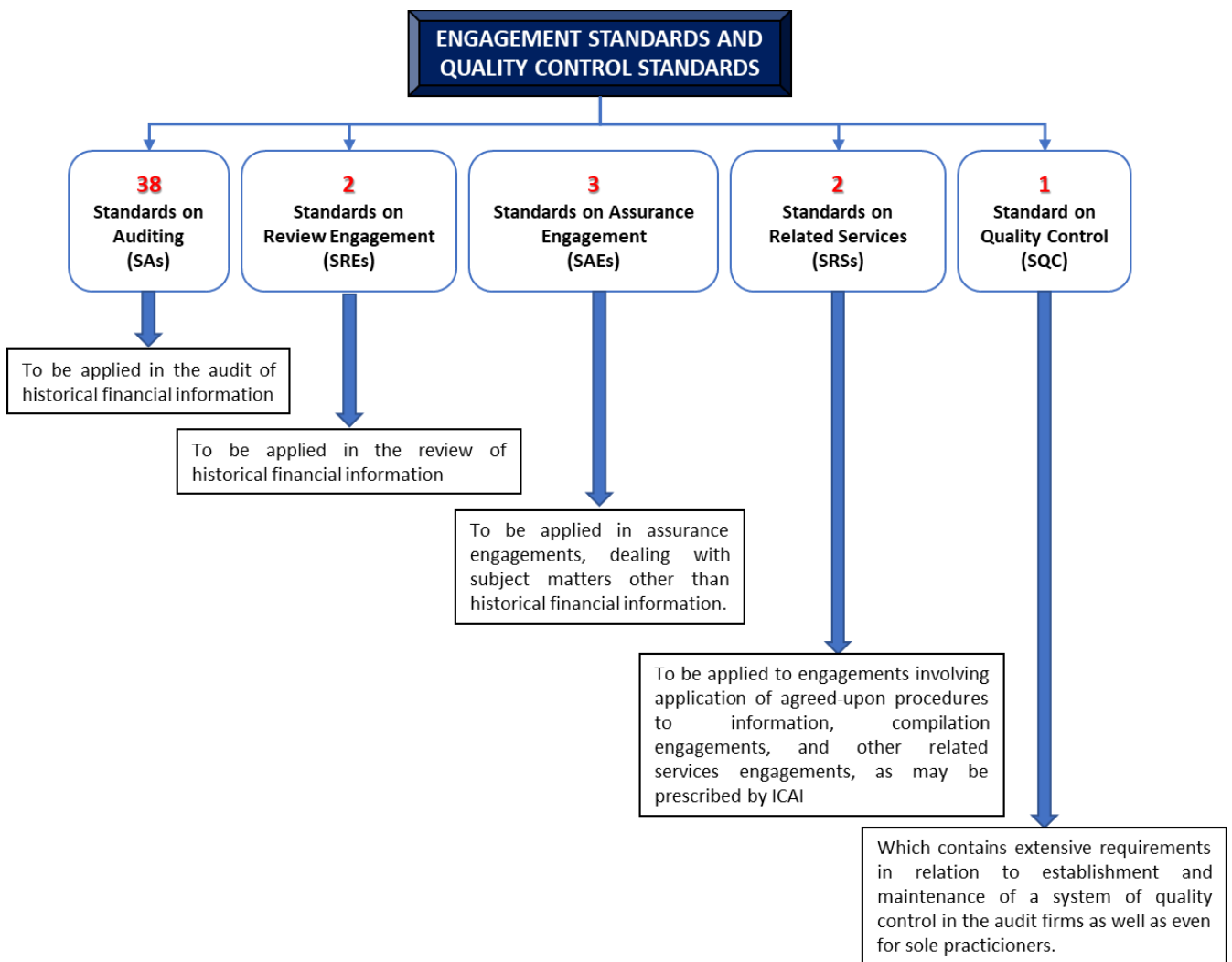
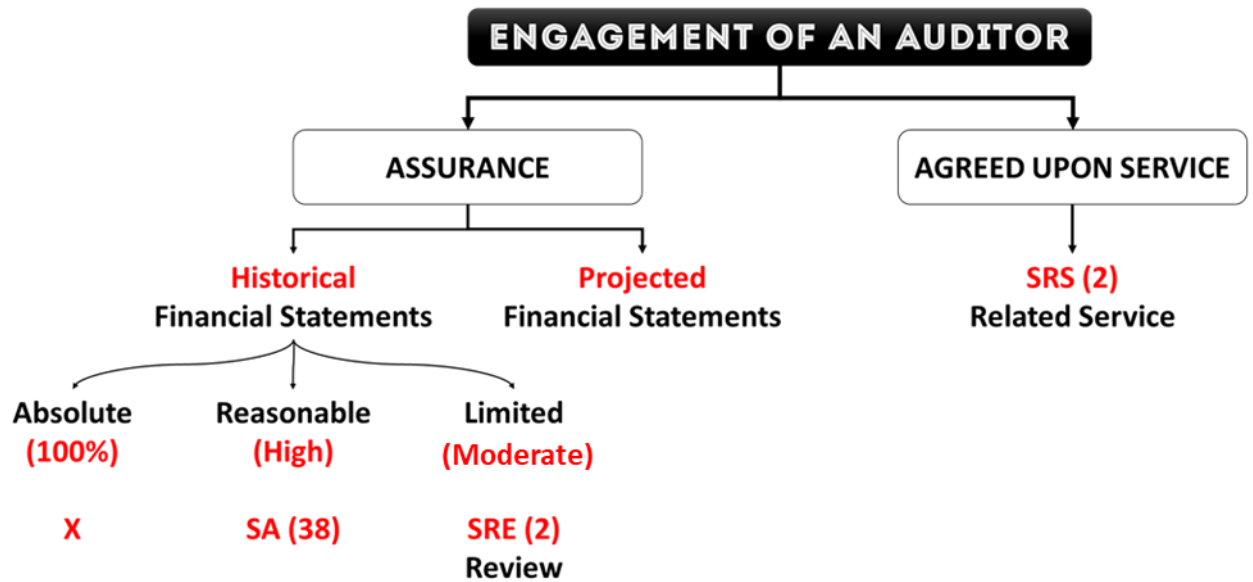


AUDITING STANDARDS, STATEMENTS AND GUIDANCE NOTES - AN OVERVIEW

The Importance of this Chapter is emphasised as under:

- ✓ Apply logical, critical and creative thinking to analyse, synthesise and apply theoretical knowledge, and technical skills to conduct audit & assurance as per engagement and quality control standards.
- ✓ Determine and apply knowledge of auditing standards to your professional practice and/or further study.
- ✓ Understand the requirements of each standard to conduct audit in accordance with standards.





LIST OF STANDARDS

SA 200 – 299 → GENERAL PRINCIPLES AND RESPONSIBILITIES

SA 200 (R)	Overall Objective of Independent Audit & Conduct of Audit in accordance with SA
SA 210 (R)	Agreeing the terms of Audit Engagement
SA 220 (R)	Quality Control for an Audit of Financial Statements
SA 230 (R)	Audit Documentation
SA 240 (R)	The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements
SA 250 (R)	Consideration of Laws and Regulations in an Audit of Financial Statements
SA 260 (R)	Communication with Those Charged with Governance
SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Mgmt
SA 299	Responsibility of Joint Auditors

SA 300 – 499 → RISK ASSESSMENT AND REPONSE TO ASSESSED RISKS

SA 300 (R)	Planning an audit of Financial Statements
SA 315	Identifying and Assessing Risks of Material Misstatement through understanding the Entity and its Environment
SA 320 (R)	Materiality in Planning and Performing an audit
SA 330	The Auditor's Responses to assessed Risks
SA 402 (R)	Audit Considerations relating to an entity using Service Organization
SA 450	Evaluation of Misstatements identified during the Audit

SA 500 – 599 → AUDIT EVIDENCE

SA 500 (R)	Audit Evidence
SA 501 (R)	Audit Evidence – Specific Considerations for selected items
SA 505 (R)	External Confirmations

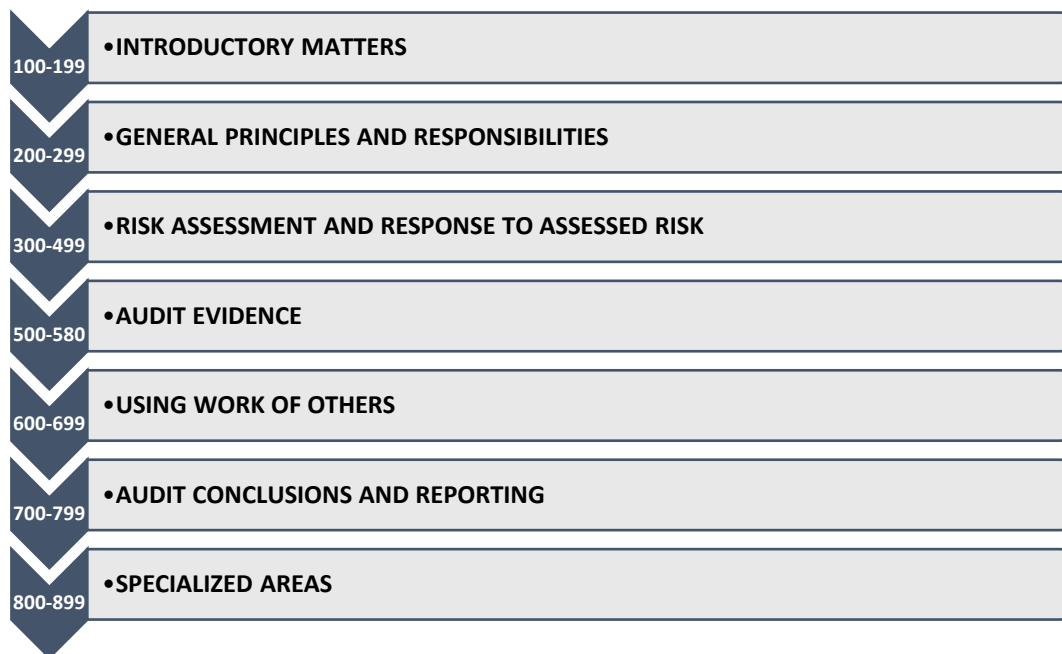
SA 510 (R)	Initial Audit Engagements – Opening Balances
SA 520 (R)	Analytical Procedures
SA 530 (R)	Audit Sampling
SA 540 (R)	Auditing Accounting Estimated, Including Fair Value Accounting Estimates and Related Disclosures
SA 550 (R)	Related Parties
SA 560 (R)	Subsequent Events
SA 570 (R)	Going Concern
SA 580 (R)	Written Representations
SA 600 – 699 → USING WORK OF OTHERS	
SA 600	Using the work of another auditor
SA 610 (R)	Using the work of Internal Auditors
SA 620 (R)	Using the Work of an Auditor’s Expert
SA 700 – 799 → AUDIT CONCLUSIONS AND REPORTING	
SA 700 (R)	Forming an opinion and reporting on financial statements
SA 705	Modifications to the opinion in the Independent Auditor’s Report
SA 706	Emphasis on Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report
SA 710 (R)	Comparative information – Corresponding Figures and Comparative Financial Statements
SA 720	The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
SA 800 – 899 → SPECIALIZED AREAS	
SA 800	Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
SA 805	Special Considerations – Audit of Single Purpose Financial Statements and Specific Elements, Accounts or items of a Financial Statement
SA 810	Engagement to Report on Summary Financial Statements
SRE 2000 – 2699 → STANDARDS ON REVIEW ENGAGEMENTS (SREs)	
SRE 2400 (R)	Engagements to review financial statements
SRE 2410	Review of Interim Financial Information performed by the Independent Auditor of the Entity
SAE 3000 – 3699 → STANDARDS ON REVIEW ENGAGEMENTS (SAEs)	
SAE 3400	The examination of Prospective Financial Information
SAE 3402	Assurance reports on controls at a service organization
SAE 3420	Assurance engagements to report on the compilation of proforma financial information included in a prospectus
SRS 4000 – 4699 → STANDARDS ON RELATED SERVICES (SRSs)	
SRS 4000	Engagement to perform agreed upon procedures regarding Financial Information
SRS 4410	Engagements to Complete Financial Information

STANDARDS ON AUDITING (SAs)

ICAI Develops the technical standards i.e. Accounting Standards as well as Standards on Auditing. ICAI is one of the founder members of the international federation of Accountants (IFAC), the standard developed and issued by Auditing and Assurance Standards Board (AASB) are in conformity with the corresponding International Standards issued by International Auditing and Assurance Standard Board (IAASB), established by IFAC.

The main objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared in all material respects, in accordance with an Applicable Financial Reporting Framework (AARF). It is undertaken to enhance the degree of confidence of intended users in financial statements.

In conducting an audit the overall objective of auditor is to obtain reasonable assurance whether the financial statements as whole are free from material misstatements whether due to fraud or error and to report on the financial statements in accordance with auditors finding.



SA – 200

OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING (REVISED)

PRINCIPLES

1) Ethical Requirement (KEY - COP²1)

- a) Confidentiality :- Auditor should Not disclose the information of Clients business unless it is not Legal or professional requirement to do so.
- b) Objectivity:- This could be achieved only by having independence of mind.
- c) Professional Competence & Due Care:- By auditor should be updated with the latest developments in the field of Accounting & Auditing.
- d) Professional behaviour: There must be professional relation between auditor and auditee.
- e) Integrity: Means honest behaviour, loyal attitude towards user of financial statements.

II) Requirement to have attitude of professional skepticism:- Auditor should always be alert towards audit evidence, reliability of documents, response to inquiries, etc.

III) Professional Judgement :

Judgement taken by the auditor out of his professional experience in a audit situation- professional judgement is necessary in particular regarding decision about materiality, audit risks, the nature, timing & extent of audit procedures.

IV) Requirement to obtain sufficient & appropriate audit evidence.

V) Requirement to follow all standards on auditing.

OBJECTS

- 1) To form & express an opinion on financial statement whether they are giving true and fair view or not
- 2) To detect fraud & Error
- 3) To obtain reasonable assurance about FS free from material misstatement.

NOTE: User should not take opinion as guarantee about future viability & efficiency.



SCOPE

I) Primary Scope

- (a) Terms of Engagement e.g. branch auditor H.O Auditor etc.
- (b) Pronouncement of ICAI e.g. SA’s
- (c) legislation e.g. CARO, Tax Audit LFAR (Long Form Audit Report)

II) Secondary Scope

Inclusion (Responsibilities of Auditor)	Exclusion (Responsibilities of Management)
1) Auditor should plan in such a manner that all aspect of F.S. are covered. 2) Auditor should verify: - Reliability - Sufficiently - Presentation & Disclosure Financial information. 3) To verify Accounting Estimates. 4) Determine & Segregate Material & immaterial items.	(Key : PAMaFI) P olicies: Selection & application & accounting policies. Safeguarding of A ssets M aintenance of Books of Accounts Preparation of F .S. I : Internal Control: Formulation & Implementation of Internal Control

Q1) Mr. Ishaan a practicing CA accepted the audit of PQR Ltd. Where his wife is managing director. Comment.

