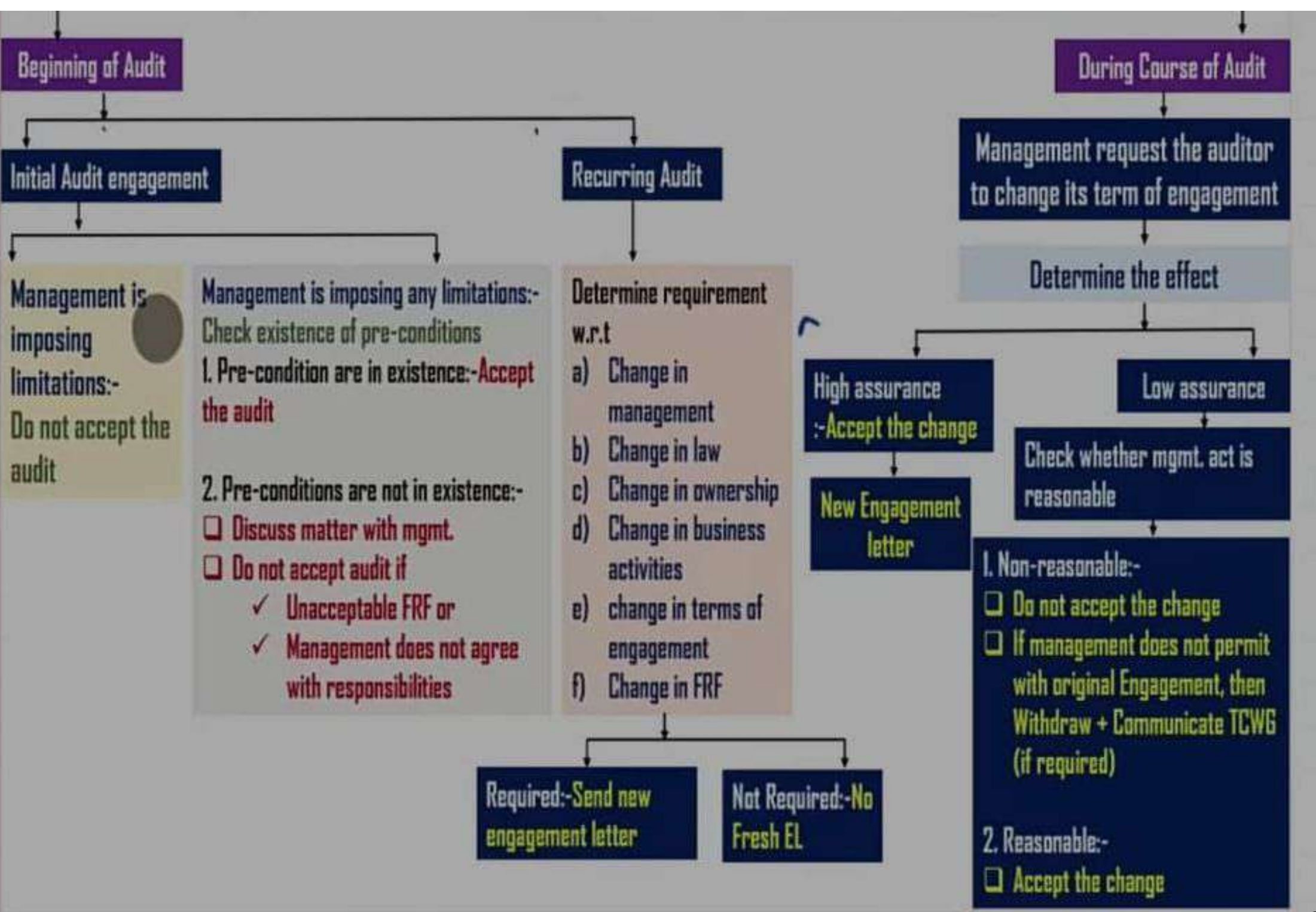


# Requirements to be complied by Auditor (Summary)

Ethical requirement	Professional skepticism	Professional judgement	Audit evidence & risk	Compliance of SA's
<ul style="list-style-type: none"><li>❑ Integrity</li><li>❑ Objectivity</li><li>❑ Professional competence and due care</li><li>❑ Confidentiality</li><li>❑ Professional behaviour.</li></ul>	<p>An attitude that involves a "questioning Mind" being alert to condition indicating possible mis-management</p> <p>He should be alert to the conditions</p> <ul style="list-style-type: none"><li>a) Contradictory evidence</li><li>b) Condition indicating fraud</li><li>c) Conditions questioning reliability</li><li>d) Cirsum that suggest procedures in addition to those provided in SA's</li></ul>	<p>Forming decisions w.r.t</p> <ul style="list-style-type: none"><li>a) Materiality</li><li>b) S&amp;A audit evidence</li><li>c) Nature, timing &amp; extent of audit procedures</li><li>d) Evaluating mgmt. decisions (selecting of accounting Policies estimate etc)</li></ul>	<p>Auditor should obtain S&amp;A audit evidence</p> <p>Audit risk should be reduce to an acceptable low level so that auditor can state that f/S are free from M-M (audit risk cannot be reduced to zero due to inherent limitations of audit</p>	<p>Auditor should comply with relevant SA's</p> <p>Audit should achieve objective of each SA's</p> <ul style="list-style-type: none"><li>• Modify the Report</li></ul> <p>OR</p> <ul style="list-style-type: none"><li>• Withdraw from engagements</li></ul>
	<p>By maintaining professional skepticism, it reduce risk</p> <ul style="list-style-type: none"><li>a- of over generalizing when drawing conclusions</li><li>b- overlooking unusual circumstances</li><li>c- using inappropriate assumptions while deciding NTE</li></ul>			



**Beginning of Audit**

**Initial Audit engagement**

Management is imposing limitations:-  
Do not accept the audit

Management is imposing any limitations:-  
Check existence of pre-conditions

1. Pre-condition are in existence:- **Accept the audit**
2. Pre-conditions are not in existence:-
  - Discuss matter with mgmt.
  - Do not accept audit if
    - ✓ Unacceptable FRF or
    - ✓ Management does not agree with responsibilities

**Recurring Audit**

Determine requirement w.r.t

- a) Change in management
- b) Change in law
- c) Change in ownership
- d) Change in business activities
- e) change in terms of engagement
- f) Change in FRF

**Required:- Send new engagement letter**

**Not Required:- No Fresh EL**

**During Course of Audit**

Management request the auditor to change its term of engagement

Determine the effect

**High assurance :- Accept the change**

**New Engagement letter**

**Low assurance**

Check whether mgmt. act is reasonable

1. Non-reasonable:-

- Do not accept the change
- If management does not permit with original Engagement, then Withdraw + Communicate TCWG (if required)

2. Reasonable:-

- Accept the change

# Pre-conditions

- i. Whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable;
- ii. Obtain the agreement of management that it acknowledges and understands its responsibility including
  - a) Preparation of Financial Statement as per FRF
  - b) Maintenance of Internal Control System which is necessary to enable the preparation of financial statements that are free from material misstatement
  - c) To provide the auditor with:
    1. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    2. Additional information that the auditor may request from management for the purpose of the audit; and
    3. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence

# SA 220 (Quality control for) audit of financial statements

Objectives	Definitions	Requirements to implement quality control	Documentation
<p>1. To maintain quality control by the auditor during the performance &amp; during the reporting</p> <p>2. To provide reasonable assurance that</p> <ul style="list-style-type: none"><li>a) Auditor has complied with professional standards &amp; regulatory requirements</li><li>b) Audit opinion is appropriate</li></ul>	<p>1. <b>Engagement partner:</b> partner or other person in the firm who is a member of ICAI and is in full time practice is responsible for engagement and its performance for the report issues on behalf of firm</p> <p><i>To maintain quality control is responsibility</i></p> <p>2. <b>Engagement team:-</b>all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement</p>	<p>H-Human Resource E-Engagement performance A-Acceptance &amp; Continuance of Client Relationship L-Leadership responsibility M-Monitoring E-Ethical requirements</p>	<p>Shall make documentation</p> <ul style="list-style-type: none"><li>a) Issues w.r.t compliance of ethical requirement</li><li>b) Conclusions on compliance with independence</li><li>c) Conclusion regarding acceptance &amp; contri of C/R</li><li>d) Nature &amp; scope resulting from consultation during audit</li></ul>

## Requirements to implement quality control

Human resource ①	Engagement performance 2:	Acceptance and continuance of client relationship	Monitoring
<p>1. Firm should <u>established policies &amp; procedures</u> that can hire competent staff with capabilities</p> <p>Resolve issues</p> <ul style="list-style-type: none"><li>a) Compensation</li><li>b) Promotion</li><li>c) Career develop</li><li>d) Remuneration</li><li>e) Prof. evaluation</li><li>f) Incentives</li></ul> <p>2. Right person for the Right job</p> <p>3. Proper requirement Process so as to hire peasants with integrity &amp; capab.</p>	<p>1. Whether from has established policies &amp; procedure in order to conduct audit as per professional standards</p> <p>2. It shall be comm. Through written/ e-manual which shall address</p> <ul style="list-style-type: none"><li>a) How ET briefed on eng. To understand their role</li><li>b) Process for complying with engagement standards</li><li>c) Process of engagement supervision training &amp; coaching</li><li>d) Method of reviewing the work performed</li><li>e) Appropriate documentation of work performed</li></ul>	<p>Engagement partner should be satisfied that audit procedures are and will be performed in a well manner</p> <p>Factor which affect auditor's decision</p> <ul style="list-style-type: none"><li>a) Integrity of principal owners, mgmt., TCWG</li><li>b) ET is competent to perform audit with time &amp; resources</li><li>c) Whether firm &amp; ET can comply with ethical requirements</li><li>d) Significant matters are during currant or previous Audit</li></ul>	<p>Work of management members should be monitored at regular intervals by some senior staff evaluation of</p> <ul style="list-style-type: none"><li>a) Adherence to professional standards</li><li>b) Whether QCS is property designed</li><li>c) Whether QC policies is property applied</li></ul>

## Requirements to implement quality control

### Leadership

1. EP shall be responsible to maintain quality during course of audit
2. Actions of EP & messages to ET will emphasize
  - a) The importance to audit quality of
    - i. Performing work that complies with SA's ✓
    - ii. Compliance of firm quality control policies
    - iii. Issuing audit opinion which is appropriate
    - iv. ET can raise concerns without fear
  - b) That quality is essential for performing audit engagement

### Ethical Requirement

The auditor should apply the following fundamental principles of professional ethics relevant when conducting an audit of financial statements:

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behaviour.

