

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

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Introduction

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

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

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

Leadership responsibilities for quality within the firm

1. Firm should promote internal culture recognizing quality as essential in performing engagement.
2. Firm's CEO (or equivalent) or firm's managing partner to assume ultimate responsibility for firm's system of quality control.
3. If some other person(s) is assigned such operational responsibility, he should have sufficient & appropriate experience, ability & authority to assume that responsibility

Ethical Requirements

Firm's policies & procedures should:

1. Provide it with reasonable assurance that the firm & its personnel comply with ethical requirements
 - Integrity;
 - Objectivity;
 - Professional competence & due care;
 - Confidentiality;
 - Professional behaviour.
2. Emphasise the fundamental principles.
3. Provide it with reasonable assurance that the firm, its personnel, experts, network firms maintain independence to:
 - Communicate its requirements to management.
 - Identify & evaluate circumstances & relationships that create threats to independence & take appropriate action.
4. Provide it with reasonable assurance that it is notified of breaches of independence requirement & to enable it to take appropriate action

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Acceptance & Continuance of client relationships & specific engagements

- 1. Firm's policies & procedures should provide it with reasonable assurance that it will undertake or continue relationships & engagements only when it:**
 - a) has considered the integrity of the client.**
 - b) is competent & has capabilities, time & resources.**
 - c) can comply with ethical requirements.**
- 2. When the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, the firms policies & procedures should consider:**
 - a) the professional & legal responsibilities**
 - b) the possibility of withdrawing from the engagement & client relationship.**
- 3. Policies & procedures for withdrawal include:**
 - a) discussing with appropriate level for appropriate action & the reasons for withdrawal.**
 - b) considering professional, legal or regulatory requirements.**
 - c) documenting significant issues, consultations, conclusions & the basis for conclusion.**

Human Resources

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

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

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Engagement performance

1. Firm's policies & procedures should provide it with reasonable assurance that:
 - engagements are performed in accordance with professional standards, legal & regulatory requirements.
 - that the firm issue appropriate report.
2. Firm should establish policies & procedures w.r.t.:
 - a) consultation
 - b) resolving differences of Opinion.
 - c) engagement quality control review & its documentation.
 - d) confidentiality, safe custody, accessibility & retrieval, retention, ownership of engagement documentation.

Monitoring

1. Firm's policies & procedures should provide it with reasonable assurance that:
 - the policies & procedures relating to the system of quality control are relevant, adequate, operating effectively.
 - it includes an ongoing consideration & evaluation of firm's system of quality control, including a periodic inspection of a selection of completed engagements.
2. Firm should evaluate the deficiencies noted as a result of monitoring process & should communicate to relevant engagement partners & other appropriate personnel.
3. Firm should also design policies & procedures to appropriately address the complaints & allegations.

Documentation

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

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

- The size of the firm and the number of offices.
- degree of authority both personnel and offices have.
- nature and complexity of the firm's practice and organization.

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

SA 200 “OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR & CONDUCT OF AN AUDIT IN ACCORDANCE WITH SAS

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Scope of this SA

- establishes the independent auditor’s overall responsibilities .
- purpose of an audit to enhance the degree of confidence of intended users in the financial statements.
- Audit opinion on financial statements are presented fairly, or give a true and fair view or not.
- Auditor opinion is not an assurance as to the future viability of the enterprise.

Scope of Audit

- the management cannot restrict the scope of auditor's audit function.
- If scope is restricted or there is a threat to auditor's independence, communicate to TCWG as per SA.

Premise of Audit/ Responsibilities of Management & TCWG

SAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibility :

- preparation and presentation of the financial statements in accordance with the applicable financial reporting framework;
- To provide the auditor with:
 - a) All information, such as records and documentation, and other matters that are relevant
 - b) additional information
 - c) Unrestricted access within the entity to obtain audit evidence.

management and, where appropriate, those charged with governance are responsible for:

- The identification of the applicable FRF, in the context of any relevant laws or regulations.
- The preparation and presentation of the financial statements in accordance with that framework.
- adequate description of that framework in the financial statements.

The management also needs to exercise judgment in making accounting estimates and apply appropriate accounting policies in the context of the applicable financial reporting framework.

SA 200 “OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR & CONDUCT OF AN AUDIT IN ACCORDANCE WITH SAS

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Overall Objectives of the Auditor

- To obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement,
- To report on the F.S. and communicate as required by the SAs, in accordance with the auditor’s findings.

Inherent Limitations for an audit

auditor is not expected to, cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance financial statements are free from material misstatement due to fraud or error.

which result auditor draws conclusions and bases the auditor’s opinion is being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting
- The nature of audit procedures
- Timeliness of Financial Reporting and the Balance between Benefit and Cost

Few other limitations can be-

- Frauds, particularly involving senior management or collusion.
- Non-disclosure of related parties.
- Non-compliance with laws and regulation.
- Information not provided by management.

Requirements of SA 200

- Ethical Requirements Relating to an Audit of Financial Statements- ethical requirements like Integrity, Objectivity, Professional competence & due care, Confidentiality, & Professional behaviour.
- Professional Skepticism- Professional skepticism means
 1. Mental attitude of the auditor;
 2. Involving questioning mind;
 3. Alertness to possible misstatements due to fraud or error;
 4. A critical assessment of audit evidence.

Professional Skepticism Reduces risk of :

 - Overlooking unusual circumstances.
 - Over generalizing when drawing conclusions from audit observations.
 - Using inappropriate assumptions in determining N,T,E of audit procedure & evaluating the results thereof.
- Professional Judgment - the application of relevant training, knowledge and experience within auditing, accounting and ethical standards in making informed decisions about actions for audit engagement.

SA 200 “OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR & CONDUCT OF AN AUDIT IN ACCORDANCE WITH SAS

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Requirements of SA 200

- **Sufficient Appropriate Audit Evidence and Audit Risk-** To obtain reasonable assurance, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion.

if the auditor is unable to obtain SAAE to support his conclusions or unable to draw reasonable assurance, he should either give a disclaimer of opinion or should withdraw from engagement if permitted by law.
- **Complying with SAs Relevant to the Audit** Section 143(9) of Companies Act 2013 states auditor should comply with standards of auditing. If he fails to comply Standards of Auditing and fails to depart his attention will be guilty of professional misconduct.

Direction on how to decide applicable FRF for an entity/Sources of applicable FRF

- The legal and ethical environment,
- Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organisations;
- Published views of varying authority on emerging accounting issues
- General and industry practices widely recognized and prevalent;
- Accounting literature.

Certain assertions or subject matters where it is difficult to detect material misstatements due to potential effects of inherent limitations

Such assertions or subject matters include:

- fraud involving senior management or collusion.
- existence and completeness of related party.
- occurrence of non-compliance with laws and regulations.
- Future events or conditions that may cause an entity to cease to continue as a going concern.

SA 210 “AGREEING THE TERMS OF AUDIT ENGAGEMENT”

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Scope of this SA

SA deals with the auditor’s responsibilities in agreeing the terms of the audit engagement with management and, appropriate with governance (TCWG). includes preconditions for an audit, responsibility with management.

Objective of this SA

objective of the auditor is to accept or continue an audit engagement only when objective of the auditor is to accept or continue an audit engagement only when

- Whether the preconditions for an audit are present;
- Confirming a common understanding between the auditor and management of the terms of the audit engagement.

Initial Audit Engagement

Pre-conditions for Audit /Premise of Audit

SA deals with the auditor’s responsibilities in agreeing the terms of the audit engagement with management and, appropriate with governance (TCWG). includes preconditions for an audit, responsibility with management.

- Determine whether the financial reporting framework*** is to be applied in the preparation of the financial statement is acceptable;
- Obtain Management Representation that it acknowledges its responsibility
- To provide the auditor with:
 1. Access to all information that is relevant
 2. Additional information that the auditor may request from management for the purpose of the audit;
 3. Unrestricted access to persons within the entity

Contents of Engagement Letter

- Objective and scope of the audit
- Responsibilities of the auditor;
- responsibilities of management;
- Identification of the applicable financial reporting framework for the preparation of the financial statements;
- Reference to the expected form and content of any reports to be issued by the auditor and a statement

SA 210 “AGREEING THE TERMS OF AUDIT ENGAGEMENT”

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Recurring Audits

On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.