Ans:- Accepting the audit is against the principle ethical requirements given in SA-200(R). Further clause (1) of part II of the second schedule of the CA Act defines under council general guidelines that it will be a professional misconduct see code of ethics of the same publication for details)

Q2) Mr. Saurabh the owner of a small company, asked Drowsy & Co Chartered Accountants, to conduct an audit within one week so that financial statement will be ready for the income tax return as the date of filing return is near Drowsy & Co. demanded for double fee as compare to previous year and accepted the engagement. Comment.

Ans- Accepting the audit on double fee to complete it in a hurry by itself shows that Dayal & Co. created an interest against their duty hence it is against the principles Ethical Requirements under SA – 200 Revised

Q3) On subsequent discovery of misstatement regarding non provision of Impairment Loss auditor gave

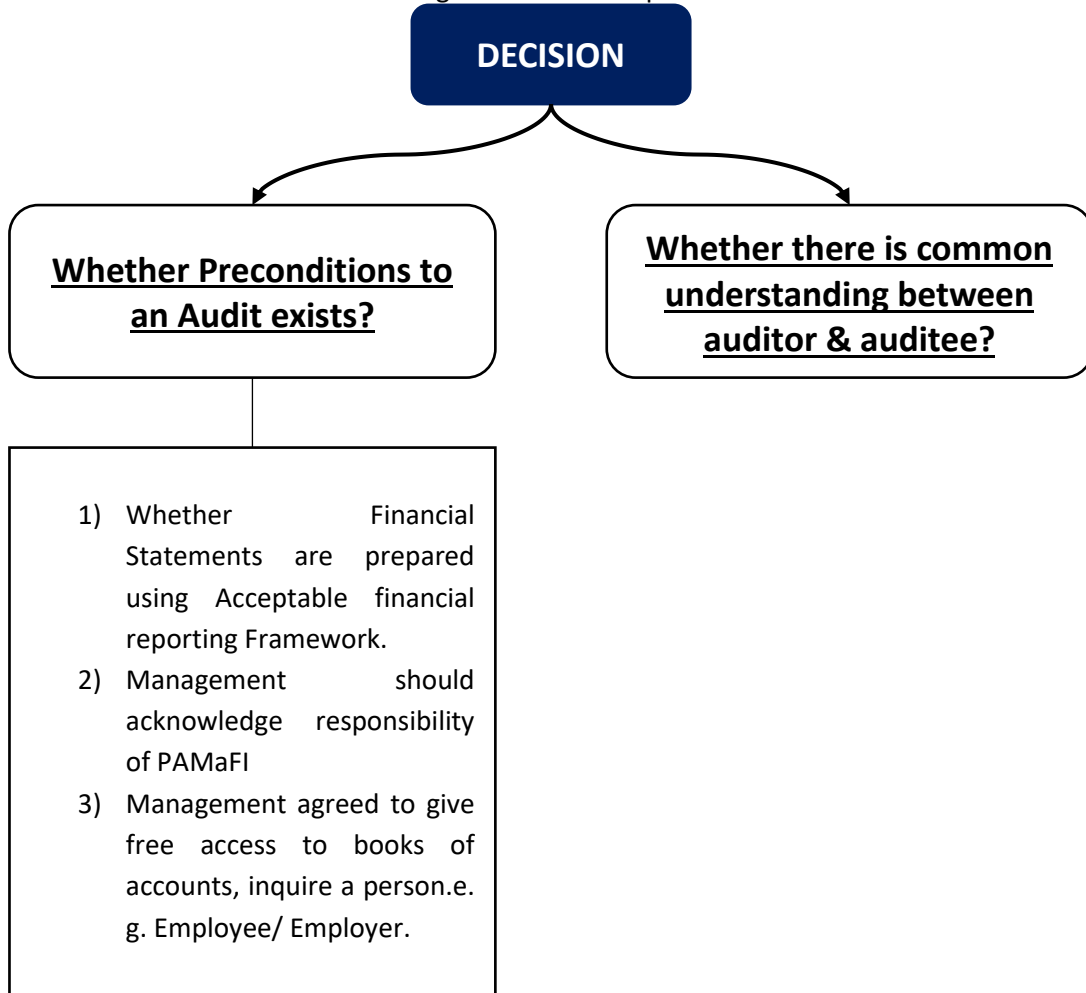
his clarification that “I was not aware that AS-28 made applicable from this year” Next time we will definitely be conscious about the same. Comment

Ans: Ignorant about the applicability of AS shows lack of skill in the auditor and it is against the principle of professional competence.)

SA – 210

AGREEING WITH THE TERMS OF AUDIT ENGAGEMENT

Considerations to be given before acceptance of an audit?



LETTER OF ENGAGEMENT

Audit engagement letter is a letter issued by auditor to the management. It shall contain **COST MP Fee**

- C: Confirmation of Acceptance
- O: Objective of Audit
- S: Scope of Audit
- M: Management Responsibilities
- P: Tentative Plan
- Fee: Fees

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. The standard prescribes that auditor may decide not to send a new engagement letter for each period.

However, in following circumstances, the auditor may think it appropriate to send a new engagement letter to client.

- Any indication that the entity that misunderstood the objective and scope of the audit.
- Any revised or special terms of the audit engagement.
- A recent change of senior management.
- A significant change in ownership.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.
- A change in other reporting requirements.



SA – 220

QUALITY CONTROL FOR AUDIT WORK

- 1) The purpose of this Standard is to establish standards on the quality control regarding:
 - Policies and procedures of an audit firm regarding audit work generally.
 - Procedures regarding the work delegated to assistants on an individual audit.
- 2) The objective of issuing auditing standards is to provide similar quality of services to the client by every auditor so that it should not make any difference to the client, with whatever firm of auditor; client is getting his books of accounts audited.
- 3) For providing similar quality of services, Institute has advised that every firm of auditor should follow all standards on auditing issued by the Institute and accordingly their quality of services will be similar.
- 4) Moreover, such quality control should be maintained not only at firm level but also at individual level and for the purpose it becomes responsibility of the auditor to communicate, to guide, to supervise, to control necessary auditing standards to the subordinates working under him.
- 5) **Following are the essential factors for incorporating quality control audit work:**
 - Professional Requirements – Adherence to basic principles such as independence, integrity, objectivity, confidentiality, etc.
 - Skills and competence – Audit personnel should have required degree of skill and competence.
 - Assignment – Audit work should be assigned only to competent personnel.
 - Delegation – There is to be sufficient direction, supervision and review of work at all levels.
 - Consultation – Consultancy within and outside the firm with experts.
 - Acceptance and retention of clients – Evaluation of prospective client and review of existing client should be done.
 - Monitoring – Continued adequacy and effectiveness of quality control policies should be monitored.

Q1) The Director Z Ltd. are requesting Mt X the practicing CA to accept the audit on the terms he should not report on Fixed assets in his CARO as no register has been maintained and also should not report on late depositing or non-depositing the statutory dues like PF and ESIC. Comment.

According to SA-210(R) preconditions to an audit shall always be made available by client to the auditor, the terms of engagement cannot override the scope as determined by the statute or pronouncement of ICAI. Verification of fixed and statutory dues and reporting thereon is scope determined by Companies Act 1956 under CARO (New Report notified under new act 2013). Hence these terms of engagements are not acceptable.

Q2) It is requested by Mr. Y the managing director of Z to the auditor Mr. P Please perform your remaining audit on the basis of photo copies of books of accounts and vouchers as they are ceased by income tax department last day. Mr. P requested to management that please provided a confirmation from the tax authorities and

certify the books of accounts and vouchers by management. Management refused to provide both.
Comment?

If these conditions are clear to the auditor before accepting the audit he should refuse to accept the audit and if these conditions are imposed after the audit auditor shall disclaim the audit report.

Q3) “It is not mandatory to send a new engagement Letter in recurring audit, but sometimes it becomes mandatory to send new letter.” Explain those situations where new engagement letter is to be sent.

Hint: According to SA-210 (Revised) “Terms of Audit Engagements” the auditor may decide not to send a lilt engagement letter or other written agreement every year. However, in following situations it is appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

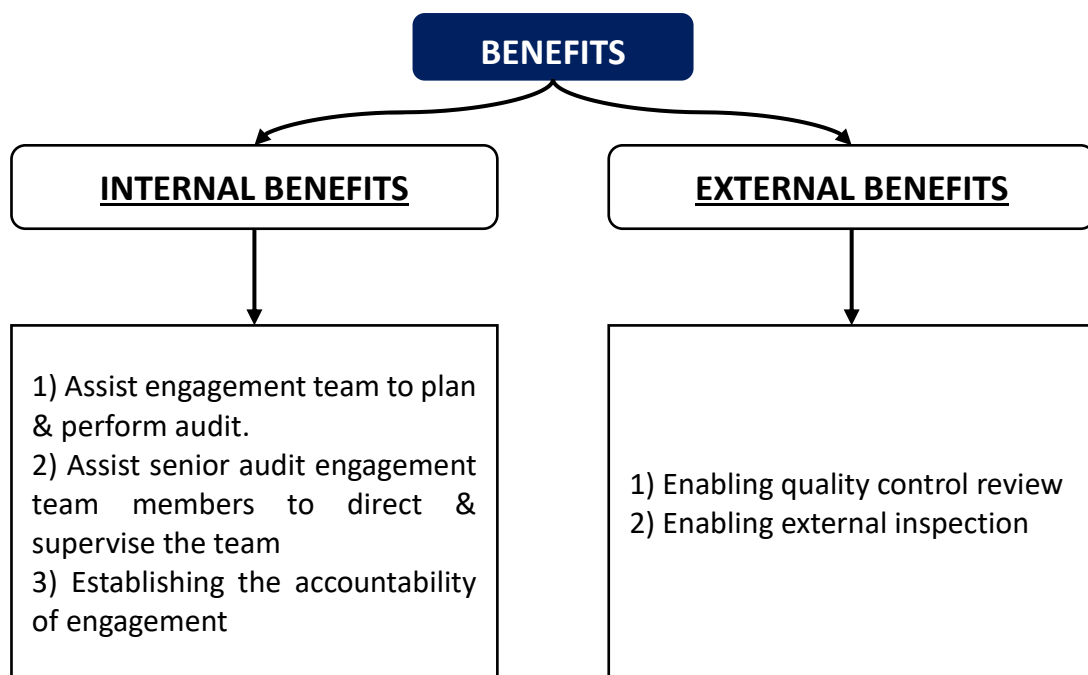
- (a) If it is clear from the conduct of entity’s management that they misunderstands the objective and scope of the audit.
- (b) There is any agreement on revising the terms of engagement.
- (c) If there is a change in management or ownership
- (d) If there is a significant change in nature or size of the entity’s business
- (e) If there is a change in legal or regulatory requirements.
- (f) If there is a change in the financial reporting framework
- (g) If there is a change in other reporting requirements?
- (h) If management requests to change the terms of audit engagement and auditor agrees to it.

SA – 230
AUDIT DOCUMENTATION (REVISED)

MEANING



BENEFITS OF AUDIT DOCUMENTATION



Points to Remember :-

- 1) Working papers are property of auditor
- 2) He can make available copy of working paper to client on request at his discretion
- 3) Preserve upto 7 yrs.
- 4) Working papers should be prepared within 60 days after the date of audit report
- 5) Auditor shall not delete or discard audit documentation but he can modify → explain reason for modification & when & by whom they were made or reviewed?

Q1) Mr. Pranay a practicing CA was auditor of Aryan Ltd. for the year 1994-95, 1995-96 and 1996-97. They are still keeping Audit Working Papers/files for all these years. Suggest whether there is any guideline/law or rules regarding the period for which the Audit Working Files should be kept ?

Ans: *According to Aryan Ltd. the engagement working papers shall be kept preserved up to a period of at least seven years.)*

Q2) Mihir & Co. Chartered Accountants are the branch auditors of the Jaisalmer Branch of the Mandira Ltd. The principal auditors of Mandira Ltd. i.e. PQR & Co. request Mihir & Co. to show there branch audit working papers. Should M & Co. comply with the request? Would your answer differ if the BOD of Mandira Ltd. request you and consent to your showing this papers to PQR & Co.?

Ans: According to SA 230 “unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided with such disclosure does not undermine the validity of the work performed. Hence if principle auditor needs working papers than branch auditor can provide them at his discretion after taking permission from the client.)

Q3) Comment on the following: Suppose a client who had engaged you as tax auditor and also for filing of income tax returns and now want to discontinue your services. The client wants back:

- audit working papers
- working papers related to computation of income of previous years.
- Original acknowledgements of returns filed.

Comment?

Ans: Original copy of return and working papers relating to the computation of income should be handed over by the auditor to the client but it is on auditor’s discretion whether to handover copies of working paper to client.

SA 240 (REVISED) THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

MEANING AND NATURE OF FRAUD

- Fraud is an Intentional Act involving use of deception to obtain an unjust or illegal advantage.
- Auditor is concerned with Fraud that causes Material Misstatement.
- Material Misstatement may result from:
 - Fraudulent Financial Reporting.
 - Misappropriation of assets.
- Due to inherent limitation there is always an unavoidable risk of material misstatement in Financial Statements due to Fraud.
- Risk of Material Misstatements due to Management Fraud is higher than due to Employee’s Fraud.



MANAGEMENT DUTIES

- To prevent and detect fraud.
- Management must have an commitment to create an culture of honesty and Ethical behaviour.

AUDITOR’S RESPONSIBILITIES

- To obtain reasonable assurance that Financial Statements as a whole are free from
- Maintain an attitude of Professional Skepticism
- Circumstance indicate existence of material Misstatement.
- Consider whether such a misstatement is an indication of fraud. If fraud identified –
 - Communicate to Management & TCWG (and to Regulatory and Enforcement authorities, if required by Law)
 - If auditor is unable to complete engagement then he should consider the possibility of withdrawing and if possible then discuss with Management & TCWG.

RISK ASSESSMENT PROCEDURES AND RESPONSES TO ASSESSED RISKS

- Enquire Management & Others w.r.t.:
 - Assessment of risk of material misstatement.
 - Procedure to identify Fraud.
 - Communication to TCWG and Employees.

- Enquire TCWG w.r.t.:
 - Undertaking of their supervisions process.
 - Their knowledge of fraud.
- Evaluation of identified unusual and unexpected relationships
- Evaluate whether information obtained indicates fraud risk factor.