# SA 230:- Audit Documentation

OBJECTIVE	DEFINITIONS	PURPOSE / BENEFITS	DRIVERS/FACTORS AFFECTING DOCUMENTATION	COMPLETION MEMORANDUM/ AUDIT DOC SUMMARY
<p>(a) A sufficient and appropriate record of the basis for the auditor's report; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p>	<p><b>1. Audit documentation:</b>-It is a record of</p> <ol style="list-style-type: none"> <li>Audit procedures performed</li> <li>Audit evidence obtained</li> <li>Audit conclusions drawn</li> </ol> <p><b>E.g.-</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Audit notebook</li> <li><input type="checkbox"/> Audit file</li> <li><input type="checkbox"/> Audit programme</li> <li><input type="checkbox"/> Completion Memorandum</li> <li><input type="checkbox"/> Correspondence</li> <li><input type="checkbox"/> Summary of significant matters</li> <li><input type="checkbox"/> Analysis</li> <li><input type="checkbox"/> Letter of confirmation</li> <li><input type="checkbox"/> Checklist</li> </ul> <p><b>2. Audit File:</b>one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit</p>	<ol style="list-style-type: none"> <li>Helps in planning &amp; performing the audit</li> <li>Direct, supervision and review the work of assistant</li> <li>Fix accountability on assistant</li> <li>Recording the matter of continuing importance</li> <li>Picking up linking of work done by staff</li> <li>Act as evidence</li> <li>Enabling the conduct of external inspections</li> </ol>	<ol style="list-style-type: none"> <li>Size of entity</li> <li>Complexity of entity</li> <li>Risk of M-M</li> <li>Effectiveness of ICS</li> <li>Significance of audit evidence</li> <li>Nature of audit procedures</li> <li>Audit Tools and Methodology</li> </ol>	<p>1. Auditor will describe here</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Significant matters identified during audit</li> <li><input type="checkbox"/> How they were addressed</li> </ul> <p>2. Will facilitated effective &amp; efficient Review &amp; inspection of audit documentation</p>

## UNDERSTANDING TO EXPERIENCED AUDITOR

An auditor should prepare audit documentation sufficient to enable an experienced auditor having no previous connection with the audit to understand:

1. **NATURE, TIMING AND EXTENT** of audit procedures:
  - Identifying characteristics of specific items and matters tested.
  - Who performed the audit and the date of completion.
  - Who reviewed the report, the date and extent of review.
2. Results of the **AUDIT PROCEDURES** performed and evidence obtained:
3. **SIGNIFICANT MATTERS** arising during the audit the conclusions reached thereon,
4. **SIGNIFICANT PROFESSIONAL JUDGMENTS** made in reaching those conclusions

## SIGNIFICANT MATTERS

1. Matters that give rise to **SIGNIFICANT RISKS** (as defined in SA 315)
2. Results of audit procedures indicating that the financial statements could be **MATERIALLY MISSTATED**, or
3. a need to **REVISE THE AUDITOR'S PREVIOUS ASSESSMENT** of the risks of material misstatement and the auditor's responses to those risks.
4. Circumstances that cause the **AUDITOR SIGNIFICANT DIFFICULTY IN APPLYING** necessary audit procedures.
5. Findings that could **RESULT IN A MODIFICATION TO THE AUDIT OPINION** or the inclusion of an Emphasis of Matter paragraph in the auditor's report.

## SIGNIFICANT PROFESSIONAL JUDGEMENT (SPJ)

1. Auditor shall document SPJ
2. SPJ shall include
  - Auditor's conclusion on the reasonableness of judgement of mgmt.
  - Auditor's conclusion on authenticity of document for further investigation
  - Rationale of auditor's conclusion when it provides that ar shall consider significant matter which involves SPJ

SQC-1

OTHER DOCUMENTATION



## SQC-1

1. Audit file must be assembled within 60 days from date of auditor's report
2. Auditor shall retain the docs upto 7 years from date of audit report
3. Audit documentation is the property of Auditor (unless stated by law)
  - Auditor is not bound to share his documentation either with the management or TCWG
  - Branch auditor is not bound to provide his working papers/ copies to the statutory auditor
  - Although the auditor can extract copies of audit documentation at his discretion
4. Assembly is an administrative process and auditor can bring change in audit documentation Like
  - Deleting repeated documentation
  - Discarding superceded documentation
  - Sorting working paper
  - Documentation audit evidence after discussion with ET

## OTHER DOCUMENTATION

- The auditor shall **DOCUMENT DISCUSSIONS OF SIGNIFICANT MATTERS WITH MANAGEMENT, THOSE CHARGED WITH GOVERNANCE**, and others, including the nature of the significant matters discussed and when and with whom the discussions took place
- If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, **THE AUDITOR SHALL DOCUMENT HOW THE ALTERNATIVE AUDIT PROCEDURES PERFORMED ACHIEVE THE AIM** of that requirement, and the reasons for the departure.
- If, in exceptional circumstances, the auditor performs new or additional audit procedures or **DRAWS NEW CONCLUSIONS AFTER THE DATE OF THE AUDITOR'S REPORT**, the auditor shall document:
  - ❖ The circumstances encountered;
  - ❖ The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
  - ❖ When and by whom the resulting changes to audit documentation were made and reviewed.

# SA 250:- CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

## OBJECTIVE OF SA

- (a) To obtain sufficient appropriate **audit evidence** regarding compliance with the provisions of **THOSE LAWS AND REGULATIONS GENERALLY RECOGNISED TO HAVE A DIRECT EFFECT** on the determination of material amounts and disclosures in the financial statements;
- (b) To perform specified audit procedures to help **identify instances of non-compliance** with **OTHER LAWS AND REGULATIONS** that may have a material effect on the financial statements; and
- (c) To **respond appropriately** to non-compliance or suspected non-compliance with laws and regulations identified during the audit

## RESPONSIBILITIES OF AUDITOR

1. To **obtain reasonable assurance** that financial statements are free from Material mis-statements. Due to inherent limitations of audit, auditor cannot obtain absolute assurance  
Moreover, there are some factor also like
  - Management's EIS** cannot detect every compliance of law
  - Collusion among** employees or deliberate failure
  - Non-compliance is ultimate matter of **legal determination** of court
4. **Auditor is not responsible** to prevent every non compliance
5. **Auditor is not expected** to detect non-compliance of every law

## OBTAIN WR

- Obtain WR where Management shall state
- Compliance of law is **the responsibility of management**
  - That management **has disclosed cases** of non-compliance

## Audit procedures if non-compliance is detected

1. **Understand nature of violation**
2. **Detect reasons for non-compliance**
3. **Determine effect of non-compliance on Financial Statements**
4. **Determine the implications**
5. **Discussion with management and TCWG**
6. If management does not provide evidence then
  - a. **Obtain legal evidence**
  - b. **Determine lack of sufficient & appropriate evidence**

# SA 250:- CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

## REPORTING

### TCWG

Form case of non-compliance to TCWG TCWG is involved then, form at higher authority such as Audit committee or supervisory Board he believes that higher Authority will not report or cannot decide then he shall obtain legal advice

### AUDITOR'S REPORT

#### NON-COMPLIANCE

WHICH HAS EFFECT ON FS

MODIFIED OPINION

WHICH HAS NO EFFECT ON FS

UNMODIFIED OPINION + QM PARA

#### LACK OF EVIDENCE

MODIFIED OPINION (Q/D)

### REGULATORY AUTHORITY

If required by law

## DOCUMENTATION

- Identified suspected cause of non-comp.
- Discussion with management/TCWG legal counsel

## AUDIT PROCEDURES IF NON-COMPLIANCE IS DETECTED

- Unusual payments of legal fees
- Matters related to entities with tax havens
- Being payment for penalties/ fines
- Reading minutes of BM
- Enquiry with management & TCWG
- Licensing & regulating investigation
- Litigation & claims
- Adverse media comments

## Meaning

Joint audit is an audit of F/S of an entity BY TWO OR MORE AUDITORS WITH the objectives to an issue Audit Report

Such Auditors are termed as joint Auditors

## Division of work

Work to be based on

- Time period
- Geographical area
- Component of Financial Statement

This discussion must be documented

## Responsibility

Before commencement of audit, Joint Auditors shall discuss and develop on audit plan, Auditors

- Should identify division of work
- NTE of Audit procedure to be referred
- Ascertain the reporting objectives (Form & content of Auditor's Report)
- Consider terms of engagement
- Consider result of preliminary activities
- Consider & Communicate Significant Factors to all the Joint Auditors

- Engagement partner and engagement team member of **ALL JOINT AUDITORS** shall be involved in planning.
- Joint Auditor shall **JOINTLY ESTABLISH** an overall joint strategy.
- Joint Auditor will provide **A COMMON ENGAGEMENT LETTER**.
- Joint Auditor will obtain **COMMON WR/MRL**
- After division of work,
  - It must be documented as "**WORK ALLOCATION DOCUMENT**" & signed by all Joint Auditor
  - It must be intimated to TCWG

## Auditor's Report

- Before finalising Auditor's Report, Joint Auditors **Should have a common discussion** and will share their respective Opinions
- Generally Joint Auditors from a common opinion
- But in case of contrad-, **Joint auditors can provide different opinion** in that case, they must provide reference to each other's opinion in EOM
- The opinion of Joint Auditors will **Not be affected by majority of the joint auditor**