Procedure in case of Change in terms of audit engagement

- When a client requests the auditor to change the terms of engagement auditor should consider whether proposed changed terms of engagement will provide lower level of assurance.
- Proposed terms do convey a lower level of assurance, the auditor should not agree unless reasonable justification given by management.
- Reasonable justification not given by management- Withdraw if legally permissible and also consider the need/ obligation to report the circumstances, which compelled him to withdraw, to board of directors or shareholders or related regulatory authority.

Circumstances that may warrant revision in terms of audit engagement

- Change in-senior management.
- Change in Financial Reporting Framework.
- Change in reporting requirement.
- Significant change in ownership.
- Significant change in nature and size of entity.
- Revised terms of audit engagement.
- Misunderstanding of scope and objective of the audit.
- Change in legal or regulatory requirements.

SA 220 “QUALITY CONTROL FOR AN AUDIT OF F.S.”

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Scope of this SA

SA deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. It also addresses the responsibilities of the engagement quality control reviewer.

Objective of the auditor

To implement quality control procedures at the engagement level that provide a reasonable assurance that:

- the audit complies with professional standards & regulatory & legal requirements.
- the auditor's report issued is appropriate in the circumstances

Requirements of this SA

The engagement partner shall:

1. take leadership responsibilities for the overall quality of audit.
2. remain alert for evidence of non compliance with relevant ethical requirements by the engagement team members and in case of non compliance shall take appropriate action.
3. shall form a conclusion on compliance with independence requirements that apply to the audit engagement.

Acceptance & Continuance of Client Relationships

- If engagement partner obtains information that would have caused the firm to decline the audit engagement, the engagement partner & the firm shall take necessary action.
- The engagement partner shall ensure that the audit team & auditor's expert have the appropriate competence & the capabilities.

Engagement Performance

The engagement partner shall take responsibility for:

- the direction, supervision & performance of audit engagement & the appropriateness of auditor report.
- the reviews being performed in accordance with the firm's review policies & Procedures.
- the engagement team taking appropriate consultation on difficult & contentious matters.

SA 220 “QUALITY CONTROL FOR AN AUDIT OF F.S.”

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Engagement Quality Control Review

The engagement partner shall:

1. Determine that the quality control reviewer has been appointed.
2. Discuss significant matters arising during the audit & review with the reviewer.
3. Not date auditor's report before the completion of review.

In case of listed entities, the reviewer shall consider:

- Evaluation of firm's independence.
- Whether appropriate consultation has been taken.
- Audit documentation w.r.t. significant judgments.

The quality control reviewer shall:

- a) Discuss significant matters with the Engagement partner.
- b) Review the financial statements & auditor's report.
- c) Review selected audit documentation.
- d) Evaluate the conclusions reached.

Other important points to be considered

1. If there is difference of opinion within the engagement team, or with consultant or reviewer, the audit team shall follow the firm's policies & procedures for resolving the same.
2. The engagement partner shall consider the results of firm's monitoring process and the deficiencies noted.
3. The auditor shall document:
 - issues identified w.r.t. compliance of ethical requirements including independence.
 - conclusions regarding acceptance & continuance of client relationships.
 - nature, scope & conclusions of consultations.
4. The engagement quality control reviewer shall document that:
 - the procedures required for review that have been performed.
 - review has been completed on or before the audit report date.
 - there are no unresolved matters.

SA 230 “AUDIT DOCUMENTATION”

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Scope of this SA

This deals with the auditor’s responsibility to prepare audit documentation for an audit of financial statements.

Audit Documentation

Audit Documentation is the record of

- Audit procedures performance
- Relevant Audit Evidence obtained
- Conclusions the auditor reached

Important Note (Retention Period) :

As per SA 230 read with SQC 1, working papers should be preserved for a minimum period of 7 years. i.e., No working paper can be deleted or discarded up to 7 years from date of Audit Report.

Nature and Purposes of Audit Documentation

Documentation must provide

- Sufficient and appropriate record
- Evidence that the audit was planned and performed in accordance with SAs

Audit documentation serves a number of additional purposes

- Assisting the engagement team to plan and perform the audit.
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities
- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of quality control reviews and inspections
- Enabling the conduct of external inspections

matters are to be documented

- Nature, Time and Extent of Audit Procedures to comply with laws.
- Results of Audit Procedures performed and audit evidences collected.
- Significant matters arising during audit.
- Discussion of matters with TCWG.
- Reasons for discarding/modifying/deleting working papers after 7 years.
- Sometimes some SA's require mandatory documentation

SA 230 “AUDIT DOCUMENTATION”

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Factors affecting form, contents and extent of audit documentation

- 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 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.
- The audit methodology and tools used.

Ownership of Documentation

<u>auditor have the right to access working papers of branch auditor</u>	<u>auditor provide the access of his working papers to any 3rd party</u>	<u>auditor provide the access of his working papers to client</u>
<ul style="list-style-type: none"> • principal auditor of an enterprise does not have the right to access to the audit working papers of the branch auditors. • the statutory auditor has to consider the report of the branch auditor as per Section 143 and has a right to seek clarifications or to visit the branch if he deems necessary. • As per SA 600, an auditor can rely on the work of another auditor, without having right of access to the working papers. 	<ul style="list-style-type: none"> • Working papers may contain some vital information of the client. • As per SA 200, one of the ethical requirements that the auditor has to follow is confidentiality. • clause 1 of part 1 of 2nd Schedule provides that a CA in practice is deemed to be guilty of professional misconduct if he discloses information of the client, without his consent. • Auditor cannot share the working papers to any 3rd party, unless it is a requirement of law. 	<p>As per SA 230 read with SQC 1, Audit documentation is the property of the auditor. make portions or extracts of audit documentation available to the clients, provided such disclosure does not undermine validity of work performed, or in case of assurance engagements, the independence of auditor and his personnel.</p>

SA 230 “AUDIT DOCUMENTATION”

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DOCUMENTATION

Then the auditor shall document:

- **The circumstances encountered;**
- **Additional procedures performed;**
- **Audit evidences obtained;**
- **Conclusions reached thereon and their effect on audit report.**

Examples of Documentation of Professional Judgements made , where significant and serves to explain the Auditor’s conclusion and to re-inforce the quality of the judgement.

- **Matters that give rise to significant risks.**
- **Results of audit procedures**
- **Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.**
- **Findings that could result in a modification to the auditor’s opinion or the inclusion of an Emphasis of Matter Paragraph in the auditor’s report.**

SA 250 “CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS”

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Scope of this SA

This SA deals with the auditor’s responsibility to consider laws and regulations when performing an audit of financial statements.

Responsibility of the Management

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
- Instituting and operating appropriate systems of internal control.
- Developing, publicizing and following a code of conduct.
- Ensuring employees are properly trained and understand the code of conduct.
- Engaging legal advisors to assist in monitoring legal requirements.
- Maintaining a register of significant laws and regulations

Responsibility of the Auditor

- Auditor is not responsible for prevention/detection of non-compliances.
- This SA distinguishes the auditor’s responsibility in relation to compliance with two different categories of laws and regulations:
 - a) Provision of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and labor laws.
 - b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements
- The auditor shall perform the following audit procedures to identify instances of non compliance with other laws and regulations that may have a material effect on the financial statements: - Inquiring of management. , Inspecting correspondence,, Obtain written representation
- He is not required to obtain expert understanding of other laws
- Noncompliance with other laws may result in litigations, fines and other consequences for the entity that may have a material effect on the financial statements
- Obtain Sufficient and appropriate audit evidence for non-compliances or suspected non-compliances with laws and regulations and misstatements found is due to fraud or error.

SA 250 “CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS”

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Reporting responsibility of an auditor in the context of non-compliance of Law and Regulation

According to SA 250 “Consideration of Laws and Regulations in an Audit of Financial Statements”, the reporting responsibilities of an Auditor may be divided into the following categories-

Reporting non-compliance to TCWG

- If, in the auditor’s judgment, the non-compliance referred above is believed to be intentional and material, the auditor shall communicate the matter to those charged with governance as soon as practicable.
- If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists no higher authority exists the auditor shall consider the need to obtain legal advice.