Determine responses to address assessed Risk of Material Misstatements due to fraud at:

- Financial Statement Level; and
- At assertion level

Some example how fraudulent financial reporting and misappropriation of an asset can be done.

Fraudulent Financial Reporting

- 1) Manipulation, falsification or correlation of accounting records.
- 2) Misrepresentation/ Omission of events, transactions or other significant inform actions.
- 3) International misapplication of accounting principles.
- 4) Recording fictitious journal entries.
- 5) Inappropriately adjusting assumptions.
- 6) Omitting, advancing or delaying recognition in FS of entries/events.

Misappropriation of Assets

- 1) Embasseling receipts (e. g. misappropriating collection on account receivables)
- 2) Stealing physical assets (e. g. Stock for personal use)
- 3) Causing an entity to pay for goods and services not received. (e. g. payment to fictitious vendor or employee)
- 4) Using an entity assets for personal use. (e. g. loan to related parties)

Q) While conducting statutory audit of ABC Ltd, you came across IOU's amounting to 2 Cr. as against cash balance of Rs. 2.10 Cr. You also observed that despite similar balances throughout year, small amt of Rs. 50, 000 are withdrawn from bank to meet day to day expenses.

Ans. Obtain SAAE w.r.t. existence of fraud (SA 240) + Reporting under CARO Clause 3(x) & Section 143(11).

If fraud, reporting to CG under 143(12) + Auditor Responsibility

Guidance Note on Audit of Cash & Bank Balance i.e. If unduly large balance of cash, carry surprise physical verification. If cash in hand does not meet with book balance, seek explanation, state fact in report.

SA – 250

CONSIDERATION OF LAWS AND REGULATION IN AN AUDIT OF FINANCIAL STATEMENTS

IMPACT OF NON-COMPLIANCE OF LAWS AND REGULATIONS

- 1) Non compliance of which effect Going Concern.
- 2) Non compliance of which resulting in misstatement in F. S.
- 3) Non compliance of which attract entity towards heavy penalty.



RESPONSIBILITY OF AUDITOR (AUDIT PROCEDURE)

Auditor should consider the risk of non-compliance with Laws & Regulation & should obtain Sufficient & Appropriate Audit Evidence that all Laws & Regulations have been followed.

AUDIT PROCEDURE

- 1) Understand the entity's environment.
- 2) Obtain exhaustive list represented by management of applications of laws and regulations.
- 3) Discussion with -
Branch Auditor, Internal Auditor, Legal Consultant, Legal officers.



- 4) Obtain/expert's opinion
- 5) Verification of correspondence with departmental authority?
- 6) Auditor should verify whether management has developed the system by which it can be informed about non-compliance.
- 7) Verification or computation of:
 - Figure
 - Return
 - Challan
 - Duty paying documents
- 8) Obtain Sufficient & Appropriate Audit Evidence

WHAT IF NON COMPLIANCE IS FOUND?

- 1) Immediately inform to management and those charged with governance.
- 2) Ask management to comply & issue qualified opinion report.

Q1) What are reporting responsibility of the Auditor for non compliance with the laws and regulations by the entity under audit?

Case – 1 In case where those charged with governance are not directly involved in the management: The auditor shall communicate with those charged with governance matters involving non-compliance with laws and regulations (whether intentional or unintentional) that come to the auditor's attention during the course of the audit.

Case – 2 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, such an audit committee. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

Q2) What shall be effect of Non Compliance of Auditor's Report?

Case – 1 When Auditor has Sufficient and Appropriate Audit evidence that non-compliance exist: Express a qualified or adverse opinion on the financial statements.

Case -2 When auditor has limitations on scope of Audit:-

If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence regarding non-compliance the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit.

Note: If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

SA 260 (REVISED) **COMMUNICATION WITH TCWG**

MEANING OF MANAGEMENT AND TCWG

1. **TCWG:** Persons with responsibility for overseeing the strategic directions & obligations related to Accountability.
2. **Management:** Person with executive responsibility for conduct of entity's operation.

AUDITOR'S RESPONSIBILITIES

Determine the appropriate person to whom communication is made:

- Need to Communicate with Governing body, if communicates with sub-group.
- If all of TCWG are involved in managing the entity, the matter needs not be communicated again.

Matters to be communicated:

- (a) Auditor’s responsibility in relation to Financial Statement Audit.
- (b) Planned scope & timing of audit.
- (c) Significant findings from audit w.r.t.
 - (i) Accounting Policies.
 - (ii) Accounting Estimates.
 - (iii) Material weakness in Internal Control.
 - (iv) Matters discussed with Management.
 - (v) Other significant matters.
- (d) Statement with respect to compliance of ethical requirements regarding independence.

COMMUNICATION PROCESS

- In writing when oral communication is not adequate
- on timely basis.

Evaluate adequacy of communication for the purpose of the audit. If not adequate, evaluate its effect, on the auditor’s assessment of risks of material misstatement. If not adequate, evaluate its effect, on the auditor’s assessment of the risks of material misstatement.



FACTORS AFFECTING MODE OF COMMUNICATION

- Size, operating structure, control environment, & legal structure of entity.
- In the case of an audit of special purpose Financial Statements, whether the auditor also audits the entity’s general purpose Financial Statements.
- Requirements of respective law specifying written communication with TCWG in a prescribed form.
- Expectations of TCWG, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with TCWG
- Significant changes in the membership of a governing body.

Q) Auditors should communicate audit matters of governance interest arising from Audit of financial statements with TCWG of an entity”. Briefly state matters to be included in such Communication.

Ans. Responsibilities of Auditor in relation to FS audit, including that : -

Auditor is responsible for forming & expressing opinion on FS that have been prepared by mgt with oversight of TCWG

Audit of FS does not relieve Mgt or TCWG of their responsibilities.

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

MEANING OF DEFICIENCY IN INTERNAL CONTROL

- a) Inability of Internal Control to prevent, detect & correct misstatement; or
- b) Absence of control necessary to Prevent, detect & correct misstatements.

AUDITOR’S RESPONSIBILITIES

- Determine whether individually or in combination they constitute significant deficiencies.
- Communicate deficiencies in Internal Control **in writing** to TCWG & Management where deficiency is significant and to Management only in case of other deficiencies where the matter of communication will be:
 - Description of deficiencies
 - Explanation of their potential effect.

- Sufficient information to explain.
 - ✓ That purpose is to express an opinion.
 - ✓ Internal Control is evaluated to design further audit procedures.

SA – 299
RESPONSIBILITIES OF JOINT AUDITOR

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

- + The engagement partner and other key members of the engagement team from each of the joint auditors shall be involved in planning the audit.
- + The joint auditors shall jointly establish an overall audit strategy that sets the scope. Timing and direction of the audit.
- + Development of Audit Plan (**Principles of SA 300 will be applicable**).
- + Identification of **Risk of Material Mis-statements**.
- + Allocation of work.

JOINTLY & SEVERALLY RESP.	INDIVIDUALLY RESP.
1) Discussion of work, overall audit plan and decision taken regarding audit procedure. 2) Matters raised by one of the joint auditor but solved mutually by all joint auditors. 3) Unallocated and undivided work 4) Verification of compliance of statutes relating to Financial Statement, accounting policies and format of FS 5) Disclosure requirements regarding FS 6) For obtaining an evaluation written representation of mgmt.	1) Individually divided working area. 2) Audit procedure decide by him. 3) Use of other’s work. 4) Conclusion of his procedure. 5) Reviewing the reports of the branches allocated to him 6) Written representation by management for a particular area. .

JOINT AUDITORS ARE NOT REQUIRED TO REVIEW THE WORK OF OTHER JOINT AUDITORS. HE CAN DEEM THAT THE WORK DONE BY OTHER JOINT AUDITORS IS IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING PROCEDURES.

JOINT AUDIT REPORT:

Usually Joint auditor are of unanimous opinion but if one or more joint auditor is not in agreement over the opinion, each disagreed joint auditor may submit his report on the disagreed point separately

PRELIMINARY ENGAGEMENT ACTIVITIES

- (a) Procedures required by SA – 220 w.r.t. continuance of Client Relationship.
- (b) Evaluate compliance with Ethical Requirements (SA-220)
- (c) Understanding of terms of Engagement (SA-210)

PLANNING

- a) Establishment of Audit Strategy:
 - Identify the Characteristics of Engagement.
 - Ascertain Reporting Objectives
 - Significant factors to direct.
 - Consideration of result of Preliminary Engagement Activities.
 - NTE of Procedures to be performed.
- b) Development of Audit Plan.
 - Nature, Time & Extent of Risk Assessment Procedures (SA-315)
 - Nature, Time & Extent of further Audit Procedures (SA-330).
 - Other Planned Audit Procedure.



DOCUMENTATION

- Audit Strategy
- Audit Plan
- Changes in Audit Strategy and Audit Plan and the Reasons for the change.

Q. RM Ltd. at AGM appointed Mr. K, L & M as Joint Auditors to conduct Auditing for FY 14 –15. For Valuation of Gratuity scheme of company Mr. K, L & M wanted to refer their own known Actuaries. Due to difference of opinion, all joint auditors consulted their respective Actuaries. Subsequently, major difference was found in Actuary reports. However, Mr. K agreed to Mr. L's actuary report, though, Mr. M did not. Mr. K contends that Mr. L's actuary report shall be considered in audit report due to majority of votes. Now, Mr. L is in dilemma. You are required to briefly explain Responsibilities of auditors when they are jointly & severally responsible in respect of audit conducted by them & guide Mr. L thereon.

= Responsibility of Joint Auditors (Discussed Earlier) +

= In instant case, there are 3 auditors, namely, Mr. K, L & M, jointly appointed as Auditor of RM Ltd.: -

- For Valuation of gratuity scheme of the Company they referred their own known Actuaries.
- Mr. Z (one of the joint auditor) is not satisfied with the report submitted by Mr. L's referred actuary.
- He is not agreed with the matters to be covered by the report whereas Mr. K agreed with same.

CONCLUSION: -

Hence, Mr. L suggested to express own opinion by Separate report & Mr. K & L may provide Joint report for it.

SA – 315

IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENTS THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

RISK ASSESSMENT PROCEDURES

- Procedures to obtain an understanding of entity & its environment.
- To identify and assess the risk of material misstatement.

It includes:

- d. Inquiry of Management and Others.
- e. Analytical Procedures.
- f. Observation & Inspection.

UNDERSTANDING OF ENTITY & ITS ENVIRONMENT

Auditor shall obtain understanding of:

- g) Relevant Industry, Regulatory and other External Factors.
- h) Nature of Entity including:
 - Its operations
 - Ownership & Governance structure
 - Types of Investments
 - The way Entity is structured & how it is Financed.
- i) Selection and Application of **Accounting Policies** & reasons for changes thereto.
- j) Entity **objectives & Strategies** & those **business risks** that may result in increased risk of material misstatements.
- k) Measurement & review of **Financial Performance**.
- l) Internal Control relevant to audit.

IDENTIFICATION AND ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

- c) Financial Statement Level.
- d) Assertion Level for classes of Transaction, Account Balances & disclosures.

For the purpose auditor shall:

- e) Identify risks
- f) Assess & Evaluate the identified risks.
- g) Relate identified risk to what go wrong at assertion level.
- h) Likelihood of misstatement.

Risk requiring special consideration:

- f) Risk of Fraud.
- g) Risk related to recent significant Economic, Accounting & other Developments.
- h) Complexity of Transactions.
- i) Transactions with Related Parties.
- j) Significant Unusual Transaction.

DOCUMENTATION

- d) Discussion
- e) Key elements of understanding
- f) Identified & Assessed risks of Material Misstatement.

Q. Z Ltd. has its entire operations including accounting computerized. As audit partner you are concerned about inherent and control risk for material financial statement assertions. What could be the areas you look forward for deficiencies and risk identification? OR

Q. What are Areas to be examined for deficiencies & Risk Identification in CIS Environment? OR

Q. Write short note on “Causes of RMM at CIS Environment.”

Ans. In a Computerized environment RMM ascertain being erroneously stated could arise from deficiencies in: -

- Program developed and maintenance has some defect since inception.
- System software support is improper.
- Operations including processing of data are not regulated and ungoverned.
- Physical CIS security may be lacking.
- Control over access to specialized utility program is improper.

(These deficiencies would tend to have negative impact on all application systems processed through computer)

SA – 320

MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

CONCEPT OF MATERIALITY

- Subject of auditor Judgement; and
- Subject to discussion present in Financial Reporting Framework.

If Financial Reporting Framework does not include a discussion, following can be referred;

- d) Misstatements including omissions expected to influence the economic decision of users.
- e) Size or nature of misstatement & the surrounding circumstances.
- f) Common Financial Information needs of the users as a group.

Judgement of materiality provides a basis for:

- d) Determination of Nature, Time & Extent of Risk Assessment Procedures
- e) Identifying and assessing risks of material misstatements.
- f) Nature, Time and Extent of further audit procedures.

PERFORMANCE MATERIALITY

- The amount set by auditor at
- less than materiality for financial statements as a whole.
- to reduce to an appropriately low level
- the probability that the aggregate of the uncorrected and undetected misstatement
- exceeds materiality for the financial statements as a whole.

AUDITOR'S DUTIES

- e) Upon establishing the overall audit strategy, the auditor shall determine the materiality for the Financial Statements as a whole.
- f) Determine the materiality level for specific transactions for which misstatements of lower amount be expected to influence the economic decisions of users
- g) Determine the performance materiality for purpose of assessing the risk of material misstatements.
- h) Revise materiality and performance materiality wherever required as audit progresses.

Q. Mr. X was appointed as the auditor of M/s E Ltd. & intends to apply Concept of Materiality for FS as whole. Guide him as to factors that may affect Identification of appropriate benchmark for this purpose.

Ans. SA 320 prescribes the use of Benchmarks in Determining Materiality for the Financial Statements as a Whole. Determining materiality involves exercise of professional judgment. A % is often applied to chosen benchmark as starting point to determine materiality for FS as a whole. Factors affecting identification of benchmark are: -

- Elements of the financial statements (Example: A & L, Equity, Revenue, Expenses)
- Whether there are items on which attention of users of particular entity's FS tends to be focused (Example: for purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets)
- Nature of entity, Life cycle and industry & economic environment in which entity operates
- Entity's Ownership Structure & way it is financed (Example if entity is financed solely by debt rather than equity, users may put more emphasis on Assets and claims on them than on entity's earnings)
- Relative volatility of benchmark.

SA – 330

RESPONSES TO ASSESSED RISKS

TEST OF CONTROLS

Procedures designed to evaluate the operating effectiveness of controls (E.g. Inquiry)

Obtain audit evidences w.r.t.

- Application of controls
- Consistency of application
- By whom & by what means they applied

Evaluate the audit evidences and material weaknesses identified and communicate to Management & TCWG on timely basis.