# SA 299:- RESPONSIBILITIES OF JOINT AUDITORS

## Advantages

1. Sharing of expertise
2. Less workload on AR
3. Better audit quality
4. High level of assurance
5. Timely completion
6. Convenient For MNCs as they can appoint local auditor
7. All important areas will be covered
8. Healthy competition between

## Disadvantages

1. Lack of co-ordination between joint Auditors
2. Ignorance of common areas of work
3. Superiority complex
4. Psychological barriers when firms are standing at different level
5. Dispute due to sharing of fees
6. Costly on the part of entity

## Responsibilities of Joint Auditor

### SEVERAL RESPONSIBILITY

1. Specific area of work
2. Individual opinion
3. Individual conclusion on compliance of Financial reporting Framework
4. Confirmation obtained individually
5. Branch audit

### JOINT & SEVERAL RESPONSIBILITY

1. Common areas of work
2. Common opinion
3. Common conclusion on compliance of FRF
4. Common discussion on audit procedures
5. Any matter brought to all Joint Auditors and they agreed to it.
6. Form & content of Auditor's report
7. Confirmation Obtained jointly

## Miscellaneous

- Joint auditors : intimate deficiencies matter which are other Joint Auditor finalisation of a
- Joint Auditors i to review the v joint Auditor

## Meaning of Audit Plan

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

- (a) **The nature, timing and extent of planned risk assessment procedures**, as determined under SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment".
- (b) **The nature, timing and extent of planned further audit procedures at the assertion level**, as determined under SA 330 "The Auditor's Responses to Assessed Risks".
- (c) **Other planned audit procedures** that are required to be carried out so that the

## Objective

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

## Preliminary Engagement Activities

- Ensure compliance of Ethical Requirements including independence as provided in SA-220
- Ensure compliance of SA-220 by evaluating that client relationship can be accepted/continued
- Understanding terms of engagement as per SA-210

## Establishing over

- a) **Consideration of p**  
7 **activities results**
- b) Identify the term engagement & det scope
- c) Identify NTE of a procedures
- d) Determine how th will be deployed (N
- e) Significance of th be examined

## Features of Planning

1. Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement.
2. The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement.
3. Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of

## Advantages of Audit Planning

- ❑ Helping the auditor to devote appropriate attention to important areas of the audit.
- ❑ Helping the auditor identify and resolve potential problems on a timely basis.
- ❑ Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
- ❑ Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
- ❑ Facilitating the direction and supervision of engagement team members and the review of their work.
- ❑ Assisting, where applicable, in coordination of work done by auditors of components

## Direction, Supervision and Review

The nature, timing and extent of the direction and supervision of engagement team members and the review of their work vary depending on many factors, including:

- ❑ The size and complexity of the entity.
- ❑ The area of the audit.
- ❑ The assessed risks of material misstatement.
- ❑ The capabilities and competence of the individual team members performing the audit work.

### Changes in Audit Plan & Strategy ✓

- ❑ As a result of unexpected events, changes in conditions or the audit evidence obtained from the results of audit procedures, **the auditor may need to modify the overall audit strategy and audit plan** and
- ❑ Thereby the **resulting planned nature, timing and extent** of further audit procedures, based on the revised consideration of assessed risks.
- ❑ This may be the case when **information comes to the auditor's attention that differs significantly from the information available** when the auditor planned the audit procedures.
- ❑ For example, audit evidence obtained through the performance of substantive procedures may contradict the audit

### Overall Audit Strategy-Assistance to the Aud

- ❑ **The resources to deploy for specific audit areas,**
  - ✓ such as the use of appropriately experienced team members for high risk areas or
  - ✓ the involvement of experts on complex matters;
- ❑ **The amount of resources to allocate to specific audit areas,**
  - ✓ such as the number of team members assigned to observe inventory count at material locations,
  - ✓ the extent of review of other auditors' work in the context of group audits, or
  - ✓ the audit budget in hours to allocate to high risk areas
- ❑ **When these resources are to be deployed,**
  - ✓ such as whether at an interim audit stage or at key completion dates
- ❑ **How such resources are managed, directed and supervised,**
  - ✓ such as when team briefing and debriefing meetings are expected to be held,
  - ✓ how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and
  - ✓ whether to complete engagement quality control reviews



# SA 300:-PLANNING IN AN AUDIT OF FINANCIAL STATEMENTS

## Relationship between Audit Strategy & Audit Plan

- Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.
- The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

## Matters which should be considered while formulating Audit Plan

- Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.
- For example, planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as:
  - 1 The analytical procedures to be applied as risk assessment procedures.
  - 2 Obtaining a general understanding of the legal and regulatory framework.
  - 3 The determination of materiality.
  - 4 The involvement of experts.
  - 5 The performance of other risk assessment procedures.

## In case of Initial Audit Engagement

- The auditor shall undertake the following activities prior to starting an initial audit:
- (a) Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement ; and
  - (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

## OBJECTIVE OF SA

- The objective of the auditor is
- ❑ **To identify and assess the risks of material misstatement**, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control,
  - ❑ Thereby providing a **basis for designing and implementing responses to the assessed risks of material misstatement**.

This will help the auditor to reduce the risk of material misstatement to an acceptably low level

## DEFINITIONS

- ❑ **Assertions**—Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.
- ❑ **Business risk**—A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.
- ❑ **Risk assessment procedures**—The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
- ❑ **Significant risk**—An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration

# 3A STA: IDENTIFYING & ASSESSING THE RISK OF MATERIAL MIS-STATEMENTS

## RISK AT TWO LEVELS

Auditor shall identify the risk of M-M at

- F/S level
- Assertion level

*response ↑*  
*pro ↓*

## SIGNIFICANT RISK

An identified and assessed risk of material misstatement that, in the auditor's judgment, **requires special audit consideration**

To Find Significant Risk, Auditor should check

- That risk is a risk of **fraud**
- That risk is w.r.t **RPTs**
- That Risk is wrt. **Complexity of transactions**
- That transection are of **unusual nature**
- When risk is related to recent **Significant economic development**
- When it involves **degree of subjectivity** in measurement of financial information related to risk (which involves uncertainty)

## REVISION OF RISK

In case of new evidence obtained, auditor shall revise the risk and update the plan

## Risk Assessment Procedures

- Inspections of documents & Reports**
- Analytical Review Procedures**
- Observation**
- Inquire person within the entity**

It is a continuous, dynamic process of gathering, updating and analyzing information throughout the audit. The understanding assists Auditor in **exercising professional judgment** throughout the audit, for example, when:

- Assessing RMM**
- Determining **Materiality**
- Considering the appropriateness of the selection and application of **accounting policies**, and the adequacy of **financial statement disclosures**;
- Identifying areas **where special audit consideration** may be necessary,
- Developing expectations for **ARP**
- Responding to the RMM** (including designing and performing further audit procedures to obtain SGA Evidence)
- Evaluating the sufficiency and appropriateness** of audit evidence obtained.

## Inquiry with the Persons

- ❑ **Inquiry with TCWG:-**will help AR to understand environment in which F/S are prepared
- ❑ **Inquiry with Internal audit personnel:-**provides info about I/A proceed relation to design & effectiveness of entity
- ❑ **Inquiry with employees involved in processing complex transections:-**It helps Auditor to evaluate appropriateness of selection & application of A/s Policies
- ❑ **Inquiry with In-house legal counsel:-**provides info about litigation, compliance of law, fraud, warrant
- ❑ **Inquiry with marketing/sale personnel:-**provide info about change in marketing strategies, sales trend
- ❑ **Inquiry with IS personnel:-**provides about Information system changes

## Analytical Procedures

- ❑ Analytical procedures performed as RAP may identify aspects of the entity of **which the auditor was unaware** and may assist in assessing the RMM.
- ❑ Analytical procedures performed as risk assessment procedures may **include both financial and non-financial information.**
- ❑ Analytical procedures may help **identify the existence of unusual transactions or events**, and amounts, ratios, and trends that might indicate matters that have audit implications.
- ❑ Unusual or **unexpected relationships** that are identified may assist the auditor in identifying risks of material misstatement **especially risks of material misstatement due to fraud.**
- ❑ However, when such analytical procedures use data aggregated at a high level ,the results of those analytical procedures **only provide a broad initial indication** about whether a material misstatement may exist.
- ❑ Accordingly, in such cases, consideration of other information that has been gathered when identifying the risks of material misstatement **together with the results of such analytical procedures may assist the auditor** in understanding and evaluating the results of the analytical procedures

## Inspection & Observation

### Examples

- ❑ The **entity's operations.**
- ❑ **Documents** (such as business plans and strategies), **records, and internal control manuals.**
- ❑ **Reports prepared** by management (such as quarterly management reports and interim financial statements) and those charged with governance (such as minutes of board of directors' meetings).
- ❑ The **entity's premises and plant facilities**

# SA 315:- THROUGH UNDERSTANDING THE ENTITY, ITS ENVIRONMENT INCLUDING THE RELATED INTERNAL CONTROL!

## THROUGH UNDERSTANDING ENTITY, ITS ENVIRONMENT

- Industry, regulatory & external factors
- Nature of entity
  - ✓ Its operations
  - ✓ Ownership & governance Structure
  - ✓ Types of investments that entity is making
  - ✓ The way entity is structured/ financed
- Accounting policies (Application selection and consistency)
- Objectives and strategies of business & related Business Risks.
- Measurement and review of entity's Financial Performance

## RELATED INTERNAL CONTROL

- Evaluate **Design & Implementation** of Internal Control System
- Control environment**
- Culture of **honesty and ethical behavior** of employees
- Strength of **control environment** and any deficiency
- Understand RAP** of Entity
  - ✓ Identifying business risk relevant to Financial Reporting
  - ✓ Estimating the significance of risks
  - ✓ Assessing the likelihood of their occurrence
  - ✓ Actions to address such risk
- No RAP performed by management:-** Discussion with Management + obtain WR
- Management's RAP has not detected Risk but Auditor's RAP has detected Risk:-** Consider Significant deficiency in Internal Control System

## RISK IN AUTOMATED ENVIRONMENT

- Undue reliance on the software system which has been formed inadequate
- Unauthorized access to data may result in damage of data
- Mis-use of powers by IT personnel
- Unauthorized damage in master files
- Potential loss of data
- Failure to make changes to system

## SA 320:- MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

### OBJECTIVE OF SA

The objective of the auditor is to apply **the concept of materiality** appropriately in planning and performing the audit.