Reporting non-compliance in Auditors Report

- Report as per SA 705.
- If non-compliance materially affects the financial statements, auditor is required to modify the opinion (Qualified / Adverse)
- If auditor is unable to conclude the effect of non-compliance on financial Statements
 1. due to limitations imposed by management, auditor should modify the opinion (Qualified/disclaimer);
 2. due to other reasons, consider the effect on audit opinion.

Indications of Non-Compliance

- it may be an indication of non-compliance with laws and regulations
- Investigations by regulatory organisations and government departments or payment of fines or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Purchasing at prices significantly above or below market price.
- Unusual payments towards legal and retainership fees.
- Unusual transactions with companies registered in tax havens.
- Payments for goods or services made other than to the country
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorised transactions or improperly recorded transactions.
- Adverse media comment.

SA 260 “COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE”

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Scope of this SA

This SA focuses primarily on communications from the auditor to those charged with governance.

Matters to be communicated

- The auditor is responsible for forming and expressing an opinion on Financial Statements. It is communicated through letter of engagement.
- communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.
- Significant findings w.r.t accounting policy, accounting estimate and financial statement disclosures.
- Significant difficulties, if any, encountered during the audit
- In the case of listed entities, the auditor shall communicate with TCWG

Factors affecting Mode of Communication

- Whether a discussion of the matter will be included in the auditor’s report.
- Whether the matter has been satisfactorily resolved.
- Whether management has previously communicated the matter.
- The size, operating structure, control environment, and legal structure of the entity.
- audit of special purpose financial statements, whether the auditor also audits the entity’s general purpose financial statements.
- Legal requirements.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- significant changes in the membership of a governing body.

SA 260 “COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE”

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Communication Process

- Communication may be Oral /written Detail/Summarised Structured /Unstructured.
- Should be in writing when oral communication is not adequate.
- Communication should be on timely basis.

Importance of communication

- Communication with those charged with governance enables them to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary.
- it useful to provide those charged with governance with a draft of the auditor's report to facilitate this discussion.
- Communication with those charged with governance recognizes their important role in overseeing the financial reporting process,
- It also enables those charged with governance to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor's report.

Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters,

SA 260 “COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE”

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What if the communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved.

If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:

- **Modifying the auditor’s opinion on the basis of a scope limitation.**
- **Obtaining legal advice about the consequences of different courses of action.**
- **Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g., shareholders in a general meeting), or the responsible government minister or parliament in the public sector.**
- **Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.**

SA 265 “COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO TCWG & MANAGEMENT”

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Requirements of the SA

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

The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis:

- significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances;
- Other deficiencies in internal control identified during the audit that have not been communicated to management by other parties

The auditor shall include in the written communication of significant deficiencies in internal control:

- A description of the deficiencies and an explanation of their potential effects; and
- Sufficient information to enable those charged with governance and management to understand the context of the communication.

What is deficiency in Internal Control?

- When control is designed, implemented or operated in such a way that it is either unable to prevent, detect or correct material misstatements on timely basis or when internal control system does not exist.
- If individually or in combination, deficiencies are significant as per professional judgement of the auditor, he shall communicate to TCWG.

The letter describing such weakness in internal control to be communicated in writing to management and TCWG is also known as letter of weakness.

Important Note-

Time for Communication by the auditor - For listed entities, communicate ideally before approval date of financial statements and for unlisted entities in any case within 60 days from issue of audit report.

SA 265 “COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO TCWG & MANAGEMENT”

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- deficiencies leading to material misstatements in the financial statements in the future.
- The susceptibility to loss or fraud of the related asset or liability.
- The subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates.
- The financial statement amounts exposed to the deficiencies.
- The volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.
- The importance of the controls to the financial reporting process.
- The cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
- The interaction of the deficiency with other deficiencies in internal control.

Indicators of Significant Deficiencies

- Evidence of ineffective aspects of the control environment
- Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
- Evidence of an ineffective entity risk assessment process,
- Evidence of an ineffective response to identified significant risks
- Misstatements detected by the auditor’s procedures that were not prevented, or detected and corrected, by the entity’s internal control.
- Disclosure of a material misstatement due to error or fraud as prior period items in the current year’s Statement of Profit and Loss.
- Evidence of management’s inability to oversee the preparation of the financial statements.

SA 299 “JOINT AUDIT OF FINANCIAL STATEMENTS”

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Scope of this SA

deals with the professional responsibilities which the auditors undertake in accepting such appointments as joint auditors.

Advantages of Joint Audit

- Pooling and sharing of resources.
- Everyone has expertise in different area.
- Advantage of mutual discussion.
- Better quality of work performance.
- Improved services to client company.
- Lower costs to carry out the audit work.

Disadvantages of Joint Audit:

- Sharing of fees.
- Lack of clear definition in case of joint responsibility.
- Co-ordination problems in conduct of work.
- Areas of common concern being neglected.
- Problems when firms of different standing are associated.

Requirements of SA 299

- engagement partner and other key members involved in planning the audit.
- joint auditors shall jointly establish an overall audit strategy.
- Development of Audit Plan {Principles of SA 300 will be applicable}.
- Identification of Risk of Material Misstatements.
- Allocation of work.

Audit Planning and Allocation of Work

Development of Audit Plan

- division of audit areas and common audit areas
- reporting objectives of the engagement
- Consider & communicate among all joint auditors,
- preliminary engagement activities.
- NTE of resources necessary to perform the engagement.

Allocation of Work

- by mutual discussion, divide the audit work.
- division of work would usually be in terms of audit of identifiable units

SA 299 “JOINT AUDIT OF FINANCIAL STATEMENTS”

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Audit Planning and Allocation of Work

Allocation of Work

- In some cases, due to the nature of the business division of work may not be possible. In such situations, the division of work may be with reference to items of assets or liabilities or income or expenditure.
- Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors.

Documentation of Work Allocated

- document shall be signed by all the joint auditors & same shall be communicated to TCWG.
- Documentation of allocation of work helps in avoiding any dispute or confusion .
- Communication of allocation of work to the entity helps in avoiding any dispute or confusion.

Responsibility of Joint Auditors

SA 299 on “Responsibility of Joint Auditors” deals with the professional responsibilities, which the auditor undertakes in accepting such appointment as joint auditors.

Main features

1. Division of work
2. Coordination

Jointly and severally responsible for:

- audit work which is not divided among the joint auditors and to be carried out by all joint auditors.
- Presentation and disclosure of the financial statements as required by the applicable financial reporting framework.
- Ensuring that audit report complies with the requirements of the relevant statute,
- matters which are brought to notice of joint auditors by any one of them and on which there is an agreement among the joint auditors.
- Decisions taken by all the auditor's in relation to nature, time and extent of Audit Procedures.
- Responsibility of obtaining and evaluation information and explanation from the management is generally a joint responsibility of all the auditors.

SA 299 “JOINT AUDIT OF FINANCIAL STATEMENTS”

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INDIVIDUAL RESPONSIBILITIES OF EACH JOINT AUDITORS

- To determine the nature, timing and extent of audit procedures
- responsibility of each joint auditor to study and evaluate the prevailing system of internal control.
- reviewing audit reports of work allocated to him.

RIGHTS OF JOINT AUDITORS

- To assume that other joint auditors have carried out work in accordance with generally accepted auditing procedures since other joint audit is also a member of ICAI.
- To assume that the other joint auditors have brought to said auditor's notice any departure from applicable financial reporting framework or significant observations that are relevant to their responsibilities noticed in the course of the audit.

DIFFERENCES OF OPINION

- A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion formed by the said joint auditors.
- Separate audit report can be issued in case of disagreement.

SA 300 “PLANNING AN AUDIT OF FINANCIAL STATEMENTS”

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Scope of this SA

This SA deals with the auditor’s responsibility to plan an audit of financial statements in context of “Recurring Audit”.

Objective

The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

Requirements of SA

Who should be involved in Audit Planning?

Along with senior partner, engagement team leader with his key members.

Preliminary Engagement Activities

- Evaluating compliance with ethical requirements,
- Understanding of Terms of the Engagements as required by SA 210;
- Perform procedures required by SA 220,

Planning Activities

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

- Identify its scope;
- plan the timing of the audit and the nature of the communications required;
- Consider professional judgment, are significant in directing the engagement team’s efforts;
- Consider the results of preliminary engagement activities.
- Ascertain the nature, timing and extent of resources

Development of Audit Plan

While developing audit plan, the auditor shall give description of SA 315(NTE of RAP), 330 (NTE of further audit procedures) and other planned audit procedures as per audit standards.