SUBSTANTIVE PROCEDURES

Procedures designed to detect material misstatements at assertion level. It comprises of:

- c) Test of details (of classes of transactions, Account Balances and Disclosures); and
- d) Substantive Analytical Procedures.

- **CLOSING PROCESS:**

- ✓ Reconciling the Financial Statement with underlying Accounting Records
- ✓ Examine Material Journal Entries & other adjustments made during the course of preparing of Financial Statements.

- **SIGNIFICANT RISKS:**

- ✓ Procedures that are specifically responsive to that risk needs to be applied;

SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE

- If sufficient and appropriate audit evidences obtained, ***draw conclusion & report accordingly.***
- If sufficient and appropriate evidences not obtained, then ***obtain further audit evidence and if not able to collect then give Qualified Opinion or Disclaimer of Opinion.***

SA – 402 (Revised)

AUDIT CONSIDERATION RELATING TO AN ENTITY USING A SERVICE ORGANIZATION

AUDITOR'S OBJECTIVE

- To obtain an understanding of nature and significance of service provided by service organization and their effect on the user's entity internal control relevant to the audit, sufficient to identify and assess the risk of material misstatement.
- To design and perform audit procedures responsive to those risks.



OBTAINING UNDERSTANDING OF SERVICES PROVIDED BY SERVICE ORGANIZATION

The user auditor shall obtain an understanding of how user entity uses the services of a service organization in the user entity operation, including:

- a) Nature of service provided by the service organization and the significance of those services to the user entity.
- b) The nature and materiality of the transactions processed or financial reporting processes affected by service organizations.
- c) The degree of interaction between activities of service organizations and those of the user entity.
- d) The nature of relationship between user entity and the organization.

AUDITOR'S CONSIDERATION

- The user auditor shall **evaluate the design and implementation of relevant controls of user entity** that relate to the services provided by service organization.
- The user auditor shall **determine whether a sufficient understanding of nature and significance of services provided by service organization** and their effect on the user entity internal control relevant to the audit has been obtained.
- If user auditor **is unable to obtain a sufficient understanding from the user entity**, the user auditor shall obtain that understanding from one or more of following procedures:
 - a) Obtaining a Type 1 or Type 2 Report, if available.
 - b) Contacting the service organization, through the user entity, to obtain the sufficient information.
 - c) Visiting the service organization
 - d) Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organization.

User Auditor: An Auditor who audits and Reports on the Financial Statements of a user entity.

User Entity: An Entity that uses a service organization and whose financial statements are being audited.

Type 1 Report: Report on the description and design of internal controls at a service organization.

Type 2 Report: Report on the description, design and operating effectiveness of controls at a service organization.

Q. G Ltd. is a mobile phone operating company. Barring the marketing function it had outsourced entire operations like maintenance of mobile infrastructure, customer billing, payroll, accounting functions, etc. Assist Auditor of G Ltd. as to understand how G Ltd. uses services of outsourced agency in its operations.

OR

Q. In course of Audit of R Ltd., audit manager of A & Co. observed R Ltd. has outsourced certain activities to outsourcing agency. As engagement partner guide audit manager in assessment of services provided by outsourcing agency in relation to audit. (RTP, May 2010, 2011).

Ans. As per SA 402, when obtaining understanding of user entity in accordance with SA 315 through Understanding Entity & its Environment, User Auditor shall obtain understanding of how user entity uses services of service organization in user entity's operations including: -

- Nature of services provided by Service Organization & significance of those services to User Entity, including effect thereof on User Entity's Internal Control
 - Nature & Materiality of Transactions processed or A/c or FR processes affected by Service organization
 - Degree of interaction in activities of Service organization & those of User Entity
- Nature of Relationship in User entity & Service organization including Relevant Contractual terms for activities undertaken by Service Organization.

SA – 450

EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

MEANING OF MISSTATEMENTS

Difference between:

- a) The amounts, classification, presentation or disclosure of a reported financial statement item, and
- b) The amount, classification, presentation or disclosure that is required for the item to be in accordance of financial reporting framework.

Uncorrected Misstatement are the misstatements accumulated by auditor but not corrected.

IDENTIFICATION / ACCUMULATION OF MISSTATEMENTS

- **Communicate to management and request them to correct.**

- If management corrects, perform additional procedures to determine whether misstatements remain.
 - If management refuses, understand the reason for not making the corrections, also determine the materiality. If material, communicate uncorrected misstatement and their effect on his opinion to TCWG with a request that uncorrected misstatements be corrected. If not corrected, obtain written representation from management / TCWG w.r.t. their believing that effect of uncorrected misstatements are immaterial.
- **Determine whether any revision required in Audit Strategy Plan.**

SA – 500

AUDIT EVIDENCE

METHODS TO OBTAIN AUDIT EVIDENCE (KEY: O Re I C A I)

O: Observation → Process

Re: Recomputation & Reperformance

I: Inspection → Documents, books of accounts, inventory, cash, minutes book etc.

C: Computation → Data

A: Analytical Review (**SA 520**) → Current Ratio, GP ratio etc.

I: Inquiry & Confirmation → employee, employer, third party confirmation (SA 505)



JUDGEMENT OF SUFFICIENT & APPROPRIATE AUDIT EVIDENCE

It is auditor's professional judgement.

Judgement may depend on the materiality of item, risk; of misstatement, strength of Internal control, nature and complexity of business.

TYPES OF AUDIT EVIDENCE

A) On the basis of Nature	B) On the basis of Source
<ul style="list-style-type: none"> ● Oral ● Visual ● Documentary 	<ul style="list-style-type: none"> ● External ● Internal

AUDIT PROCEDURE

<u>COMPLIANCE PROCEDURE</u>	<u>SUBSTANTIVE PROCEDURE</u>
Test for Internal Control whether - - Exists - Effective - Is it in continuation in operation during the year	Substantive test for Evaluating - validity - accuracy - completeness - proper disclosure of data e.g. Verify accounting system, ratio analysis, vouching, verification of assets and liabilities etc.

RELIABILITY:

- 1) External audit evidence are more reliable than Internal audit evidence.
- 2) Internal audit evidence are reliable when Internal control is effective.
- 3) Documentary evidence are more reliable than oral.
- 4) Evidence obtained by an auditor is more reliable than evidence obtained from others.

NOTE: Auditor gets increased assurance related to an item of financial statement. If he finds consistent audit evidence from different different sources.

Q1. The company produced photocopies of fixed deposit receipts as the original receipts were kept in the iron safe of the director finance who was presently out of the country on company business. As an auditor how will you react?

Ans: In this case auditor may get information from bank manager by applying one of the methods EXTERNAL CONFIRMATIONS:

Q2. Whether the auditor can carry out the audit and submit his report under section 44 AB in situation where the books of accounts and other records of the company are seized by the income tax department and only photocopy the same are available?

Ans: Auditor if does not have reliable financial information can disclaim his opinion. If management provides him with external confirmation from the tax department certifying that the photocopies given are the copies of original document they seized, he may audit the same and can give opinion also disclosing the same fact in his report.

Q3. An assistant of X & Co., Chartered Accountants wanted to verify the cash in hand and investments of Y Ltd. The General Manger (Finance) of V Ltd. suggested to the assistant of X& Co. that it was not necessary as his staff had done the same only few days back and no discrepancies were noticed. Comment.

Ans: Contention is wrong, Auditor has to get sufficient and appropriate audit evidence before drawing any conclusion. As per SA-500 "Audit Evidence" The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions there from on which to base his opinion on the financial information. Please note one should not mention work performed by others as there is no delegation of authority to staff of general manager by X & Co.

SA – 501

AUDIT EVIDENCE (ADDITIONAL CONSIDERATION FOR SPECIFIC ITEMS)

PHYSICAL VERIFICATION OF STOCK (Key Code: YAC 2 TP)

Y: Year End: Auditor should verify the stock physically atleast once in a year.

Existence of stock Conditions

A: Additional Audit Procedure: Auditor shall apply additional audit procedure if he has obtained from physical verification.

Additional Audit procedure may include:

- 1) Reconciling the changes in inventory (if any)
- 2) Verify the procedure) adopted by the management for physical verification
- 3) He should ensure that appropriate off procedure we re followed by the mgmt.
- 4) Obtain Written representation from management about Completeness of information regarding the inventory

C: Control: Internal Control over inventory, records, issues, receipts. slow moving stock, non-moving stock.

2: Follow AS-2

TP: Third Party: Third party confirmation as per the SA-505. (in case of mortgage, cease of goods by Dept.)



LITIGATION & CLAIMS (Key Code: UVW)

U: Updates: Inquiry with management how management updates itself of litigations and claims.

V: Verify: Discuss matters and verify the facts given by mgmt with

- expert
- legal consultant
- branch auditor
- Internal auditor
- Employees
- Officers
- Review of books of accounts

-Minutes of Board Meeting / EGM/ AGM.

W: Written Representation: Obtain written representation from management about exhaustive list of litigations and claims, and their latest updates, management accounting estimation etc.

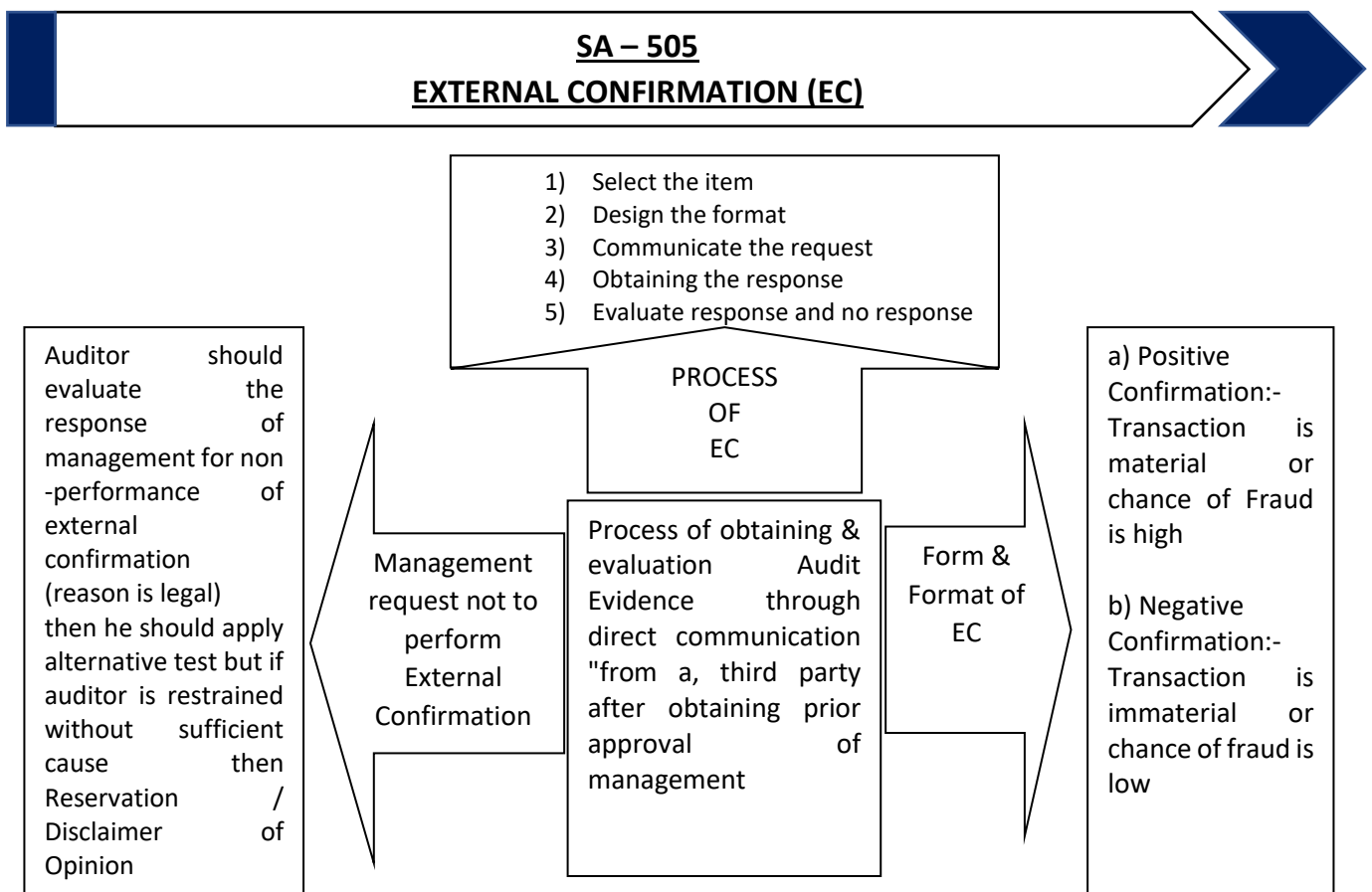
SEGMENT REPORTING

Refer AS 17

Q.1. You are the auditor of Easy Communications Ltd. for the year 200708. The inventory as at the end of the year i.e. 31.3.08 was ₹ 2.25 crores. Due to unavoidable circumstances, you could not be present at the time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order?

Ans: According to SA 501, “If the auditor is unable to attend physical inventory counting due to unforeseen circumstances; the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions” perform alternative audit procedures may include following:

1. Reconciling the changes in inventory between the date of physical count and the period end date are correctly recorded.
2. The auditor would also verify the procedure adopted by management for physical verification a treatment given for the discrepancies noticed during the physical count.
3. He should ensure that appropriate cut off procedures were followed by the management.
4. He should obtain written representation from management about:
 - (a) the completeness of information provided regarding the inventory and
 - (b) assurance with regard to adherence to laid down procedures for physical inventory.



NOTE: EC depends on auditor's personal judgement to use or not But generally the following area require EC:

- | | |
|---|----------------------------------|
| 1) Confirmation of Bank balance | 2) Debtors/ Creditors |
| 3) Stock/Assets held by third party and | 4) Documents mortgaged with bank |

Q1. Moon Limited replaced its statutory auditor for the financial year 2008-09. During the course of audit, the new auditor found a credit item of ₹ 5 lakhs. On enquiry, the company explainer him that it is, a very old credit

balance. The creditor had neither approached for the payment nor he is traceable. Under the circumstances, no confirmation of the credit balance is available.

Ans: In the given case, the creditor is pending since long. It creates a suspicion to the auditor that why litigation has not been instituted by the creditor against the entity. It might be a case that an income of ₹ 5 lakhs had been hidden in previous years by debiting fraudulent credit purchase. Auditor should obtain sufficient evidence in support of the balance. He should apply alternative audit procedures to get documentary proof for the transaction/s and should not rely entirely on the management representation. Finally, he should include the matter by way of a qualification in his audit report to the members according to SA 705 if disagreement with management.