### MEANING OF MATERIALITY

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, **could reasonably be expected to influence the economic decisions of users** taken on the basis of the financial statements;

### INVOLVEMENT OF JUDGEMENT

- ❑ Judgments about materiality are made in the **light of surrounding circumstances**, and are affected by the size or nature of a misstatement, or a combination of both; and
- ❑ Judgments about matters that are material to users of the financial statements **are based on a consideration of the common financial information needs of users as a group**. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
- ❑ In this context, it is reasonable for the auditor to assume that users:
  - (a) Have a **reasonable knowledge** of business and economic activities and accounting and a **willingness to study** the information in the financial statements with reasonable diligence;
  - (b) Understand that financial statements are prepared, presented and audited **to levels of materiality**;
  - (c) **Recognize the uncertainties inherent** in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
  - (d) **Make reasonable economic decisions** on the basis of the information in the financial statements

# SA 320:- MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

## STAGE OF MATERIALITY

The concept of materiality is applied by the auditor **both in planning and performing the audit, and in forming the opinion in the auditor's report.**

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

1. Determining the **nature, timing and extent of risk assessment procedures;**
2. **Identifying and assessing the risks of material misstatement;** and
3. Determining the **nature, timing and extent of further audit procedures.**

## PERFORMANCE MATERIALITY

- ❑ Some items which are **individually immaterial** but **when collected together become material.**
- ❑ Auditor **will reduce the materiality Level as a whole to a lower level** so as to cover the similar items which could be material when aggregated together
- ❑ If any transection is above performance materiality but less than materiality Level as a whole than **auditor shall perform limited procedures**
- ❑ The performance materiality
  - ✓ Depend upon **professional judgement**
  - ✓ **Reduce the risk of smaller items**
  - ✓ Leads to **larger sample size**

## USE OF BENCHMARK IN MATERIALITY

A percentage is often applied to a chosen benchmark as a starting point in determining materiality

Factors that affect identification of benchmark

1. **Element of F/S** (assets, liabilities, expenses)
2. The **items on which users normally focus** (for purpose of evaluating proper users trends to **focus on profit / revenue**)
3. **The entity's ownership stricture and way of is financed** (if entity is financed **solely by debt** rather than equity, than users may **focus more on assets rather than earning**)
4. **Nature of entity, its life cycle and industrial and economical environment**
5. **The Relative Volatility of Benchmark** (When **PBT from continuing operations is volatile**, other benchmarks may be more appropriate, such as **gross profit or total revenues**)

## SA 320:- MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

### CHANGE IN MATERIALITY

- ❑ The auditor shall revise materiality for the financial statements as a whole in the event of **becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.**
- ❑ 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.**

### RELATIONSHIP BETWEEN AUDIT RISK & MATERIALITY

- ❑ If the materiality of item is high, the extent of Audit procedures performed by Auditor will also be higher, this will leads to reduction of Audit Risk.
- ❑ If the materiality of item is low, the extent of Audit procedures performed by Auditor will also be lower, this will leads to increment of Audit Risk.
- ❑ There is **inverse relationship between materiality & audit risk**

### DOCUMENTATION

- ❑ Materiality for the financial statements as a whole
- ❑ If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures ;
- ❑ Performance materiality; and
- ❑ Any revision of (a)-(c) as the audit progressed



## MEANING OF AUDIT EVIDENCE

1. Audit evidence is information used by auditor in arriving at the conclusions which auditor's report is based.
2. It included both information contained in accounting records underlying F/S and other information
  - a. Accounting records
    - i. Record of alcing entries
    - ii. Invoice
    - iii. Contract
    - iv. General & sub ledgers
    - v. Journal entries
    - vi. Worksheet, spreadsheet supporting cost allocation, documentation
  - b. Information contained
    - i. Minutes of the meeting
    - ii. Written confirmation trade receivables/trade payables
    - iii. Manual of internal control

## OBJECTIVES

- To obtain sufficient & appropriate audit evidence
- Factor affecting sufficient and appropriateness of audit evidence
  1. Risk of M-M
  2. Result of control test
  3. Materiality of items
  4. Size of population being tested
  5. Size of sample
  6. Reliability of evidence obtained
  7. Accounting policies
  8. Knowledge & experience of auditor

## Collection of evidences

- Inspection**- examination of records, documents and tangible assets
- Observation**- the process of witnessing the procedure performed by other  
*e.g. attending physical verification conducted by management*
- Inquiry**- it means obtaining information from persons within/ outside the entity  
**Confirmation**- Response to an enquiry
- ARP**- it means studying significance ratio and trends and investigation abnormal fluctuations.
- Recalculation**- checking the arithmetical accuracy of figures
- Re-performance**- execution of procedures that were originally performed by mgmt.

## Types of evidences

- According to Nature**
  - ✓ Documentary
  - ✓ Oral
  - ✓ Visual
- According to Source**
  - ✓ External Evidences
  - ✓ Internal Evidences

### EXTERNAL EVIDENCES

External evidences are originated from outside the entity

E.g.: purchase invoice bank statement

External are more reliable than internal evidence

Even if ICS is weak, it will not affect reliability of ext. evidence

### INTERNAL EVIDENCES

Internal evidence are originated within the entity

copies of sales invoice salary sheet inventory registered

Internal are less reliable

Internal evidence is not reliable if ICS is weak

## RULES ON RELIABILITY

1. External evidence are more reliable than internal evidences however, internal evidence can also be reliable if internal control is strong
2. Evidence obtained directly by the auditor are more reliable than obtained indirectly
3. Documentary evidence are more reliable than oral evidence
4. Evidence in original copies are more reliable than photocopies



# SA 501:-AUDIT EVIDENCE:SPECIFIC CONSIDERATION FOR SELECTED ITEMS

## Objective of SA

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

(a) Existence and condition of **inventory**;

(b) Completeness of **litigation and claims** involving the entity; and

(c) Presentation and disclosure of **segment information** in accordance with the applicable financial reporting framework.

## PHYSICAL VERIFICATION OF INVENTORY

## LITIGATIONS & CLAIMS

**Direct communication** with entity's external legal counsel - (through letter of inquiry)

- ❑ In case of risk of material management regarding litigations & claims or
- ❑ Audit procedures indicate that other material litigation exist (heavy legal expenditure)

**Meet the** entity's external legal counsel

- ❑ The auditor determines that the matter is significant risk
- ❑ The matter is complex
- ❑ There is disagreement (exception between management and entity's external legal council ordinary.

Such meeting require management's permission and are held with a representative of management in attendance

## Segment Information

AR shall obtain S&A evidence regarding P&D of segment information by

- ❑ **Obtaining an understanding of methods of management**
  - ✓ Evaluating those methods provide disclosure as per FF
  - ✓ Test the application of such methods
- ❑ **Performing** ARP or other procedures

Depending on the circumstances, example of matters that may be relevant:-

1. Sales, transfers, charges between segments
2. Comparison with Budget & other expected results
3. Allocation of asset & cost among segments
4. Consistency with prior period

# SA 505: EXTERNAL CONFIRMATION

## Meaning

Audit evidence obtained as a direct response to auditor from third party in proper-e-form

## Meaning

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence

## Meaning Exam

- Trade payables
- Trade receivables
- Loans
- Investment held by T/P
- Inventories held by T/P
- Pending suits & litigations

## Types of request

1. **Positive request**  
auditor will request <sup>R</sup> the third party to reply in all the cases  
Whether third party
  - a. Agrees
  - b. Disagreeswith information provide in request
2. **Negative request**  
Here, auditor will demand the response of third party if there is an exception

