auditor shall include in the Basis for Opinion section the reasons for that inability.
- 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.
- When the auditor disclaims an opinion on the financial statements, the auditor's report **shall not include** the following elements required by SA 700.

  (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 AE obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial 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

SA 705 – Modification to the Opinion in the Independent Auditor's Report
Description of Auditor's responsibility in case of Disclaimer
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: 1. 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; 2. 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 3. The statement about auditor independence and other ethical responsibilities required by SA 700 (Revised).
8) CONSIDERATION WHEN AUDITOR DISCLAIMS OPINION ON FS
Unless required by law or regulation, when the auditor disclaims an opinion on the FS, the auditor's report shall not include a Key Audit Matters section in accordance with SA 701.

SA 706- EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

1. INTRODUCTION AND OBJECTIVE

SA 706 deals with additional communication in the auditor's report when the auditor considers it necessary to:

1. Draw users' attention to a matter or matters presented or disclosed in the FS that are of such importance that they are fundamental to users' understanding of the FS; [EOM] or
2. Draw users' attention to any matter or matters other than those presented or disclosed in the FS that are relevant to user's understanding of the audit, the auditor's responsibilities or the auditor's report [OM].

5. OM PARAGRAPH IN AUDITOR'S REPORT

Auditor shall include an OM para 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 KAM to be communicated in the auditor's report.

6. SEPARATE SECTION FOR OM PARA

The auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.

2. EOM PARAGRAPH IN AUDITOR'S REPORT

Auditor shall include an EOM paragraph in the auditor's report provided:

(a) The auditor would not be required to modify the opinion in accordance with **SA 705** as a result of the matter; and

(b) When **SA 701** applies, the matter has not been determined to be a KAM to be communicated in the auditor's report.

3. SEPARATE SECTION FOR EOM PARA

When the auditor includes an EOM 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 FS. The paragraph shall refer only to information presented or disclosed in the FS; and

(c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Some examples of circumstances where the auditor may consider it necessary to include an EOM paragraph.

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the FS and the date of the auditor's report.
- Early application (where permitted) of a new AS that has a material effect on the FS
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

4. An Emphasis of Matter paragraph is not a substitute for:

1. A modified opinion in accordance with SA 705 when required by the circumstances of a specific audit engagement;
2. 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
3. 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.

SA 710 - Comparative Information - Corresponding Figures and Comparative Financial Statements

Definition: The amounts and disclosures included in the FS in respect of one or more prior periods in accordance with the applicable FRFW.

Objectives:

(a) To obtain SAAE about whether the comparative information included in the FS has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable FRFW; and

(b) To report in accordance with the auditor's reporting responsibilities.

The essential audit reporting differences between the approaches are:

(a) For **Corresponding figures**, the auditor's opinion on the FS refers to the current period only; whereas

(b) For **Comparative FS**, the auditor's opinion refers to each period for which FS are presented

1. Audit Procedure for Comparative Information

The auditor shall determine whether:

1. The comparative information agrees with the amounts and other disclosures presented in the prior period; and
2. 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.
3. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, 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.
4. If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560.
5. As required by SA 580, the auditor shall request written representations for all periods referred to in the auditor's opinion.
6. Auditor shall also obtain a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.

Basic Procedure (1-2) + Material Misstatement (3-4) + Written Representation (5-6)

SA 710 - Comparative Information - Corresponding Figures and Comparative Financial Statements		
2. Audit Procedures Regarding Comparative Information – COMPARATIVE FS		
Definition: 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. **Auditor's opinion to refer each period:** When comparative FS are presented, the auditor's opinion shall refer to each period for which FS are presented and on which an audit opinion is expressed.		
Opinion Differs	**PY Opinion Not Correct**	**PY Not Audited**
When reporting on prior period FS in connection with the current period's audit, if the auditor's opinion on such prior period FS differs from the opinion the auditor previously expressed: ⇨ the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706.	If the auditor concludes that a material misstatement exists that affects the prior period FS 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. ⇨ 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:** 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. 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 FS Audited by a Predecessor Auditor:		
If the FS of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's FS, 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, unless the predecessor auditor's report on the prior period's financial statements is revised with the financial statements.		

SA 710 - Comparative Information - Corresponding Figures and Comparative Financial Statements		
3. Audit Procedures Regarding Comparative Information – CORRESPONDING FIGURE		
Definition: 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"). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures. When **corresponding figures** are presented, the auditor's opinion **shall not refer** to the corresponding figures **except** in the following circumstances:		
PY Modification - Unresolved	**PY Opinion Not Correct**	**PY Not Audited**
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 FS. In the Basis for Modification paragraph in the auditor's report, the auditor shall either: ⇨ 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 ⇨ 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.	If the auditor obtains audit evidence that a material misstatement exists in the prior period FS on which an unmodified opinion has been previously issued then: ⇨ The auditor shall verify whether the misstatement has been dealt with as required under the applicable FRFW 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 FS, modified with respect to the corresponding figures included therein.	**Prior Period FS Not Audited:** If the prior period FS 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 SAAE that the opening balances do not contain misstatements that materially affect the current period's FS.
Prior Period FS Audited by a Predecessor Auditor		
If the FS 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 FS 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