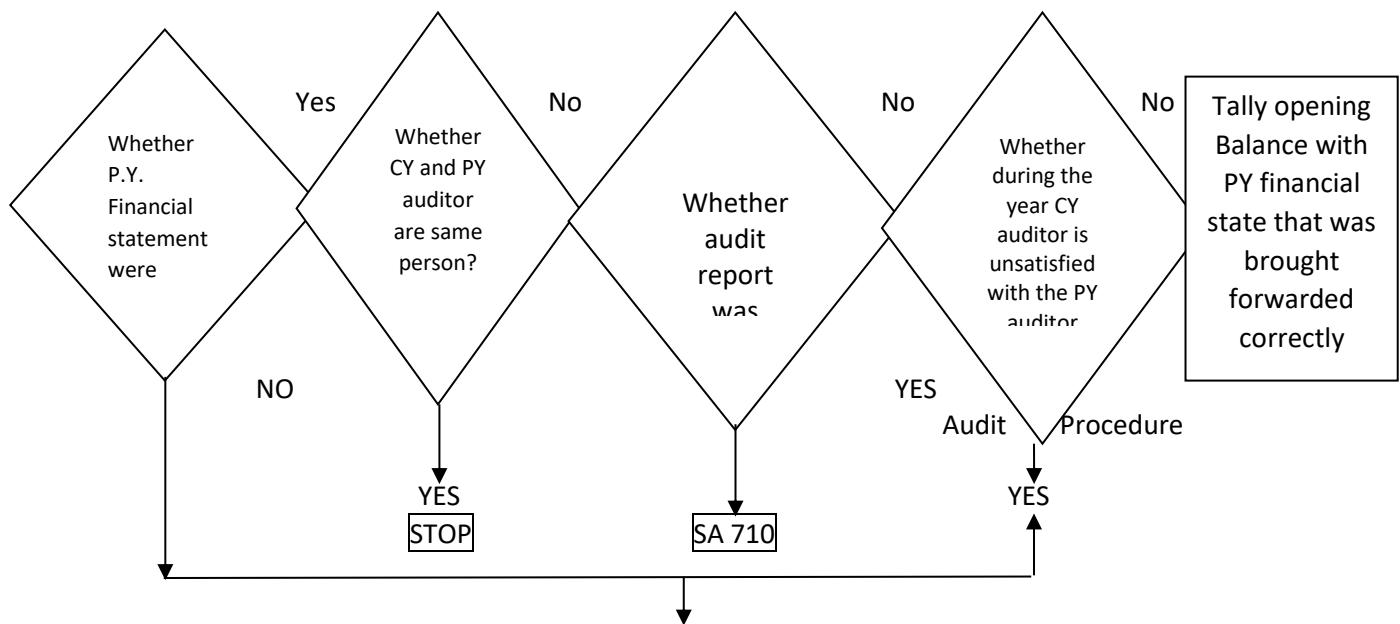
Q2: Mr Raj, CA, is auditing the financial statements of a Gram Panchayat. The assessed level of control risk for all accounts receivable relating to panchayat tax of villagers assertions is high to maximum. Mr. Raj instructed his article to prepare a format of debtors confirmation the article is confused which form of confirmation request is appropriate whether Positive or Negative ?

Ans: as control risk is high positive external confirmation request is must.

**SA 510
INITIAL AUDIT ENGAGEMENT (OPENING BALANCE)**

Auditors duty in relation to opening balance

- To read the latest audited financial statement
- To obtain sufficient and appropriate audit evidence about the prior period closing balance have been correctly brought forward to the current period



AUDIT PROCEDURES

Auditor should check LY Closing Balance (**Key - IFRS LC²D**)

I: Investment: Verify registry, demat A/c, external confirmation, physical verification etc.

F: Fixed Assets: Verify registry, valuation, expert's report.

R: Reserves: Check balance sheet of Previous Year.

S: Share Capital: Check share capital register

L: Loans

Cash & Bank Balances:

C2: Creditors

D: Debtors

} Obtain sufficient & appropriate
audit evidence + Confirmation

Q. Auditors of M/s. Vista Limited were changed for the accounting year 2010-11. The closing stock of the company as on 31-03-2010 amounting to ₹ 400 Lacs continued as it is and became closing stock as on 31-03-2011. The auditors of the company propose to exclude from their audit programme the audit of closing stock of ₹ 400 lacs on the understanding that it pertains to the ceding year which was audited by another auditor?

Ans: In the light of above duties auditor's contention is wrong he should perform procedure to obtain sufficient appropriate audit evidence that opening balances were exist in substance.

SA 520 ANALYTICAL PROCEDURES

MEANING

Analysis of ratio and trends and resulting investigation of deviation from predetermined set of standard of performance OR Relationship between two sets of financial statements

WHEN TO USE? (Key Code: SPA)

S: May be used a Substantive procedure.

P: At the time of Planning.

A: To investigate unusual fluctuation at the time of concluding Audit

RELIABILITY

Reliability depends upon:

- 1) Materiality of item.
- 2) Risk of Misstatement
- 3) Assessment of internal and control risk.
- 4) Reliable financial information and reliable financial information depends upon adequacy of internal control system.

SPECIAL NOTE

In case of material item, analytical procedure may be used as additional audit procedure but not substituted audit procedure.

PROCEDURE FOR CHECKING TRANSACTION

- 1) Apply analytical procedure
- 2) Apply test of control (Compliance procedure)
- 3) Apply detailed & substantive procedure,
 - i) Verification of invoice
 - ii) Verification of authorization
 - iii) Verification of total of invoices
 - iv) Verification of Debit/ Credit note
 - v) Analysis of increase/ decrease in price
 - vi) Reconciliation of accounts etc.

Q1. Analytical procedures are unable to help the auditor determining the nature, timing and extent of other audit procedures at the planning stage.

Ans: False SA-520 "Analytical Procedure" states that application of analytical procedures helps auditor to understanding the entities business and performances and it will also assist him in determining the nature, timing and extent of audit procedures.

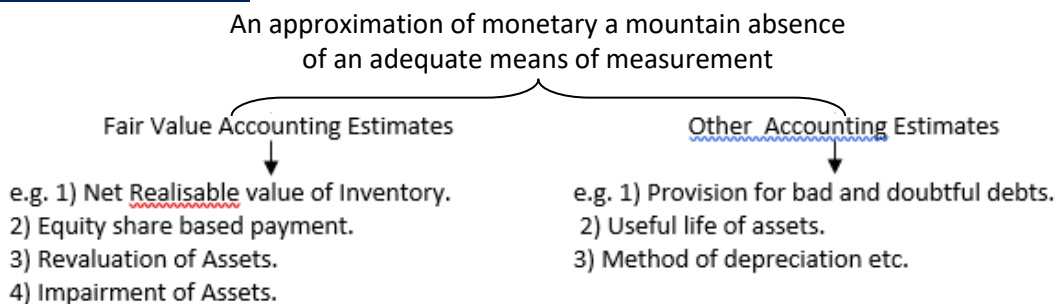
Q2. A trader is worried that inspite of substantial increase in sales compared to earlier years, there is considerable fall in Gross profit after satisfying himself that sales and expense are correctly recorded

and that the valuations of inventories is on consistent basis, he wants to ensure that purchases have been truthfully recorded. How will you proceed with this assignment?

Ans: While verifying whether purchases are truthfully recorded or not the auditor has to apply following procedures.

SA 540
ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES
AND RELATED DISCLOSURE

ACCOUNTING ESTIMATION



DUTIES OF AUDITOR

Auditors should obtain S & A A/E that accounting estimates are reasonable and disclosed properly.

PROCEDURE

Risk assessment procedure Inquiry with mgmt) (DR. ACE)

D: **Determine**: How they determine items requiring estimates?

R - **Reliable Information** How they get reliable information related to accounting estimation ?

A- **Assumptions**: How they establish Appropriate "assumptions?
Change in method or assumptions.

C- **Change**: Change in method or assumptions.

E - **Experts**: How they assess need of experts?

Further procedures (Very Close Wife)

V: **Verify**: Verify the judgement of mgmt. independently by the auditor himself or by use of expert.

C: **Compare**: Compare Estimate in light of other accounting estimates.

W: **Window dressing**: If accounting estimates are related to current assets and current liabilities- check window dressing

NOTE: General provisions are required on the basis of historical data. E.g. warranty claims.

Q. While auditing Z Ltd., you observe certain material financial statement assertions have been based estimates made by the management. As the auditor how do you minimize the risk of material misstatement?

Ans. As per SA — 540 “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”, it is auditor’s duty to obtain sufficient and appropriate audit evidence that accounting estimates by management are reasonable in present circumstances or not. Auditor first apply the RAP (Risk assessment Procedure to decide the nature timing and extent of FAP (further audit procedure). Auditor should consider the following:

- i. The requirements of the applicable financial reporting framework relevant to the accounting estimates, including related disclosures (For example provisioning norms in case of banking company as required by RBI).
- ii. How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed, in the financial statements, in obtaining this

understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.

- iii. The estimation making process adopted by the management including
1. The method, including where applicable the model, used in making the accounting estimates
 2. Relevant controls applied over the process of estimation
 3. Whether management has used services of an expert for estimations of complex nature?
 4. The assumption underlying the accounting estimates whether reasonable in present circumstances
 5. Whether there has been or ought to have been change from the prior period in the methods of estimations, and if so, whether there is sufficient reason to do the same.
 6. Whether and, if so, how the management has assessed the effect of estimation of uncertainty;

SA 550 RELATED PARTIES

MEANING

Related parties (RP) either defined by Financial Reporting Framework (AS-18) or if inadequately defined then-

- 1) Holding Co.
- 2) Subsidiary Co.
- 3) Fellow Subsidiary Co.
- 4) Associated
- 5) Investors
- 6) Key Managerial Personnel,

AUDITOR'S DUTY

- 1) Understand relationship
- 2) Asses the risk in relation to RP transaction
- 3) Professional Skeptism.

PROCEDURE

STEP I: RISK ASSESSMENT PROCEDURE: (Inquiry from mgmt)

[Key Code: **NRTC**]

N -Name of RP

R - Relationship

T - Transactions

C - Change in relationship compared to previous year.

STEP II: INQUIRY ABOUT CONTROL:

[Key Code: **IA**]

I- Identification of RP

A- Authorised and approval

STEP III: OTHER AUDIT PROCEDURE:

[Key Code: **SWATI ViR**]

S - Share Capital Register

W- Written Representation

A - Last year annual report

T -Tax Audit Report

I - Investment register

V - Verification of transactions authorised transactions & pricing is fair.

R - Review of DAMR

D - Director's' Report / Register
 A – Articles of Association
 M - Memorandum of Association
 R- Register u/s 189 of Companies Act, 2013
 (old Cos Act, 1956 Sec 301)

Q. In the course of audit of Q Ltd, its statutory auditor wants to be sure of the adequacy of related party disclosures? Kindly guide the auditor in identifying the possible source of related party information.

Ans: As per SA 550 on, “Related Parties”, following are the procedure to identify the related party disclosures:

1. Review the disclosure information given by the management in financial statement and compare it with the previous year’s disclosure and to compare the disclosures.
2. The auditor may inspect following records or documents that may provide information about related arty relationships and transactions,(this is an illustrative list and not exhaustive
 - Income tax returns,
 - Information supplied by the entity to regulatory authorities,
 - Shareholder registers to identify the entity’s principal shareholders,
 - Directors register
 - Section 189 register of Companies Act (Previously section 301 register under 1956)
 - Long term contracts and arrangements
 - Secretarial auditor’s report
 - Tax audit report
 - Investment register to identify subsidiaries associates and joint ventures
3. After applying all the above procedure if the auditor identifies fraud risk factors (including circumstances relating to the existence of a related party with dominant influence) when performing he risk assessment procedures and related activities in connection with related parties, the auditor respond to assessed risks. The auditor shall designs and performs further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with elated party relationships and transactions.
4. During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor.

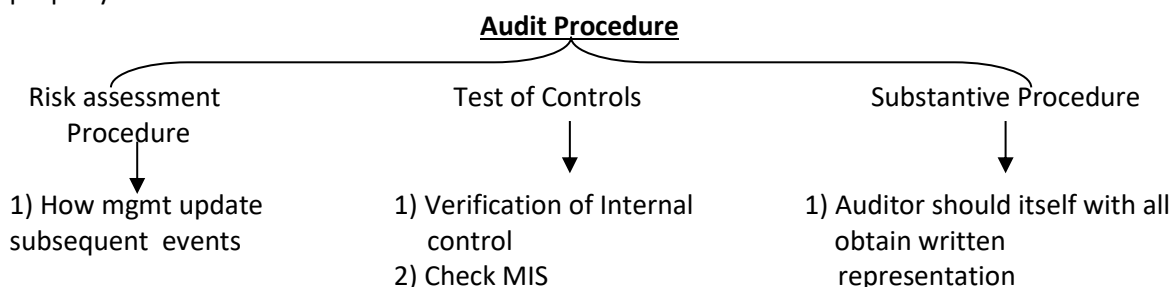
SA 560
SUBSEQUENT EVENTS

MEANING

Events occurring in between balance sheet date and date/of auditor's report.

AUDITOR’S DUTY:

He should obtain sufficient and appropriate audit evidence that all subsequent events identified and disclosed properly.

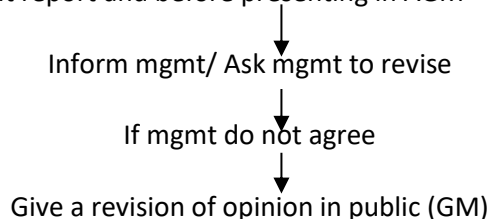


2) Evaluate strength of MIS and other controls

that mgmt identify, adjusted & disclosed all possible subsequent events.

- 2) Confirm from internal Auditor, Expert, brand auditor, etc.
- 3) Reading of Minutes books of Board meeting, GM etc.
- 4) Review interim Financial report

NOTE: Subsequent events after audit report and before presenting in AGM



Q. Audit procedures on subsequent events?

Ans: As per SA-560 (R), “Subsequent Events”, The Auditor should perform the following procedure to obtain sufficient appropriate evidence to find out the adjustments or disclosures of those subsequent events:

- (i) Review the procedures adopted by the management to identify subsequent events.
- (ii) Examine the minutes of the Board of Directors, Executive Committees and the General Meetings of the shareholders.
- (iii) Collect information from the other sources like budgets/estimates, cash flows, forecasts, interim financial statements etc.
- (iv) Make enquiries and hold discussions with the top management.
- (v) Details from company’s lawyers for any litigation matter.