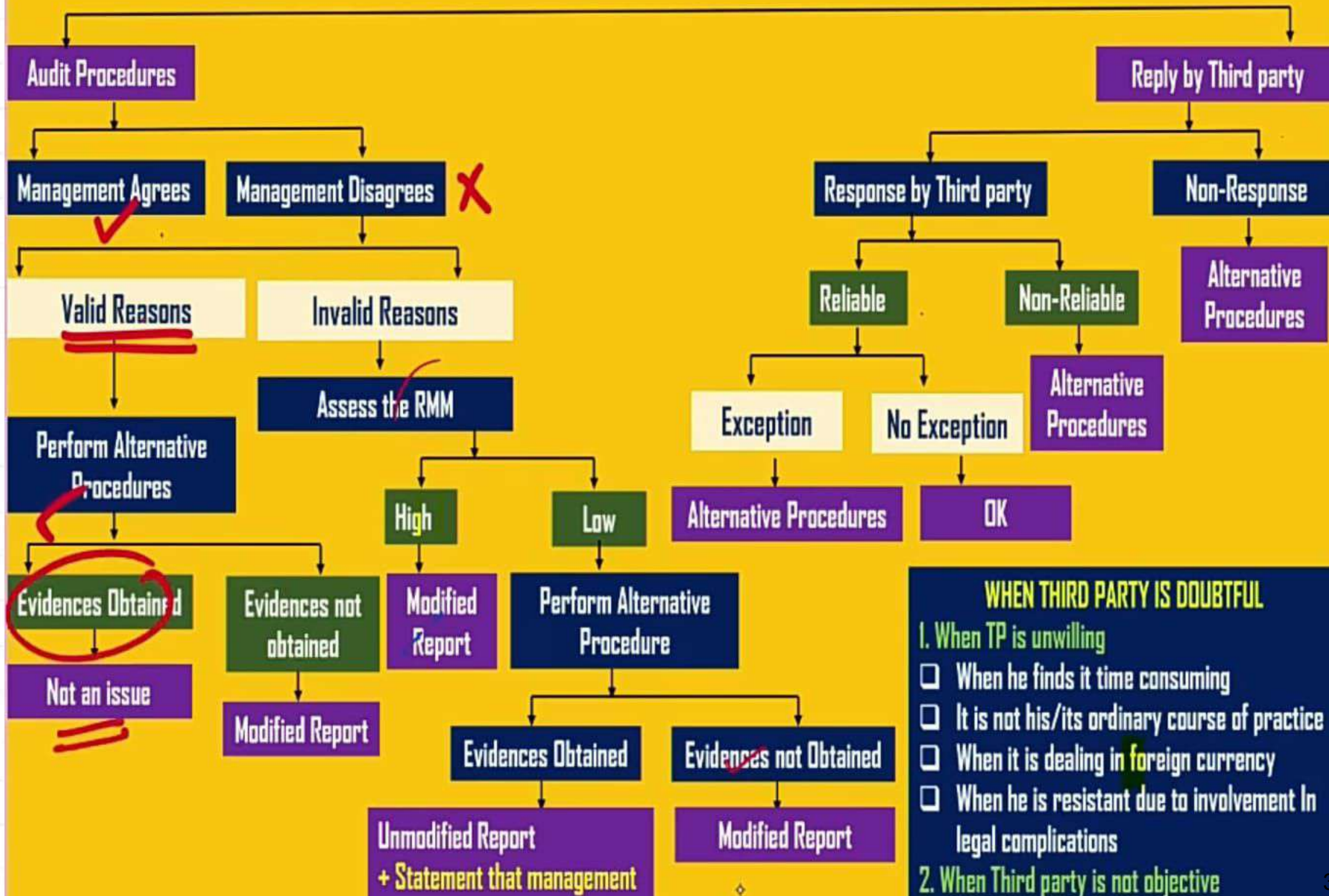
## Factors affecting Request

1. Risk of M:M
2. ICS ,
3. Significance of matter
4. Trust on T/P
5. Content of request
6. Chances of exception
7. Ability of intended conformity party ✓
8. Prior experience
9. Layout & presentation of confirmation request

Generally positive request is more reliable than negative request however, negative request can be made if

- a. Risk of M-M is low
- b. ICS is Strong
- c. If auditor is having belief that T/P will reply in case of expectation
- d. Chances of exception are low

# SA 505: EXTERNAL CONFIRMATION



**WHEN THIRD PARTY IS DOUBTFUL**

- When TP is unwilling
  - When he finds it time consuming
  - It is not his/its ordinary course of practice
  - When it is dealing in foreign currency
  - When he is resistant due to involvement in legal complications
- When Third party is not objective

# SA 510:- INITIAL AUDIT ENGAGEMENT

modification in  
PY AR.

## OPENING BALANCES

### CHECK MISSTATEMENT IN PY FIGURES

Obtain **S&A evidence** that whether **opening balance contain mis-statement** that affect current year statement of profit & loss A/C by

- Prior period closing balance are **properly brought forward**
- Determine whether opening balance **reflect application of appropriate** Accounting policies'
- Performing one or more of
  - ✓ Whether PY figures were Audited?
  - ✓ Evaluate whether audit procedure of CY provide evidence of opening balance
  - ✓ Performing audit procedures (specific) to obtain evidence of Opening Balance

If auditor

(a) **Obtain evidence that Opening Balance can affect CY balances:-** Perform necessary audit procedures

If AR concludes that there is **mis-statement in CY**: Communicate TCWG + **modified report (Q/A)**

(a) **Cannot Obtain evidence that Opening Balance can affect CY balances:-** Provide **Modified Report (Q/D)**

## ACCOUNTING POLICIES

Obtain S&A evidence that

- a. A/C policies are consistently applied
- b. Change is disclosed as per FRF

If Yes, Then **Unmodified Report.**

Otherwise, **Modified Report**

## ACCOUNTING POLICIES

### CHECK MODIFICATION IN PY AUDITOR'S REPORT

#### 1. Modified

- Discussion with management & predecessor auditor
- Check that M-M exist in CY or Not

If it exists in CY, Then **issue Modified Report**

If it does not exists in CY, Then **issue Unmodified Report**

1. Modified:- Not an issue

## SA 510:- INITIAL AUDIT ENGAGEMENT

### OBJECTIVE OF SA

Obtain S&A evidence about whether **Opening balance** contain mis-statement that material affect current period F/S

**Appropriate Accounting policies** have consistently applied in current period F/S

### DEFINITIONS

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



## OBJECTIVE

(a) Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:

(i) **To recognise fraud risk factors, if any, arising from related party relationships** and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and

(ii) To conclude whether the financial statements, in so far as they are affected by those relationships and transactions:

a. **Achieve a true and fair presentation** (for fair presentation frameworks); or

b. **Are not misleading** (for compliance frameworks); and

(b) In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about **whether related party relationships and transactions have been appropriately identified, accounted for and disclosed** in the financial statements in accordance with the framework.

## DEFINITIONS

### 1. RELATED PARTY 2(76).

Related Party means related party as defined in the **financial reporting framework (AS-18)**.

Entity under common control with client

✓ Close family members

✓ Being owners

✓ Common key management

Entity over which client is having **significant influence**

### 2. ARM LENGTH PRICE

A transaction conducted on such terms and conditions as between a willing buyer and willing seller who are unrelated and acting independently of each other and pursuing their own best interests.

## RESPONSIBILITIES OF MANAGEMENT

1. **Identify** the Related Party

2. Obtain **proper authorization** (Sec 188-BR & OR)

3. Proper **recording of RPT's** (section 189-register)

4. **Compliance of AS**

5. **Proper disclosure** of RPTs (as per schedule III)

## RESPONSIBILITIES OF AUDITOR

- Same as laid in Objectives of SA-550
- The AR should identify RMM with respect to RPTs and design response for it.
- AR should obtain understanding of entity RPTs to conclude that F/S presents provide fair disclosure.
- AR should understand RPTs and evaluate whether fraud risk factors are present (as per SA 240)
- In case of inherent limitations, the potential effect of not detecting material mis-statements due to RPTs is higher;
  - ✓ Reason can be that Management is not aware of all the RPTs
  - ✓ RPTs may provide a greater opportunity for collusion, concealment & Manipulation by Management
- Therefore Auditor shall plan & perform the Audit with Professional Skepticism (as Per SA-200)

## IDENTIFICATION OF RELATED PARTIES

### HOW CAN AUDITOR VERIFY EXISTENCE OF RPTS

#### He can inspect

- Entity's ITR
- Information supplied by entity to regulatory authorities
- Register of members or Shareholders
- Records of entity's investments
- Contract with KMP/ TCWG
- Internal audit reports
- Life insurance policies insured by Entity
- Statement of conflict of interest from management / TCWG

## INQUIRY WITH THE MANAGEMENT

- Obtain list of RPs
- Obtain list of RPTs
- Nature of relation with RP
- Change in relation with RP
- Nature of Transactions with RPs
- Obtain written representation

# SA 550:- RELATED PARTIES

## RESPONSE TO ASSESSED RISK

### If auditor identifies undisclosed RP

1. Communication with that related party
2. Identify such other RPs
3. Revise the risk
4. Design further audit procedures Accordingly
5. Discussion with engagement team
6. Discussion with Management to identify all transactions

### Transaction outside Ordinary Course of Business

1. Examine contract and ensure
  - The business rationale (or lack thereof) of the transactions suggests that they may have been **entered into to engage in fraudulent financial reporting** or to conceal misappropriation of assets;
  - The terms of the transactions **are consistent with management's explanations**; and
  - The transactions have been appropriately **accounted for and disclosed** in accordance with the applicable FRF.
- (b) Obtain audit evidence that the transactions have been appropriately authorised and approved.