SA 300 “PLANNING AN AUDIT OF FINANCIAL STATEMENTS”

25

AUDIT PLAN OR STRATEGY BE CHANGED DURING THE AUDIT ENGAGEMENT

- Unexpected events;
- Change in conditions; or
- The audit evidence obtained from the result of audit procedures.

FACTORS TO BE CONSIDERED

- The engagement objectives.
- The results of the business review.
- Identified inherent risks considering the risk of fraud.
- The degree to which the team should carry out further assessment of controls as a means of reducing substantive testing.
- The broad nature, extent and timing of substantive tests.

BACKBONE OF THE “AUDIT PLANNING” PROCESS/STEP INVOLVED IN FORMULATION OF AUDIT STRATEGY

- Obtaining knowledge of business as per SA 315 and SA 330.
- Performing Analytical Procedures.
- Evaluating Inherent Risk.
- Evaluating Internal Control.

Factors effecting nature of audit planning

- Size and Complexity of the Auditee.
- Past Experience & Expertise.
- Change in Circumstances
- Changes to Audit Planning

Audit Planning-A Continuous Process

Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement.

- The analytical procedure to be applied as risk assessment procedures.
- Obtaining a general understanding of the legal and regulatory framework
- The determination of materiality.
- The involvement of experts.
- The performance of other risk assessment procedures.

SA 315 “IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT”

26

Scope

auditor’s responsibility to identify and assess the ROMM in the financial statements, through understanding the entity and its environment, including the entity’s internal control.

How will auditor understand entity and its environment?

- Relevant industry, regulatory, and other external factors.
- The nature of the entity, including: (i) its operations; (ii) its ownership and governance structures; (iii) types of investments, (iv) nature of entity; to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.
- selection and application of accounting policies.
- The entity’s objectives and strategies, and those related business risks.
- The measurement and review of the entity’s financial performance.

Risk Assessment procedures and related activities

Risk Assessment Procedures include the following:

- Inquiries of management and of others within the entity.
- Analytical procedures.
- Observation and Inspection

The auditor shall consider whether the information obtained from auditor's client acceptance or continuance process or information from other engagement or previous audits is relevant in identifying the ROMM

The audit team to discuss the susceptibility of the entity's financial statements to material misstatements and the application of the applicable FRF to the entity's fact and circumstances

Entity's Internal Control:

auditor shall evaluate the design of the controls to determine whether they have been implemented

auditor shall obtain understanding of :

- the control environment and entity's risk assessment process.
- the information system and entity's communication process.
- the control activities relevant to the audit and the major activities used by entity to monitor internal control over financial reporting.
- the internal audit function and sources of information used in entity's monitoring activities.

SA 315 “IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT”

27

Identifying & Assessing the ROMM

the auditor shall identify and assess ROMM at:

- financial statement level &
- assertion level for classes of transactions and account balances.

the auditor shall:

1. Identify risks throughout the process of obtaining understanding of the entity.
2. Assess the identified risk and evaluate whether they have pervasive effect.
3. Relate the identified assertions to what can go wrong at the assertion level.
4. Consider the likelihood of the misstatement and its magnitude.

Key Points

- As per SA 315 read with SA 330, auditor exercises his professional judgement to assess audit risk and to design audit procedures.
- Higher, the Inherent Risk and Control Risk, the more substantive procedures the auditor will perform, obtain more audit evidence, and reduce his detection risk.
- $\text{Audit Risk} = \text{Risk of Material Misstatement} \times \text{Detection Risk}$.
- $\text{Risk of Material Misstatement} = \text{Inherent Risk} \times \text{Control Risk}$.
- Therefore, $\text{Audit Risk} = \text{IR} \times \text{CR} \times \text{DR}$

Note: If audit risk cannot be reduced to an acceptable low level, modify option as per SA 705

Other important points to be considered

Significant Risks:
auditor shall obtain an understanding of the entity's control and control activities relevant to the significant risk

Risks for which Substantive Procedures alone do not provide sufficient appropriate audit evidence:

In such case the auditor shall obtain an understanding of entity's controls over such risks

Revision of Risk Assessment:
auditor's assessment of ROMM at the assertion level may change during the course of audit as additional audit evidence is obtained. In such case, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.

Documentation:
Auditor shall document:

- discussion among the engagement team.
- Key elements of the understanding obtained.
- Identified & Assessed ROMM.
- risks identified and the related controls.

SA 320 “MATERIALITY IN PLANNING AND PERFORMING AN AUDIT”

28

Scope of this SA

This SA deals with the auditor’s responsibility to apply the concept of materiality in performing planning & an audit of financial statements

Objective

To apply the concept of materiality appropriately in planning and performing audit.

Performance materiality

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

Determining Materiality & Performance Materiality

1. The auditor shall determine the materiality for the financial statements as a whole.
2. If there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.
3. The auditor shall determine performance materiality for purposes of assessing the ROMM and determining the nature, timing & extent of further audit procedures.

Use of Benchmarks

- Determining involves professional judgement.
- A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.
- Examples of benchmarks:
 1. Profit before tax
 2. total revenue
 3. gross profit
 4. total expenses etc.

SA 320 “MATERIALITY IN PLANNING AND PERFORMING AN AUDIT”

29

Revision as the Audit progresses

1. Materiality for the financial statements as a whole may need to be revised as a result of a change in circumstances that occurred during the audit, new information, or a change in the auditor's understanding of the entity and its operations as a result of performing further audit procedures.
2. If the auditor concludes that a lower materiality for the financial statements as a whole than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.

Documentation of

- Materiality for the financial statements as a whole.
- materiality level or levels for particular classes of transactions, account balances or disclosures.
- Performance materiality.
- Any revision as the audit progressed.

SA 330 “ THE AUDITORS RESPONSES TO ASSESSED RISKS ”

30

Scope

SA deals with the auditor's responsibility to design and implement responses to ROMM identified & assessed by the auditor in accordance with SA 315 in a financial statement audit.

Objective of this SA

To obtain sufficient & appropriate audit evidence about the assessed ROMM, through designing & implementing appropriate responses to those risks

Nature, time and extent of Audit Procedures

NATURE	The nature of further audit procedures refers to their purpose (tests of controls or substantive procedures) and their type, that is inspection, observation, inquiry, confirmation, recalculation, re-performance or analytical procedures.
TIME	Timing refers to when audit procedures are performed. For example, the auditor may perform test of controls or substantive procedures at an interim date or at period date.
EXTENT	Extent refers to the quantity of a specific audit procedure to be performed.

Test of controls

- auditor shall design & perform test of controls when:
 1. the auditor expects that the controls are operating effectively or
 2. Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.
- auditor shall perform other audit procedures along with inquiry & determine whether the controls to be tested depend upon indirect controls.
- auditor shall test controls for a particular time or throughout the period.
- auditor may use audit evidence obtained in previous audits after considering continuing relevance.
- auditor shall test the controls for significant risk in current period.
- When deviations from controls are detected, the auditor shall make specific inquiries to understand these matters & their potential consequences.

SA 330 “ THE AUDITORS RESPONSES TO ASSESSED RISKS ”

31

Substantive procedures

- Irrespective of the assessed ROMM, auditor shall perform substantive procedures.
- Auditor shall consider whether external confirmation are to be performed as Substantive audit procedures.
- Auditor shall perform substantive procedures related to financial
- statement closing process and those responsive to significant risks.
- When substantive procedures are performed at an interim date, the auditor shall cover the remaining period also.
- If misstatements that the auditor did not expect when assessing ROMM are detected at an interim date, the auditor shall evaluate whether the related assessment of risk & planned substantive procedures covering the remaining period need to be modified.

Using Audit Evidence obtained in Interim Period:

Obtain audit Evidence for significant changes subsequent to Interim Period

Determine the additional Evidence to be obtain for remaining period.

Using Audit Evidence obtained during previous audits

Changes occurs: Test the controls in current audit

No Change Occurs: Test the controls once in three audits.

Factors warranting re-test of controls

- Deficient control environment.
- Deficient monitoring of controls.
- Significant manual element to relevant controls.
- Personnel changes that significantly affect the application of control.
- Changing circumstances that indicate the need for changes in the control.
- Deficient general IT-controls.

Other important points

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

SA 450 “EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT”

32

Meaning

- **Misstatement-** An item is said to be misstated when it is reported in F/s in a way which is different from that prescribed in FRF, may be due to error or fraud.
- **Trivial** - something insignificant, carrying very less value.

Objective

- The effect of identified misstatements on the audit and
- The effect of uncorrected misstatements, if any, on the financial statements.

Sources of Misstatement

- An inaccuracy in gathering or processing data from which FS are prepared
- An omission of amount or disclosure
- An incorrect accounting estimate arising from overlooking, or clear misinterpretation of facts ; and
- Unreasonable judgements

Auditors Responsibilities

- accumulate misstatement identified during the audit, other than those clearly trivial.
- misstatement is immaterial, obtain WR that that uncorrected misstatement is immaterial.
- If Misstatement is material or aggregate of uncorrected misstatement becomes material,
- Determine whether any revision is required
- auditor shall determine whether uncorrected misstatements are material, individually or in aggregate.
- Communication with TCWG

SA 450 “EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT”

33

Evaluating the effect of Uncorrected misstatements

- The auditor shall first reassess the materiality determined in accordance with SA 320.
- the auditor shall determine whether uncorrected misstatements are material, individually or in aggregate by considering:
 1. size & nature of misstatements.
 2. effect of uncorrected misstatements of prior periods.

Other important points to be considered

Communication with TCWG:

the auditor shall communicate with TCWG

- a) uncorrected misstatements & their effects and request that uncorrected misstatements be corrected.
- b) the effect of uncorrected misstatements related to prior periods.

Written Representation:

The auditor shall request a written representation from management/ TCWG whether they believe the effects of uncorrected misstatements are immaterial, individually or in aggregate, to the financial statements as a whole.

Documentation:

- amount below which misstatements would be regarded as clearly trivial.
- All misstatements accumulated during the audit & whether they have been corrected.
- auditor's conclusion as to whether the uncorrected misstatements are material and the basis of that conclusion.

SA 500 - "Audit Evidence"

34

Scope

SA deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. SA is applicable to all the audit evidence obtained during the course of audit.

Objective

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

Information to be used as audit evidence

The auditor shall consider the relevance and reliability of the information to be used as audit evidence.
When information from management expert is used, the auditor shall evaluate the competence, objectivity of the expert, appropriateness of the expert's work.
When using information produced by the entity, the auditor shall evaluate the reliability, completeness, accuracy of the information.

Audit procedures to obtain audit evidence

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

- Risk Assessment procedures
- Further audit procedures comprising of : Test of controls and Substantive procedures

Inconsistency in or doubts over reliability of audit evidence

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

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

35

Scope of the SA

SA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to inventory, litigation and claims and segment information in an audit of financial statements.

Objective of the auditor

To obtain sufficient and appropriate audit evidence regarding:

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

Inventory

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

Segment Information

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

- Understanding the methods used by the management in determining segment information
- Performing analytical procedures.

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

36

Litigations & Claims

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

SA 505 “EXTERNAL CONFIRMATION”

37

Scope of this SA

This SA deals with the auditor’s use of external confirmation procedures to obtain audit evidence

Basic meaning

- one of the methods of obtaining audit evidence as enumerated under SA 500.
- External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party.

Process of external confirmation, ordinarily, consists of the following:

- information to be confirmed or requested.
- Selecting the appropriate confirming party.
- Designing the confirmation requests.
- Sending the requests, including follow-up requests when applicable, to the confirming party.

Two types of requests

Positive Confirmation

If response is not received in reasonable time, send additional confirmation request. Regarded as a better mode of confirmation request.

Negative confirmation

- Response from the external party is required only in case of disagreement.
- provide less persuasive audit evidence than positive confirmations.
- auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level.

Various factors to be considered while designing confirmation request:

- assertions being addressed.
- identified risks of material misstatement,
- layout and presentation of the confirmation request.
- Prior experience on the audit or similar engagements.
- method of communication
- Management’s authorization or encouragement to the confirming parties to respond to the auditor.
- ability of the intended confirming party to confirm or provide the requested information

SA 505 “EXTERNAL CONFIRMATION”

38

Results of the External Confirmation procedures

1. **Reliability of responses to confirmation requests:** If auditor has doubt about reliability of response, auditor to obtain further audit evidence. If auditor determines response is not reliable, auditor to evaluate the implications on the assessment of risk of material misstatement.
2. **Non Response:** Auditor shall perform alternative audit procedures.
3. **When a response to positive confirmation is necessary and the same is not received:** Determine the implications on the audit and the auditors opinion.
4. **Exception:** Auditor shall investigate exceptions to determine whether or not they are indicative of misstatement.
5. **Negative Confirmation:**
Auditor to use negative confirmation as sole substantive audit procedure when:
 - Assessed Risk of Material misstatement is low and relevant controls are effective.
 - population comprise of large number of small, homogeneous transactions.
 - A very low exception rate is expected.
 - auditor is not aware of circumstances that would cause recipients of negative confirmation requests to disregard such requests

SA 510 “INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES”

39

Objective

- contain material misstatement in opening balances
- Accounting Policies used in preceding year are consistent with that of current year or change in accounting policies, if any have been properly disclosed and presented as per the FRF.
- The closing balances of the preceding year are correctly brought forward in the current period.

Obtaining SAAE about Opening Balances by Auditor

- prior period's closing balances have been correctly brought forward to the current period
- opening balances reflect the application of appropriate accounting policies; and
- Performing one or more of the following:
 - a) prior year financial statements were audited,
 - b) audit procedures performed in the current period provide evidence relevant to the opening balances;
 - c) Performing specific audit procedures to obtain evidence

Nature and Extent of Audit Procedures

- accounting policies followed by the entity.
- nature of the account balances, classes of transactions and disclosures and the risks of material misstatement .
- significance of the opening balances relative to the current period's financial statements.
- the prior period's financial statements were audited

Audit procedure

- audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence
- the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.
- conducted for the first time, the auditor has to perform auditing procedures to obtain sufficient appropriate audit evidence. opening balances represent effect of transaction and events of the preceding period and accounting policies. The auditor can also obtain management representation with regards to the opening balances.

SA 510 “INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES”

40

Consistency of Accounting Policies:

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

Relevant Information in the Predecessor's Auditor's Report :

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

Audit Conclusion and reporting

Opening Balances:

- If auditor is unable to obtain audit evidence regarding opening balances- Qualified/ disclaimer of opinion.
- If auditor concludes opening balances contain misstatement, not properly presented/ disclosed Qualified/ Adverse Opinion.

Consistency of Accounting Policies:

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

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

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

SA 520 “ANALYTICAL PROCEDURES”

41

Scope of this SA

It deals with the auditor's use of analytical procedures as substantive procedures

Objective of this SA

- obtain relevant and reliable audit evidence
- To design and perform analytical procedures near the end of the audit that assist the auditor .
- If there is unusual fluctuations, then make enquiry of the management and perform extended procedures

What are analytical procedures.

- “Analytical procedures” means evaluation of financial information through analysis of plausible relationships among financial and non- financial data. SA 520 deals with the use of Analytical procedures as Substantive Analytical Procedures (SAP).
- refers to comparisons and ratio analysis

Purposes of analytical procedures

- To assist auditor in planning NTE of other audit procedures.
- Investigating unusual fluctuations.
- Analysis of significant ratios and trends.
- To be used as substantive procedures

Nature of AP

- Comparable information for prior periods.
- Anticipated results of the entity,
- Similar industry information,

Techniques of Analytical Procedures

- Trends- Analysing account fluctuations by comparing current year to prior year information and, also, to information derived over several years.
- Reasonableness- Tests are made by reviewing the relationship of certain account balances to other balances for reasonableness of amounts.
- Ratios- Analysis by computation of ratios includes the study of relationships between financial statement amounts.
- Structural Modelling-It too constructs a statistical model from financial and/or non-financial data of prior-accounting periods to predict current account balances

SA 520 “ANALYTICAL PROCEDURES”

42

Factors of Substantive Analytical Procedures:

- Suitability
- Reliability
- Expectations
- Difference

Suitability of Particular Analytical Procedures for Given Assertions:

- generally more applicable to large volume of transactions that tend to be predictable over time, also depend upon the auditor’s assessment of how effective it will be in detecting a misstatement that, individually or in aggregate.
- In some cases, even an unsophisticated predictive model may be effective as an analytical procedure.
- The use of widely recognized ratios can often be used effectively in substantive analytical procedures to provide evidence to support the reasonableness of recorded amounts.
- AP involves the prediction of total rental income in case of hotel taking the room tariff rates, the number of rooms and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need of further verification by means of Test of Details, provided the elements are appropriately verified.

Investigating results of Analytical Procedures

- Inquiring of management and obtaining appropriate audit evidence relevant to management resources; and
- Performing other audit procedures as may be necessary. The need to perform other audit procedures may arise when,

SA 530 “AUDIT SAMPLING”

43

Meaning

SA deals with the auditor’s responsibilities in agreeing the terms of the audit engagement with management and, appropriate with governance (TCWG). includes preconditions for an audit, responsibility with management.

Objective

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

Sample design,size and selection of items for testing

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

Performing Audit Procedures

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

Other points of consideration

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

SA 540-Auditing Accounting Estimates, Including Fair Value

Accounting Estimates and Related Disclosures

44

Important Definitions:

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

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

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

Management's point estimate -

The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.

Estimation uncertainty -

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

Outcome of an accounting estimate -

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

Scope :

Auditor's Responsibility regarding use of accounting estimates by management

SA 540-Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

OBJECTIVE

obtain sufficient appropriate audit evidence whether in the context of the applicable financial reporting framework:

1. accounting estimates, including fair value accounting estimates, in the financial statements, whether recognised or disclosed, are reasonable; and
2. related disclosures in the financial statements are adequate.

Management's Responsibility :

- Follow an unbiased approach in preparing for accounting estimates .
- To make appropriate disclosure in FS about the assertion and estimates made.

Auditor's Responsibility/Audit Procedure

- Perform risk assessment procedure and related activities .
- Identify and assess the risk of material misstatements.
- Response to the assessed risk of material misstatements
- Evaluate the reasonableness of accounting estimates

Audit Reporting

- Adequate disclosure of material matter, such as
- the assumptions and method of estimates used.
- basis of selection of estimates.
- any change in the method of estimates as compared to prior period.
- the source and implication of estimation uncertainty.

If significant risk exist even after adequate disclosure the auditor may conclude that the disclosure of estimation uncertainty is inadequate in light of the circumstances and facts involved.

SA 550 "Related Parties"

46

Scope of this SA

is SA deals with the auditor's responsibilities regarding related party relationships and transactions. It expands on how SA 315, SA 330, SA 240 are to be applied in relation to related party relationships and transactions.

Objectives of the auditor

- A. To obtain an understanding of the related party transactions to:
 1. recognize fraud risk factors arising from such transactions.
 2. conclude whether financial statements, in so far as they are affected by such transactions
 - a) achieve a true and fair presentation.
 - b) are not misleading.
- To obtain audit evidence as to whether the related party transactions are properly identified, accounted for, an

Requirements of the SA

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

Identification of previously unidentified or undisclosed related party transactions.

- Auditor shall determine whether the underlying circumstances confirm the existence of such transactions.
- Communicate within the team.
- Request management to identify all transactions with newly identified related parties.
- Perform more substantive procedures.
- Reconsider risks with respect to other related parties.
- If non disclosure by the management appears intentional, evaluate the implications for the audit.

SA 550 "Related Parties"

47

Definition

Related party- A party that is either:

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

Identified significant related party transactions outside the entity's normal course of business

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

Other important points

The auditor shall obtain Written Representation that:

1. all the related parties and related party transactions have been disclosed to the auditor and
2. all such transactions have been properly accounted for and disclosed.

Communication with TCWG

The auditor shall communicate with TCWG significant matters arising during the audit in connection with the entity's related parties.

Documentation:

The auditor shall include in audit documentation names of the related parties and the nature of the related party transactions.

SA 560 "Subsequent Events"

48

Scope of this SA

SA deals with auditor's responsibilities relating to subsequent events in an audit of financial statements.

Objectives of the auditor

Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements.

Respond appropriately to the facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

Events occurring between the date of the Financial Statements and date of the auditor's report

the auditor shall perform audit procedures to ensure that all such events have been identified.

The auditor shall consider the auditor's risk assessment in determining the nature and extent of such procedures.

If such event is identified, determine whether such event is appropriately reflected in financial statements.

Obtain Written Representation that all such events have been adjusted or disclosed.

Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued

1. Discuss the matter with management or TCWG.
2. Determine whether the financial statements need amendment.
3. Inquire how management intends to address the matter in the financial statements.

If management amends the financial statements, auditor should extend the audit procedures and

- Either amend the audit report to include an additional date restricted to the amendment.
- Or provide a new/ amended report including a statement in EOM/ OM para.

SA 560 "Subsequent Events"

49

If management doesn't amend the financial statements :

1. If audit report not yet provided to the management, modify the opinion.
2. If audit report has already been provided to the management, notify TCWG not to issue it to third parties. If still issued then take appropriate action to prevent reliance on the auditor's report.

Facts that become known to the auditor after the financial statements have been issued

1. Discuss the matter with management or TCWG.
2. Determine whether the financial statements need amendment.
3. Inquire how management intends to address the matter in the financial statements.

Review if management has taken steps to inform about the situation to everyone in receipt of the previously issued financial statements.

1. If steps taken, issue new / amended report with EOM/ OM para.
2. If steps not taken, then take appropriate steps to prevent reliance on the auditor's report.

SA 570 “ GOING CONCERN”

50

Meaning and significance

- Going concern is one of the fundamental accounting assumptions. that is, as continuing in operation for the foreseeable future.
- financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.
- 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.
- When an enterprise is not viewed as a going concern, the financial statements are prepared on liquidation basis.

Responsibilities for assessment of entity's ability to continue as Going concern

requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

Responsibilities of the Auditor

- obtain SAAE regarding and conclude on the appropriateness of management's use.
- To conclude, based on the audit evidence obtained,
- However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern.
- The auditor cannot predict such future events or conditions.

Risk Assessment Procedures and Related Activities/Requirements as per SA 570

- Going concern is one of the fundamental accounting assumptions. that is, as continuing in operation for the foreseeable future.
- financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.
- 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.
- When an enterprise is not viewed as a going concern, the financial statements are prepared on liquidation basis.

SA 570 “GOING CONCERN”

51

Indicators that may cast a significant doubt on going concern

Risk Assessment Procedures

Financial Indicators

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating Indicators

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labour difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other Indicators

- Non-compliance with capital or other statutory or regulatory requirements.
- Pending legal or regulatory proceedings against the entity.
- Changes in law or regulation or government policy.
- Uninsured or underinsured catastrophes when they occur.

the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern and: -

- If such an assessment has been performed, the auditor shall discuss the assessment with management.
- If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist

SA 570 “GOING CONCERN”

52

Evaluating Management assessment of Going Concern

- evaluate management’s assessment of the entity’s ability to continue as a going concern.
- In evaluating management’s assessment of the entity’s ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period.
- If management’s assessment of the entity’s ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor shall request management to extend its assessment period to at least twelve months from that date.

Additional Audit Procedures When events or conditions are identified

If events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern through performing additional audit procedures, including consideration of mitigating factors.

“Material Uncertainty relating to Going Concern Paragraph”

When the auditor concludes that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists the auditor shall determine whether the financial statements:

- adequately describe the principal events that may cast significant doubt on the entity’s ability to continue as a going concern and management’s plans to deal with these events or conditions; and
- disclose clearly that there is a material uncertainty related to going concern and therefore that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and the auditor’s report shall include a separate section under the heading “material uncertainty related to going concern”

SA 580 “WRITTEN REPRESENTATION”

53

written representation?

A written statement by management provided to the auditor to confirm certain matters or to support another audit evidence.

Written representation provide necessary audit evidence for the purpose of SA 500. However they do not provide sufficient and appropriate audit evidence. Auditor cannot form his opinion solely on written representation.

written representation?

- obtain written representation from the management or TCWG that they believe that they have fulfilled their responsibility.
- To support other audit evidence relevant to the financial statements or specific assertions.
- To respond appropriately to written representation provided by management/ TCWG.

Date & Periods covered by Written Representation

- The date of Written Representation shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements.
- Written Representation shall be for all financial statements and periods referred to in the auditor's report.

Disclaimer of Opinion in case of non-reliability of WR

- The auditor concludes that there is sufficient doubt about the integrity of management and about information provided and completeness of transactions are not reliable; or
- Management does not provide the written representations relating to fulfilling its responsibilities regarding preparation of financial statements and about information provided and completeness of transactions.

Basic elements of a Management Representation Letter

- written statement provided to the auditor to confirm certain matter.
- It does not include Financial Statements, assertions, or supporting books and records.
- auditor should request Management to provide a Written Representation .
- Written Representation shall be for all financial statements and periods referred to in Audit Report.

SA 600 “USING THE WORK OF ANOTHER AUDITOR”

54

Applicability

It is to be applied in situations where an auditor (referred to herein as the ‘principal auditor’), reporting on the financial information of an entity, It also discusses the principal auditor’s responsibility in relation to his use of the work of the other auditor.

Considerations by Principal Auditor/ Auditor’s Procedures

- using the work of another auditor, principal auditor should evaluate the competence of another auditor if he is not member of ICAI.
- Principal auditor should advise another regarding -Areas which need special consideration, Time table for completion of audit and Significant accounting, auditing and reporting requirements.
- Obtain Sufficient and Appropriate Audit Evidence
- May require him to furnish questionnaire and perform supplementary test.
- foreign components, consider another auditor’s qualification and experience.
- consider whether modification in his report is required.
- Obtain representation from the other auditor

The Principal Auditor’s Procedures

- Right of Principal auditor to visit and examine books of accounts of a component.
- Principal auditor to consider the professional competence of other auditor.
- Procedures to be performed by principal auditor when using the work of other auditor.
- Principal auditor to review- written summary of other auditor’s procedures.
- The principal auditor should consider the significant findings of the other auditor.
- When other auditor is not a professionally qualified auditor.
- Principal Auditor to document in his working papers.

SA 600 “USING THE WORK OF ANOTHER AUDITOR”

55

Co-ordination between auditors

principal auditor should properly co-ordinate with another auditor i.e. there should be a sufficient liaison between the principal auditor and other auditor. Other Auditor should coordinate with Principal Auditor:

- Adhering to time-table.
- Bringing to the attention of Principal Auditor any significant finding.
- Compliance with relevant statutory requirements.
- Respond to detailed Questionnaire

Role of Principal Auditor

- necessary to issue written communication(s)
- advise the other auditor of any matters that come to his attention , that he thinks may have an important .
- he principal auditor may require the other auditor to answer a detailed questionnaire regarding matters

Role of Principal Auditor

The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.

However, if the Principal Auditor notices any material discrepancies, the same has to be brought to the knowledge of other Auditor. This should be incorporated in the Audit Report.

Documentation

- Components whose FS are audited by Other Auditor and their significance to the financial information of the entity as a whole.
- Names of the other auditors.
- Any conclusions reached that individual components are not material.
- Procedures performed regarding components.
- Conclusions reached.
- Manner of dealing with Modified Report of Other Auditor while finalising Principal Auditor’s report.

SA 610 “USING THE WORK OF INTERNAL AUDITORS”

56

Meaning of Internal Audit Function & Direct Assistance

A function of an entity that performs assurance & consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

Direct Assistance:
The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.

objectives and scope of internal audit function

The objectives and scope of internal audit functions typically include assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance processes, risk management and internal control such as the following:

- Activities Relating to Governance
- Activities Relating to Risk Management
- Activities Relating to Internal Control

Scope of this SA

It deals with the external auditor's responsibilities if using the work of internal auditors. 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.

Factors to be considered while accepting the position of Principal auditor:

- The materiality of the portion of the financial information
The principal auditor's degree of knowledge regarding the business of the components;
- The risk of material misstatements in the financial information of the components audited by the other auditor;
- The performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

SA 610 “USING THE WORK OF INTERNAL AUDITORS”

57

Factors that external auditor will consider before using the work of internal auditor:

Objectivity and its Evaluation

- 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.
- charged with governance oversee employment decisions related to the internal audit function.
- there are any constraints or restrictions placed on the internal audit function by management or those charged with governance
- the internal audit function is free of any conflicting responsibilities

Competence and its Evaluation

- function is adequately and appropriately resourced relative to the size of the entity and the nature of its operations.
- there are established policies for hiring, training and assigning internal auditors to internal audit engagements.
- internal auditors have adequate technical training and proficiency in auditing.
- auditors possess the required knowledge relating to the entity’s financial reporting and the applicable financial reporting framework.

Application of a Systematic and Disciplined Approach

Factors that may affect the external auditor’s determination of whether the internal audit function applies a systematic and disciplined approach

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas.
- internal audit function has appropriate quality control policies and procedures.

DETERMINING THE NATURE AND EXTENT OF WORK OF THE INTERNAL AUDIT

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.
- In some circumstances, audits or reviews of the financial information of subsidiaries that are not significant components to the group

SA 610 “USING THE WORK OF INTERNAL AUDITORS”

58

Concept of Direct Assistance

- It is not prohibition by law or regulation.
- There should be no significant threats to objectivity of Internal Auditor.
- Internal auditor should be competent and capable.

Direct assistance is not advisable on the following:

- Matters involving Significant Judgements in Audit
- Matters on which Risk of Material Misstatement is high.
- Matters in which Internal Auditor is already involved.
- When internal auditor is not objective, competent and capable.

When using the work or direct assistance

Using the work of Internal Audit Function

The External Auditor shall:

- a) discuss the planned use of the Internal Audit function.
- b) read the report of the Internal Audit function.
- c) perform sufficient audit procedures to evaluate the internal audit function.

Using the Internal Auditors to provide Direct Assistance:

The External Auditor shall:

- obtain written agreement from the entity.
- obtain written agreement from the internal auditors.
- direct, supervise and review the work performed by the Internal Auditors.

Using Internal Auditors to provide direct assistance

External auditor shall determine whether Internal Auditors can be used to provide Direct Assistance by evaluating:

- the existence and significance of threats to objectivity and
- the level of competence of the internal auditors.

External auditors shall determine the nature and extent of work that can be assigned to Internal Auditors providing Direct Assistance by considering:

- the amount of judgement involved.
- the assessed risk of material misstatements.
- the evaluation as mentioned above.

The external auditor shall be sufficiently involved in the audit and shall communicate to TCWG, the nature and extent of the planned use of internal auditors to provide direct assistance. The external auditor shall document the above.

SA 620 “USING THE WORK OF AUDITOR’S EXPERT”

59

Scope of this SA

SA 620 deals with the auditor’s responsibilities regarding the use of work in a field of expertise other than accounting or auditing when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence

objectives

- To determine whether to use the work of an auditor’s expert; and
- If using the work of an auditor’s expert, to determine whether that work is adequate for the auditor’s purposes.

Types of reports or opinions auditors can obtain from auditor’s expert

- The valuation of complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
- The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
- The estimation of oil and gas reserves.
- The valuation of environmental liabilities, and site clean-up costs.
- The interpretation of contracts, laws and regulations.
- The analysis of complex or unusual tax compliance issues.

Procedures to be followed while using the work of auditor’s expert

- Determining need for an Auditor’s Expert
- Evaluate Competence, Capability and Objectivity of the Expert
- Obtain an understating of expert work.
- Agreement with Auditor’s Expert

Evaluating The Adequacy Of The Auditor’s Expert’s Work

- The relevance and reasonableness of that expert’s findings or conclusions, and their consistency with other audit evidence;
- expert’s work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances;
- expert’s work involves the use of source data that is significant to that expert’s work, the relevance, completeness, and accuracy of that source data

SA 620 “USING THE WORK OF AUDITOR’S EXPERT”

60

Work Of The Auditor’s Expert Not Adequate For The Auditor’s Purposes

- Agree with that expert on the nature and extent of further work to be performed by that expert; or
- Perform further audit procedures appropriate to the circumstances.

If Auditor concludes that work of auditor’s expert is not adequate for the auditor’s purposes and auditor cannot resolve the matter through the additional audit procedures, it may be necessary to express a modified opinion.

Factors Influencing The Auditor's Decision W.R.T. Use Of Auditor's Expert When Management Had Used A Management Expert

SA 620 “Using the work of an Auditor's Expert” deals with the auditor's responsibilities regarding the use of an individual or organization's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor's decision w.r.t. use of auditor's expert when management had used a management expert are:

- The nature, scope and objective 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.
- The management's expert's competence and capabilities.
- Whether the management's expert is subject to technical performance standards or other professional of industry requirements.
- Any control within the entity over the management's expert's work

SA 700 "Forming an Opinion and Reporting on Financial Statements"

61

Scope

- Deals with auditor's responsibility to form an opinion on the financial statements.
- Deals with the form and content of auditor's report.

Objectives

- To form an opinion on the financial statements.
- To express clearly that opinion through a written report.

Unmodified opinion

Opinion expressed by the auditor when he concludes that the financial statements are prepared in all material respects in accordance with the applicable FRF.

Auditor's Report

- Title
- Addressee
- Auditor's Opinion
- Basis for Opinion
- Going Concern
- Key Audit Matters
- Responsibilities for the Financial Statements
- Auditor's Responsibilities
- Location of Description of Auditor's Responsibility
- Other Reporting Responsibilities
- Signature
- Place of Signature
- Date of Auditor's Report

Supplementary Information

Whether supplementary information is integral part of financial statements

- If yes, then supplementary information will be covered by the auditor's opinion
- If no, then auditor will evaluate whether supplementary information is presented in way that differentiates it from financial statements
 1. If not differentiated, then ask the management to change the way of presentation
 - If management changes then OK.
 - If management refuses, auditor will explain in the auditor's report that such information has not been audited

SA 701 "Communicating Key Audit Matters in the Independent Auditor's Report"

62

Scope

- Deals with the auditor's responsibility to communicate key audit matters in the auditor's report.
- Intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication.

Purpose of Communicating Key Audit Matters

- To enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed.
- To assist users in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Objectives

To determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report

Determining Key Audit Matters

- Auditor shall take in account.
- Areas of higher assessed risks of material misstatement.
- Significant auditor's judgment.
- The effect on the audit of significant events or transactions during the period.

Communicating Key Audit Matters

the auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters"

Other important points to be considered

- A substitute for disclosures in the financial statements that the applicable financial reporting framework
- A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);
- 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;
- A separate opinion

SA 705 "Modifications to the Opinion in the Independent Auditor's Report"

63

Scope of this SA

Deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.

Deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

Types of Modified Opinions

- **Qualified Opinion:** The auditor, having obtained sufficient and appropriate audit evidence, concludes that misstatements are material, but not pervasive.
- **Adverse Opinion:** The auditor, having obtained sufficient and appropriate audit evidence, concludes that misstatements, individually or in aggregate are both material and pervasive.
- **Disclaimer of opinion:** When the auditor is unable to obtain sufficient and appropriate audit evidence and he concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.

Objective of the auditor

To express clearly an appropriately modified opinion on the financial statements.

Circumstances when a modification to the auditor's opinion is required

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.
- The auditor is unable to obtain sufficient and appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

SA 705 "Modifications to the Opinion in the Independent Auditor's Report"

64

Management imposed limitation

- Request the management to remove the limitation.
- If management refuses to remove the limitation, communicate with TCWG and perform alternate procedures.

- Still unable to obtain sufficient and appropriate audit evidence.

Possible effects material but not pervasive.

Qualified Opinion.

Possible effects both material and pervasive.

Withdraw from the engagement or disclaimer of opinion.

Other important points to be considered

- The auditor shall use the heading "Qualified Opinion", "Adverse Opinion", "Disclaimer of Opinion" for the Opinion section.
- The auditor shall amend the heading "Basis for opinion" to "Basis for Qualified/ Adverse/ Disclaimer of Opinion".

SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

65

Scope of this SA

SA deals with additional communication in the auditor's report when the auditor considers it necessary to draw users' attention to a matter or matters.

- presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
- other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Objective

The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

- A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
- As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Definitions

Emphasis of Matter paragraph :

A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users understanding of the financial statements.

Other Matter paragraph :

A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

66

Emphasis of Matter Paragraphs in the Auditor's Report

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

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

When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall

- Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
- Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. e paragraph shall refer only to information presented or disclosed in the financial statements; and
- Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Other Matter Paragraphs in the Auditor's Report

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:

1. not prohibited by law or regulation;
2. When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

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

SA 710 “COMPARATIVE INFORMATION – CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS”

67

Objective

auditor are to obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects.

There are two different broad approaches to the auditor’s responsibilities in respect of comparative information:

Corresponding figures and Comparative financial statement.

The essential audit reporting differences between the approaches are:

- For corresponding figures, the auditor’s opinion on the financial statements refers to the current period only; whereas
- For comparative financial statements, the auditor’s opinion refers to each period for which financial statements are presented.

Audit Procedures/ Auditor's responsibilities/ duties for reporting of comparatives under SA710

Determine

- (a) Whether F.S. include Comparative information required by FRF, &
- (b) Whether such information is classified appropriately.

Apply Professional skepticism as per Sa 200, perform additional audit procedures to obtain sufficient appropriate audit evidence to determine existence of material misstatement as per SA 500.

- comparative information agrees with the amounts and other disclosures presented in the prior period; and
- accounting policies reflected in the comparative information are consistent with those applied in the current period.
- Whether, changes in accounting policies, if any, have been properly accounted for and adequately presented and disclosed.

From management to re-affirm that the WR it previously made with respect to the prior period remains appropriate.

- Reporting Requirement-Corresponding figures
- With Reference to Comparative Financial Statement – When comparative financial statement are presented
- Reporting treatment common to both (for corresponding figures and comparative information)

SA 720 “THE AUDITOR’S RESPONSIBILITIES IN RELATION TO OTHER INFORMATION”

68

Scope

SA 720 deals with auditor’s responsibilities relating to other information, whether financial or non-financial information included in an entity’s annual report.

Objective

- material inconsistency between the other information and the financial statements;
- material inconsistency between the other information and the auditor’s knowledge obtained in the audit;
- To respond appropriately when the auditor identifies that such material inconsistencies appear to exist.
- To report in accordance with this SA.

Requirements to obtaining the other information:

- determine, through discussion with management
- make appropriate arrangements with management obtain in a timely manner
- request management to provide a written representation that the final version of the documents will be provided to the auditor when available and prior to its issuance by the entity

Requirements of SA 720 as to reading & considering the other information:

- material inconsistency between the other information and the financial statements. the auditor shall evaluate their consistency, compare selected amounts or other items in the other information .
- material inconsistency between the other information and the auditor’s knowledge obtained in the auditor in the audit in the context of audit evidence obtained and conclusions reached in the audit.

the auditor shall remain alert for indication that the other information not related to the financial statements or the auditor’s knowledge obtained in the audit appears to be materially misstates.

SA 720 “THE AUDITOR’S RESPONSIBILITIES IN RELATION TO OTHER INFORMATION”

69

Reporting of other information:

The auditor’s report shall include a separate section with a heading “Other Information”, when, at the date of the auditor’s report:

- For an audit of F.S. of a listed entity, the auditor has obtained, or expects to obtain, other information; or
- For an audit of F.S. of an unlisted corporate entity, the auditor has obtained some or all of the other information.

Note :

When the auditor expresses a qualified or adverse opinion in accordance with SA 705, the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in above para.

Other information section shall include:

- Statement that management is responsible for other information.
- Identification of other information obtained prior to the date of auditor’s report.
- In case of listed entity, identification of other information expected to be obtained after date of auditor’s report.
- A statement that auditor’s opinion on the financial statements does not cover the other information and accordingly auditor does not express any opinion or conclusion thereon.
- Description of auditor’s responsibilities relating to obtaining, reading, considering and reporting other information as required by this SA.
- When other information has been obtained prior to date of audit report, a statement that auditor he has not identified any misstatement in other information and we have nothing to report in this regard or a statement that describes uncorrected misstatement of the other information.