SA – 570
GOING CONCERN

MANAGEMENT RESPONSIBILITIES

- Assess the entity’s ability to continue as a going concern.
- General Purpose Financial Statements are prepared on a going concern basis unless management intends to liquidate the entity or to cease operation.
- In case Financial Statements are not prepared on going concern basis, the fact would need to be appropriately disclosed

AUDITOR’S DUTIES

- To obtain sufficient appropriate audit evidence about the appropriateness of management’s use of going concern assumption. For this purpose, auditor is required to,
 - Cover the same period as that used by management
 - Consider whether management has considered all relevant information of which auditor is aware.
- Identify events that cast significant doubt.

- Perform Additional Procedures:
 - If going concern assumption appropriate but material uncertainty exists, determine whether Financial Statements makes relevant disclosure. If yes → Emphasis on Matter and If no → Qualified / Adverse Opinion.
 - If Going Concern Assumption inappropriate → Adverse Opinion
 - Management unwilling to make its assessment → Consider implications on Auditor's Report.
 - Request management to make its assessment of entity's ability to continue as going concern.
 - Evaluating management plans for future.
 - Consider the reliability of cash flow forecast.
 - Considering availability of additional form or information since the date of management assessment.
 - Requesting written representation from Management regarding their plan for future action.

SA 580 WRITTEN REPRESENTATION

MEANING

Clarification, confirmation, explanation given by management to auditor during the course of his audit.

→ Usually written representation are treated as additional audit evidence, and cannot be treated as substitute audit evidence. But in some exceptional circumstances they might be the only, audit evidence available.
E.g. Long term/ short term investments intention to hold the asset.

→ Written representation should be checked in the light of other audit evidence available.

→ Reassess the reliability of already received written representation if:-
i) management denied to provide written representation on any other matter.
ii) if person providing written representation appear to be fake.
iii) if person providing written representation found in a fraud.

→ If auditor ask management and if they give only oral consent, then the auditor can make a letter of understanding and get it acknowledged by the management.

Q. In the course of audit of ABC Ltd. its management refuses to provide written representations. As an auditor what is your duty?

Ans: Duty of an Auditor if management refuses to provide written representations.

As per SA 580 (Revised), "Written Representations", if the management does not provide one or more of the requested written representation, the auditor shall:

- I. Discuss the matter with management.
- II. Reevaluate the Integrity of the management and evaluate the effect that this may have on the reliability of representation (oral or written) and audit evidence in general and;
- III. Take appropriate actions, including determining the possible effects on the opinion in the auditor's report.

The auditor should disclaim an opinion on the financial statements if management does not provide representations.

SA 600
USING WORK OF ANOTHER AUDITOR

NAME

Using work of another auditor.

DEFINITION

Using work of branch auditor and auditor of subsidiary company.

WHY ?

Under Co's Act principal auditor is required to consider and incorporate branch auditor's report.

CO-ORDINATION

[Key Code - PIC]

P: Planning stage: Meeting at planning stage/suggestion/important consideration at the planning state from principal auditor to branch auditor.

I: Information: Mutual exchange of information for relevant importance.

C: Completion date: Expected date of completion and reporting.



EVALUATING-WORK & USE

- 1) Review all branch auditors report (Not evaluate) branch auditors , report (Not evaluate)
- 2) Ask explanation if required.
- 3) Document followings:
 - i) Branch auditor's name
 - ii) Significant findings
 - iii) Treatment of significant findings in his report.
 - iv) Procedure applied by other auditor.

Q. Auditor of Holding Co. wishes to access working papers of Subsidiary's Auditor. Comment.

- The Principal auditor of an enterprise do not have right to access to audit working papers of Branch auditor's
- As per SA 230 & SQC 1, Audit documentation is property of Auditor & may at his discretion, make it available
- SA 230-working paper is property of auditor.
- Clause 1 of Part 1 of Second Schedule & SA 200 i.e..Confidentiality requirement.
- ICAI clarification: - Auditor is not required to provide to client or other auditor access to working papers.
- As per SA 600, Auditor can rely on work of another auditor without having right of access to working papers if due diligence exercised.
- Holding Co. Auditor can't access Working Papers of Subsidiary Co. but can ask Questions & seek clarifications

SA 610 (REVISED)
"USING THE WORK OF INTERNAL AUDITORS"

SCOPE OF THIS SA

1. This SA deals with the external auditor's responsibilities if using th, work of internal auditors. This includes
 - (a) using the work of the internal audit function in obtaining audit evidence and
 - (b) using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.

2. This SA does not apply if the entity does not have an internal audit function.

3. In some cases, the external auditor may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance. The SAs do not override laws or regulations that govern an audit of F.S. Such prohibitions or restrictions will therefore not prevent the external auditor from complying with the SAs.

THE EXTERNAL AUDITOR'S RESPONSIBILITY FOR THE AUDIT

- The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement.
- Although they may perform audit procedures similar to those performed by the external auditor, neither the internal audit function nor the internal auditors are independent of the entity as is required of the external auditor in an audit of financial statements in accordance with SA 200.
- This SA, therefore, defines the conditions that are necessary for the external auditor to be able to use the work of internal auditors.

ACTIVITIES RELATING TO INTERNAL CONTROL

1. Evaluation of internal control

Internal audit function may be assigned specific internal control responsibility for reviewing controls, evaluating their operation and recommending improvements thereto.

2. Examination of financial and operating information

Internal audit function may be assigned to review the means used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.

3. Review of operating activities

The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity.

4. Review of compliance with laws and regulations

Internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

OBJECTIVES OF AUDITOR

(a) To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent ;

(b) If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit ; and

(c) If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

DEFINITIONS

1. Internal audit function

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.

2. Direct Assistance

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

REQUIREMENTS OF SA 610 (REVISED)

EVALUATING THE INTERNAL AUDIT FUNCTION

The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following :

- (a) Objectivity of the internal auditors ;
- (b) Level of competence; and
- (c) Application of Systematic and disciplined approach.

The external auditor shall not use the work of the internal audit function if the external auditor determines that :

- (a) The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors ;
- (b) The function lacks sufficient competence ; or
- (c) The function does not apply a systematic and disciplined approach.

A. FACTORS AFFECTING OBJECTIVITY, COMPETENCY AND APPROACH

1. **Objectivity of Internal Auditor:** Objectivity. refers to 'the ability to perform without allowing bias to override professional judgments. Factors that may affect the external auditor's evaluation include the following :
 - (a) Organizational status of the internal audit function;
 - (b) Conflicting responsibilities.
 - (c) Oversight functions of TCWG w.r.t. employment decisions related to the internal audit function.
 - (d) Constraints or restrictions placed on the internal audit function by management or TCWG.
2. **Level of Competency:** Competence of the internal audit function refers to the attainment of knowledge and skills to enable assigned tasks to be performed diligently. Factors that may affect the external auditor's determination include the following :
 - (a) Policies for hiring, training and assigning internal auditors to internal audit engagements.
 - (b) Adequate of technical training and auditing of internal auditors.
 - (c) Knowledge of internal auditors w.r.t. entity's financial reporting and the applicable FRF.
 - (d) Membership of relevant professional bodies that oblige internal auditors to comply with the relevant professional standards.
3. **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 include the following :
 - Existence, adequacy and use of documented internal audit procedures.
 - Existence of appropriate quality control policies and procedures for internal audit function.

B. DETERMINING THE NATURE AND EXTENT OF WORK OF THE INTERNAL AUDIT FUNCTION THAT CAN BE USED

- The external auditor shall consider the nature and scope of the work that has been performed, or is planned to be performed, by the internal audit function and its relevance to the external auditor's overall audit strategy and audit plan.
- The external auditor shall make all significant judgments in the audit engagement and, to prevent undue use of the work of the internal audit function, shall plan to use less of the work of the function and perform more of the work directly.
- The external auditor shall also evaluate whether, in aggregate, using the work of the internal audit function to the extent planned would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed.
- The external auditor shall, in communicating with TCWG an overview of the planned scope and timing of the audit in accordance with SA 260, communicate how the external auditor has planned to use the work of the internal audit function.

USING THE WORK OF THE INTERNAL AUDIT FUNCTION

1. If the external auditor plans to use the work of the internal audit function. the external auditor shall discuss the planned use of its work.
2. The external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.
3. The external auditor shall perform sufficient audit procedures on the work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether :
 - a. The work of the function had been properly planned, performed, supervised, reviewed and documented ;
 - b. Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and
 - c. Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed.
4. The nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of :
 - a. The amount of judgment involved ;
 - b. The assessed risk of material misstatement ;
 - c. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors ; and
 - d. The level of competence of the function; and shall include re-performance of some of the work.
5. The external auditor shall also evaluate whether the external auditor's conclusions regarding the internal audit function and the determination of the nature and extent of use of the work of the function for purposes of the audit remain appropriate.

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

A. DETERMINING WHETHER INTERNAL AUDITORS CAN BE USED TO PROVIDE DIRECT ASSISTANCE FOR PURPOSES OF THE AUDIT

1. The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors.
2. If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of th, internal auditors who will be providing such assistance.
3. The external auditor shall not use an internal auditor to provide direct assistance if :
 - a. There are significant threats to the objectivity of the internal auditor; or
 - b. The internal auditor lacks sufficient competence to perform the proposed work.

B. DETERMINING THE NATURE AND EXTENT OF WORK THAT CAN BE ASSIGNED TO INTERNAL AUDITORS PROVIDING DIRECT ASSISTANCE

1. In determining the nature and extent of work that may be assigned to internal auditors and the NTE of direction, supervision and review that is appropriate in the circumstances, the external auditor shall consider :
 - a. The amount of judgment involved in Planning and performing relevant audit procedures; and Evaluating the audit evidence gathered ;

- b. The assessed risk of material, misstatement ; and
 - c. The external auditor's evaluation of the existence and significance of threats to tie objectivity and level of competence of the internal auditors who will he providing such assistance.
2. The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:
- a. Involve making significant judgments in the audit ;
 - b. Relate to higher assessed risks of material misstatement ;
 - c. Relate to work with which the internal auditors have been involved; or
 - d. Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function and the use of its work or direct assistance.
3. Having appropriately evaluated whether and, if so, to what extent internal auditors can be used to provide direct assistance on the audit. the external auditor shall, in communicating with TCWG an overview of the planned scope and timing of the audit in accordance with SA 260, communicate the nature and extent of the planned use of internal auditors to provide direct assistance so as to reach a mutual understanding that such use is not excessive in the circumstances of the engagement.

USING INTERNAL AUDITORS TO PROVIDE DIRECT ASSISTANCE

1. Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall :
 - a. Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and
 - b. Obtain -written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.
2. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with SA 220.
3. The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to be satisfied that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work.

DOCUMENTATION

A. DOCUMENTS W.R.T. USE OF WORK OF INTERNAL AUDIT FUNCTION BY EXTERNAL AUDITOR

- (a) Whether the function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors;
- (b) The level of competence of the function; and
- (c) Whether the function applies a systematic and disciplined approach, including quality control ;
- (d) The nature and extent of the work used and the basis for that decision; and
- (e) The audit procedures performed by the external auditor to evaluate the adequacy of the work used.

B. DOCUMENTS W.R.T. DIRECT ASSISTANCE OF INTERNAL AUDITOR USED BY EXTERNAL AUDITOR

- (a) The evaluation of the existence and significance of threats to objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
- (b) The basis for the decision regarding the nature and extent of the work performed by the internal auditors;
- (c) Who reviewed the work performed and the date and extent of that review in accordance with SA 230 ;
- (d) The written agreements obtained from an authorized representative of the entity and the internal auditors; and
- (e) The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

Q1. In the course of the statutory audit of Z Ltd, its statutory auditors, having determined that the work of internal auditor is likely to be adequate for the purpose of statutory audit, wanted to use the work of internal auditor in respect of physical verification of fixed assets. I-low an evaluation of this specific work done by the internal auditor can be done?

Ans: Evaluation of Specific Work Done by Internal Auditor: As per SA 610, “Using the Work of Internal Auditors”, External auditor may rely on work performed by internal auditor after due considerations explained therein. According to this SA the nature, timing and extent of the audit procedures performed on specific work of the internal auditors will depend on the external auditor’s assessment of the risk of material misstatement, the evaluation of the internal audit function, and the evaluation of the specific work of the internal auditors. Such audit procedures may include supplemental tests (examination of items already examined by the internal auditors). To determine the adequacy of specific work performed by the internal auditors for the external auditor’s purposes, the external auditor shall evaluate whether:

- (1) The work was performed by internal auditors having competence and skill;
- (2) The work was properly supervised, reviewed and documented i.e. due professional care has been take;
- (3) Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
- (4) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
- (5) Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

If auditor follows above procedures he will arrive at a conclusion whether to rely on internal auditors or not.

Q2. You are appointed statutory auditor of X Ltd. X Ltd. has an internal audit system and reports for the same are given to you. Mention the factors you will consider to ensure that the said system of internal audit of X Ltd. is commensurate with the size of the company and nature of its business?

Ans: According to SA-610 (R), Auditor shall consider following before relying on the internal auditor’s report:

1. What is status of the internal audit function within the entity?
2. Whether the internal audit function reports to those charged with governance or an officer with appropriate authority?
3. Whether the internal auditors are free of any conflicting responsibilities (i.e. maker and cheker)?
4. Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance?
5. Whether, and to what extent, management acts on the recommendations of the internal audit function, and how such action is evidenced?
6. Whether the internal auditors have adequate technical training and proficiency as internal auditors?
7. Whether activities of the internal audit function are properly planned, supervised, reviewer and documented?
8. The existence and adequacy of audit manuals or other similar documents, work programs and audit documentation.

After considering the above auditor shall conclude, whether the internal audit system is commensurating with the nature and size of the business.

SA 620
USING WORK OF AN EXPERT

NAME:

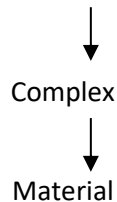
Using work of an expert.

DEFINITION

Specified body of knowledge other than auditing and accounting

WHY ?

Expert's work constitutes audit evidences in respect of matters which are:



CO-ORDINATION

[Key - FD]

F: Form: Expected form and content of his report. (e.g. flow chart, pie diagram etc.)

D: Date: Expected date of completion.

EVALUATING-WORK & USE:

- 1) Check membership no. From authorised institute/ licence no.
- 2) Experience and reputation.
- 3) Relationship with client.
- 4) Restrictions on scope.
- 5) Evaluate whether data given to expert were reliable and sufficient.
- 6) If data is complex, ask experts to explain how he relied on data.
- 7) Evaluate method and assumptions and their consistency



If change in method explanation required from expert.

- 8) Evaluate expert's work in the light of other audit evidence.

***SHALL AUDITOR MENTION NAME OF THE EXPERT IN HIS AUDIT REPORT ?**

When expressing an unqualified opinion - auditor should not refer to the work of an expert in his report. If auditor express other than an unqualified opinion-it may be beneficial to reader of the report if the auditor, in explaining the nature of their reservation, describe the work of expert.