### Transaction in OCB at ALP

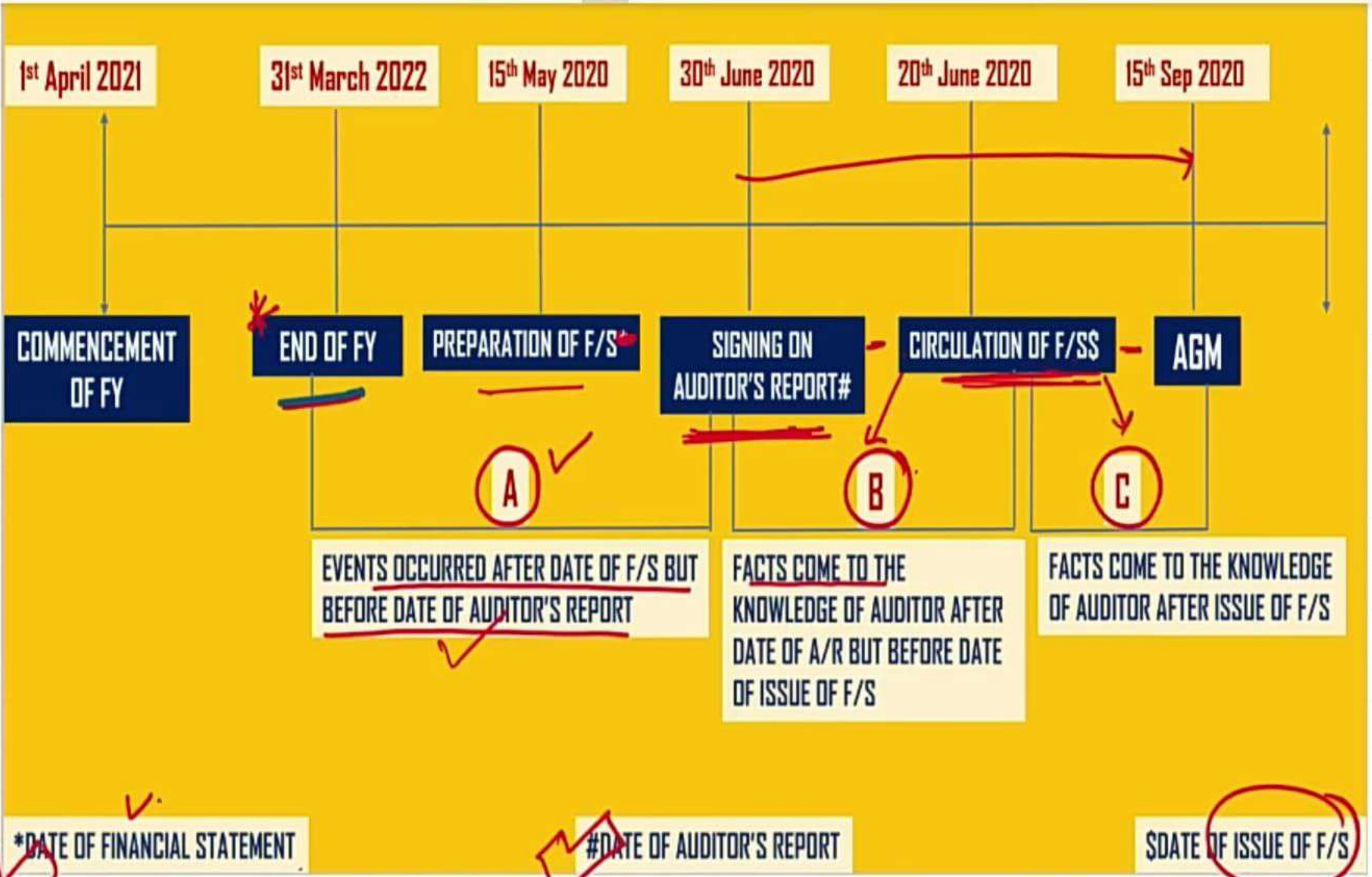
1. Obtain SGA audit evidence
2. Obtain WR

## DOCUMENTATION

- Names of the identified related parties and
- The nature of the related party relationships.

## WR

- They have **disclosed to the auditor** RPs & RPTs they were aware &
- They have **appropriately accounted** for and disclosed RPTs as per FRF



### SA 560:- SUBSEQUENT EVENTS

OBJECTIVE	DEFINITION OF SUBSEQUENT EVENT	OTHER DEFINITIONS

**SA 560: SUBSEQUENT EVENTS**

**OBJECTIVE**

The objectives of the auditor are to:

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

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

**DEFINITION OF SUBSEQUENT EVENT**

- Events occurring after date of F/S** but before date of auditor's report and it includes **+**
- The **facts came to the knowledge of auditor** after the date of auditor after the date of auditor's report

**OTHER DEFINITIONS**

1. **Date of the financial statements** - The date of the end of the latest period covered by the financial statements.
2. **Date of approval of the financial statements** - The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognised authority have asserted that they have taken responsibility for those financial statements.
3. **Date of the auditor's report** - The date the auditor dates the report on the financial statements in accordance with SA 700.
4. **Date the financial statements are issued** - The date that the auditor's report and audited financial statements are made available to third parties

**ON SUBSEQUENT EVENTS**

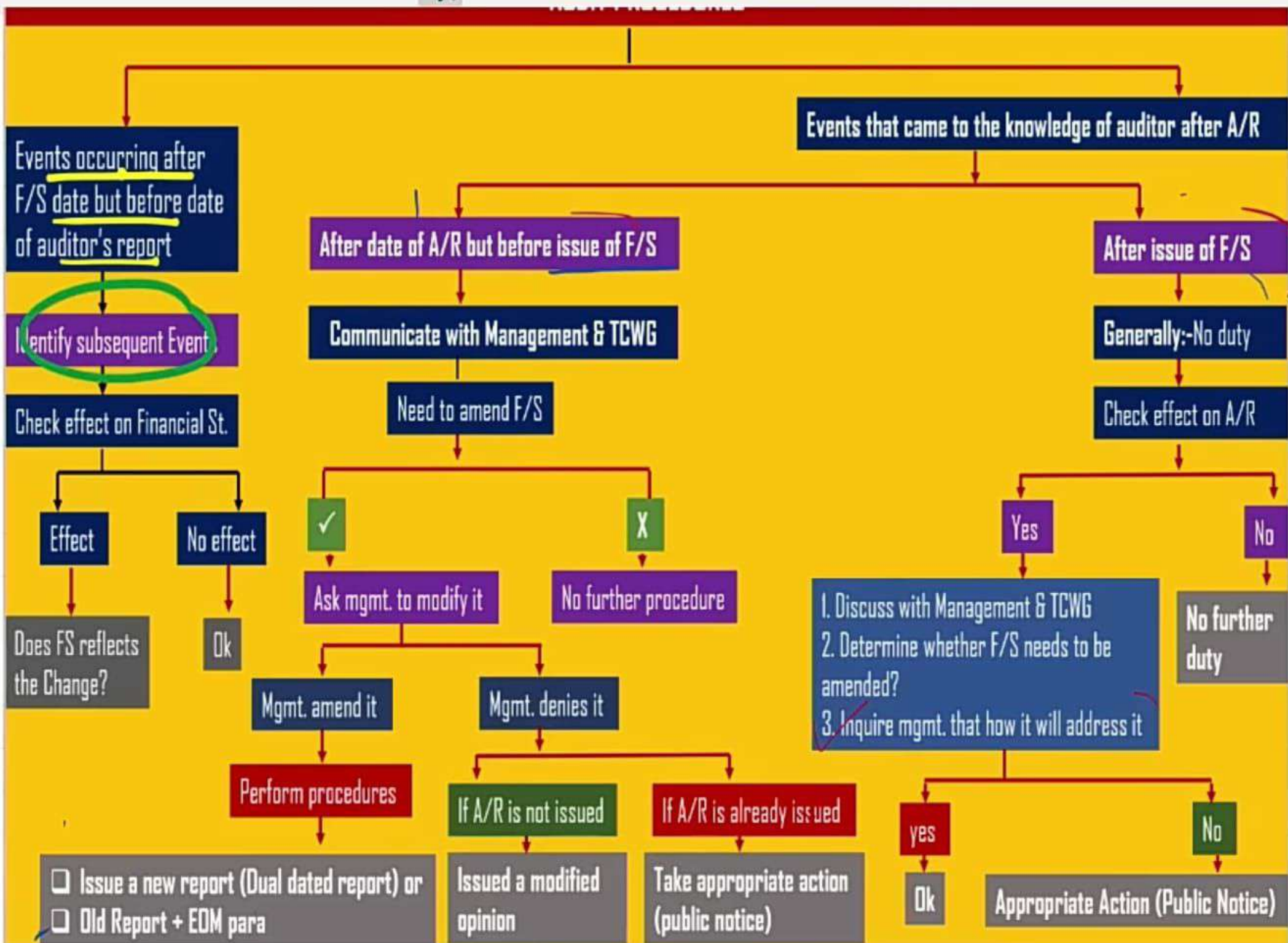
**IDENTIFICATION OF SUBSEQUENT EVENT**

1. **Inquiry with Management and TCWG** that whether Subsequent Events affect Financial Statements
2. **Obtain WR** (Management should assert that all subsequent events are Disclosed)
3. **Study minutes of Board Meeting** (for BM convened after date of F/S)
4. **Review interim reports**
5. **Reading the entity's Interim financial statements**
6. **Understand procedure of management** that how subsequent event are identified

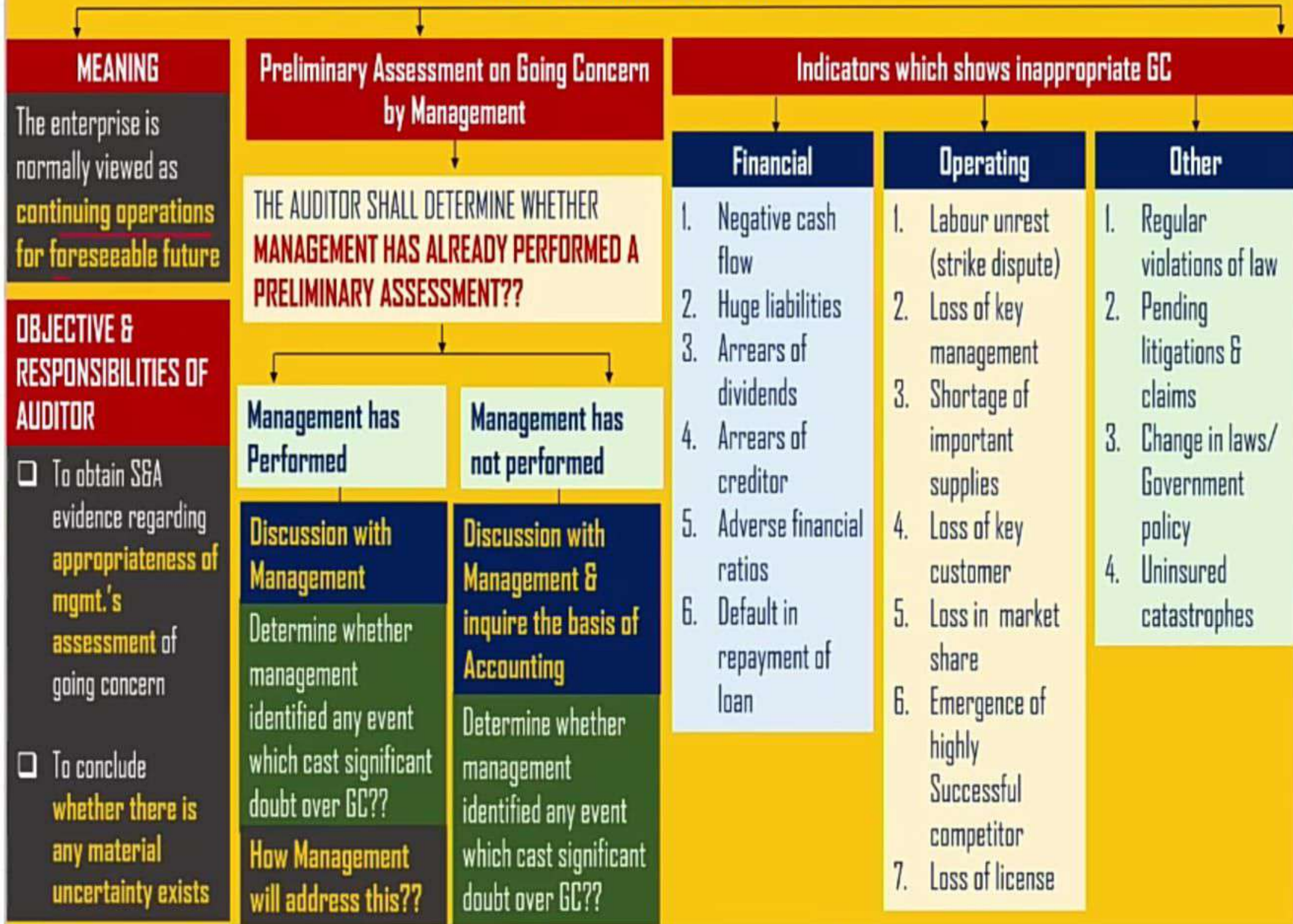
**SPECIFIC INQUIRIES**

- Whether any **new borrowing** has been obtained?
- Whether any **new guarantee** has been provided?
- Whether any **asset is acquired**?
- Whether **any asset sold** ?
- Whether there are any development with respect to **Contingencies**?
- Whether any events have occurred that are relevant to the **recoverability of assets**?
- Whether any events have occurred or are likely to occur that will **bring into question the appropriateness of accounting policies** used in the financial statements?
- Whether **any asset is destroyed** by natural calamity or seized by govt. authorities?

**AUDIT PROCEDURES**



# SA 570:-GOING CONCERN





## PERFORMING AUDIT PROCEDURES

To obtain **S&A Evidence to determine whether or not a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern**

- Requesting Management to make its assessment**, if not performed by Management.
- Evaluating Management's plans** for future actions & ensure its feasibility.
- Where the **entity has prepared a cash flow forecast**, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions:
  - ✓ Evaluating the **reliability of the underlying data** generated to prepare the forecast; &
  - ✓ Determining whether there is adequate **support for the assumptions** underlying forecast.
- Considering whether any **additional facts** available from the date of Assessment.
- Requesting WR** from Management & TCWG regarding their plans for future actions and the feasibility of these plans

## AUDIT PROCEDURES ALSO INCLUDES

- Subsequent event (after B/S)**:- Consider the impact on going concern
- Litigation and claims**:- Consider the impact on going concern and inquire with legal Counsel
- Interim financial statements**:- Can check the Quarterly Financial Statements even of subsequent period
- Cash flow statement**:- consider the negative cash flow
- Examination minutes of Board meeting**: t will show the status of going concern
- Status of Debt Repayment**: consider the term of loan agreement and ensure its compliance

## SA 570:- GOING CONCERN

# SA 570:-GOING CONCERN

If Management denies to make preliminary Assessment

Modified Opinion

If Auditor has Concluded

FINANCIAL STATEMENTS ARE PREPARED USING GOING CONCERN BASIS OF ACCOUNTING BUT GC IS INAPPROPRIATE

Adverse Opinion

FINANCIAL STATEMENTS ARE PREPARED USING LIQUIDATION BASIS OF ACCOUNTING BUT GC IS INAPPROPRIATE

Unmodified Opinion + Emphasis of Matter

GC IS APPROPRIATE BUT THERE IS MATERIAL UNCERTAINTY

Disclosure by Management in F/S

Unmodified opinion + Statement that G.C is Appropriate but there is a Material uncertainty (as Per SA-570)

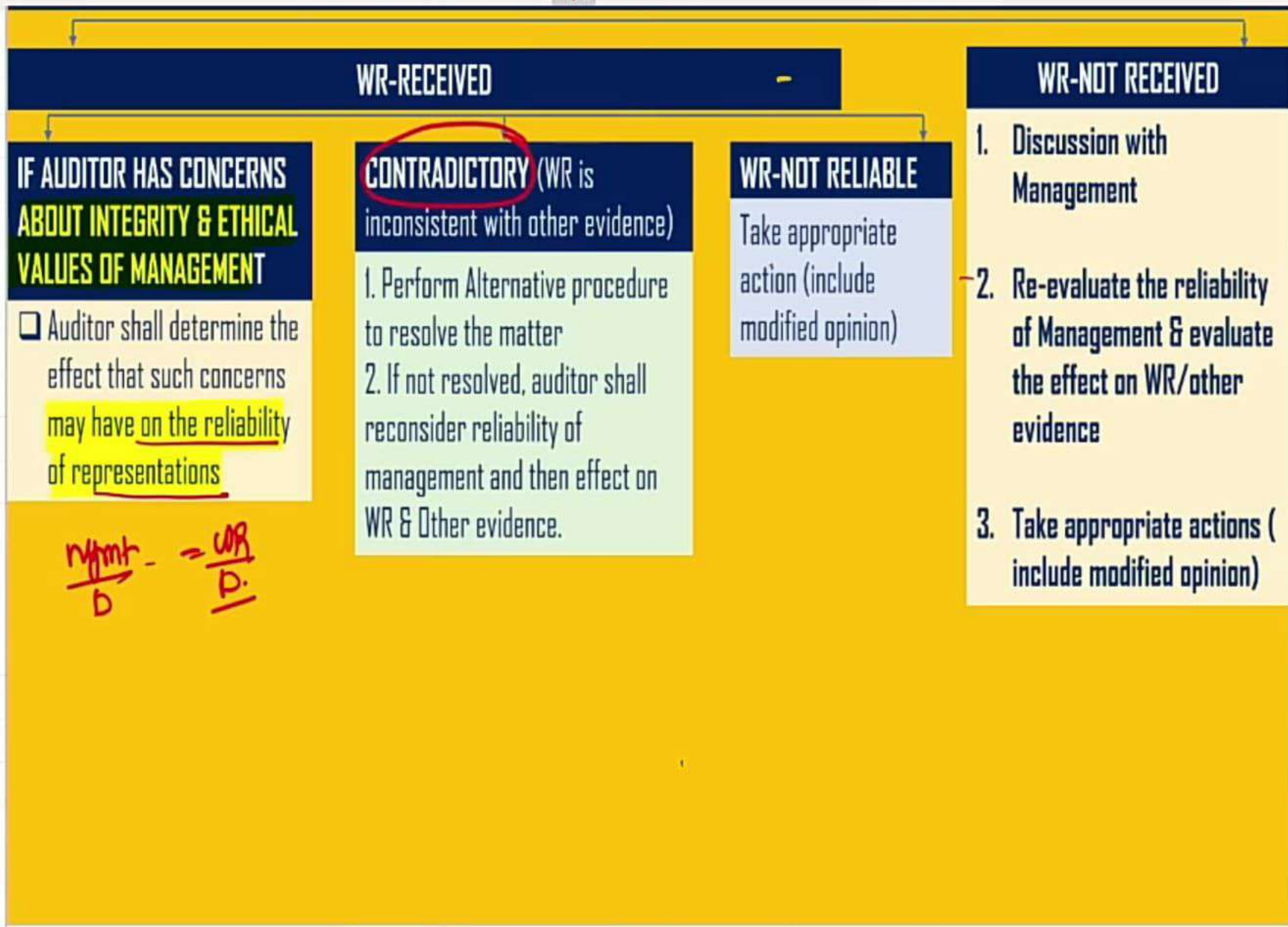
No Disclosure by Management in F/S

Modified opinion (Qualified/Adverse) + In basis for opinion Para, state that a material uncertainty exist but F/S do not disclose the same

7

# SA-580:-Written Representation

MEANING	OBJECTIVE	WHEN		
<p>1. A written statement by management to the auditor to confirm certain matters to support other evidence</p> <p>2. W/R does not include financial Stat. or other supportive books or records</p> <p>3. WR is an evidence but it is not S&amp;A audit evidence</p>	<p>1. To obtain WR from Management &amp; TCWG</p> <p>a. That management has fulfilled responsibility for preparation of Financial Statements</p> <p>b. For completeness of information</p> <p>2. To support other evidence to the Financial Statements by means of WR</p> <p>3. To respond appropriately</p> <p>a. To WR obtained from Management</p> <p>b. If WR not obtained</p>	<p><b>WHEN THERE IS A REQUIREMENT IN OTHER SA'S</b></p>	<p><b>AUDITOR CAN ASK MANAGEMENT TO RECONFIRM ITS ACKNOWLEDGEMENT</b></p>	<p><b>WHEN THERE IS RESPONSIBILITY OF MANAGEMENT</b></p>
		<ul style="list-style-type: none"> <li><input type="checkbox"/> RPTs (SA-550)</li> <li><input type="checkbox"/> Subsequent event (SA-560)</li> <li><input type="checkbox"/> Going concern (SA-570)</li> <li><input type="checkbox"/> D.I.E of ICS</li> <li><input type="checkbox"/> Risk of M-M (SA-315)</li> <li><input type="checkbox"/> When internal AR provides Direct assistance (SA-610)</li> </ul>	<ul style="list-style-type: none"> <li>a. Those who signed terms of EY are no longer part of that responsibility</li> <li>b. Terms were prepared in previous year</li> <li>c. Change in circumstances</li> <li>d. There is indications that mgmt. misunderstands the responsibility</li> </ul>	<ul style="list-style-type: none"> <li>1. It has provided the auditor with relevant infor. &amp; access as agreed in the terms of engagement,</li> <li>2. All transactions have been recorded and are reflected in F/S.</li> <li>3. It has fulfilled its responsibility for preparation of FS as per FRF</li> </ul>



$\frac{WR}{D} = \frac{WR}{D}$

# SA-580:-Written Representation

## FROM WHOM?

- ❑ **From those responsible for the preparation and presentation of the financial statements.**  
Those individuals may vary as per governance structure of the entity, and relevant law or regulation; however, management (rather TCWG) is often the responsible party.
- ❑ Therefore, **from the entity's CEO/CFD, or other equivalent persons** in entities that do not use such titles. In some circumstances, however, other parties, such as **TCWG, are also responsible for the preparation and presentation of the financial statements.**
- ❑ Due to this, management would be expected to have sufficient knowledge of the process followed by the entity in preparing and presenting the financial statements on which to base WR.
- ❑ In some cases, however, **management may decide to make inquiries of others who participate in preparing and presenting the financial statements** and assertions therein, including individuals who have specialized knowledge relating to the matters about which written representations are requested. Such individuals may include:
  - ✓ An **actuary** responsible for actuarially determined accounting measurements.
  - ✓ **Staff engineers** who may have responsibility for and specialized knowledge about environmental liability measurements.
  - ✓ **Internal counsel** who may provide information essential to provisions for legal claims

## TO

Addressed  
to Auditor

## WR-NOT

Nearby to  
date of Audit  
Report but  
not after  
date of Audit  
Report

## SA 610:-USING THE WORK OF INTERNAL AUDITOR

### 6. Internal auditor to provide direct assistance

#### Procedure in case of Direct Assistance

- Evaluate whether work of IA can be used as DA
- Determine extent of work to be assigned to IA
- Obtain WR from management that it will not restrict IA
- Obtain written consent from IA to keep matters confidential
- Document the work performed by IA
- Supervise the work of IA

#### Ensuring Objectivity & Competence of IA

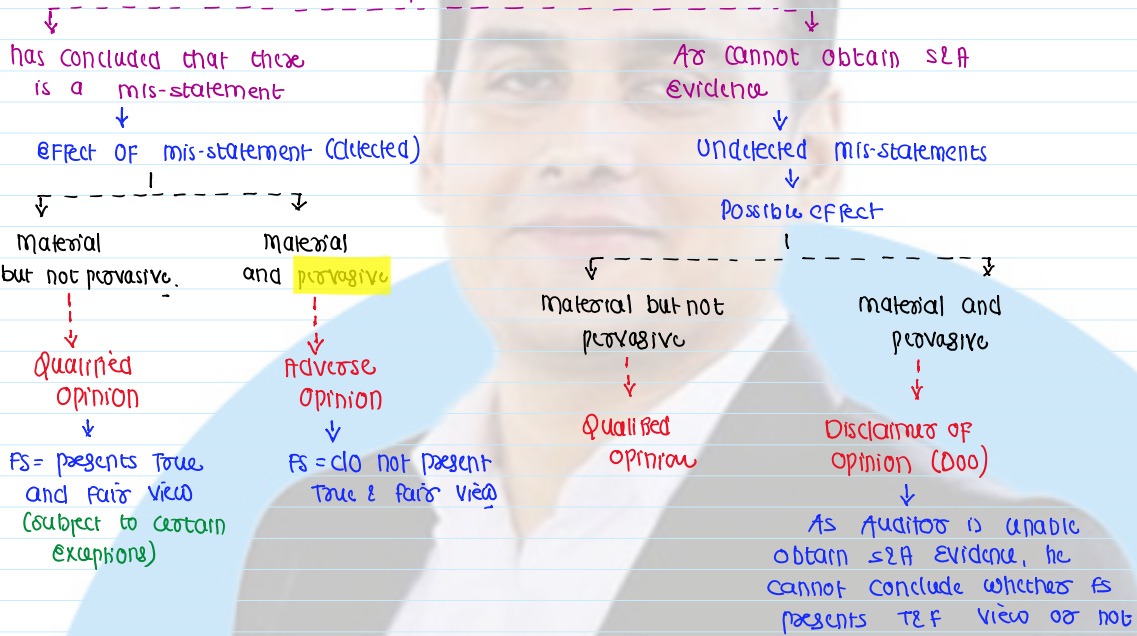
##### 1. Objectivity of IA

- family/ personal relationship with management people
- Association with division/dept.
- Significant financial interest

##### 2. Competence of IA

- Proficiency in Auditing
- Knowledge of FRF
- Technical training

SA - FOS.  
 ↓  
 Auditor = Modified Opinion.



**Pervasive**



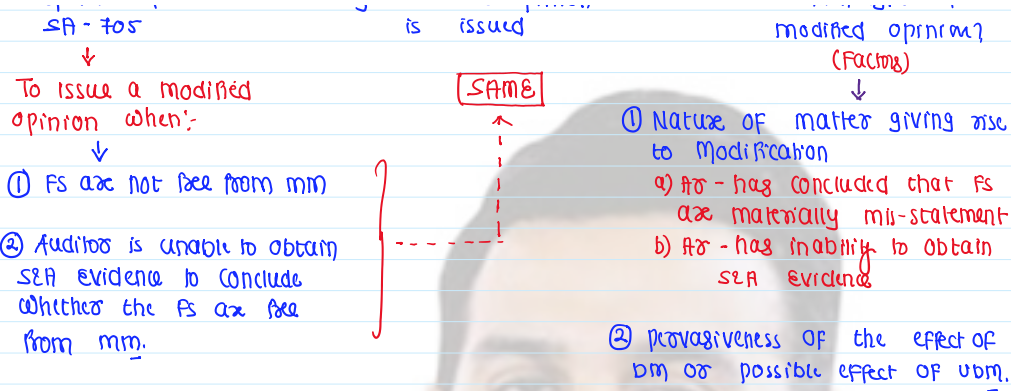
Objective of SA - FOS

To issue a modified

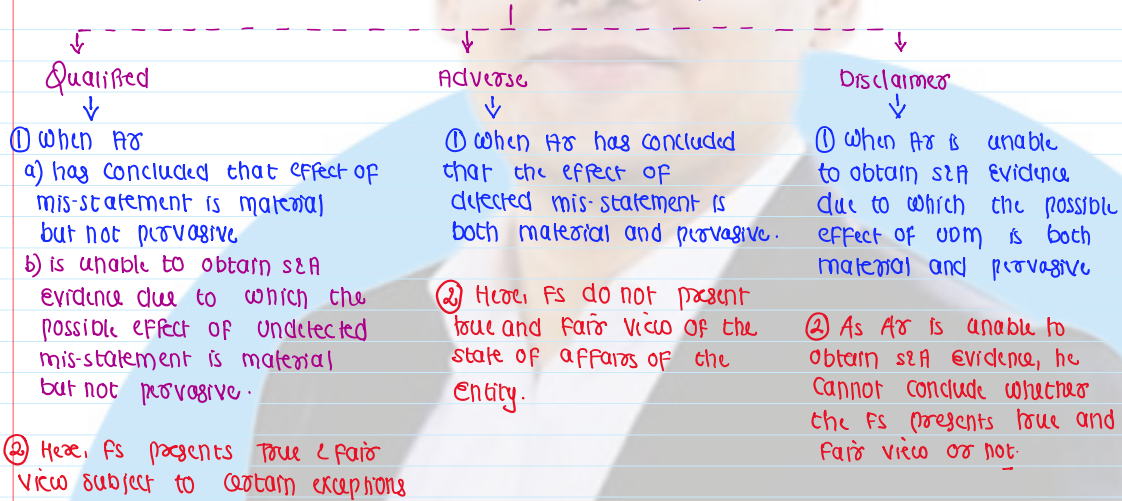
Why = modified opinion is issued

[SAME]

Which type of modified opinion? (Facting)



### Types of modified opinion



### Modified Opinion Opinion para.

Qualified	Adverse	Disclaimer of Opinion
Except for the matters described in the Basis for Qualified opinion:- <ol style="list-style-type: none"> <li>FS are presented fairly (give true and fair view) = Fair presentation framework</li> <li>FS have been prepared in accordance with financial reporting framework = Compliance framework</li> </ol>	<ol style="list-style-type: none"> <li>FS are not presented fairly (do not present true and fair view) = Fair presentation framework</li> <li>FS have not been prepared in accordance with FRP = Compliance framework</li> </ol>	<ol style="list-style-type: none"> <li>Auditors do not express any opinion on the FS.</li> <li>Because of significance of matters described in Basis for Disclaimer of Opinion AR is unable to obtain SEA evidence which provide a basis to form an opinion on the FS.</li> </ol>

### Modified opinion Basis for Opinion.

- Heading → Renamed 'Basis for Qualified opinion', 'Basis for Adverse opinion', 'Basis for Disclaimer of Opinion'
- AR shall provide description of the matters giving rise to modification.
- If mis-statement is with respect to a particular amount, AR shall provide the Quantification of the mis-statement along with



if the mis-statement is worth aspect to a particular amount, A/R shall provide the Quantification of the mis-statement along with description, unless impracticable.

4. If mis-statement is worth aspect to a particular amount, A/R shall provide the Quantification of the mis-statement along with description, unless impracticable.

If not practicable = A/R shall state so.

4. If A/R is unable to obtain S&A evidence = state the reasons for that inability

5. If mis-statement is not non-disclosure, A/R shall

- a) Communicate it with TC&G.
- b) Describe the nature of omitted information
- c) provide the disclosures about that omitted info
- d) obtain S&A evidence about that information.

### Auditor's responsibilities

#### Disclaimer of opinion.

- ① Audit - Conducted = in accordance with IAs
- ② Because of the matters = A/R was not able to provide a basis on which opinion can be formed = to obtain S&A evidence which opinion can be formed
- ③ Auditor remain independent & complied ethical responsibilities

mgmt has imposed limitation during Audit

If mgmt = imposed limitation during the Audit

Ask management to remove the limitation