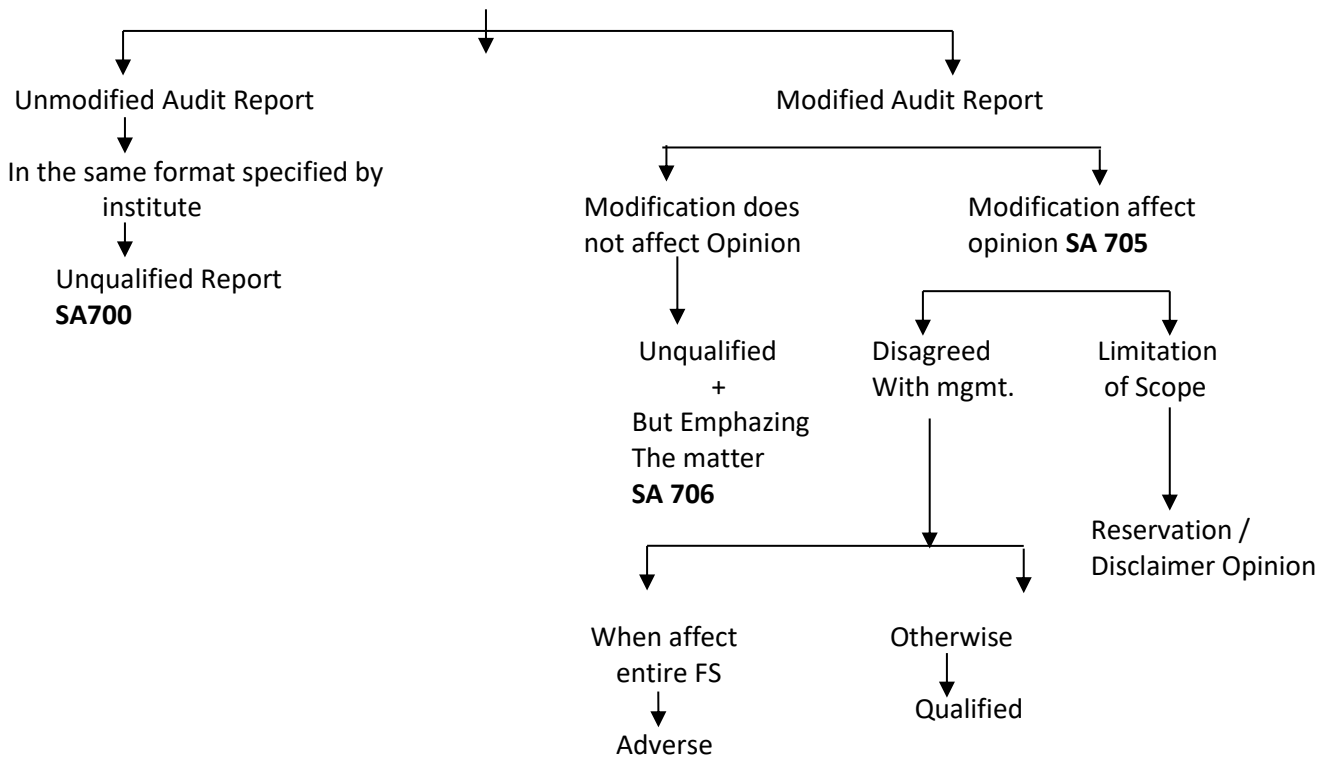
Regarding the mention of Name of the expert in his audit report, he can do so only after obtaining the prior consent of the expert.

Q. Shall auditor mention name of the expert in its audit report?

Ans.: The auditor shall refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

Further, If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification of the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

SA 700, 705, 706
TYPES OF AUDIT REPORT



SA 700
FORMING AN OPINION AND REPORTING OF FINANCIAL STATEMENTS

BASIC ELEMENTS OF AUDITORS REPORT

Basic Elements of Auditor’s Report: As per SA 700, “Forming an Opinion and Reporting on Financial Statements”, the auditor’s report includes the following basic elements:

1. **TITLE:** The auditor’s report shall have a title that clearly indicates that it is the report of an independent auditor.
2. **ADDRESSEE:** The auditor’s report shall be addressed as required by the circumstances of the engagement.
3. **AUDITOR’S OPINION:** The first section of the auditor’s report shall include the auditor’s opinion, and shall have the heading “Opinion.” The Opinion section of the auditor’s report shall also:
 - (a) Identify the entity whose financial statements have been audited;
 - (b) State that the financial statements have been audited;
 - (c) Identify the title of each statement comprising the financial statements;
 - (d) Refer to the notes, including the summary of significant accounting policies; and
 - (e) Specify the date of, or period covered by, each financial statement comprising the financial statements.
4. **BASIS FOR OPINION:** The auditor’s report shall include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (a) States that the audit was conducted in accordance with Standards on Auditing; (b) Refers to the section of the auditor’s report that describes the auditor’s responsibilities under the SAs; (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI; (d) States

whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

5. **GOING CONCERN:** Where applicable, the auditor shall report in accordance with SA 570 (Revised).
6. **KEY AUDIT MATTERS:** For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with SA 701. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with SA 701.
7. **RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS:** The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." The auditor's report shall use the term that is appropriate in the context of the legal framework applicable to the entity and need not refer specifically to "management". In some entities, the appropriate reference may be to those charged with governance.
8. **Auditor's Responsibilities for the Audit of the Financial Statements.**
9. **Location of the description of the auditor's responsibilities for the audit of the financial statements.**
10. **Other Reporting Responsibilities.**
11. **Signature of the Auditor.**

Q1. What is the meaning of financial statement in revised SA 700?

Ans. Financial statement in this standard "a complete set of general purpose financial statements, including the related notes." The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements. For example in case of a company companies act requires

A Balance sheet

A Profit and Loss account

A Cash Flow Statement (if required)

Notes to the accounts and significant accounting policies as referred in accounting standards under CASR (Company Accounting Standard Rules) 2006.

Q2. What is auditor's duty under this SA?

Ans. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. For this, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

That conclusion shall take into account:

(a) The auditor's conclusion in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained;

(b) The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate; and

(c) In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

- (i) The financial statements adequately disclose the significant accounting policies selected and applied;
- (ii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- (iii) The accounting estimates made by the management are reasonable;
- (iv) The information presented in the financial statements is relevant, reliable, comparable and understandable

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

DEFINITION

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

SCOPE OF THIS SA

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

- e) A Substitute for disclosures in the financial statements that the AFRF requires management to make, or that are otherwise necessary to achieve fair presentation.
- f) 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)
- g) A substitute for reporting in accordance with SA 570 (Revised) when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continuous as a going concern; or
- h) A separate opinion on individual matters.

DETERMINING KEY AUDIT MATTERS

The auditor shall determine, from the matters communicated with TCWG, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:

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

The auditor shall determine which of the matters determined were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.

COMMUNICATING KEY AUDIT MATTERS

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

The introductory language in this section of the auditor's report shall state that:

- c) Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements [of the current period]; and

- d) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

DETERMINATION OF MATTERS OF MOST SIGNIFICANCE

- Matters that required significant interaction with TCWG
- The importance of the matter to intended users' understanding of the financial statements.
- The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved in management selection of an appropriate policy.
- The nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements.
- The nature and extent of audit effort needed to address the matter, including:
 - The extent of specialized skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any;
 - The nature of consultations outside the engagement team regarding the matter.
- The nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion.
- The severity of any control deficiencies identified relevant to the matter.
- Whether the matter involved a number of separate, but related, audit considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.

DESCRIPTION OF INDIVIDUAL KEY AUDIT MATTERS

The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

- c) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
- d) How the matter was addressed in the audit.

NO KEY AUDIT MATTERS TO BE COMMUNICATED

The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

Key Audit Matters

[Except for the matter described in the Basis for Qualified (Adverse Opinion Section or Material Uncertainty Related to Going Concern Section)]. We have determined that there are no [other] key audit matters to communicate in our report.

SA 705 (REVISED)

MODIFICATION TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

TYPES OF MODIFIED OPINIONS

This SA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- c) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- d) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements.

DETERMINING THE TYPE OF MODIFICATION TO THE AUDITOR’S OPINION

Nature of Matter Giving Rise to the Modification	Auditor’s Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not Pervasive	Material and Pervasive
Financial Statements are materially misstated	Qualified Opinion (True and Fair except for the effect of)	Adverse Opinion (Not True and Fair)
Inability to obtain SAAE	Qualified Opinion (True and Fair except for the POSSIBLE effect of)	Disclaimer of Opinion (Not in position to express and opinion)

QUALIFIED OPINION

The auditor shall express a qualified opinion when:

- c) The auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- d) The auditor is unable to obtain SAAE on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

ADVERSE OPINION

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

DISCLAIMER OF OPINION

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

CONSEQUENCES OF AN INABILITY TO OBTAIN SAAE DUE TO A MANAGEMENT – IMPOSED LIMITATION AFTER THE AUDITOR HAS ACCEPTED THE ENGAGEMENT

If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

If management refuses to remove the limitation, the auditor shall communicate the matter to TCWG, unless all of TCWG are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain SAAE.

If auditor is unable to obtain SAAE, the auditor shall determine the implications as follows:

- (c) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material and pervasive, the auditor shall qualify the opinion; or
- (d) If the auditor concludes that the possible effect on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - a. Withdraw from the audit, where practicable and possible under applicable law or regulation; or
 - b. If withdrawal from the audit before issuing the auditor’s report is not practicable or possible, disclaim an opinion on the financial statements.

If the auditor withdraws then, before withdrawing, the auditor shall communicate to TCWG any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

FORM AND CONTENT OF THE AUDITORS REPORT WHEN THE OPINION IS MODIFIED

- 6. AUDITOR’S OPINION:** When the auditor modifies the audit shall use the heading “Qualified Opinion”, “Adverse Opinion”, or “Disclaimer of Opinion”. As appropriate, for the Opinion Section.
- 7. BASIS FOR OPINION:** When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised):
 - b) Amend the heading “Basis for Opinion” required by SA 700 (Revised) to “Basis for Qualified Opinion”, “Basis for Adverse Opinion” or “Basis for Disclaimer of Opinion” as appropriate; and
 - a. Within this section, include a description of the matter giving rise to the modification.

When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion required by SA 700 (Revised) to include the word “Qualified” or “Adverse”, as appropriate.

When the auditor disclaims an opinion on the financial statements, the auditor’s report shall not include the following elements required by SA 700 (Revised). Those elements are:

- a) A reference to the section of the auditor’s report where the auditor’s responsibilities are described; and
 - b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.
- 8. DESCRIPTION OF AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS WHEN THE AUDITOR DISCLAIMS AN OPINION ON THE FINANCIAL STATEMENTS:** When the auditor disclaims an opinion on the financial statements due to an inability to obtain SAAE, the auditor shall amend the description of the auditor’s responsibilities required by SA 700 (Revised) to include only the following:
 - a) A statement that the auditor’s responsibility is to conduct an audit of the Financial Statements in accordance with SAs and to issue an auditor’s report;
 - b) A statement, that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain SAAE to provide a basis for an audit opinion on the financial statements; and
 - c) The statement about auditor independence and other ethical responsibilities required by SA 700.
 - 9. CONSIDERATIONS WHEN THE AUDITOR DISCLAIMS AN OPINION ON THE FINANCIAL STATEMENTS:** Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor’s report shall not include a Key Audit Matter section in accordance with SA 701.
 - 10. COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE:** When the auditor expects to modify the opinion in the auditors report, the auditor shall communicate with TCWG the circumstances that led to the expected modification and the wording of the modification.

PARTICULARS	QUALIFIED OPINION	ADVERSE OPINION	DISCLAIMER OF OPINION
MODIFIED OPINION	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
MODIFIED OPINION PARAGRAPH WORDINGS	Except for the effects/possible effects of the matter(s) described in the basis for Qualified Opinion paragraph the financial statements are true and fair / prepared.	Because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph the financial statements are no true and fair / not prepared.	Because if the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, the auditor does not express an opinion on the financial statements.
MODIFIED OPINION PARAGRAPH	We have audited	We have audited	We were engaged to audit..... Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain SAAE to provide a basis for an audit opinion

			on these standalone financial statements.
BASIS FOR MODIFICATION PARAGRAPH	Basis for Qualified Opinion	Basis for Adverse Opinion	Basis for Disclaimer of Opinion
BASIS FOR MODIFIES OPINION PARAGRAHPH LAST LINE	We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for out qualified audit opinion	We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.	

Q. X Ltd has significant operations in foreign country. Due to civil & political unrest in that country physical verification of inventory & fixed assets could not carried out & you are not in position to obtain audit evidence through other audit procedures also. Value of fixed assets & Inventory forms part of 80% of asset value of company. As auditor of X Ltd what factors do you consider in your reporting responsibility. Also draft suitable report to be incorporated in main audit report (Reporting under CARO need not be considered).

Ans.

As per SA-501, if attendance at physical inventory counting is impracticable, auditor shall perform alternative audit procedures to obtain SAAE regarding existence & condition of inventory.

If it is not possible to do so, auditor shall modify opinion in auditor’s report as per SA 705.

In given case, auditor has to modify his report by issuing a DISCLAIMER of opinion because auditor is unable to obtain SAAE that FS are free from MM & matter is MATERIAL AND PERVASIVE.

Hence Following factors are to be considered in auditor’s reporting responsibility: -

- Inventories and the Fixed Assets are material and PERVASIVE to FS
- Auditor unable to attend physical verification of inventories and fixed assets In other words, physical verification becomes impracticable due to civil and political unrest in foreign country, where inventory & fixed assets are located, posing threats to safety of auditor.
- Auditor failed to obtain SAAE even by alternative audit procedures.

= Draft of suitable report to be incorporated in main audit report: -

AUDITORS RESPONSIBILITY PARA

Our responsibility is to express opinion on these financial statements based on our audit as per Standards on Auditing issued by ICAI. Because of matters described in Basis for Disclaimer of Opinion paragraph, however, we were not able to Obtain SAAE to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion PARA

We were appointed as auditors of the Company and we report that we could not observe counting of physical inventories and physical verification of fixed assets due to civil and political unrest in foreign country where the company has significant operation. We were also unable to satisfy ourselves by alternative means concerning the inventory quantities and fixed assets of company held at March 31st 20XX, which are stated in B/S at Rs. XXX & Rs. XXX respectively.

Disclaimer of Opinion

Because of significance of matters described in Basis for Disclaimer of Opinion paragraph, we have not been able to Obtain SAAE to provide a basis for audit opinion. Accordingly, we do not express Opinion on FS.

Report on Other Legal and Regulatory Requirements

As required by section 143 (3) of Companies Act, 2013, we report that: -

As described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain all info & explanations which to best of our knowledge and belief were necessary for purpose of our audit.

SA 706 (REVISED)
EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN
THE INDEPENDENT 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 auditors judgement it is necessary to do so, by way of clear additional communication in the auditor's report, to:

- c) 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
- d) As appropriate, any other matter that is relevant to users understanding of the audit, the auditor's responsibilities or the auditor's report.

EMPHASIS OF MATTER PARAGRAPHS IN THE AUDITOR'S REPORT

The auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

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

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

EXAMPLES OF EMPHASIS OF MATTER

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation. (SA 210)
- To alert users that the financial statements are prepared in accordance with a special purpose framework (SA 800)
- When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (SA 560)
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

OTHER MATTER PARAGRAPHS IN THE AUDITOR'S REPORT

The auditor shall include an Other matter paragraph in the auditor's report, provided:

- c) This is not prohibited by law or regulation; and
- d) 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 Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter", or other appropriate heading.

EXAMPLES OF OTHER MATTER

- Reason why auditor is unable to resign from the engagement even though there is a limitation on scope
- Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation.
- Auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.
- Another set of financial statements has been prepared by the same entity In accordance with another general purpose framework and that the auditor has issued a report on those financial statements.
- Auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.
- Law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other matter paragraph (SA 260).

COMMUNICATION WITH TCWG

If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with TCWG regarding this expectation and the wording of this paragraph.

PLACEMENT OF EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE AUDITOR'S REPORT

The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgement as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with SA 700 (Revised)

Q. Beta Limited, is a company registered with SEBI, having five subsidiaries. M/s XYZ, Chartered Accountants, have been appointed as Statutory Auditors for the audit of the Consolidated Financial. Statements for the year ending March 31, 2016. Out of five subsidiaries, the audit of one subsidiary was conducted by another auditor, M/s B & Co. CAs. "Opinion" Para of audit report furnished by M/s X & Co. CAs is given below: -

Opinion: - In our opinion and to best of our info & according to explanations given to us Consolidated FS give True and Fair view, except FS of 1 subsidiary whose accounts were audited by M/s B & Co. CAs & about same we are not in a position to express our opinion as audit has not been performed by us: -

(i) In case of consolidated Balance Sheet, of state of affairs of the Company as at March 31, 2016. (ii) In case of consolidated Profit & Loss Account, of P/L for year ended on that date.

Do you find any deficiencies in Opinion Para? If yes you are required to give your suggestions & Redraft it.

= Yes, the Opinion Para contains the following deficiencies: -

- Out of 5 subsidiaries, audit of 1 subsidiary was conducted by another auditor, M/s B & Co. which would be reported in OM Para.

- After Point no. (i) & (ii) in Opinion Para, it needs to appear Point no. (iii) as under:

- "In case of consolidated Cash Flow Statement, of cash flows for year ended on that date."

= The Redrafted Opinion Para & OM Para are given hereunder as per SA 706: -

Opinion Para

In our opinion & to best of our info & according to explanations given to us & based on consideration of reports

of other auditors on FS of subsidiaries as noted below, consolidated financial statements give True & Fair view in conformity with accounting principles generally accepted in India: -

(iv) In case of consolidated Balance Sheet, of State of affairs of Company as at March 31, 2016.

(v) In case of consolidated Profit & Loss Account, of P/L for Year ended on that date.

(vi) In case of consolidated Cash Flow Statement, of Cash flows for year Ended on that date.

Other Matter Para

We did not audit FS of 1 subsidiary, whose FS reflect total assets (net) of Rs. XXX as at March 31, 2016, total revenues of Rs. XXX & net cash outflows amounting to Rs. XXX for year then ended. These FS have been audited by other auditors M/s B & Co. CAs whose reports have been furnished to us by Management & our opinion is based solely on reports of other auditors. Our opinion is not qualified in respect of this matter.

SA 710 (REVISED)

COMPARATIVE INFORMATION– CORRESPONDING FIGURES AND

- The objectives of the 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, in accordance with the requirements for comparative information in the applicable financial reporting framework; and to report in accordance with the auditor's reporting responsibilities
- The frameworks and methods of presentation that are referred to in this SA are corresponding figures where amounts and other disclosures for preceding period are included as an integral part of current period financial statements and Comparative Financial Statements where amounts and other disclosures for preceding period are included for comparison with financial statements of current period
- Auditor should obtain sufficient appropriate audit evidence that the comparative information meet the requirements of relevant financial reporting framework. This involves verifying whether accounting policies used for corresponding figures are consistent with those of current period and whether corresponding figures agree with amounts and other disclosures presented in prior period
- If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report that the financial statements of the prior period were audited by the predecessor auditor; the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and the date of that report. When auditor's report on prior period, as previously issued, included a qualified opinion or a disclaimer of opinion or an adverse opinion and concerned matter is not resolved, auditor's report should also be modified regarding corresponding figures
- When prior period financial statements are not audited, incoming auditor should state the fact in auditor's report in an Other Matter paragraph
- When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed.

Q. What is objective of the auditor under this SA?

Ans. According to SA 710 The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and

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

Q. What are the requirements of Audit Reporting under this SA?

Ans. In relation to Corresponding Figures following may be the different situation:-

Situation – 1 Current years report is unqualified and previous auditor’s report was also unqualified:- When corresponding figures are presented, the auditor’s opinion usually shall not refer to the corresponding figures. Unqualified opinion as such implies auditors satisfaction related to corresponding figures.

Situation – 2: If the auditor’s report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is resolved:- the auditor shall modify the auditor’s opinion on the current period’s financial statements.

Situation – 3: If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued:- the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, **the auditor shall express a qualified opinion or an adverse opinion in the auditor’s report on the current period financial statements, modified with respect to the corresponding figures included therein.**

Situation – 4: If the prior financial statements were not audited:- the auditor shall state in an Other Matter paragraph in the auditor’s report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period’s financial statements.

As in Indian FRF no corresponding FS are there we are not discussing the same.

AUDIT REPORTING

CORRESPONDING FIGURES

COMPARATIVE FINANCIAL STATEMENT

Prior period report modified – matter not resolved

Prior period misstatement – but unmodified opinion

Prior period audited by predecessor auditor

Prior period unaudited

Opinion differs as compared to prior period

Prior period audited by predecessor auditor

Prior period unaudited

Modify Current Report

Modify Current opinion w.r.t. Corresponding Figures

Other Matter Paragraph Auditor
 • Predecessor Auditor
 • Type of Opinion
 • Date of Report

Other Matter Paragraph Figures are unaudited (Also follow SA 510)

Other Matter Paragraph Reasons for difference of opinion

Other Matter Paragraph Auditor
 • Predecessor Auditor
 • Type of Opinion
 • Date of Report

Other Matter Paragraph Figures are unaudited

If misstatement identified, communicate to management and request that predecessor auditor be informed. (SA 560 to be followed by him)

SA 720 (Revised)
THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN
DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

PURPOSE

Auditor is not required to express an opinion on other information in documents containing audited Financial Statements (Eg. Annual Report), however, auditor reads the other information because credibility of Financial Statements may be undetermined by Material inconsistencies between the audited financial statements and other information.

AUDITOR'S PROCEDURES

Make appropriate arrangements with Management & TCWG to obtain the other information prior to the date of auditor report & read the information so obtained. If information is not available prior to date of auditors report, read the other information as soon as practicable.

MATERIAL INCONSISTENCIES IDENTIFIED IN OTHER INFORMATION:

1. **Prior to the date of auditor's report:**
 - a. **Revision of audited Financial Statements becomes necessary but Management Refuses,**
→ Auditor shall modify the opinion in accordance with relevant SA.
 - b. **Revision of information is necessary but Management Refuses,**
→ Auditor shall communicate this matter to TCWG; and
→ Include in the auditor's report describing the inconsistencies; or
→ Withdraw from the engagement.

2. **Subsequent to the date of auditor's report**
 - a. **Revision of audited financial statements becomes necessary**
→ The auditor shall follow the relevant requirements of SA 560
 - b. **Revision of other information is necessary but management refuses**
→ Auditor shall notify his concern to TCWG and take the appropriate action.

MATERIAL MISSTATEMENT OF FACTS FOUND OUT

Misstatement of Facts: Other information that is unrelated to matters appearing in audited Financial Statements that is correctly stated.

Auditor shall request management to consult with a qualified third party and he shall consider the advice received.

If he concludes existence of material misstatement of facts, but management refuses to correct
→ Auditor shall notify his concern to TCWG and take the appropriate action.

OTHER INFORMATION SECTION

- + 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

SA 800
AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
SPECIAL PURPOSE FRAMEWORKS

AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

According to SA-800 A financial reporting framework designed to meet the financial information needs to specific users. The financial reporting framework may be a fair presentation framework or a compliance Framework. For example if an entity is presenting the cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors; or another example may be? The financial reporting provisions established by a regulator to meet the requirements of that regulator; suppose for the purpose of sanctioning a grant.

Consideration are required to conduct audit of such special purpose financial statements

In an audit of special purpose financial statements, the auditor shall obtain an understanding of:

- (a) The purpose for which the financial statements are prepared;
- (b) The intended users; and
- (c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

SA 700 (Revised) deals with the form and contents of the auditor's report. In the case of an auditor's report on special purpose financial statements:

- (a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and
- (b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable reporting framework is acceptable in the circumstances.

Single financial statement means a part of complete set of financial statement (for example, a cash flow statement) **and special elements** (for example, cash and bank balances). Sometimes management requires an audit of the same for example **The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Now auditor is required to audit the same.** This kind of requirement of audit may found in special items like audit of Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio, including related notes.

Considerations are required to conduct such an audit

Auditor shall follow all SAs applicable to circumstances and should report accordingly. How to and express opinion and how to emphasize the matter is illustrated below.

Opinion

In our opinion, the financial statement presents a true and fair view of the cash receipts and disbursements of ABC Company Ltd. For the year ended March 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

Basis of Accounting

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the statement may not be suitable for another purpose.

SA 805 - SPECIAL CONSIDERATIONS – AUDIT OF SINGLE PURPOSE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

According to SA 805 Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structural representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time 3. Different jurisdictions may use different terminology to describe such historical financial information.

AUDITORS DUTY

The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived. Before accepting an engagement to report on summary financial statements, the auditor shall:

- (a) Determine whether the applied criteria are acceptable;
- (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
 - i. For the preparation of the summary financial statements in accordance with the applied criteria;
 - ii. To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty and
 - iii. To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.

PROCEDURE FOR THE AUDIT

The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

- (a) Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements.
- (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - (i) From whom or where the audited financial statements are available; or
 - (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- (c) Evaluate whether the summary financial statements adequately disclose the applied criteria.
- (d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
- (e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
- (f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as to be misleading in the circumstances.
- (g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements.

SA 810 ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

DEFINITIONS

Applied Criteria: The criteria applied by management in the preparation of the summary financial statements.

Summary Financial Statements: Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point of time or the changes therein for a period of time. Different jurisdiction may use different terminology to describe such historical financial information.

SCOPE OF THIS SA

This SA deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

OBJECTIVES OF THE AUDITOR

- a) Determine whether it is appropriate to accept the engagement to report on summary financial statements;
- b) Form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and
- c) Express clearly that opinion through a written report that also describe the basis for that opinion.

ENGAGEMENT ACCEPTANCE

The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived.

Before accepting an engagement to report on summary financial statements, the auditor shall:

- a) Determine whether the applied criteria are acceptable;
- b) Obtain the agreement of management that it acknowledges and understands its responsibility:
 - i. For the preparation of the summary financial statements in accordance with the applied criteria;
 - ii. To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and established the criteria for the preparation of the summary financial statements and establishes the criteria for the preparation of the summary financial statements) and;
 - iii. To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.
- c) Agree with management the form of opinion to be expressed on the summary financial statements.

NATURE OF PROCEDURES

- a) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
- b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - i. From whom or where the audited financial statements are available; or
 - ii. The law or regulation that specifies that the audited financial statements need not be made available to the intended users of summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- c) Evaluate whether the summary financial statements adequately disclose the applied criteria.
- d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be re-calculated from the related information in the audited financial statements.
- e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
- f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level odd aggregation, so as not to be misleading in the circumstances.
- g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements.

FORM OF OPINION

When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases:

- a) The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria]; or
- b) The summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria]

AUDITOR'S REPORT ON SUMMARY FINANCIAL STATEMENTS

The auditor's report on summary financial statements shall include the following elements:

- a) A title clearly indicating it as the report of an independent auditor.
- b) An addressee.
- c) An introductory paragraph that:
 - i. Identifies the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements;
 - ii. Identifies the audited financial statements;
 - iii. Refers to the auditor's report on the audited financial statements, the date of that report, the fact that an unmodified opinion is expressed on the audited financial statements;
 - iv. If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, states that the summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements; and
 - v. A statement indicating that the summary financial statements do not contain all the disclosure required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements is not a substitute for reading the audited financial statements.
 - vi. A description of management's responsibility for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria.
 - vii. A statement that the auditor is responsible for expressing an opinion on the summary financial statements based on the procedures required by SA.
 - viii. A paragraph clearly expressing an opinion.
 - ix. The auditor's signature along with the firm registration number, wherever applicable, and the membership number assigned by the ICAI.
 - x. The date of the auditor's report.
 - xi. The place of signature.

INTRODUCTORY PARAGRAPH ILLUSTRATION

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 20XX, the summary statements of profit & Loss, and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company Ltd. For the year ended March 31, 20XX. We expressed an unmodified audit opinion on those financial statements in our report dated May 15, 20XX. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements. The summary financial statements do not contain all disclosures required by the Accounting Standards referred to in section 133 of the Companies Act, 2013 [applied in the preparation of the audited financial statements of ABC Company Ltd] Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company Ltd.

MODIFICATIONS TO THE OPINION, EMPHASIS OF MATTER PARAGRAPH OR OTHER MATTER PARAGRAPH IN THE AUDITOR'S REPORT ON THE AUDITED FINANCIAL STATEMENTS

When the auditor's report on the audited financial statements contains a qualified opinion, and Emphasis on Matter Paragraph, or an Other Matter paragraph, but the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in

accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements discussed above:

- a) State that the auditor's report on the audited financial statements contains a qualified opinion, an Emphasis of Matter paragraph, or an Other Matter Paragraph; and
- b) Describe
 - i. The basis for the qualified opinion on the audited financial statements, and that qualified opinion; or the Emphasis of Matter of the Other Matter Paragraph in the auditor's report on the audited financial statements; and
 - ii. The effect thereof on the summary financial statements; and

When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to the elements discussed above:

- a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;
- b) Describe the basis for that adverse opinion or disclaimer of opinion; and
- c) State that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express an opinion on the summary financial statements.

MODIFIED OPINION ON THE SUMMARY FINANCIAL STATEMENTS

If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements.