

CA INTER –
AUDITING & ETHICS
PAPER – 5
STANDARDS ON AUDIT
CHART BOOK

By – CA Aakash Pednekar



Do's & Don'ts for the exam:

- Do not carry the Question paper back home. Throw it in the dustbin.
- Do not Discuss the paper with your friend – Nobody knows the correct answer.
- Do not go home & start giving yourself marks- Let ICAI check your paper.
- Once you reach home, don't call your friends & discuss the paper. Utilize that time to have a Quick nap.
- On the exam day start studying by 7pm after paper so you can make the most on the exam day.
- In the audit paper, in case you see a new sentence in correct incorrect which you have never seen don't Skip that Question; write the answer as incorrect with appropriate reasons, as majority answers in the correct incorrect answers are incorrect.
- In the exam, read the question carefully, analyse what is asked and write only what is asked & not what you know. Students generally write lengthy answers most of which is irrelevant thereby losing precious time and frustrating the examiner Eg: If the question is asking about procedures of verifying existence of Trade receivables then only write about existence assertions and not all assertions.
- Be careful to add a brief background before the start of any answer. For eg: If the question is, factor's affecting the form content and extent of audit documentation then before you start writing the factors write the definition of audit documentation.

Audit & Assurance
Paper Pattern & Targets

Objective

Descriptive

44marks

56 MARKS-
90%
Minimum
50%
accuracy
28 marks

MCQ
30

CORRECT/
INCORRECT
14
(7Q *2)

STRAI
GHT

CASE
STUDY
BASED

Minimum 90% accuracy
Total = 27+12

Total = 27+12 + 28 = 67+

SA	HOW TO REMEMBER	Description
SA 200	OO – OVERALL OBJ	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
SA 210	Sat in Restaurant 210 to agree the terms	Agreeing the Terms of Audit Engagements
SA 220	Identical output	Quality Control for Audit of Financial Statements
SA 230	BC = AD	Audit Documentation
SA 240	Opp of 420	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements
SA 250	Remember 250 laws	Consideration of Laws and Regulations in An Audit of Financial Statements
SA 299	Twins	Joint Audit of Financial Statements (Revised)
SA 300	JODI	Planning an Audit of Financial Statements
SA 315		Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
SA 330		The Auditor's Responses to Assessed Risks
SA 500	JODI	Audit Evidence
SA 501		Audit Evidence - Specific Considerations for Selected Items

SA 500	JODI	Audit Evidence
SA 501		Audit Evidence - Specific Considerations for Selected Items
SA 505	External	External Confirmations
SA 580	Internal	Written Representations
SA 510	I = INITIAL	Initial Audit Engagements-Opening Balances
SA 610	I = INTERNAL	Using the Work of Internal Auditors (Revised)
SA 710	I - INFORMATION	Comparative Information – Corresponding Figures and Comparative Financial Statements
SA 530	3 IS BEST OUT OF 5	Audit Sampling
SA 550	55 = RELATED	Related Parties
SA 560	6 COMES AFTER 5	Subsequent Events
SA 570	5 LETTER WORD – GOING 7 LETTER WORD - CONCERN	Going Concern (Revised)

SA 700	FORM THE OPINON	Forming an Opinion and Reporting on Financial Statements (Revised)
SA 705	MODIFY THE OPINION	Modifications to the Opinion in the Independent Auditor's Report (Revised)
SA 701	KMP	Communication Key Audit Matters in the Independent Auditor's Report (New)
SA 706	EMP / OMP	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (Revised)
SA 320	MP	Materiality in Planning and Performing an Audit
SA 520	AP	Analytical Procedures

Audit dictionary

1. Risk of material misstatement (ROMMS): Risk that F.S are materially mis-stated prior to audit

Simple language: chances of financials' being materially mis-stated (ROMMS is a function of IR & CR)

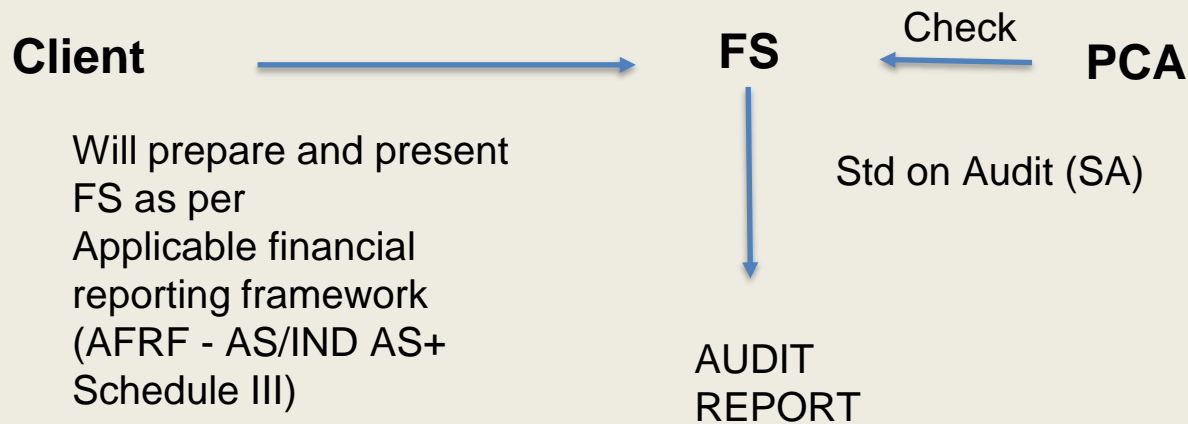
2. Client Management + Those charged with governance

3. Professional Scepticism: Attitude of maintaining & questioning mind being alert

4. Applicable financial Reporting framework: AS/INDAS + Schedule III

5. Independence: Means that auditor's judgement should not be influenced by any third party i.e, the auditor should be neutral.

Independence = Independence of mind + Independence of appearance



Definition :

Audit is a systematic & independent examination of financial statements info of an entity whether profit oriented or not Irrespective of its size or legal form when such an examination conducted with a view to express opinion thereon.

AUDITING STANDARDS - AN OVERVIEW

Auditing and Assurance
Standard Board - (AASB)-
Scope / Objective

STRUCTURE OF
PRONOUNCEMENTS
ISSUED BY AASB

FRAMEWORK FOR AUDIT & ASSURANCE &
OTHER SERVICES ENGAGEMENTS –
Scope/ Objective/ Definitions/ Requirements

Standards
for Quality
Control
(SQC 01 - 99)

Standards on Auditing (SA 100 - 999)

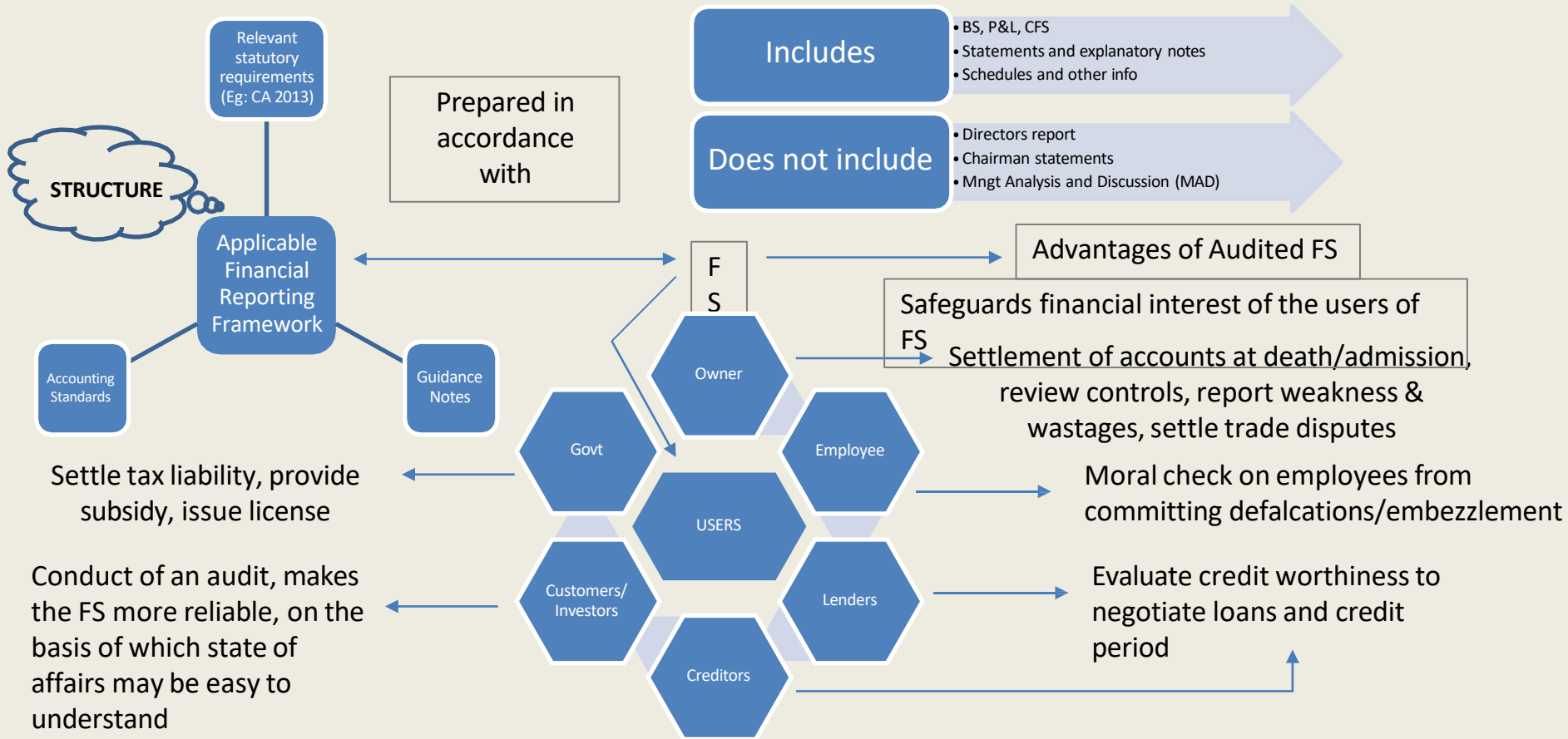
SA 100 - 199 Introductory Matters
SA 200 - 299 General Principles and Responsibilities
SA 300 - 499 Risk Assessment and Response to Assessed Risk
SA 500 - 599 Audit Evidence
SA 600 - 699 Using Work of Others
SA 700 - 799 Audit Conclusions and Reporting
SA 800 - 899 Specialised Areas

Standards
on Review
Engagements
(SRE 2000 - 2699)

Standards on
Assurance
Engagements
SAE (3000 - 3699)

Standards on
Related Services
(SRS 4000 - 4699)

FINANCIAL STATEMENTS



INTEGRITY

IS DOING THE
RIGHT THING.

EVEN WHEN
NO ONE IS
WATCHING.



QUALITIES OF AN AUDITOR

Qualities

- Integrity
- Objectivity
- Independence
- Tact
- Caution (alertness)
- Firmness
- Good temper
- Discretion
- Industry
- Judgement
- Patience
- Clear headness
- Reliability

Knowledge of

- CA 2013
- PA 1932
- ICA 1872
- Taxation
- Special Acts
- Accounts
- Economics
- Computers and IS
- General mngt

Well aware of

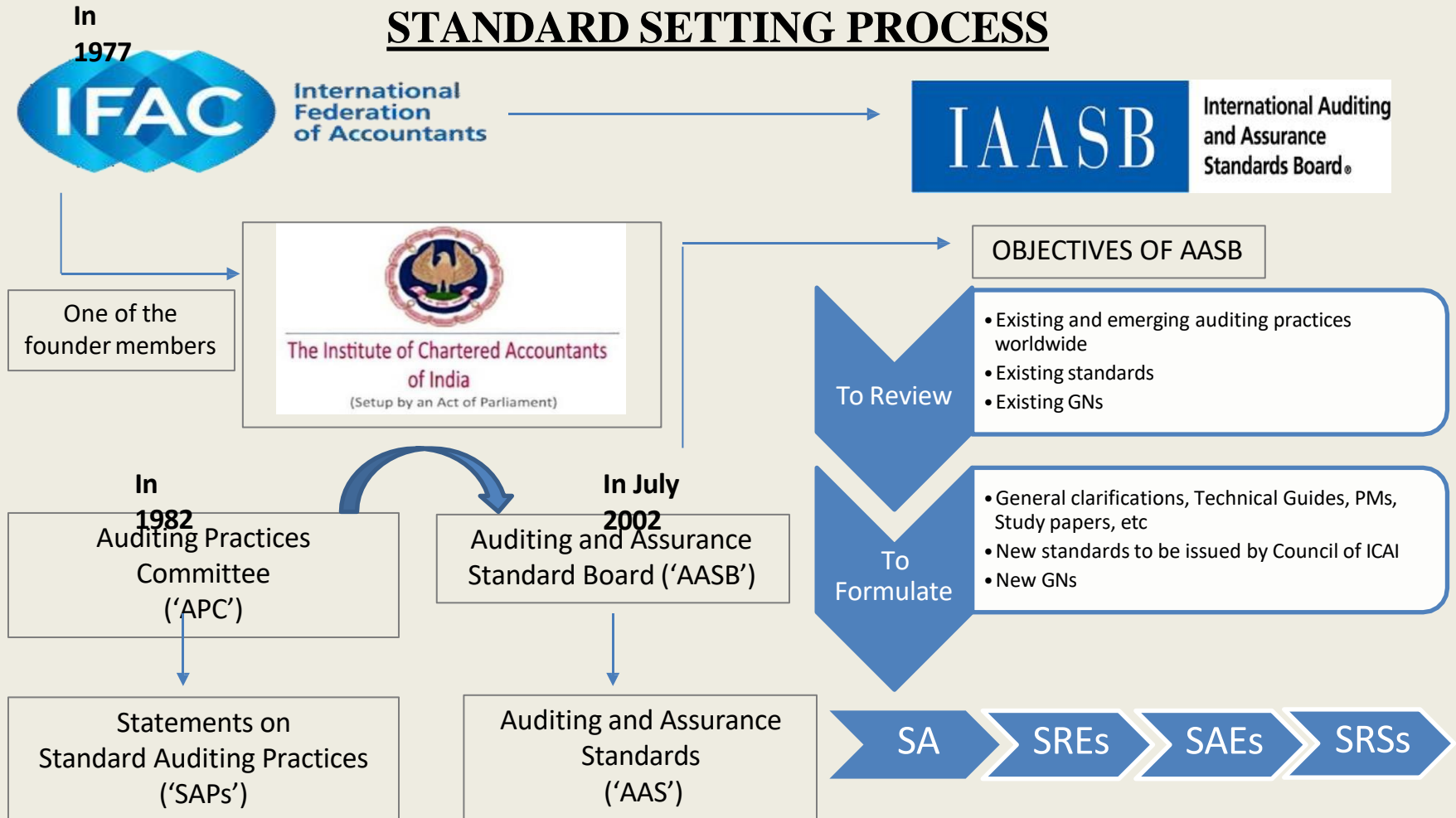
- How business is conducted
- Special feature peculiar to particular business



Tact :

the ability to do or say things without offending or upsetting other people

STANDARD SETTING PROCESS



AUDITING & OTHER DISCIPLINES



TRUE AND FAIR VIEW



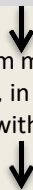
Applicable
Financial
Reporting
Framework



Disclosures

- Charge on assets
- Extra-ordinary item

SA 200 (Revised) “ Overall Objectives of the Independent Auditor & Conduct of audit in accordance with SAs



- a) To obtain reasonable assurance about whether the F.S. as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the F.S. are prepared in all material respects, in accordance with an applicable FRF.
- b) To report on the F.S. and communicate as required by the SAs, in accordance with the auditor’s findings.

Aspects to be considered by Auditor while performing Audit					Others explanation
Ethical Requirements	Professional Skepticism	Professional Judgment	Sufficient Appropriate audit Evidence	Conduct of Audit in accordance with SAs	Scope of Audit
<ul style="list-style-type: none"> • Comprise Code of Ethics issued by ICAI including independence. • The fundamental principles are: <ol style="list-style-type: none"> 1. Integrity 2. Objectivity 3. Professional competence & due care 4. Confidentiality, & 5. Professional behaviour • Independence comprises both independence of mind and independence of appearance . 	Attitude that includes a questioning mind ,being alert to conditions which may indicate possible misstatement due to error or fraud , and a critical assessment of audit evidence.	The application of relevant training knowledge and experience, <ul style="list-style-type: none"> • Within the context provided by auditing, accounting and ethical standards, • In making informed decisions about the courses of action • That are appropriate in the circumstances of the audit engagement. 	<ul style="list-style-type: none"> • Sufficiency refers to quantum and Appropriateness refers to quality. • Purpose : to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. • Audit Risk: Risk that the auditor expresses an inappropriate audit opinion when the F>S> are materially misstated. • Audit Risk is a function of the RMM and detection risk. 	<ul style="list-style-type: none"> • The auditor shall comply with all SAs relevant to the audit . • Compliance with SA is to be specified in Audit report only in case of actual compliance. • To achieve overall objectives of audit, use the objective stated in individual SAs. • In case Entire SA is not relevant due to non-existence of prescribed conditions, comply with relevant requirements. • In case of failure to achieve an objective determine the need of modified opinion of withdrawal. 	Preparation of F.S.
	Alertness is required w.r.t <ol style="list-style-type: none"> 1. Contradictory audit evidence. 2. Reliability of documents. 3. Conditions indicting possible frauds. 4. Circumstances requiring audit procedures in addition to those suggested in SAs. 	It is required w.r.t.: <ul style="list-style-type: none"> • Materiality & audit risk. • NTE of audit procedures. • Evaluating sufficiency & appropriateness of audit procedures. • Evaluating management judgment in applying applicable FRF. • Drawing conclusions based on audit evidence 			Inherent Limitations for an audit
					<ul style="list-style-type: none"> • To examine whether the F.S. are prepared in accordance with FRF. • The auditor’s opinion does not assure, the future viability of the entity nor the efficiency or effectiveness with which mnngt. Has conducted the affairs.
					<ul style="list-style-type: none"> a) Nature of financial reporting: involves judgment by Mngt. Based on facts and circumstances. b) Nature of audit Procedures: directed towards obtaining reasonable assurance. c) Balance between benefit and cost: user expectation to get AR within a reasonable period and at reasonable cost .

Auditor required to obtain **reasonable assurance** whether FS free from material misstatements. Auditor not expected to, & cannot, **reduce audit risk to zero & cannot obtain absolute assurance** due to:-

INHERENT LIMITATIONS OF AUDIT

(a) Nature of Financial Reporting :- Preparation of FS involves judgement by mgt

(b) Nature of Audit Procedures:- Practical and legal limitations on auditor's ability to obtain audit evidence such as:

Mgt may not provide complete info relevant for preparation of FS

Fraud may involve sophisticated & carefully organised schemes

Audit is not official investigation into alleged wrong doing

(c) Timeliness of Financial reporting & balance bw cost & revenue:- Relevance of info & its value diminish over time & a balance to be struck bw reliability of info & its cost

(d) Other Matters:-

(i) Fraud, involving senior mgt or collusion.

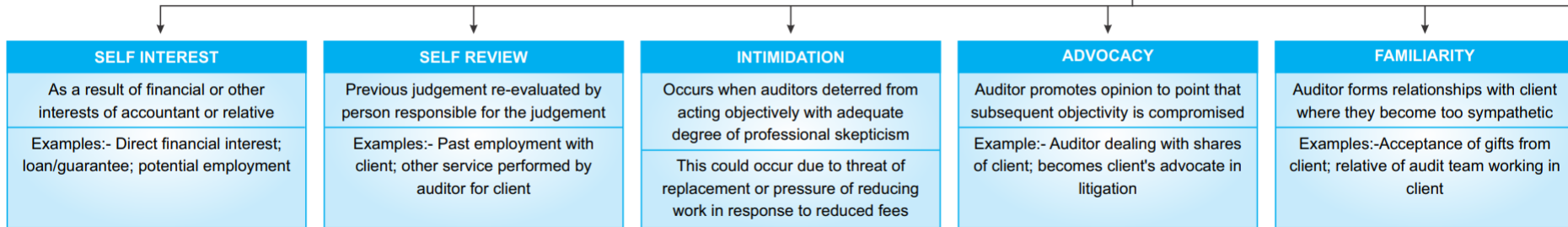
(iii) Non-compliance with laws & regulations

(ii) Existence & completeness of RP relationships & transactions

(iv) Future events/conditions that may cause entity to cease to continue as going concern

Questions from Module – Chp 1 - Elements of assurance engagements & Type of engagements

Threats to Independence



SAFEGUARDS TO INDEPENDENCE

1. Auditor should always be & appear to be independent
2. Auditor should abide with key fundamental principles of integrity, objectivity & professional skepticism
3. Auditor should consider threats to independence before accepting the engagement
4. In case of threat to independence - should not accept engagement unless necessary safeguards can be put

SA -210 (Revised)-" Agreeing the Terms of Engagement"

Objective of Auditor : To accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed with the client

Agreeing the terms of audit Engagement

At the beginning of Audit

During the Course of Audit

Initial audit engagement

Recurring Audit

Mngt. Request for changes in terms

Limitations Imposed by mngt.

No Limitation Imposed by Mngt.

Determine requirements w.r.t.:
(a) Revision of terms of Engagement; &
(b) Remind the entity of existing terms

Determine its effect on level of Assurance & reasonable justification

Do not accept unless required by law

Ascertain existence of Preconditions

Required

Not Required

Auditor Satisfied

Not Satisfied

Preconditions for an audit
1. Determine whether the FRF is acceptable.
2. Obtain agreement of mngt that it understands its responsibilities for:
(a) Preparation of F.S.
(b) Exercising necessary Internal Control to enable the preparation of F.S. that are free from material misstatements.
(c) To provide the auditor:
• Access to all relevant info.
• Additional info that auditor requests from mngt.
• Unrestricted access to persons within the entity.

Exist

Not Exist

Accept Audit

Discuss matter with Mngt.

Send New Engagement Letter

No Further Duty

Record New Terms in Engagement Letter

Do not accept the changes

Do not accept audit in case of:
(a) Unacceptable FRF
or
(b) Mngt. Does not agree with responsibilities

CIRCUMSTANCES REQUIRING REVISION IN TERMS

- Indications that the entity misunderstands the objective and scope of the audit.
- Revised or special terms of engagement.
- Recent change of senior management .
- Significant change in ownership.
- Significant change in nature or size of the entity's business.
- Change in legal or regulatory requirements.
- Change I n FRF adopted in the preparation of the F.S.
- A change in other reporting requirements.

Mngt. Not permit the auditor to continue

Withdraw & Report to appropriate authority

Questions from Module – Chp 11 – Considerations w.r.t. client integrity & EQCR

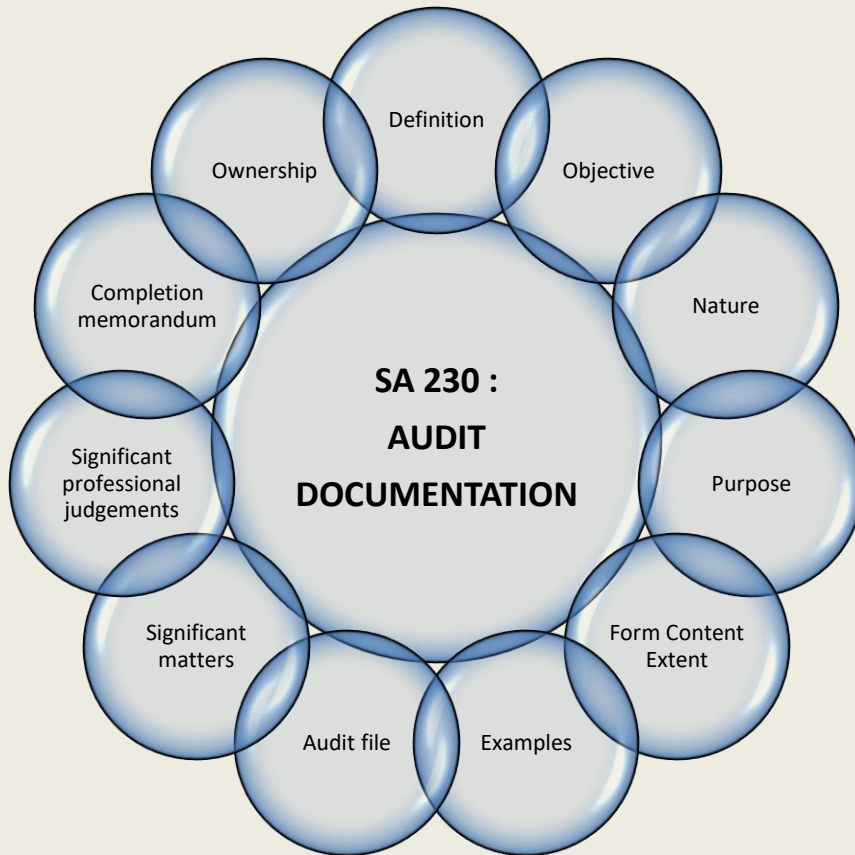
SQC 1 - Standard on Quality Control

Leadership Responsibilities	Ethical Requirements (IESBA Code #)	Acceptance/ Continuance of Client relationship	Human resources	Engagement performance	Monitoring
<ul style="list-style-type: none"> ✓ Require CEO/Managing Partner to assume ultimate responsibility for QC ✓ Promote internal culture w.r.t. ❖ Comply with professional standards/ legal requirements ❖ Issue appropriate AR ❖ Quality is essential ✓ Recognize & reward high quality work 	<p>Establish policies & procedures to provide reasonable assurance that Firm & personnel comply with relevant ethical requirements of:</p> <ul style="list-style-type: none"> ▪ Integrity; ▪ Objectivity; ▪ Professional competence and due care; ▪ Confidentiality ▪ Professional behavior. <p># International Ethics Standards Board for Accountants</p>	<p>Establish policies/ procedures to provide reasonable assurance that clients are accepted/ continued only where:</p> <ul style="list-style-type: none"> ▪ Client integrity has been considered ▪ Firm is competent to perform engagement w.r.t. capability, time & resources ▪ Firm can comply with relevant ethical requirement 	<p>Establish policies and procedures* designed to provide it with reasonable assurance that Firm has sufficient personnel with the capabilities, competence, and commitment to ethical principles &,</p> <ul style="list-style-type: none"> ▪ To perform its engagements in accordance with professional standards & ▪ Issue appropriate AR <p><i># Such policies & procedures should address the following personnel issues:</i></p>	<p>Establish policies and procedures that address foll. Matters</p> <ul style="list-style-type: none"> ✓ How ET are briefed on the engagement to obtain an understanding of the objectives of their work. ✓ Processes for complying with applicable standards. ✓ Processes of supervision, staff training and coaching. ✓ Methods of reviewing the work performed, the significant judgments made and the form of report being issued. ✓ Appropriate documentation is maintained. ✓ Processes to keep all policies and procedures current. 	<p>Establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are</p> <ul style="list-style-type: none"> ▪ relevant, ▪ adequate, ▪ operating effectively and ▪ complied with in practice <p><i>Refer notes - For purpose of monitoring compliance with QC policies</i></p>

Recruitment; Performance evaluation; Capabilities; Competence; Career development; Promotion; Compensation; and Estimation of personnel needs.

SA 220 - Quality Control for an Audit of Financial Statements

Leadership Responsibilities	Ethical Requirements	Acceptance/Continuance of Client relationship	Assignment of ET	Engagement Performance	Monitoring
<p>The EP shall take responsibility for the overall quality on each audit engagement</p> <p>The EP should emphasize on the foll:</p> <ul style="list-style-type: none"> ▪ Comply with professional standards ▪ Comply with the firm's quality control policies ▪ Issue appropriate AR ▪ Ability to raise concerns without fear <p>Quality is essential & indispensable in eng. performance</p>	<p>EP to remain alert for evidence of non-compliance with relevant ethical requirements by ET through:</p> <ul style="list-style-type: none"> ▪ Inquiry & ▪ Observation <p>If there is any indication of non-compliance with relevant ethical requirements, EP should:</p> <ul style="list-style-type: none"> ▪ Consult others in firm ▪ Determine appropriate action 	<p>→ The EP shall be satisfied that appropriate procedures regarding client acceptance & continuance have been followed</p> <p>→ If the EP obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the EP shall communicate that information promptly to the firm.</p> <p>→ <u>Examples of information:</u></p> <ul style="list-style-type: none"> ▪ <i>The integrity of the principal owners, KMP and TCWG;</i> ▪ <i>Whether the ET is competent to perform the audit engagement and has the necessary capabilities, including time and resources;</i> ▪ <i>Whether the firm and the ET can comply with relevant ethical requirements; and</i> ▪ <i>Significant matters that have arisen during the current or previous audit engagement, & their implications for continuing the relationship.</i> 	<p>EP to be satisfied & expert have appropriate competence & capabilities to :</p> <p>To perform audit acc. To standards & Issue appropriate AR</p>	<p>EP shall take the responsibility for</p> <ul style="list-style-type: none"> • directions, supervision & performance of engagement & to make appropriate AR • Reviews are being performed in accordance with policies/procedures • Review of AD • Discussion with ET • EP shall undertake consultation • In case of difference of opinion, he will follow the firm's policies <p># Refer notes for EQCR</p>	<p>Obtain reasonable assurance that firms policies/procedures relating to QC are</p> <ul style="list-style-type: none"> ▪ relevant, ▪ adequate, ▪ operating effectively and ▪ complied with in practice <p>Whether deficiencies notes, may affect audit engagement.</p>



Definition: Record of

- ✓ Audit procedures **performed**
- ✓ Relevant AE **obtained**, &
- ✓ Conclusions **reached**

Obj: To prepare documentation that provides

- ✓ **Sufficient & appropriate record** of basis for AR &
- ✓ **Evidence** that audit was planned & performed in acc. With SAs & regulations

Nature: Audit documentation should provide

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

Purpose: Audit documentation should provide

- ✓ Assisting the engagement team to **plan and perform the audit**.
- ✓ Assisting engagement team to **direct, supervise & review**
- ✓ Enabling the engagement team to **be accountable for its work**.
- ✓ Enabling the conduct of **quality control reviews and inspections**
- ✓ Enabling the conduct of **external inspections in accordance with legal requirements**
- ✓ Retaining a record of matters of **continuing significance to future audits**.

Documentation of significant matters

- ✓ **Results of audit procedures** indicating (a) that the financial statements could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
- ✓ **Circumstances that cause the auditor significant difficulty** in applying necessary audit procedures.
- ✓ **Findings that could result in a modification to the audit opinion** or the inclusion of an Emphasis of Matter Paragraph in the auditor's report.

Factors affecting form, content & extent:

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

Documentation of significant professional judgements

- ✓ The rationale for the auditor's conclusion when a requirement provides that the auditor '**shall consider**' certain information or factors,
- ✓ The **basis for the auditor's conclusion on the reasonableness** of areas of subjective judgements (for example, the reasonableness of significant accounting estimates).
- ✓ The **basis for the auditor's conclusions about the authenticity of a document** when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.

Ownership of Audit documentation

- ✓ As per SQC 1 - 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 such disclosure does not undermine the validity of the work performed, the independence of the auditor or of his personnel

Completion memorandum:

Audit documentation summary should describe

- the **significant matters** identified during the audit and
- how **they were addressed**
- ✓ Such a summary may facilitate **effective and efficient review** and inspection of the audit documentation, particularly for large and complex audits.
- ✓ Preparation of such a summary may assist auditor's consideration of the significant matters.
- ✓ Helps the auditor to consider **whether there is any individual relevant SA objective that the auditor cannot achieve** that would prevent the auditor from achieving the overall objectives of the auditor

Assembly of final audit file:

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

- ✓ Time limit within which to complete the assembly of the final audit file is ordinarily not more than **sixty days** after the date of the auditor's report.
- ✓ Assembly of the final audit file is an **administrative process** that does not involve the performance of new audit procedures or the drawing of new conclusions
- ✓ Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature
- Deleting or discarding superseded documentation.
- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report
- ✓ The retention period for audit engagements ordinarily is no shorter than **seven years** from the date of the auditor's report, or, if later, the date of the group auditor's report

SA 240 (Revised)-The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement

Meaning and Nature of Fraud

Meaning: International Act involving use of deception to obtain an unjust or illegal advantage.

Auditor is concerned with Fraud that causes **Material Misstatement**

Misstatement may result from:

A	Fraudulent Financial Reporting
	<ol style="list-style-type: none"> Recording fictitious journal entries to manipulate operating results. Inappropriate assumptions. Changing judgments to estimate account balances. Omitting advancing or delaying recognition of events and transactions occurred during the year Concealing facts that affect the amount recorded in F.S. Engaging in complex transactions that are structured to misrepresent the financial position or financial performance. Altering records relating to significant transactions.
B	Misappropriation of Assets
	<ol style="list-style-type: none"> Embezzling receipts. Stealing physical assets. Causing an entity to pay for goods and services not received. Using entity assets for personal use.

Fraud Risk Factors/ Characteristics of Fraud

- **Incentive or pressure to commit Fraud:** Arises when mngt. Is under pressure to achieve an unrealistic target.
- **Perceived opportunity to do so:** Arises when an individual believes that internal control can be overridden.
- **Rationalization to do so:** arises when an individual possesses an attitude or character that allows them knowingly and intentionally to commit a dishonest act.

Risk associated for non-detection of material misstatements

- Due to inherent limitations there is always an unavoidable risk of material misstatement in F.S. due to Fraud.
- Risk of non-detecting a material misstatement resulting from fraud is higher than the risk of non-detecting one resulting from error.
- Risk of Material Misstatements due to Management Fraud is higher than due to Employee Fraud.

Conditions or events which increases risk of fraud or error

1. **Discrepancies in Accounting Records:** arises due to improper recording, unauthorised transactions, last minute adjustments.
2. **Conflicting or missing evidences:** missing documents, altered documents, non-availability of original documents, unexplained items etc.
3. **Unusual relationship between auditor & mngt:** undue time pressure, unusual delay in providing info, unwillingness to address weakness in IC.
4. **Others:** Mngt not allowing auditor to meet with TCWG, varied accounting policies, frequent changes in accounting estimates.

Management Duties

Primary responsibility for prevention & detection of fraud rests with Mngt. And TCWG

To ensure prevention of fraud Mngt. must have a commitment to create a culture of honesty and Ethical behaviour.

Auditor's Responsibilities

To obtain reasonable assurance that F.S. as a whole are free from material Misstatement.

Maintain an attitude of Professional Skepticism

Circumstances indicate existence of material Misstatement

Consider whether such a misstatement is an indication of Fraud. If Fraud identified:

Communication to Mngt. & TCWG (also to regulatory & Enforcement authorities, if required by Law)

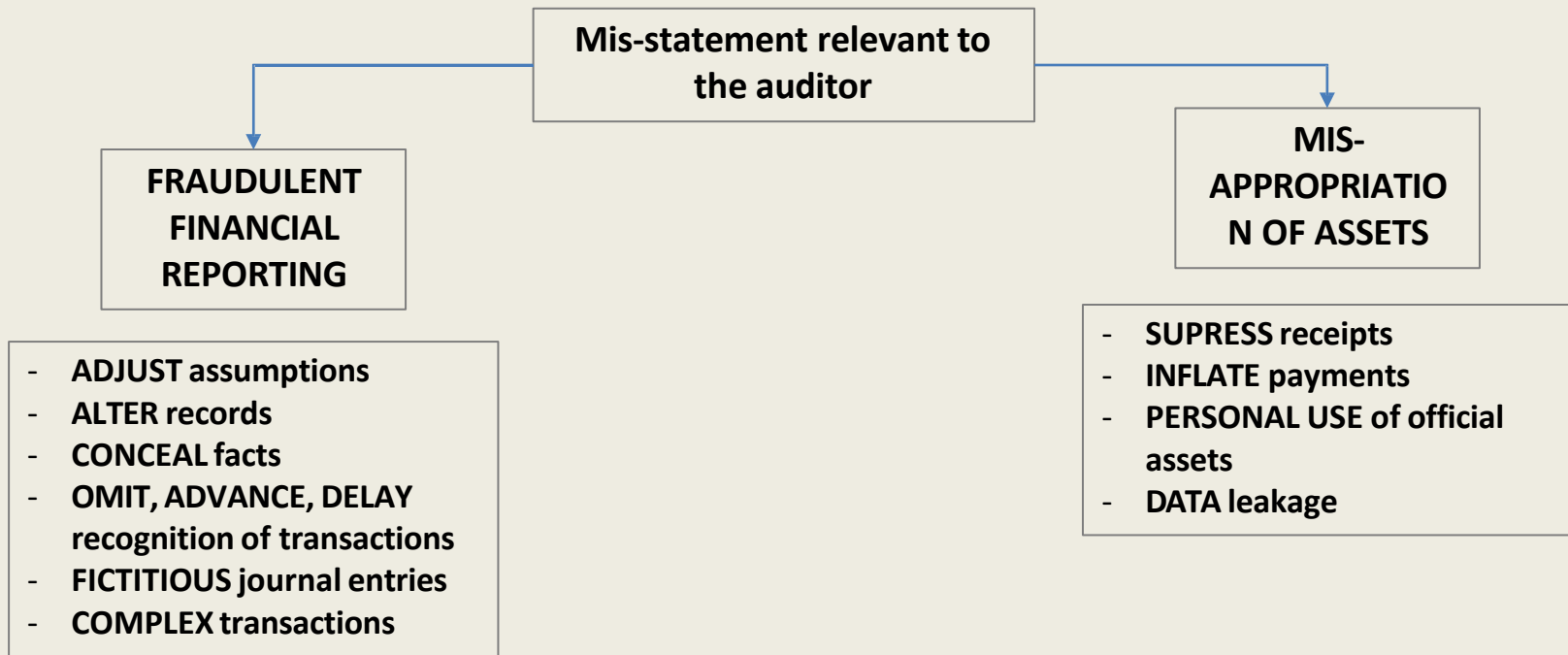
Auditor unable to complete the engagement.

Consider the Possibility of withdrawing.

If withdraw:

- Discuss with Mngt. & TCWG, &
- Report to appropriate persons

FRAUD & AUDITORS RESPONSIBILITIES – SA 240

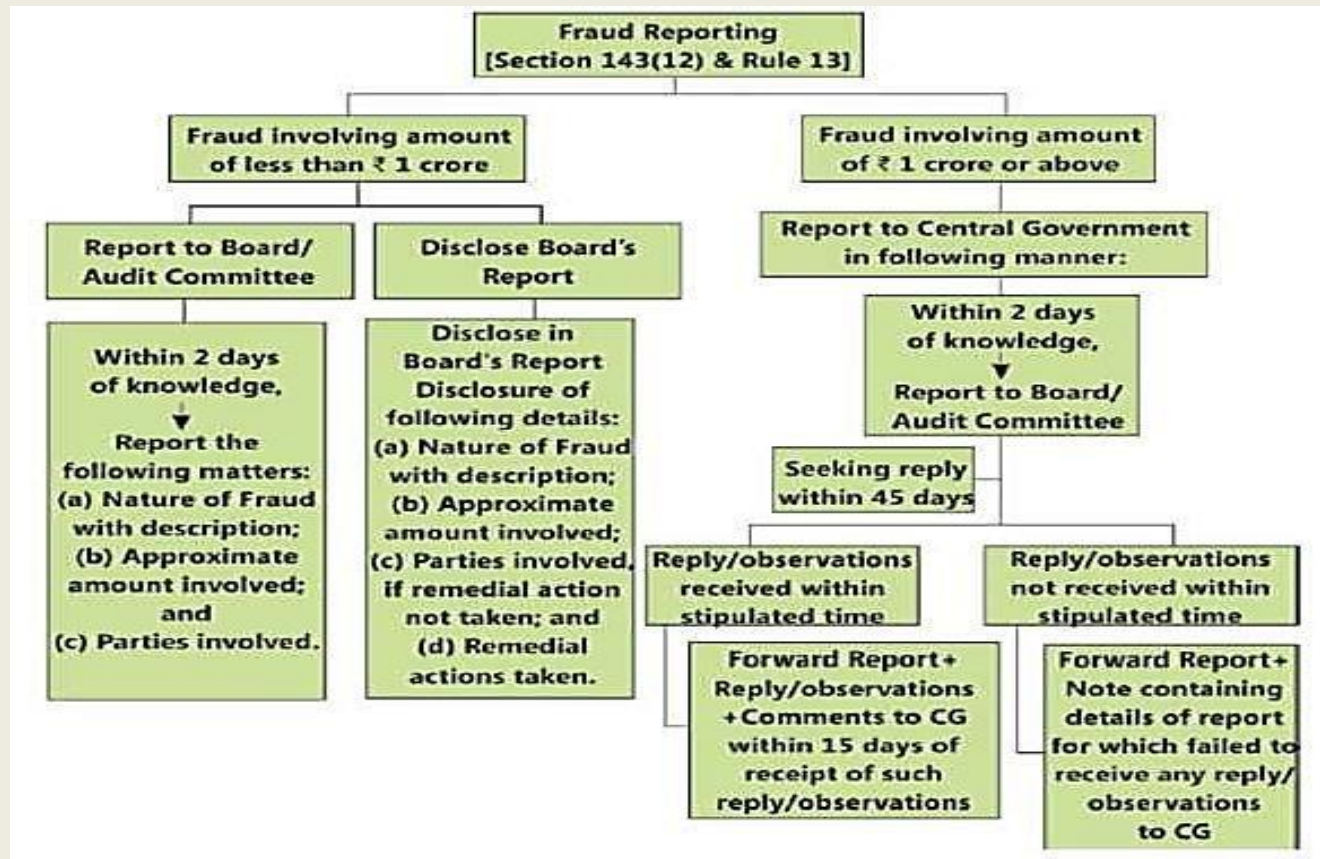


FRAUD & AUDITORS RESPONSIBILITIES – SA 240

**FRAUD RISK FACTORS
- WIPRO (refer module)**

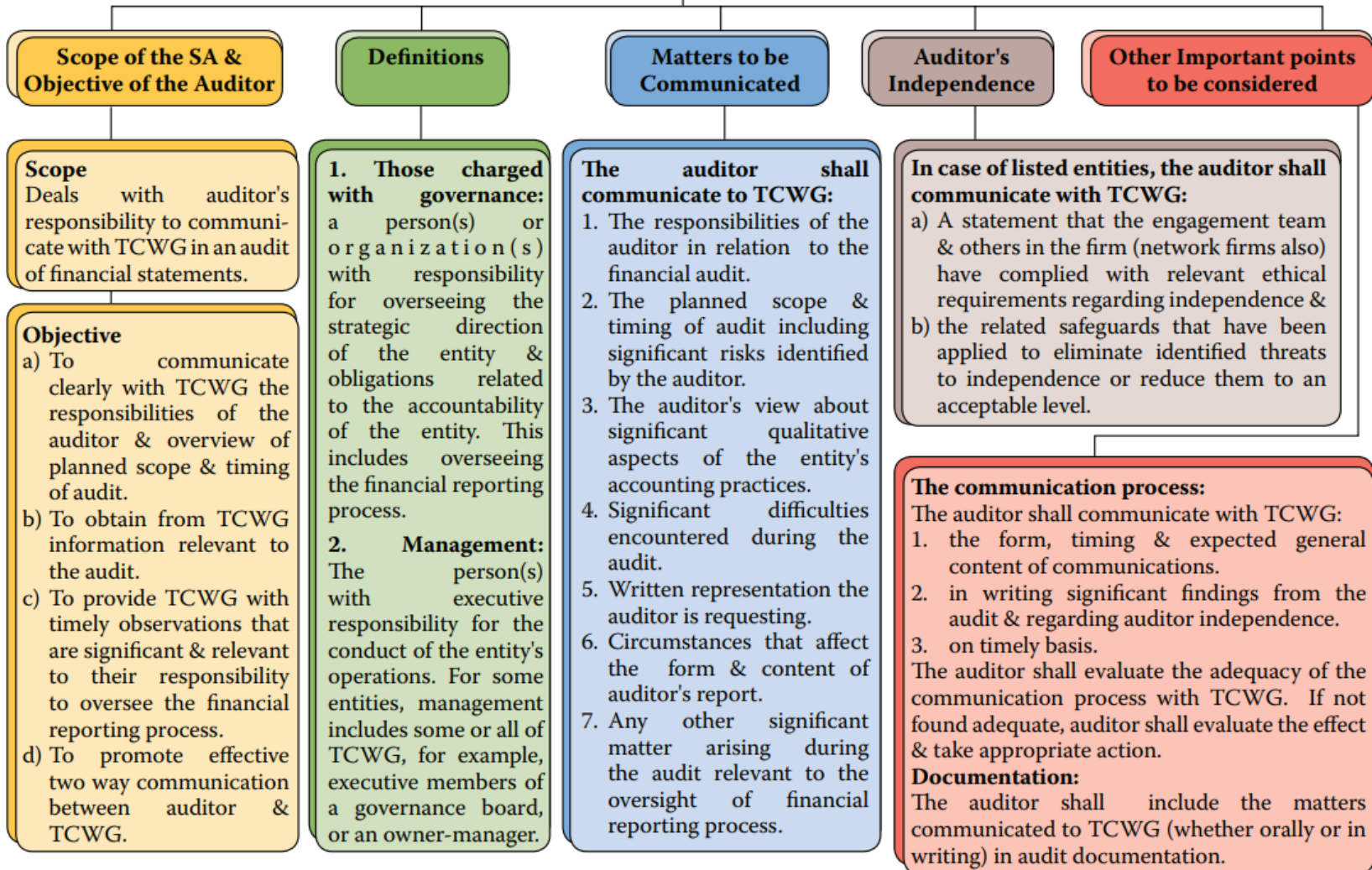
WIPRO	Fraudulent financial reporting	Mis-appropriation of assets
Incentives/ Pressures	<ul style="list-style-type: none"> <input type="checkbox"/> High degree of competition or market saturation, accompanied by declining margins <input type="checkbox"/> High vulnerability to rapid changes, such as changes in technology, product obsolescence, or interest rates. 	Adverse relationship between entity & employees created by <ul style="list-style-type: none"> <input type="checkbox"/> Lack of promotion <input type="checkbox"/> Known future lay off
Opportunities	<ul style="list-style-type: none"> <input type="checkbox"/> A strong financial presence or ability to dominate a certain industry sector 	<ul style="list-style-type: none"> <input type="checkbox"/> Large amount of cash on hand <input type="checkbox"/> Inventory items that are small in size
Rationalizations / Attitudes	<ul style="list-style-type: none"> <input type="checkbox"/> Known history of violations of securities laws or other laws and regulations <input type="checkbox"/> Unreasonable demands on auditor 	<ul style="list-style-type: none"> <input type="checkbox"/> Disregard for internal control <input type="checkbox"/> Tolerance for petty theft

Section 143(12) – Current/Past Fraud reporting by Auditor, Cost Auditor & Secretarial Auditor



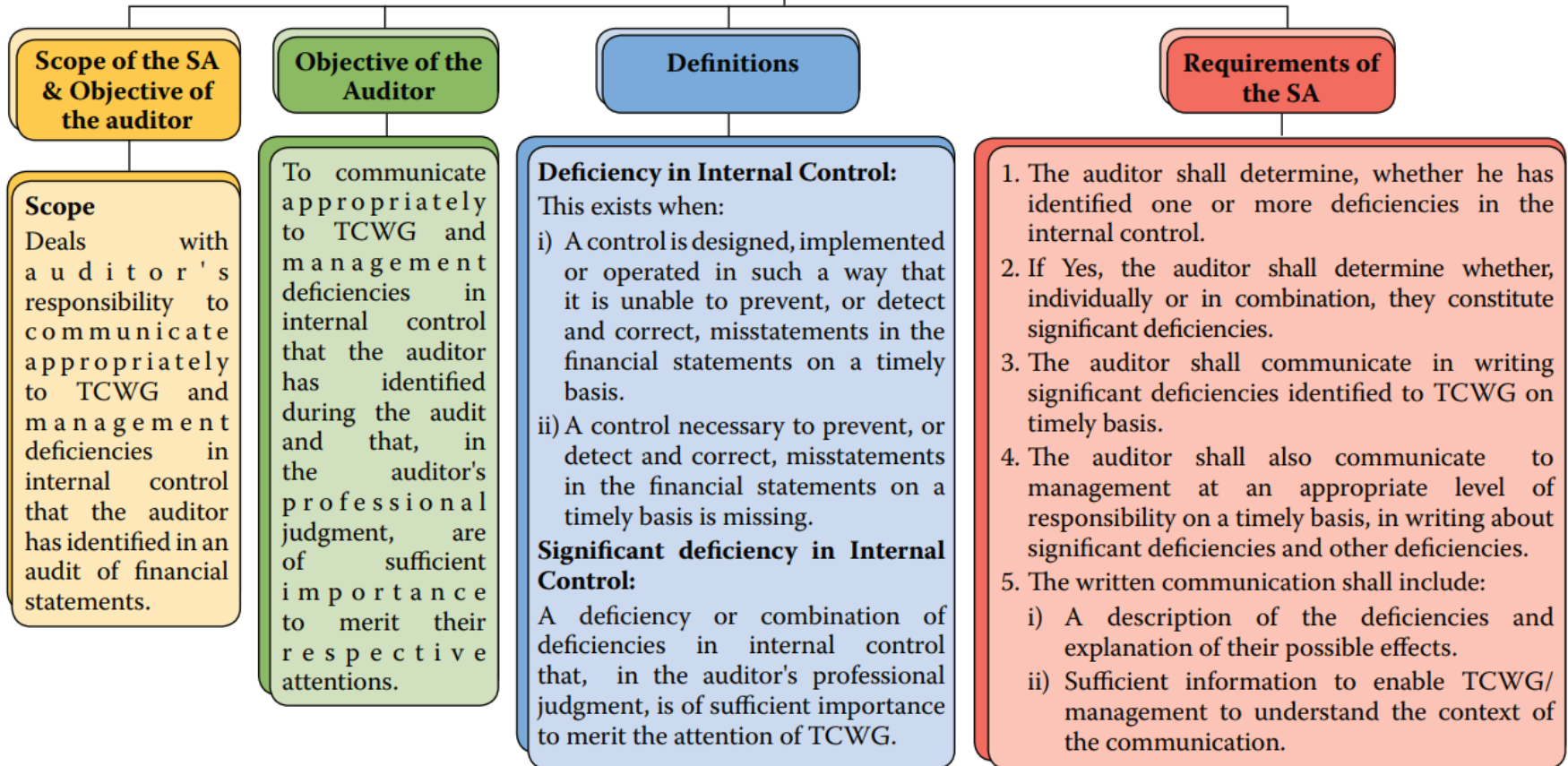
SA 260

"Communication with Those Charged with Governance"



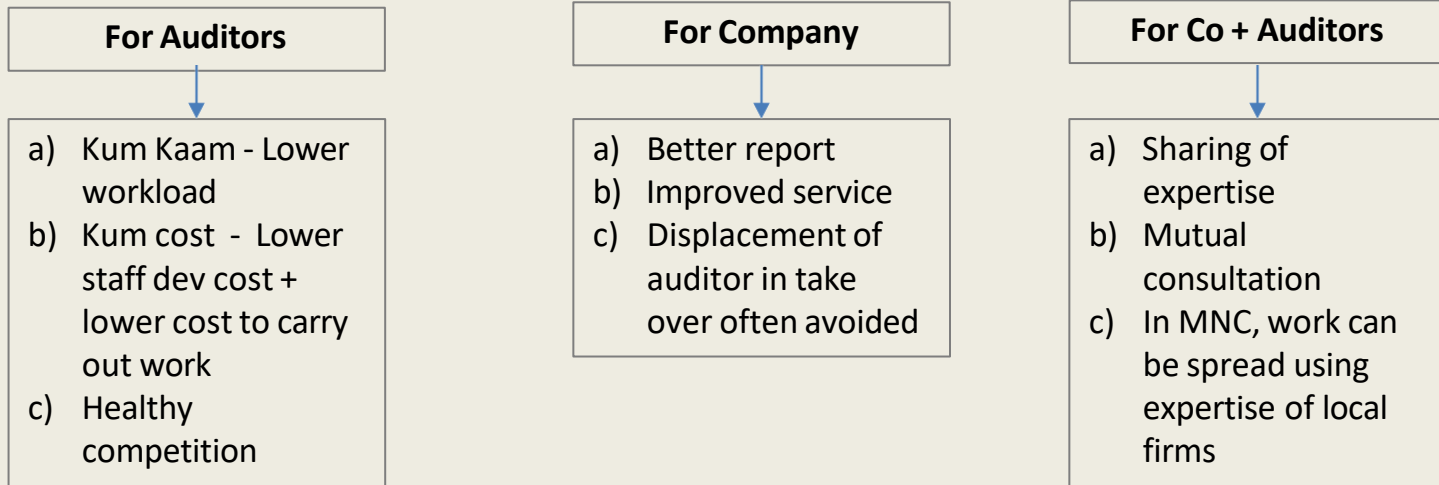
SA 265

"Communicating Deficiencies in Internal Control to Those Charged With Governance and Management"

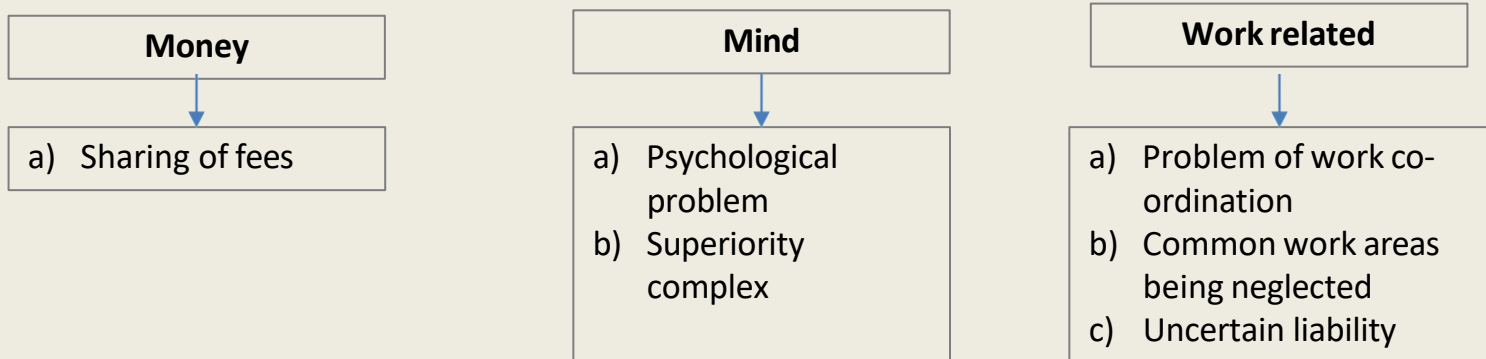


Also refer SA 265 from ICAI module

Joint Audit (SA 299) - Advantages



Joint Audit (SA 299) - Disadvantages



SA 299

"Joint Audit of Financial Statements"

Scope of the SA & Objective of the auditor

Scope

Deals with special considerations in carrying out audit by joint auditors. This SA lays down the principles for effective conduct of joint audit to achieve the overall objectives of the auditor laid down in SA 200.

Objective

- To lay down broad principles for the joint auditors in conducting the joint audit.
- To provide a uniform approach to the process of joint audit.
- To identify the distinct areas of work & coverage thereof by each joint auditor.
- To identify individual responsibility & joint responsibility of the joint auditors in relation to audit.

Joint Audit:

A joint audit is an audit of financial statements of an entity by two or more auditors appointed with the objective of issuing the audit report. Such auditors are described as **joint auditors**.

Definitions

Audit planning, Risk assessment & Allocation of work

Responsibility & Coordination among joint auditors

Audit Conclusion & Reporting

Communication with TCWG

Individual Responsibility for:

In respect of work divided, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures.

Jointly & Severally Responsible for:

- Audit work not divided and carried out by all joint auditors.
- Decisions taken by all joint auditors in respect of common audit areas.
- Matters brought to the notice of joint auditors by any one of them & on which all of them agree.
- Examining compliance of financial statements with relevant statutes.
- Presentation & disclosure of financial statements as per applicable FRF.
- Ensuring compliance with relevant statute, applicable SA & other relevant pronouncements.

1. Joint auditors to issue a common audit report.

2. In case of disagreement, they shall express their opinion in separate audit report.

3. A joint auditor is not bound by the views of the majority.

4. The audit report issued by joint auditor should refer to the separate audit reports issued by other joint auditors.

5. Such reference shall be made in Other Matter paragraph.

6. Each joint auditor to assume that:

i) The other joint auditors carried out their work as per SA. There is no need to review the work done by other auditors.

ii) Other joint auditors have informed the said joint auditor about any departure from applicable FRF.

7. Before finalising their audit report, the joint auditors shall discuss & communicate with each other their respective conclusions that will form

1. Engagement partner & other key members from each of the joint auditors be involved in planning the audit.

2. The joint auditors shall establish the overall audit strategy.

3. The joint auditors shall discuss & develop a joint audit plan.

4. ROMM is to be considered and assessed by each Joint Auditor and shall be communicated to other joint auditors and documented, whether pertaining to the overall financial statements level or to the area of allocation among the other joint auditors.

5. The joint auditors shall discuss & document the NTE of audit procedures and the same shall be communicated to TCWG.

6. The joint auditors shall obtain common engagement letter & common management representation letter.

7. The work allocation document shall be signed by all joint auditors & communicated to TCWG.

When the joint auditors expect to modify the opinion or include EOM/ OM paragraph, they shall communicate with TCWG regarding the circumstances and the proposed wordings of the report.



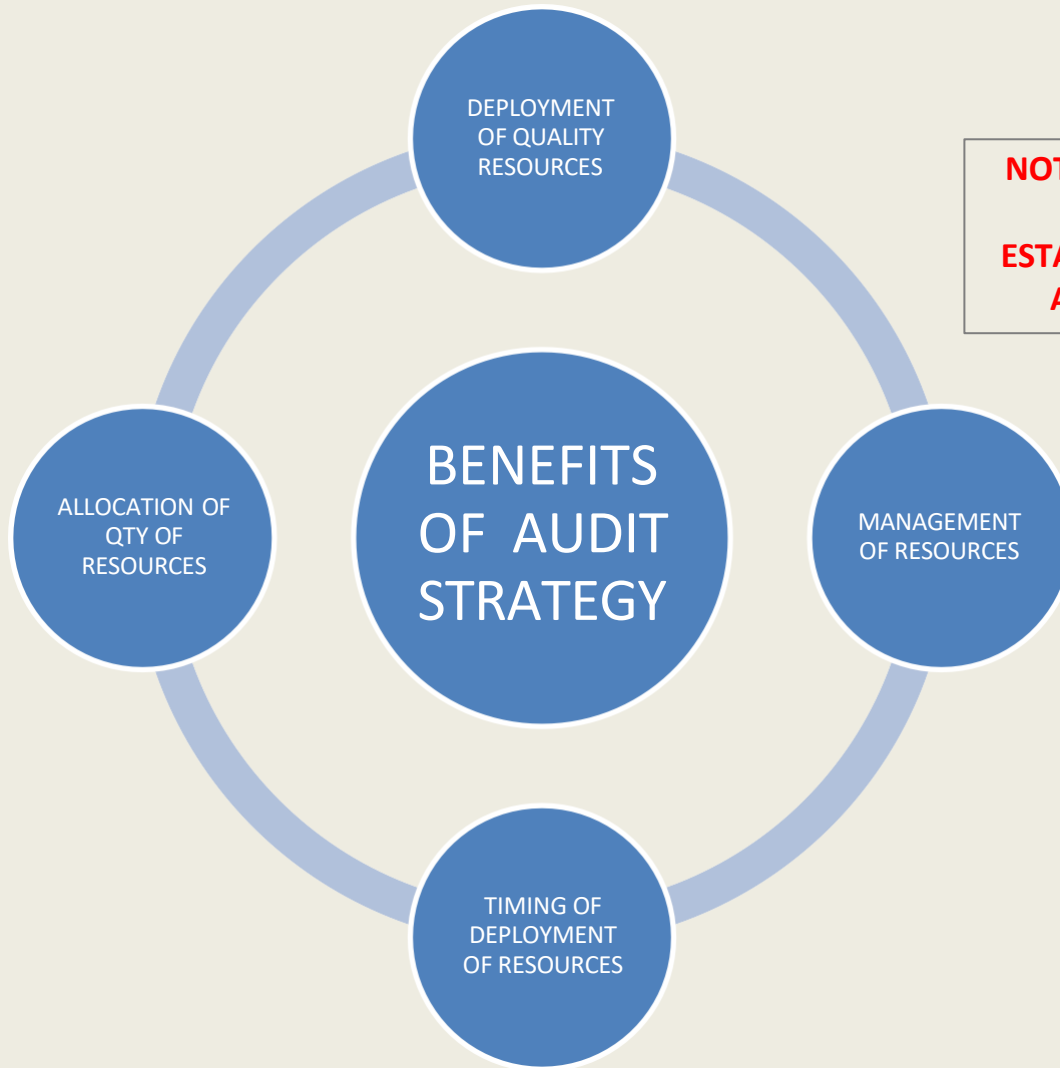
**AUDIT
PROGRAM**

AUDIT PLAN

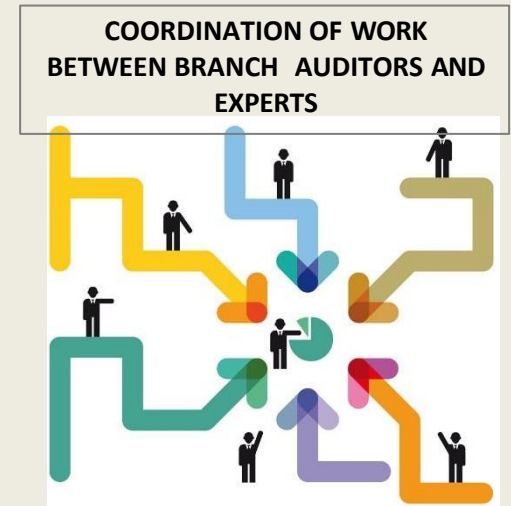
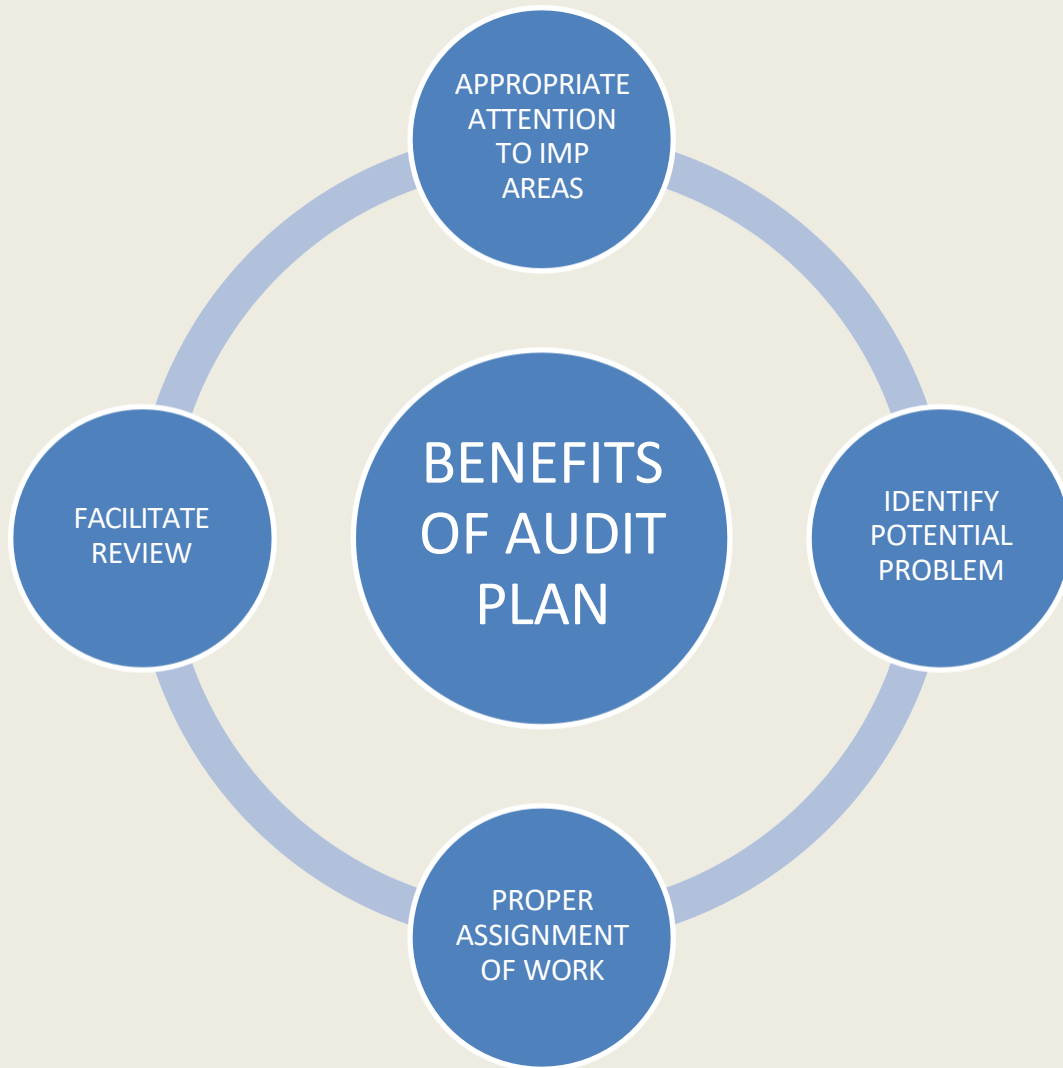
**AUDIT
STRATEGY**

RELATIONSHIP B/W AUDIT STRATEGY & AUDIT PLAN

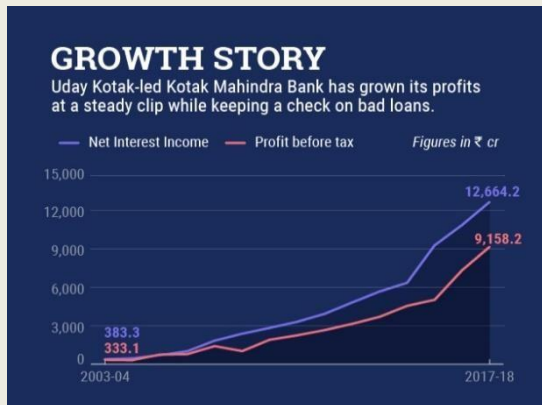
PARTICULARS	AUDIT STRATEGY	AUDIT PLAN
WHEN IS IT PREPARED ?	PREPARED BEFORE THE AUDIT PLAN	PREPARED AFTER THE AUDIT STRATEGY
WHY IS IT PREPARED ?	PROVIDES GUIDELINES FOR DEVELOPING AUDIT PLAN	AN AUDIT PLAN IS DEVELOPED TO ADDRESS VARIOUS MATTERS IDENTIFIED IN THE OVERALL AUDIT STRATEGY
CONTENT ?	ESTABLISHES SCOPE, TIMING AND DIRECTION OF AUDIT	INCLUDES N,T,E OF AUDIT PROCEDURES TO OBTAIN SAAE



NOTE: SAME POINTS IN PROCESS FOR ESTABLISHING OVERALL AUDIT STRATEGY



KNOWLEDGE OF CLIENTS BUSINESS (Eg. KOTAK)



VISSION & MISSION

- To be the most trusted **Global Indian Financial Services** brand and the most preferred financial services employer with focus on creating value.
- Customers must enjoy the benefits of dealing with a **Global Indian Brand** that best understands their needs and delivers customized pragmatic solutions across multiple platforms.

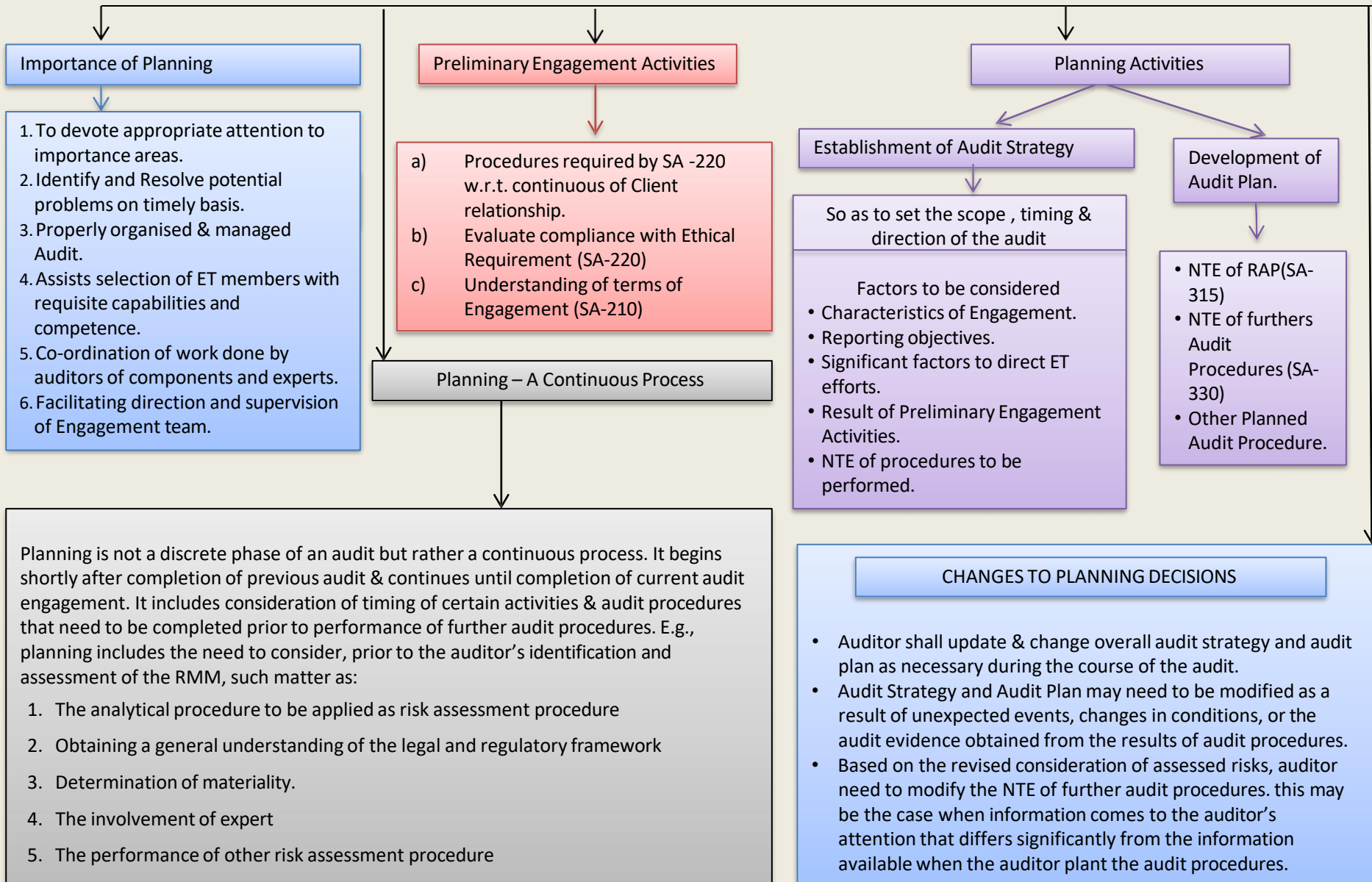


MR. UDAY. S. KOTAK

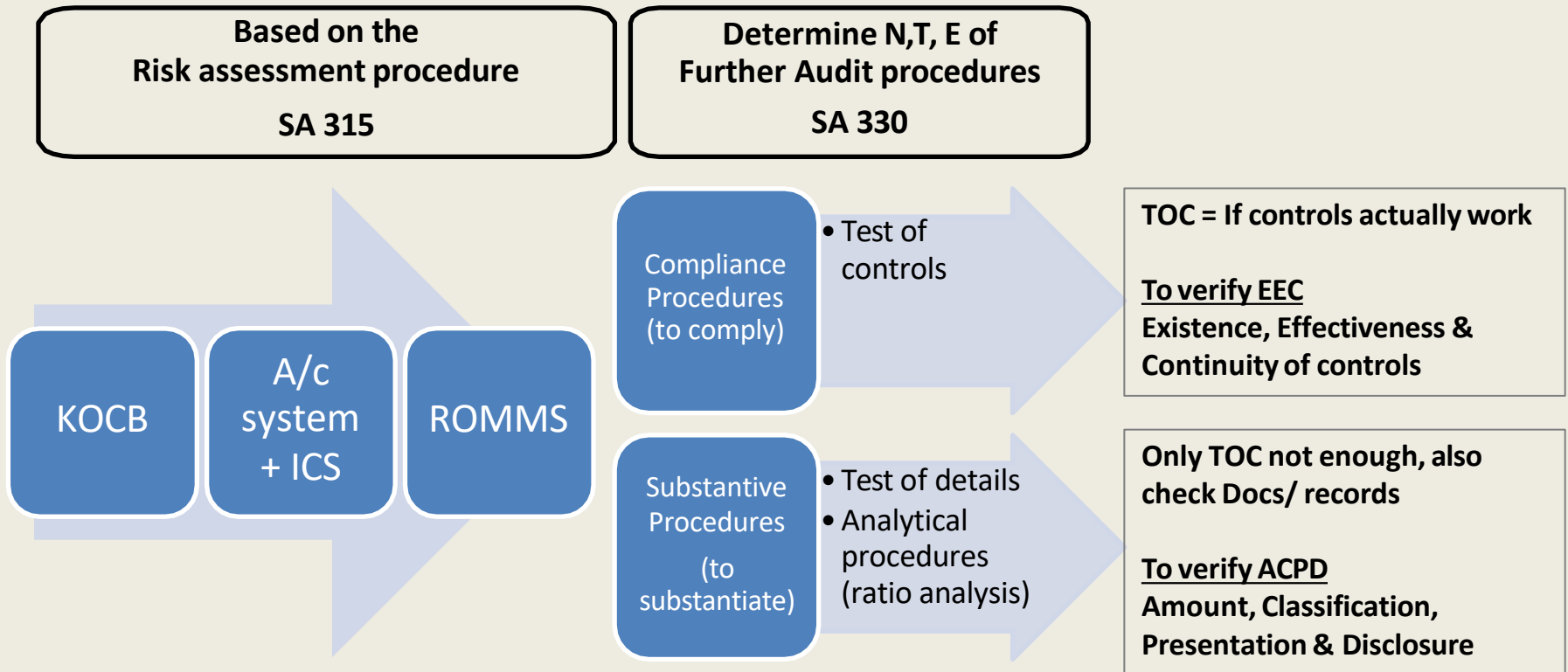
Executive Vice Chairman & Managing Director,
Kotak Mahindra Bank



SA 300 (Revised) – Planning in an audit of Financial Statements



Concepts from SA 315 & SA 300



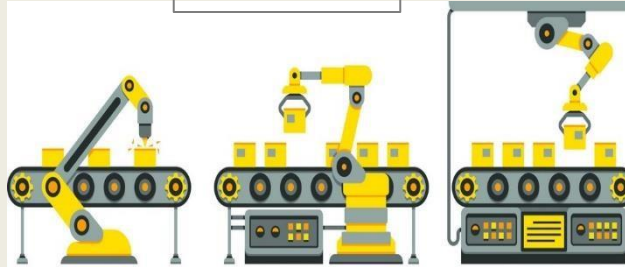
**SMALL
BUSINESS**



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**MEDIUM
BUSINESS**



**LARGE
BUSINESS**



**RELATED
CONTROLS**



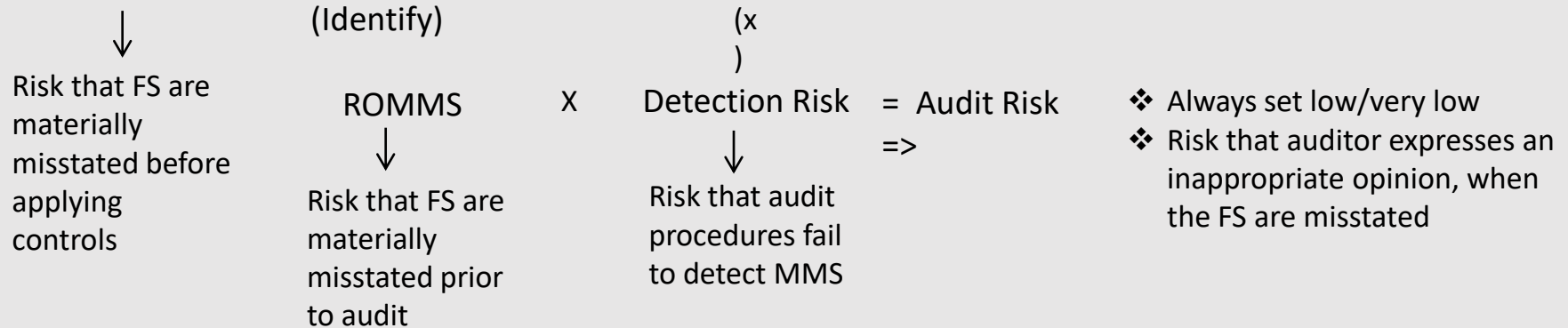
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Risk Assessment – SA 315

Risk that controls fail or risk that the controls are unable to prevent or detect and correct MMS

- Inherent risk x Control risk x Detection risk = Audit risk



- ❖ Always set low/very low
- ❖ Risk that auditor expresses an inappropriate opinion, when the FS are misstated

- ↑ IR x CR = ↑ ROMMS
- ↑ ROMMS x ↓ DR = Audit Risk ↓
- ↑ Checking = ↓ Detection risk
- ↑ Sample size = ↓ Probability to Detect MMS
- ↑ Probability of Identifying MMS = ↓ Probability of not finding MMS

AUDIT RISK

CASE	FS CONTAIN MSS	RECTIFICATION UNDERTAKEN	OPINION AUDITOR SHOULD GIVE	OPINION ACTUALLY GIVEN	RISK
1	NO, MMS	NOT REQUIRED	UNMODIFIED	MODIFIED	INSIGNIFICANT RISK PROBABILITY ↓
2	YES, MMS	YES, RECTIFICATION DONE	UNMODIFIED	MODIFIED	
3	YES, MMS	NO RECTIFICATION	MODIFIED	UNMODIFIED	AUDIT RISK

AUDIT RISK = RISK OF EXPRESSING INAPPROPRIATE OPINION ↓ = PROBABILITY OF EXPRESSING APPROPRIATE OPINION ↑
 LOWER/VERY LOW

SA 320 (Revised) “Materiality in Planning and Performing an Audit”

Concept of Materiality

Materiality is a subject of professional judgement and discussion presented in FRF provides a reference to the auditor in determining materiality.

If FRF does not include a discussion following can be referred:

- Misstatements including omissions expected to influence the economic decisions of users.
- Size or nature of misstatement & the surrounding circumstances.
- Common financial information needs of the users as a group.

Judgment of materiality provides a basis for:

- Determination of NTE of RAP.
- Identifying and assessing RMM.
- NTE of further audit procedures.

Performance Materiality

- The amount set by auditor at
- Less than materiality for F.S. as a whole
- To reduced to an appropriately low level
- The probability that the aggregate of the uncorrected & undetected misstatement
- exceeds materiality for F.S. as a whole

Revision of Materiality

- In event of becoming aware of information that would have caused auditor to have determined a different amount initially, auditor shall revise materiality for the F.S. as a whole & if required, for particular classes of transactions, account balances or disclosures.
- If the auditor concludes that a lower materiality than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the NTE of the father audit procedures remain appropriate.

Auditor's Duties

- upon establishing the overall audit strategy the auditor shall determine the material ATI for the f is as a whole
- determine the materiality label for specific transaction for which MS statements of lower amount be expected to influence the economic decisions of users
- determine performance materiality for purpose of assessing the RMM and determining the entry of further audit procedures.

Use of benchmark in determining materiality

A% age is often applied to a chosen benchmark as a starting point in determining material for the F.S. as a whole.

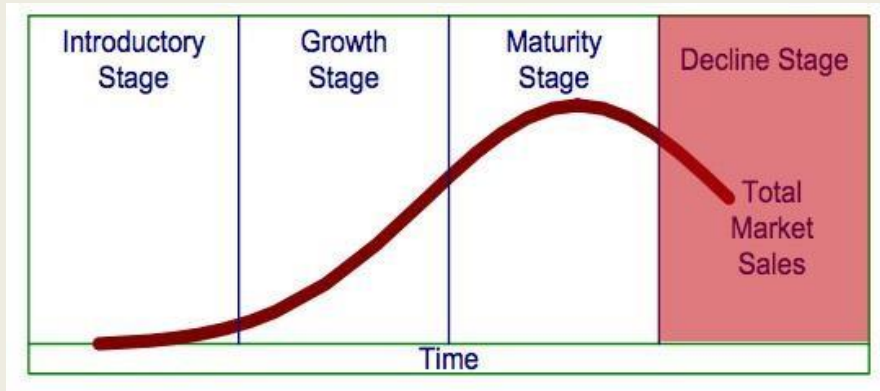
Factors affecting identification of appropriate benchmark

- The elements of the financial statements;
- Items on which the attention of the users of the particular entity's financial statements tends to be focused;
- The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed; and
- the relative volatility of the benchmark.

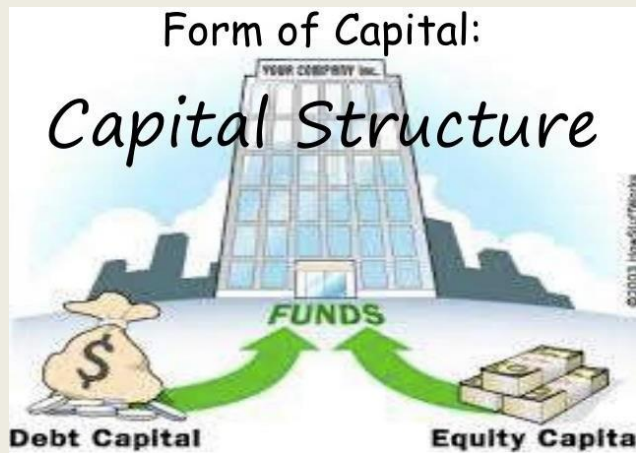
FACTORS AFFECTING IDENTIFICATION OF BENCHMARK



FACTORS AFFECTING IDENTIFICATION OF BENCHMARK

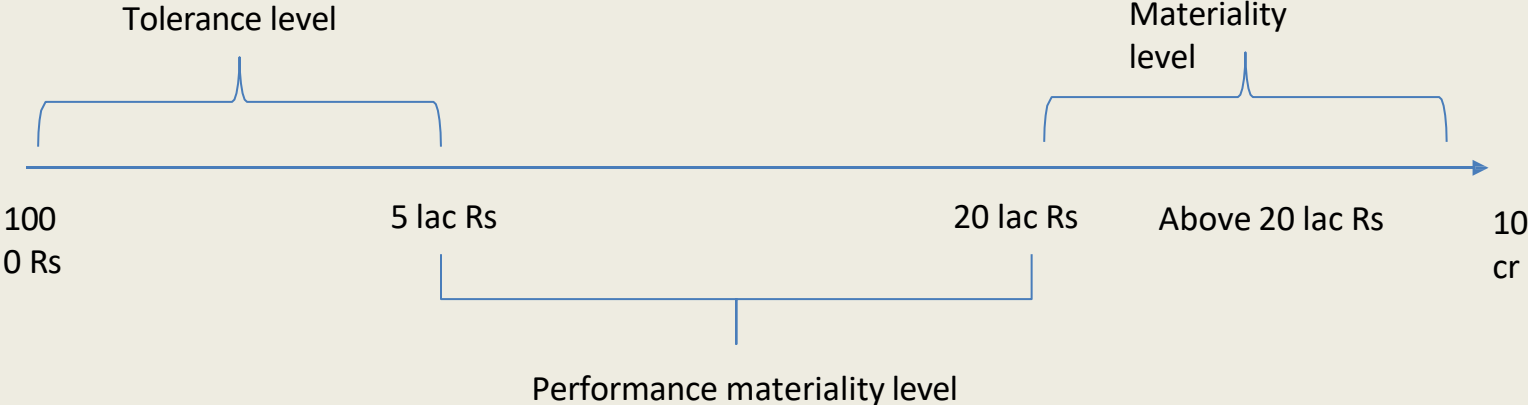


AVERAGE PROFITS



High DE Ratio, take assets

PERFORMANCE MATERIALITY



SA 450 “Evaluation of Misstatements Identified during the Audit

Meaning and Causes of Misstatements

Difference between
amounts, classification, presentation or disclosure of a reported financial statement item,
and
amount, classification, presentation or disclosure that is required for the item to be in accordance of FRF.

Causes of Misstatement

- (a) Inaccuracy in gathering or processing data from which the F.S. are prepared;
- (b) Omission of an amount or disclosure;
- (c) Incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and
- (d) Unreasonable judgments of management concerning accounting estimates.
- (e) Inappropriate selection & application of accounting policies

Auditor’s Procedures if Misstatements identified

Accumulate the misstatements other than those that clearly trivial

Communicate to management & request them to correct.

Management corrects

Perform Additional Procedures to determine whether misstatements remain.

Management refuses

Understand the reason for not making corrections

Re-assess the materiality

If material, communicate uncorrected misstatement and their effect on his opinion to TCWG with a request that uncorrected misstatements be corrected.

Not corrected

Obtain a written representation from management/TCWG w.r.t their believing that effect of uncorrected misstatements is

Determine whether any revision required in Audit Strategy/Plan.

Audit Strategy and Audit Plan require revision if

Nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, could be material;

or

Aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320 (Revised).

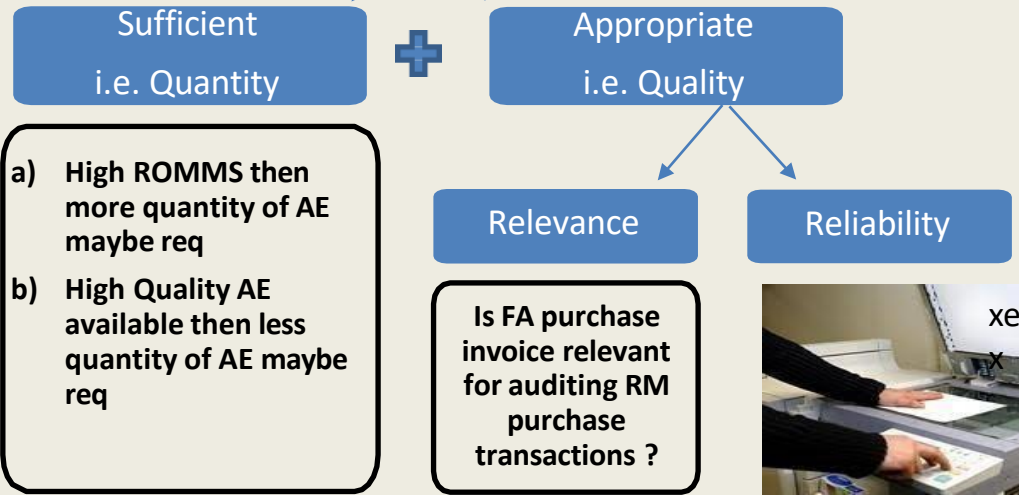
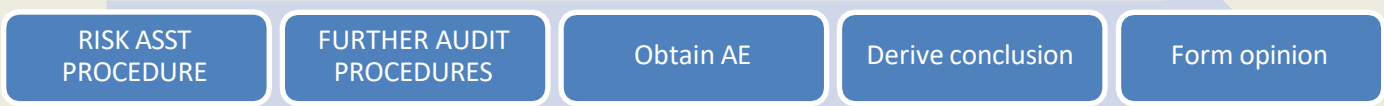
CONCEPT OF AUDIT EVIDENCE

REFER SA 500

- First try

 - Auditor should first try to obtain conclusive evidence E.g: Physical stock verification
- If not

 - But if Physical stock verification is not possible, then at least inquire from management, such information is Persuasive AE = convincing/ corroborative AE = related



AUDIT EVIDENCE – SA 500

AUDIT EVIDENCE INCLUDES

ACCOUNTING RECORDS (JBL)

- A) Journal entries
- B) Bank statements
- C) Ledgers
- D) Contracts

OTHER INFORMATION (BMM)

- A) Board resolutions
- B) MOA & AOA
- C) Minutes book
- D) External confirmations

AUDIT EVIDENCE TYPES

BASED ON SOURCE (ORINATION)

INTERNAL

Eg: Sales invoice
generated within the
company

EXTERNAL

Eg: Purchase invoice
generated outside the
company



BASED ON NATURE

VISUAL

Obtained by observation

ORAL

Obtained on inquiry

DOCUMENTARY

Obtained by inspection

SA 500 " Audit Evidence "

Meaning and Nature of Audit Evidence (A.E.)

Meaning of A.E.

Information used by auditor

In arriving at the conclusion

On which auditor's opinion is based.

Nature of A.E.

A.E. needs to be

Sufficient	Appropriate
Measure of quantity	Measure of quality
Affected by • RMM • Quality of Audit evidences.	Relevance & reliability in providing support for conclusion.

Auditor's duties when an information to be used as audit evidence

Information prepared using
work of Management Expert

Information
Produced by entity

1 Evaluate Competence, Capability and Objectivity of the Expert

Source of information for evolution:

- Personal experience with previous work.
- Discussion with the expert.
- Discussion with others.
- Knowledge of expert's qualification memberships other forms of recognitions.
- Published books or papers.
- Auditor's expert.

2 Obtained an understanding of expert work

- Area of speciality.
- Applicable professional standards.
- Legal and regulatory requirements.
- Assumptions and method used.
- Nature of source data used.

3 Evaluate the appropriateness of Expert work

- **Finding & conclusion**-relevance reasonableness & consistency with other A.E.
- **Assumptions and methods**-relevance and reasonableness.
- **Source data**-relevance completeness and accuracy.

Obtained A.E. about the
↓
Accuracy and Completeness of info.
↓
Evaluate whether info is
↓
sufficiently precise and detailed for auditor's purposes

Audit Procedures & Methods for obtaining audit evidence

Procedures to obtain A.E.

- RAP
 - FAP (Responses):
 - Test of control (ToC).
 - Substantive
- Tests of details (ToD)
 - Substantive Analytical Procedures (SAP)

Methods to obtain A.E.

- Inspection
- Observation
- External Confirmation
- Recalculation
- Re-performance
- Analytical procedures
- Inquiry (Oral/Written)

Reliability of Audit Evidence

- External Evidences are considered more reliable than internal evidences.
- The reliability of internal evidence is increased when the related controls, imposed by entity are effective.
- Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly.
- Audit evidence in documentary form, is more reliable than evidence obtained orally.
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies.

How to obtain AE - TYPES OF AUDIT TECHNIQUES/PROCEDURES



*Inspection,
Observation,
Inquiry is
RARE*

AUDIT EVIDENCE – SA 500

RELIABILITY OF AUDIT EVIDENCE

- **External > Internal**
 - **Written > Oral**
 - **Obtained by auditor himself > others**
 - **Obtained directly > indirectly**
 - **Observation > Inquiry**
 - **Original > Xerox**
- # If ICS is effective, Internal evidence is more reliable

FACTORS AFFECTING SUFFICIENCY & APPROPRIATENESS

- **ROMMS**
- **MATERIALITY**
- **EXPERIENCE GAINED DURING PRIOR AUDIT**
- **TYPE OF INFORMATION AVAILABLE**
- **TREND RATIOS**
- **RESULTS OF AUDIT PROCEDURES**

SA 501 : Audit Evidence → Specific Considerations

Inventory

Existence and Condition

Check if Inventory is Material

Material

SA 501 → Applicable

Immaterial

SA 501 → Not Applicable

Perform Procedure

General Procedures

Special Procedures

When you visit the Client Warehouse/Godown on 31/3

HTR : Evaluate IPO Records

Evaluate : Mgmt Instructions for counting
I : Inspect the Inventories
P : Perform Test Counting
O : Observe the counting.
Records : Counting Record = Final Inventory Record

Auditor can visit the Godown

Client Counting : 25/3
Auditor Arrived : 25/3

Client Counting : 25/3
Auditor Arrived : 28/3

General Procedure (+)

Additional Procedure :
Reconciliation for Balance Days

Auditor cannot visit the Godown

Eg : Lockdown/ outbreak of War

Therefore, not possible to perform General Procedures

Therefore, resort to Alternate Procedures.

Inventory is with Third Party

- Consignee
- Others

Send ECR as per SA 505

Visit the 3rd Party Godown for Inspection.

SA 501 : Audit Evidence → Specific Considerations

Litigation and Claims

Check Completeness → Perform Procedures

C

Correspondence/
Communication b/w
Client and External Legal
Council

L

Legal Expense A/c

A

Written Representation

I

Inquiry with TCWG/ In-
house Legal Council

M

Minutes of Meeting with
TCWG

Less ROMMS

List is Complete

No problem

High ROMMS

More Cases

List is
Incomplete

Communicate with External Legal Council

Letter of Inquiry

Receive Reply

Did not receive →
Alternate Procedure

HTR : DSC

Meet

- Disagreement b/w client and lawyer
- Significant Risk
- Complex Matter

In presence of
Client
Representative

SA 501 : Audit Evidence → Specific Considerations

Segmental Reporting

Presentation and disclosure as per AS- 17 is proper or not

Obtain understanding of
Methods

Perform Analytical
Procedures or other
procedures

Check if Method matches
AFRF (AS-17)

Test the application of
the method

EXTERNAL CONFIRMATION– SA 505

CLIENT GOOGLE



AUDITOR EY



CONFIRMATION



DIRECT WRITTEN
RESPONSE



CREDITOR AMAZON



Dear Sir/Ma'am:

Please confirm **directly** to our auditors the correctness of the balance of your account payable to us as shown below and on the enclosed statement at _____ for their use in connection with the examination of our accounts. If the amount is correct, please sign this letter in the space provided below. If not correct, please list on the remarks portion full details of the difference.

A return envelope is enclosed for your reply. No postage stamps are required.

PLEASE NOTE THE DATE as of which we request confirmation. Transactions with us or payments to us between that date and the date you receive this letter are not to be considered.

Thank you for your cooperation.

Very truly yours,

THIS IS NOT A REQUEST FOR PAYMENT, BUT MERELY
FOR CONFIRMATION OF YOUR ACCOUNT.

THE FOLLOWING BALANCE DUE FROM US IS CORRECT:

Due to: _____ As of: _____

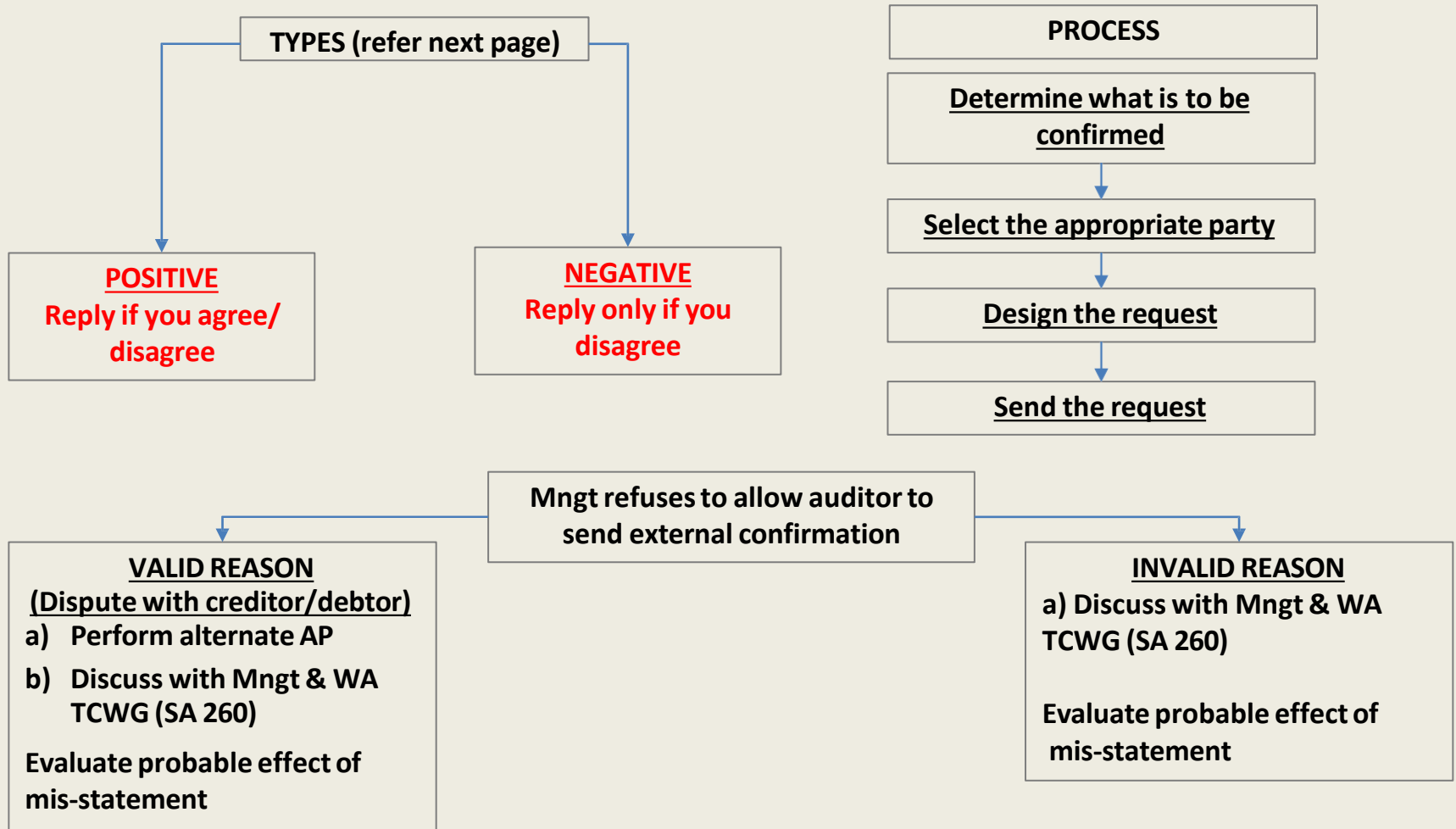
Amount:

Remarks: _____

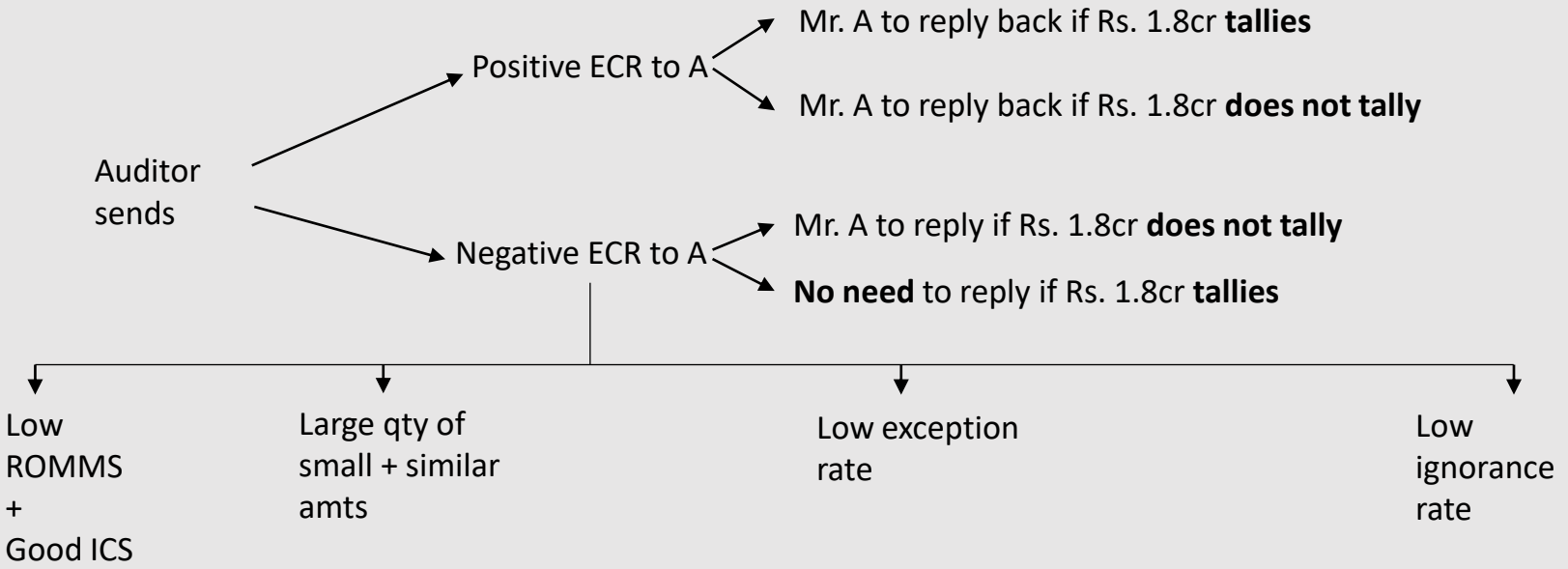
Signature:

Position:

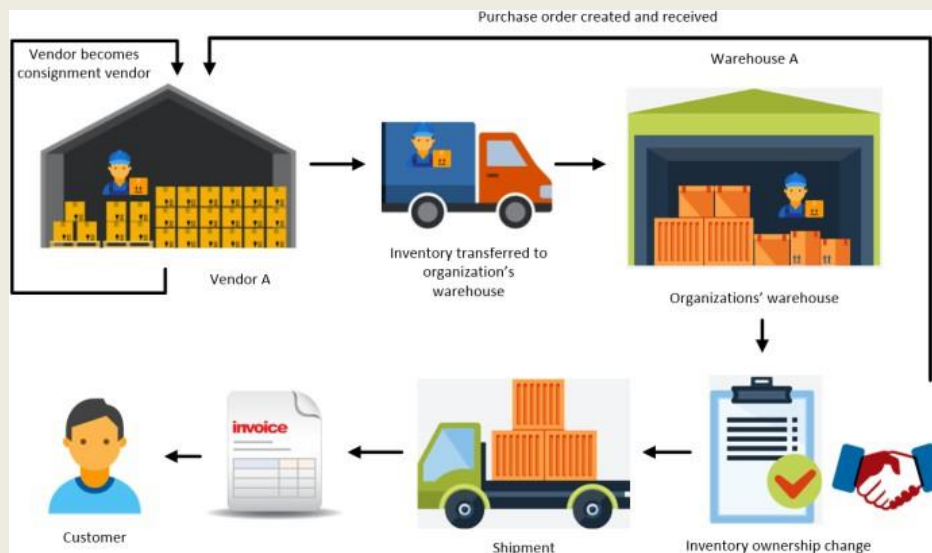
EXTERNAL CONFIRMATION– SA 505



TYPES OF ECR



AREAS WHERE EXTERNAL CONFIRMATION USED AS AUDIT EVIDENCE



SA – 505 “External Confirmation”

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

Meaning & Type of E.C.

Audit Evidence obtained as a direct written response to auditor from 3rd Party in Paper/Electronic/Other form.

2 Types

+ ve Request	- Ve Request
Request that 3 rd party respond directly to auditor	Request that 3 rd party Respond directly to auditor
Indicating whether it agrees or disagrees	Only if it disagrees
With the info in request Or providing requested info.	With the information in the request

Areas where External Confirmation may be obtained:

- Bank balance & other confirmation from bankers
- Account Receivable/Account Payable Balances
- Stock Lying with Third Parties
- Property Title Deed held by third parties
- Investments Purchased but delivery not taken.
- Loan from Lenders
- Terms of agreement or Transaction with Third Parties.

External Confirmation Procedures

Determining the information to be confirmed.

Selecting the Appropriate Third Party.

Designing the confirmation request.

Sending the request including follow up.

Factors to be considered while designing E.C. request:

- Assertions begin addressed.
- Specific identified RMM.
- Layout and presentation of request.
- Prior Experience of audit.
- Method of Communication.
- Management Authorisation.
- Ability of confirming party to provide the request information.

Audit Procedures In Special Circumstances

Mngt. refuses to allow the auditor to send request

- Inquire the reasons
- Evaluate the implications on RMM
- Perform alternative audit procedure.

- Refusal appears to be unreasonable
- Unable to collect audit evidence

- Communicate to TCWG.
- Determine its effect on opinion

Responses to E.C. request

- Creates Doubt

- Obtain further evidences

- Not Reliable

- Consider its effect on NTE of other procedures

- No Response

- Perform Alternative procedure

- Unable to collect evidence

- Determine its effect on opinion

- Exceptions

- Investigate to determine misstatement

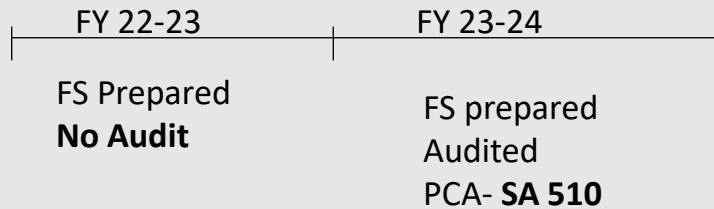
Limited use of -ve Request

As it provides less persuasive evidence than the positive Confirmation request.

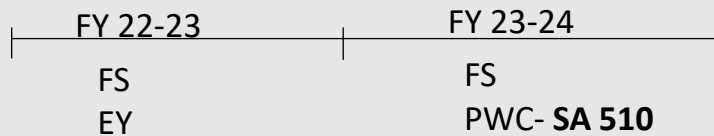
Circumstances in which negative request may be used as sole substantive procedures:

- Low RMM.
- Population consists of large number of small, homogeneous account balances.
- Expectation of low exception rate.
- Auditor not aware of circumstances that 3rd party disregard request.

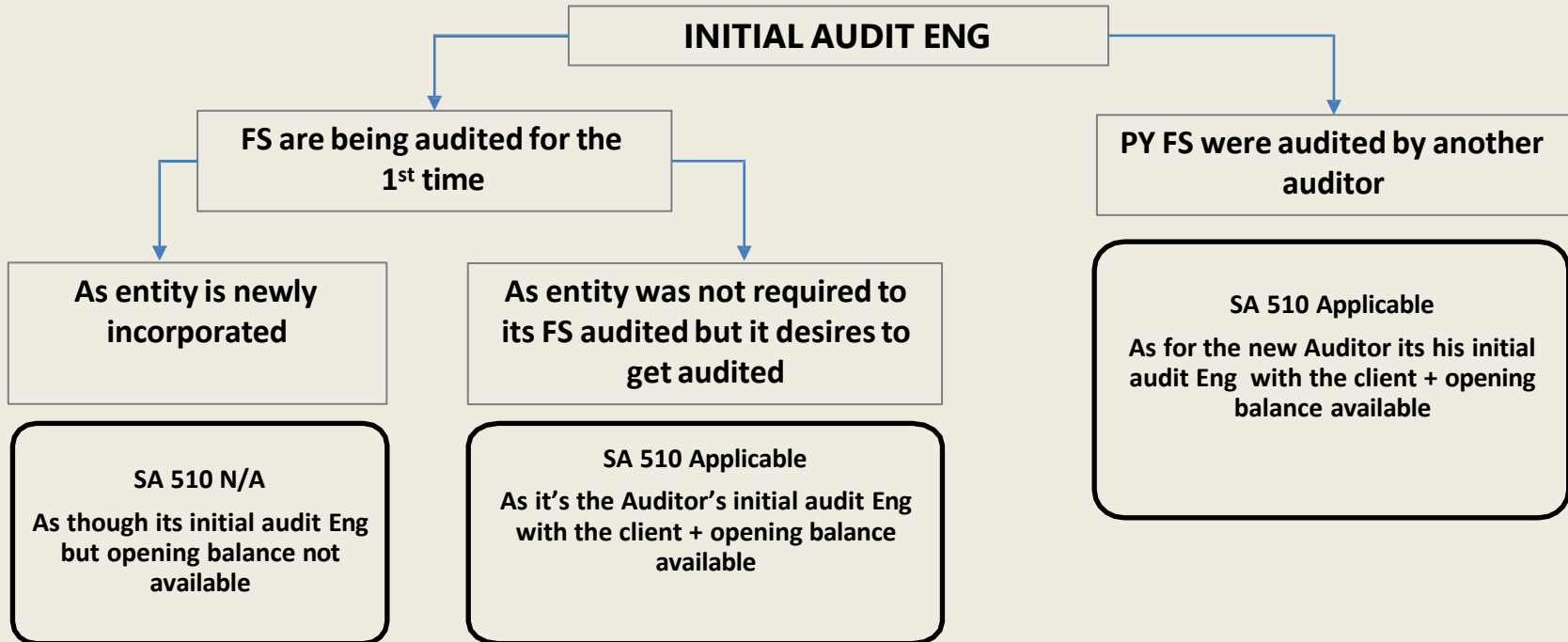
INITIAL AUDIT ENG + OPENING BAL– SA 510



18-19 – 1st – EY – SA 510 N/A
19-20 – 2nd – EY – SA 510 N/A
20-21 – EY – N/A
21-22 – EY – N/A
22-23 – EY – N/A
23-24 – PWC – SA 510
24-25 – PWC – N/A
25-26 – EY – SA 510



INITIAL AUDIT ENG + OPENING BAL – SA 510



INITIAL AUDIT ENG + OPENING BAL– SA 510

Entity	Whether Audit compulsory	Year	Auditor	Whether 510 applicable	Reason
XYZ Ltd	Yes	1 st	EY	No	Though its EY's initial audit Eng, there will be no opening balance
		2 nd	KPMG	Yes	For KPMG, its their initial audit Eng + Opening balance available
		3 rd	KPMG	No	Even though opening balance available, its not KPMG's initial audit Eng
		4 th	EY	Yes	As there was a gap in between, For EY, it will be treated as initial audit Eng + Opening balance available
PQR LLP/ Sole proprietor	No	1 st	Did not get audited	No	N/A <i>(Note: Even if FS were audited, SA 510 would not apply as there will be no opening balance)</i>
		2 nd	Deloitte	Yes	For Deloitte, its their initial audit Eng + Opening balance available

INITIAL AUDIT ENG + OPENING BAL– SA 510

Objectives

Closing bal. correctly b/f



Accounting policy applied consistently



Opening bal. do not contain any material mis-statement

Procedures

Determine if Closing bal. correctly b/f



Determine if accounting policies are applied consistently

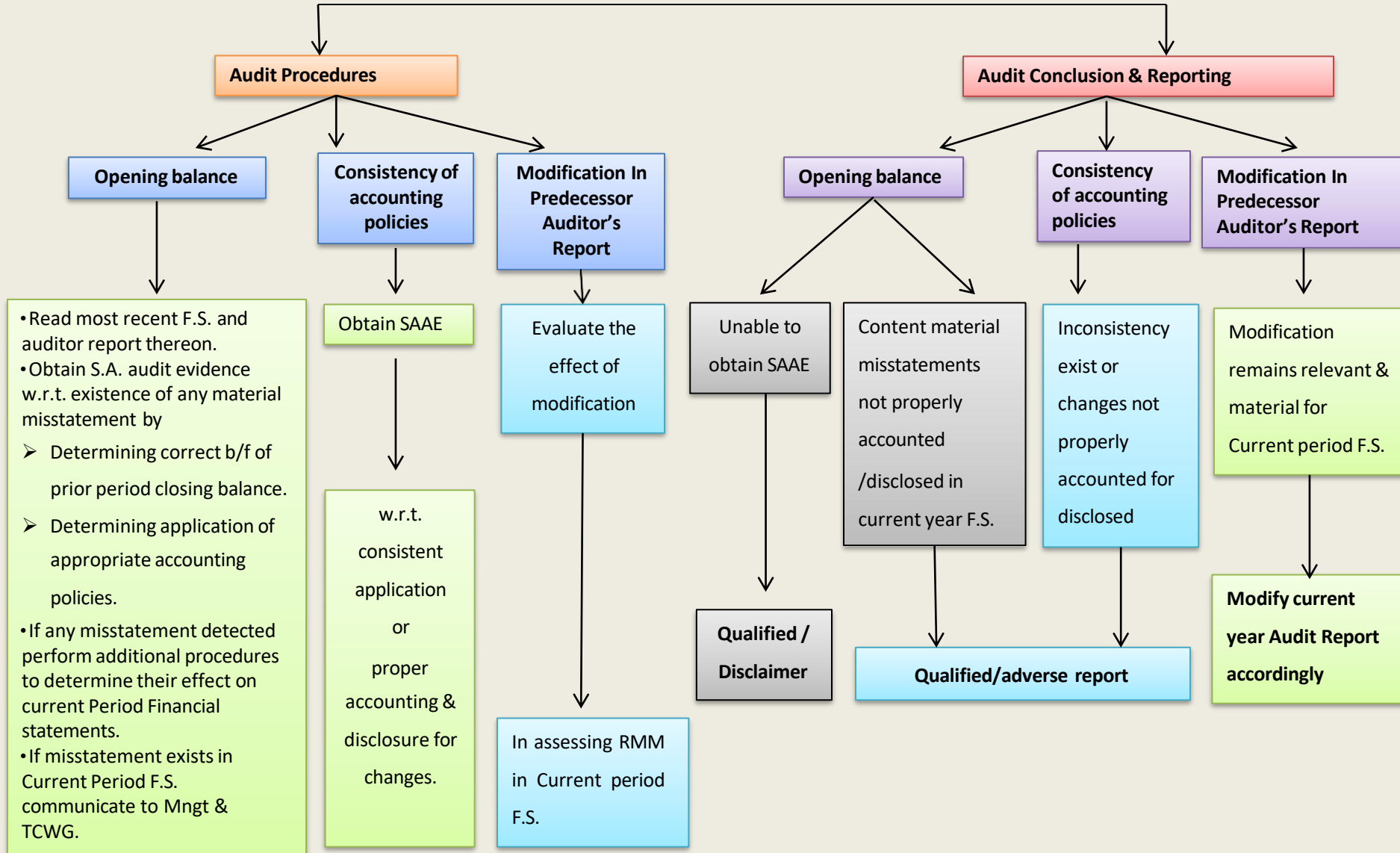


Read PY FS +
Previous auditors AR if any

SA -510 “Initial Audit Engagements – Opening Balances”

Meaning of Initial Audit Engagement: An Engagement is which financial statements for prior period are not audited or where are audited by predecessor auditor.

Meaning of Opening Balance - A/c balance that exist at beginning of period & also includes disclosure exist that beginning of period.



SA 520 “Analytical Procedures”

Meaning and Nature of Analytical Procedures

Evolution of financial information

↓
Through analysis of relationships

↓
Among both financial and non-financial data
AND

Also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Analytical procedures

Consideration of Comparisons of Financial Information	Consideration of relationships among
With comparable information for prior periods. Or With anticipated results of the entity Or Auditor's expectations Or Similar industry information	Elements of financial information Or Financial information and relevant non-financial information.

Auditor's Procedures

1 Determine the suitability of particular substantive analytical procedures (SAPs)

Following factors requires consideration:

1. SAPs most suitable to large volumes of transactions tending to be predictable over time.
2. But Suitability of AP influenced by :
 - Nature of assertion
 - Auditor's assessment of APs effectiveness to identify material misstatement.
3. In some cases, unsophisticated predictive models may be useful.
4. Different types of APs provide different levels of assurance.
5. Particular is SAP may be considered suitable when Tests of Details are performed on same assertion.

2 Evaluate the reliability of data

Following factors affecting the reliability:

- Source of the information available.
- Comparability of the information available.
- Nature and relevance of the information available, and
- Controls over the preparation of the information.

3 Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a material misstatement.

4 Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation.

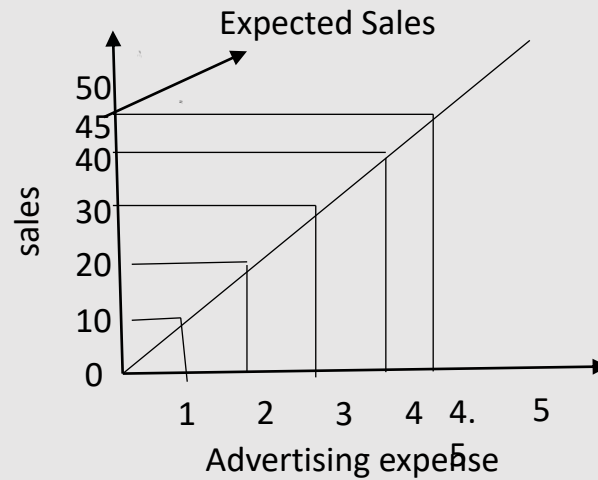
5 Investigating Results of Analytical Procedures

If auditor identify and fluctuations for relationships that are inconsistent with other relevant information or differ from expected values by a significant amount the auditor shall investigate such differences by:

- a) Inquiring of management; and
- b) Performing other audit procedures as necessary in the circumstances.

Structural modelling – A type of SAP

Year	Advertising Exp	Sales
1	1 cr	10 cr
2	2 cr	20 cr
3	3 cr	30 cr
4	4 cr	40 cr
5	4.5 cr	x



SA – 530 (Revised) "AUDIT SAMPLING"

Meaning & Types of Audit Sampling

Application of audit procedures to < 100% of items within a population.

Types of Sampling

(a) Statistical Sampling: An approach to sampling that has the following characteristics:

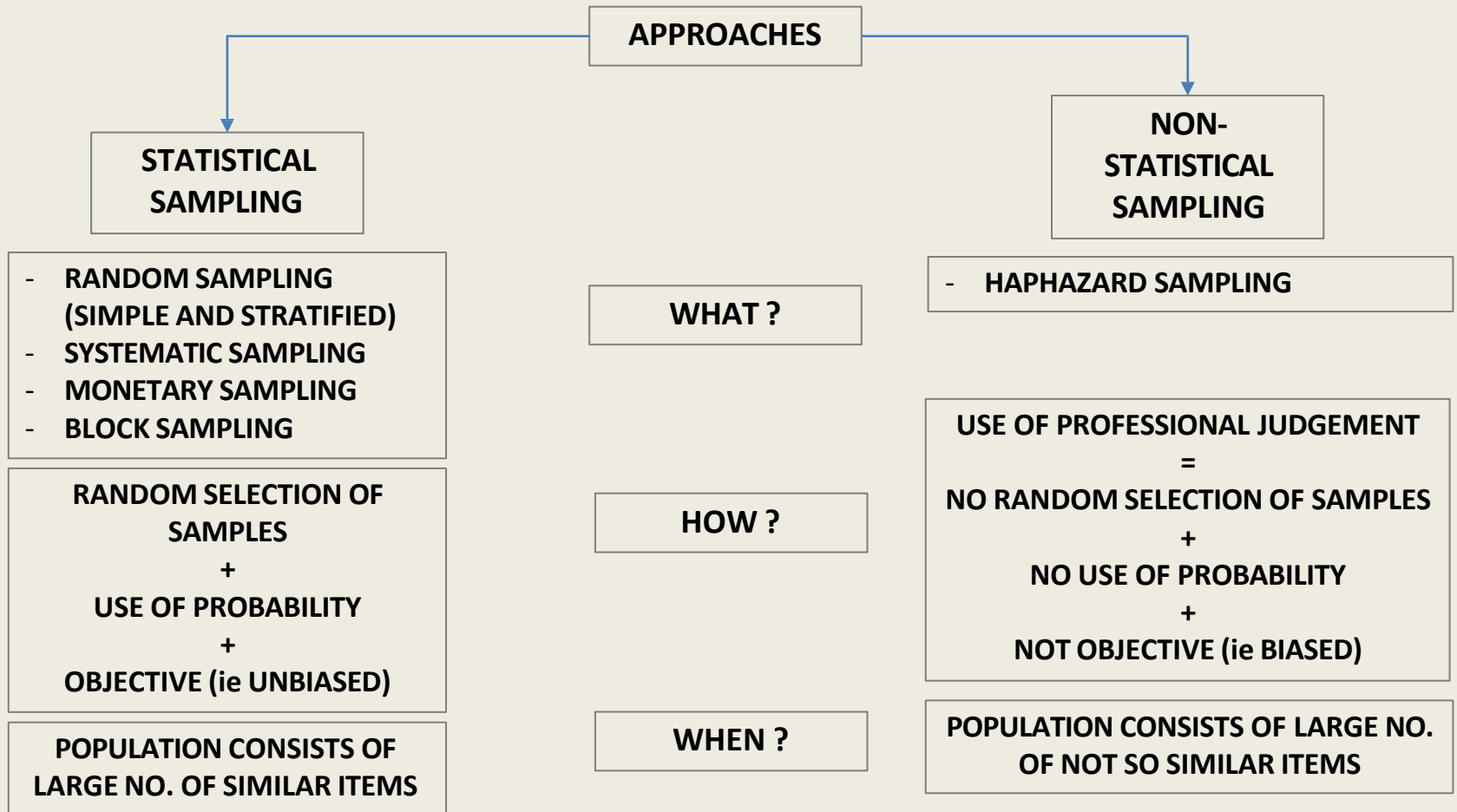
- Random selection of the sample items; and
- The use of probability theory to evaluate sample results, including measurement of sampling risk.

(b) Non-Statistical Sampling: A sampling approach that does not have characteristics of random selection and use of probability theory is considered non-statistical sampling.

Auditor's Duties

1	Simple design, size and selection of items
	<p>I. While designing, considered the purpose of the audit procedure and the characteristics of the population.</p> <p>II. Sample size should be sufficient to reduce sampling risk to an acceptably low level.</p> <p>III. Selection should be in such a way that each sampling unit in the population has a chance of selection.</p>
2	Perform audit procedures
	<p>I. Perform audit procedures, appropriate to the purpose, on each item selected.</p> <p>II. If the audit procedure is not applicable to selected item, perform the procedure on a replacement item.</p> <p>III. If the auditor is unable to apply designed audit procedures / alternative procedure to a selective item, considered that item as a deviation.</p>
3	Evaluation of results of audit sampling
	<p>To determine whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.</p>

AUDIT SAMPLING – SA 530

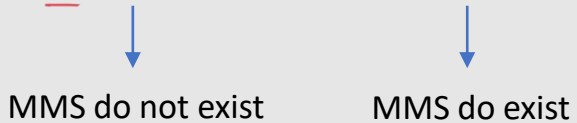


Sampling Risk

Obj: Result of sample = Result of population

Sampling Risk has to be low, only then sampling procedure will be successful

SR = Results of sampling \neq Results of population

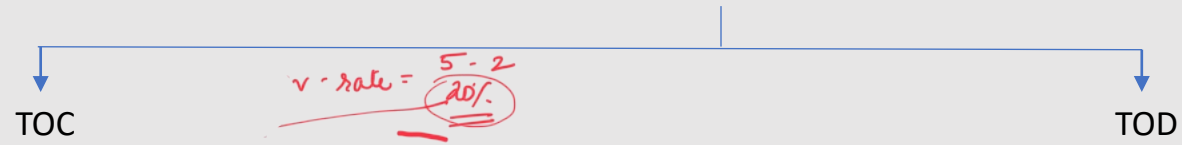


Eg:	Sample Size	Population
Nil	10000	10000
High	10	10000
Low	1000	10000

Sampling risk leads to two types of Erroneous conclusion

Procedure	Result of the Sample	Results of the population	Lead to	Reduces
C1) Test of Details	No MMS	MMS exist	Auditor expressing inappropriate opinion	Audit effectiveness
C2) Test of Details	MMS exist	No MMS	Auditor invests more time and effort	Audit efficiency
C3) Test of Controls	Controls are satisfactory	Controls are not satisfactory	Auditor expressing inappropriate opinion	Audit effectiveness
C4) Test of Controls	Controls are not satisfactory	Controls are satisfactory	Auditor invests more time and effort	Audit efficiency

PROJECTION OF MMS/rate of deviation



No projection required as the Sample deviation = Population deviation rate

Mis-statement include anomaly *1500*

Mis-statement do not include anomaly

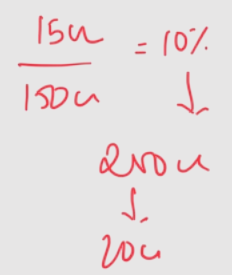
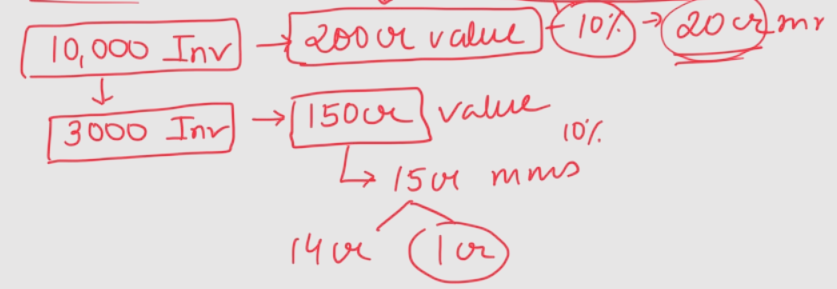
Anomaly rectified

Anomaly not rectified

Project any non-anomalous MMS

Do not include anomaly in projected MMS

Include anomaly with other non-anomalous MMS in projection



SA 550 "Relate Parties"

Meaning of Related Party

Either

Related party as defined in applicable FRF (AS18)

OR

Where applicable FRF establishes minimal or no RP requirements:

- a. A person/ entity having control /Significant influence, over reporting entity;
- b. Entity over which reporting entity has control /significant influence, and
- c. Entity under common control with reporting entity, through
 - Common controlling ownership
 - Owners who are close family members
 - Common key management

Auditor's Duties

Risk Assessment procedures

Responses To Assess To Risks

1 Understanding the entity's RP relationship and Transactions

- a. Auditor to inquiry management regarding:
 - Identity of entity's RP, changes from prior period.
 - Nature of relationships between entity and RP
 - Type & purpose of transactions with RP.
- b. Obtained understanding whether management has established controls to:
 - Identity, account for & disclosure RP relationships & transactions.
 - Authorise & approve significant transactions with RP.
 - Authorise & approved significant transactions outside normal course of business.

2 Maintaining Alternative for RP Information when Reviewing Records/ Documents.

- Auditor to remain alert when inspecting records w.r.t. info indicating existence of RP relationships or transactions not previously identified or disclosed
- If auditor identifies significant transactions outside entity's normal course of business, inquiry of management about (a) Nature of these transactions, and (b) Weather RP could be involved.

Possible Sources for identification of RP Information

1	Income Tax Returns	7	Shareholder's Register
2	Internal Audit Report	8	Life Insurance Policies
3	Contracts with Management	9	Statement of Conflict of Interest
4	Contracts outside normal course of business	10	Information supplied to regulatory authorities
5	Contracts re-negotiated	11	Specific Invoice from advisors.
6	Register of Investments		

3 Identifying fraud risk factors

Domination to management by a single person or small group without compensating controls is a fraud risk factor.

Indication of dominant influence:

- RP has vetoed significant business decisions taken by management or TCWG.
- Significant transactions are referred to RP for final approval.
- No/ little debate among mgmt. or TCWG regarding business proposal initiated by RP.
- Transactions involving RP rarely independently reviewed /approved.

Auditor's responsibilities in relation to RP

General

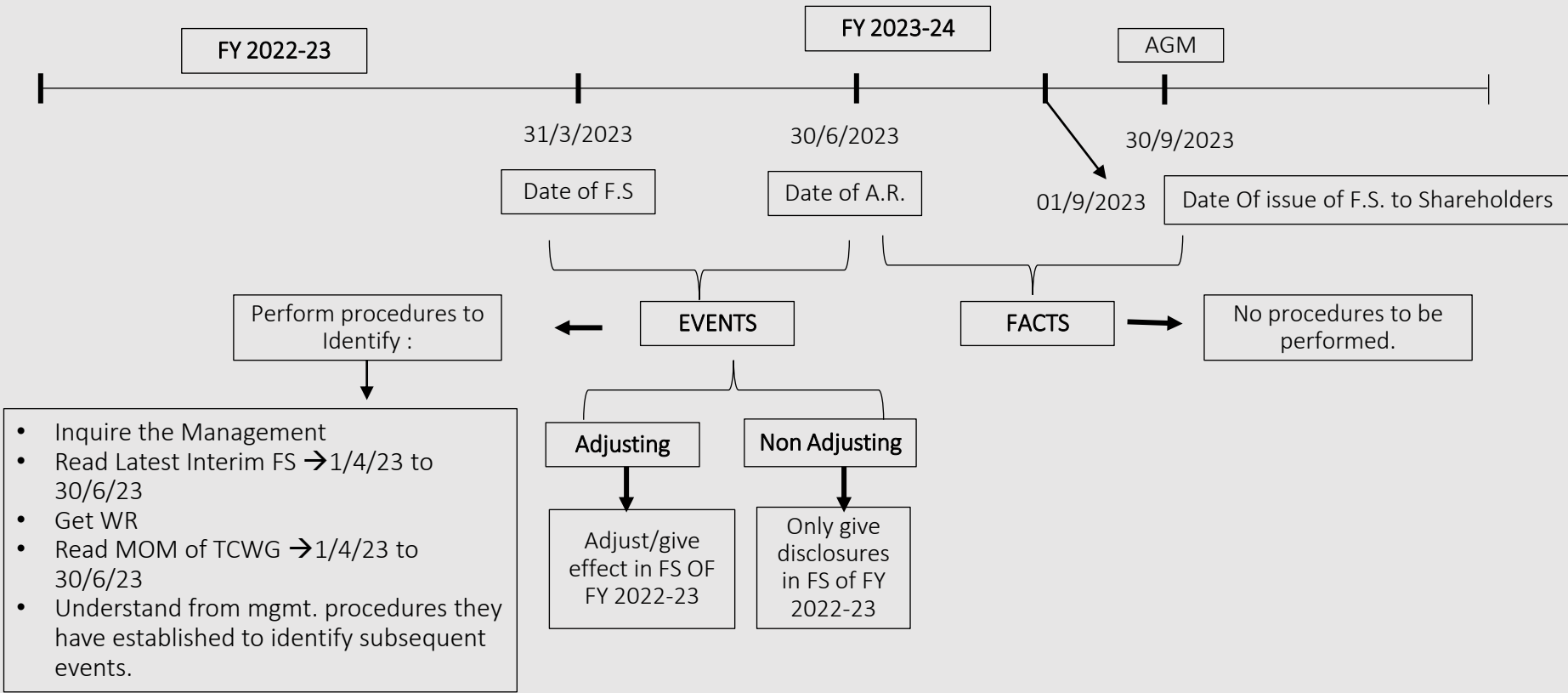
Obtain an understanding of RP Relation and Transactions:

- a. To recognise Fraud Risk Factors
- b. To conclude whether F.S. in so far as they are affected by those relations and transactions achieve
 - True and fair presentation and
 - not misleading

Specific (FRF established accounting & Disclosure requirements)

- Perform audit procedures to identify, Assess & Response to RMM.
- Evaluate whether identified RP relationships & Transactions have been appropriately accounted for & disclosed as per FRF.
- Obtain WR from management/TCWG w.r.t.
 - ✓ Disclosure to auditor the Identity of RP which they are aware; and
 - ✓ Appropriate accounting & disclosure as per FRF.

SA 560 : Subsequent Events



SA 560 "Subsequent Events"

Meaning - Events occurring between the date of F.S. and the date of Auditor's report and facts that become known to auditor after the date of Auditor's report.

Auditor's Duties

Events occurring between the date of F.S. and the date of Auditor's report

1. Perform procedures to obtain SAAE that all events which require adjustment/ disclosure have been identified.
2. For the purpose of determining nature and timing of procedures, auditor may:
 - a) Obtain the **understanding of procedures** applied by management for identification of significant events.
 - b) Inquire the management** as to Occurrence of subsequent events which may affect the F.S.
 - c) Read the **Minutes Of Meetings** that held after the B/S date.
 - d) study the **Interim Financial Statements**, if any.
3. If auditor identifies any event which require any adjustment /disclosure, he should **ensure its appropriate treatment** in F.S.
4. Obtain a **WR from the Management** that all known events have been appropriately adjusted/ disclosed, as the case may be.

Specific Inquiries to be made from management

1. Whether new commitments borrowings or guarantees have been entered into.
2. Whether sales or acquisitions of assets have occurred or are planned.
3. Whether there have been increases in capital or issuance of debt instruments.
4. Whether any assets have been appropriated by government or destroyed.
5. Whether there have been any developments regarding contingencies.
6. Whether any unusual accounting adjustments have been made.
7. Whether any events have occurred that will bring into question the appropriateness of accounting policies used in the FS.
8. Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the F.S.
9. Whether any events have occurred that are relevant to the recoverability of assets.

Facts that become known to Auditor after date of Auditor's report

Before issue of F.S.

1. In general Auditor has no obligation.
 2. However in case of significant matter
 - Discuss with management
 - Determine need to amend F.S.
 - Inquire how mngt intends to address the matter in F.S.
 3. If mngt amend the F.S. auditor shall
 - extend procedures to date of new report, and
 - provide a new auditor report on amend F.S.
- Or
- Amend the audit report to include an additional date restricted to the amendment and include an EOM/ OMP.
 4. If mngt refuses to amend the F.S.
 - Modify the report if not yet provided to entity.
 - If report already issued, notify to mngt and TCWG not to issue F.S. to third parties.
 - If mngt still issues F.S., take appropriate action to prevent reliance on auditor's report.

After issue of F.S.

- In general Auditor has no obligation. However, in case of significant matter
- Discuss with Management
Determine need to amend F.S.
Inquire how mngt intends to address the matter in FS.
If mngt. Amend F.S.
auditor shall
Carry out procedures on amended F.S.
Review the steps taken by mngt to ensure that recipient of FS are informed of the situation
Provide a new auditor report on amended F.S.
- Or
- Amend the audit report to include an additional date restricted to that amendment and include an EOM/OPM.
If mngt refuses to amend the F.S.
Notify to mngt and TCWG, that the auditor will seek to prevent reliance on Auditor's report.
If mngt /TCWG does not take necessary steps, take appropriate action to prevent reliance on auditor's report.

SUBSEQUENT EVENTS SPECIFIC ENQUIRIES

LOAN APPLICATION

Personal Information
Name (Last): PUBLIC
Address (Mailing Address): 12345 MAIN ST
E-Mail Address: JQPJQP@EXAMPLE.COM
Phone Number: 555-123-4567
Social Security Number: 999-99-9999
Date of Birth: 01/01/1980
Date of Loan: 01/01/2020
Status: UNDER REVIEW

Services needed: UNDER REVIEW

Current Income
High School Graduate Or General Education (GED) Test Passed? Yes No
Highest grade completed
Military (Most recent first)
Credits Earned
Other (Specify)

APPROVED



IAN HITCHCOCK/GETTY IMAGES

SA 570 : Going Concern

Applicability (3 branches)

Case 1

- Problems in Business
- No Sign of Survival
- No Solution Exists
- Client wants to shut shop
- FS prepared on realisable value (Liquidation Basis)

Therefore Client didn't use going concern assumption.

SA 570 → Not Applicable

Transparency

Case 2

- No Problems in Business
- Client used going concern assumption
- FS prepared on historic Cost Basis

SA 570 → Not Applicable

Transparency

Case 3

- Problems in Business
- Indicators :
 - Financial
 - Operating
 - Others
- Still Client used going Concern assumption

Therefore Case of Mismatch

SA 570 → Applicable

No Transparency

GOING CONCERN – SA 570

INDICATORS OF MATERIAL UNCERTAINTY

FINANCIAL

F = Financial support withdraw
I = Inability to pay creditors/obtain finance
N = Negative cash flows
A = Adverse financial ratios
N = Net Liability position
C = Credit to COD
I = Inability to comply with TnC
A = Arrears/discontinuance of dividend
L = Losses

OPERATING

Emergence of Competitor

Loss of mngt

Loss of Labours/employee

Loss of key customer/market

Loss of key supplier

OTHERS



Case 3 : Where SA 570 is applicable

Therefore Auditor to perform Procedures

- Intention
- Management to do Assessment
- Cashflow Forecast
- Plant of Action

After performing procedures, auditor concludes :

Business Revival is possible. i.e. Solution to problem exists. **Thus Business Will Survive**

Business Revival not possible. i.e. no solution exists. **Thus Business Will Shut down for sure.**

Thus, Use of Going Concern Assumption by Client was **appropriate.**

Thus, Use of Going Concern Assumption by Client was **inappropriate.**

Financials disclose Business Problem & Solution.

Financials do not disclose Business Problem & Solution.

Client Rectified FS. i.e. made Financials on Liquidation Basis after removing Going Concern Assumption (+) gave adequate Disclosures

Client did not rectify F.S.

Unmodified Opinion (+)

Modified Opinion (Qualified/Adverse) (+)

Unmodified Opinion (+)

Adverse Opinion (+)

“Material Uncertainty relating to Going Concern” Para in Audit Report

Basis for Qualified/adverse opinion paragraph

Auditor to add Emphasis of Matter Paragraph (SA 706)

Basis for adverse opinion paragraph to draw user’s attention.

SA 580 "Written Representation"

Meaning and Nature of WR

A written statement by Management provided to auditor to confirm certain matters or to support other audit evidence.

- WR recognised as audit evidence as a response to inquiries.
- WR do not provide SAAE.
- WR should be in the form of a representation letter addressed to Auditor.
- WR shall be obtained for all financial statements and period(s) referred in Auditor's report.
- Date of WR shall be as near as practicable to the date of the Auditor's report.

Requirements of SA 580

Matters for which WR may be obtained

1	Management Responsibilities	<p>a) Preparation and presentation of Financial Statements: In accordance with applicable if FRF.</p> <p>b) Information provided to auditor: As agreed in terms of engagement.</p> <p>c) Description of management responsibilities: In the manner as described in terms of engagement.</p>
2	Others	<p>As required by other SA or Where auditor determines that it is necessary to obtain one or more WR.</p>

Auditor responses in different Situations

Management refuses to provide WR

- Discuss the matter with management
- Re-evaluate the reliability and integrity of management.
- Determine possible effect on the opinion.
- Issue disclaimer of opinion.

Reliability of WR is doubtful

- In case of having concerns about competence and integrity of mngt, determine their effect in reliability of WR and other audit evidence in general.
- If WR inconsistent with other evidences perform additional procedures.
- If concludes that WR is not reliable determine possible effect on audit opinion.
- In case of sufficient doubt over integrity of management issue a disclaimer of opinion.

SA 610 (Revised) "Using the Work Of Internal Auditors"

Meaning & scope of Internal Audit Function

Meaning

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.

Scope of internal Audit

1	Activities relating to governance.
2	Activities relating to Risk Management.
3	Activities relating to Internal Control. Evaluation of internal control Examination of financial and operating information Review of operating activities Review of compliance with laws and regulations.

External Auditor's Procedure w.r.t. Evaluation of Internal Audit Function

Determine Adequacy of Internal Audit Work for External Auditor's Purpose

↓ by evaluating the following

- Objectivity of the internal auditors;
- Level of competency;
- Application of systematic and disciplined approach

If Not Satisfactory

Do not use the work of internal Audit function.

If Satisfactory

Determine the Nature and extent of work of internal audit function that can be used.

Use the work of Internal Audit Function

1. Discuss the planned use of work of internal Auditor.
2. Read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of auditor procedures it performed and the related findings.
3. Perform sufficient audit procedures on work of internal audit function as a whole that external auditor plans to use to determine its adequacy for purposes of the audit.
4. Evaluate whether external auditor's conclusions regarding internal audit function and the determination of the nature and extent of use of the work of the function for purposes of the order to remain appropriate.

Using Direct Assistance (DA) of Internal Auditors (IA)

Refer next slide

SA 610 (Revised) "Using the Work Of Internal Auditors"

Meaning & scope of Internal Audit Function

External Auditor's Procedure w.r.t. Evaluation of Internal Audit Function

Using Direct Assistance (DA) of Internal Auditors (IA)

1	<p>Determining whether IA can be used to provide DA</p> <p>If not prohibited by law or regulation, external auditor may use an internal auditor to provide direct assistance if:</p> <ol style="list-style-type: none"> a) There are no significant threads to objectivity of internal auditor; and b) Internal auditor is sufficiently competent to perform proposed work.
2	<p>Determining nature and extent of work that can be assigned to IA</p> <p>IA shall not be used to provide DA to perform procedures that:</p> <ol style="list-style-type: none"> (a) Involve making significant judgements in the audit; <p>Significant judgements include the following:</p> <ul style="list-style-type: none"> • Assessing the risk of material misstatement; • Evaluating the sufficiency of test performed; • Evaluating appropriateness of management's use of going concern assumption; • Evaluating significant accounting estimates; and • Evaluating the adequacy of disclosure in the F.S. and other matters affecting the auditor's report (b) Relate to higher assessed to risk of material misstatement; (c) Related to work with which internal auditors have been involved; or (d) Related to decision, external auditor makes in accordance with this SA w.r.t internal audit function and use of its work or direct assistance.
3	<p>Using Direct Assistance of Internal Auditor</p> <ol style="list-style-type: none"> 1. Prior to use internal auditors to provide direct assistance for purpose of the audit, the external auditor shall: <ol style="list-style-type: none"> a) Obtain written agreement from entity that the IA will be allowed to follow the external auditor's instruction and that the entity will not intervene in the work with a performs; and b) Obtain written agreement from the IA that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity. 1. The external auditor shall direct, supervise and review the work performed by IA on the engagement in accordance with SA 220. 3. The direction, supervision and review by the external auditor of the work performed by the I shall be sufficient in order for the external auditor to be satisfied that the IA have obtain sufficient appropriate audit evidence to support the conclusions based on that work.

SA 700 (Revised) - Forming an Opinion and reporting on Financial Statements (w.e.f. 01.04.2018)

Meaning & Type of Audit Reports

Elements of an Unmodified Audit Report



1	Title	“Independent Auditor’s Report” - so as to distinguish from reports is issued by others.	
2	Address	Auditor's report shall be addressed as appropriate. Generally, it is address to those for whom it is prepared	
3	Opinion Section	Fair Presentation Framework	In our opinion the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____in accordance with [applicable FRF]
		Compliance Framework	In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]
		Opinion Para shall also cover the following: <ul style="list-style-type: none"> • Identify the Entity. • Identify the title of each financial statement. • Specify the period/date covered by each F.S. • State that F.S. have been audited. 	
4	Basis for Opinion	<ul style="list-style-type: none"> • States that audit was conducted in accordance with SAs. • Refer to Section of Auditor’s report that describes the auditor’s responsibilities. • Compliance of Ethical requirements including independence. • Auditor’s believing that they had obtain sufficient and appropriate audit evidence to provide a basis for the opinion. 	
5	Going Concern	Where applicable, auditor shall report in accordance with SA 570.	
6	Key Audit Matter	In case of Listed Entity, auditor shall communicate Key Audit Matters in Auditor's Report in accordance with SA 701	
7	Management Responsibilities for the F.S.	<ul style="list-style-type: none"> • To prepare F.S. in accordance with applicable FRF. • Maintenance of adequate records for safeguarding of assets and prevention and detection of fraud. • Making reasonable and prudent judgements and estimates. • Design, Implementation and maintenance of Internal Control. • Assessing the appropriateness of Going Concern basis of accounting. • Overseeing the financial reporting process. 	
8	Auditor's responsibilities for the Audit of F.S.		
9	Other Reporting Responsibilities	<ul style="list-style-type: none"> • Heading: “Reporting on Other Legal and Regulatory Requirements”. • Will include reporting of CARO, 2016, reporting u/s 143 (3) of Companies Act, 2013, Rule 11 of CAAR 2014. 	
10	Signature	In personal name and name of firm, along with the membership number and firm registration number.	
11	Place	The city where audit report is signed.	
12	Date	It should not be earlier than date on which audit evidences are collected.	

Meaning & Type of Audit Reports



Reports in which auditor expresses his opinion on financial statements.

- For General Purpose F.S. – SA 700, 701, 705 & 706 will apply.
- For Special Purpose F.S. – SA 800 along with 700, 701, 705 & 706 will apply.

A. Unmodified reports

Reports issued when auditor concludes that F.S. are prepared in all material respects in accordance with applicable FRF.

B. Modified Reports – Refer SA 705

B.1 - Matters that affect Audit Opinion

B.1.1. - Qualified Opinion

B.1.2. - Adverse Opinion

B.1.3. - Disclaimer of Opinion

B.2 - Matters that do not affect Audit opinion – Refer SA 706

B.2.1 – With EOM Para

B.2.1 – With OM Para

Elements of an Unmodified Audit Report

Auditor's responsibilities for the Audit of F.S.



1. State the objective of auditor to obtain reasonable assurance that F.S. as a whole are free from material misstatements & issue the auditor's report that includes an auditor's opinion.
2. Explanation w.r.t reasonable assurance and application of concept of materiality.
3. Statement that auditor exercises professional judgement and maintain professional skepticism throughout audit.
4. State auditor's responsibilities w.r.t.
 - Identifying & assessing the RMM.
 - Design & perform audit procedures responsive to assessed risks.
 - Obtain SAAE.
 - Understanding of Internal Control.
 - Expressing opinion on adequacy and operating effectiveness of Internal Financial Control.
 - Evolution of appropriateness of Accounting policies and reasonableness of accounting estimates.
 - Conclude on appropriateness of management use of Going Concern basis of accounting.
 - Evaluate overall presentation structure & content of F.S.
5. State auditor's responsibilities w.r.t.
 - Matters communicated to TCWG.
 - Providing statement to TCWG on compliance of Ethical requirements.
 - Determining Key Audit matters out of matters communicated to TCWG.

Audit Opinions – SA 700 & SA 705

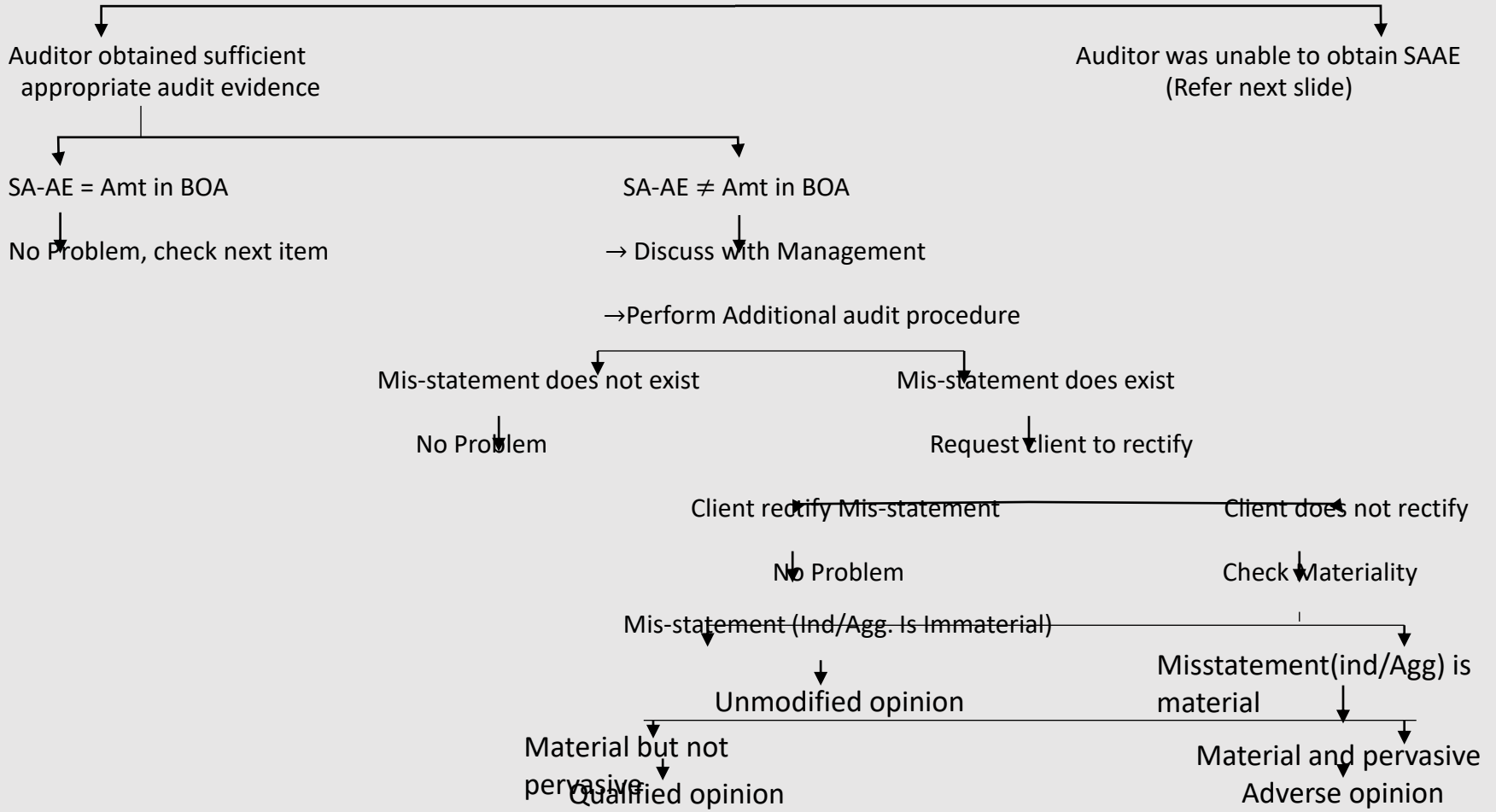
Unmodified Opinion

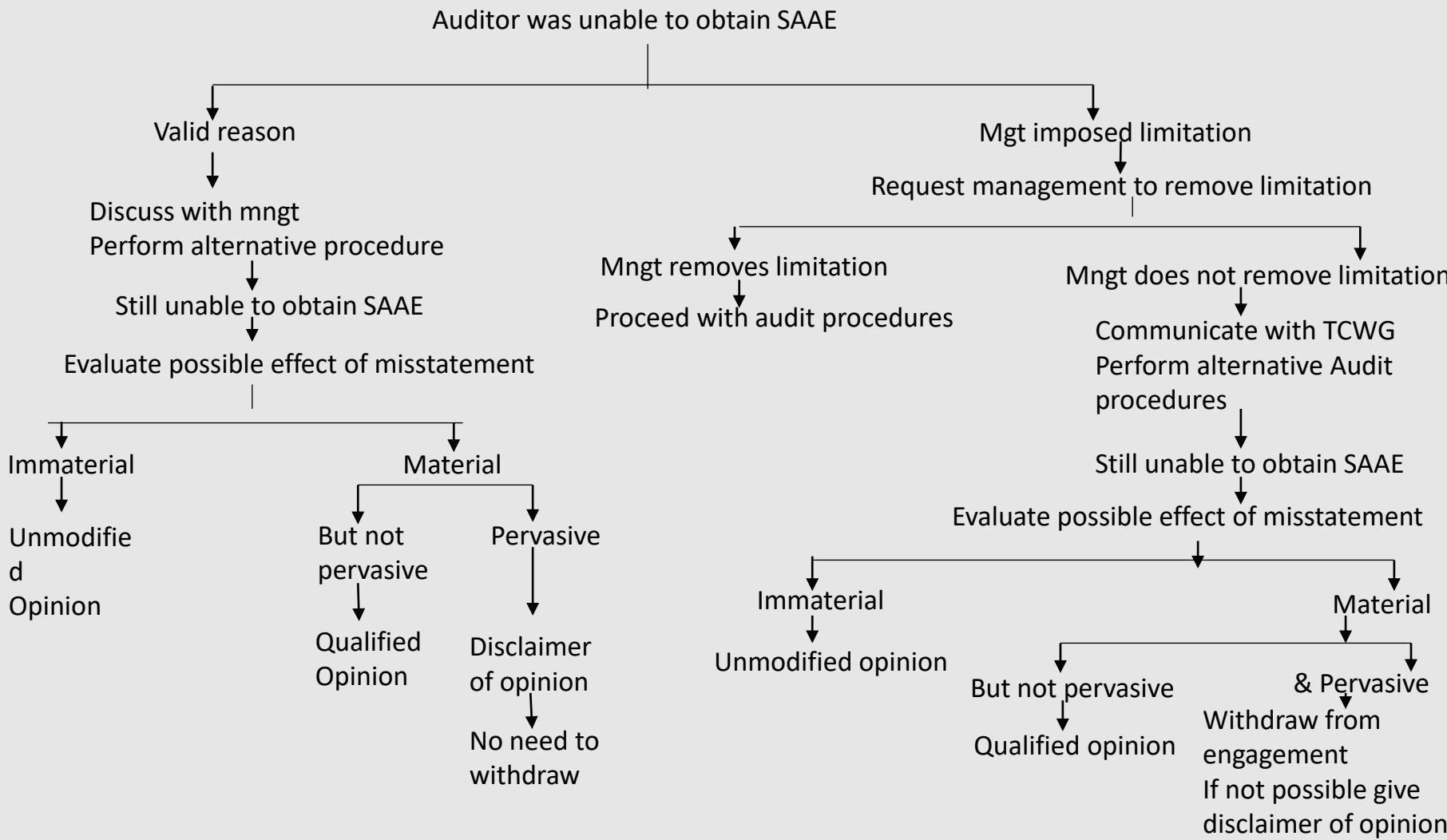
- **Clean/ Unqualified Opinion**
FS of the entity show a true and fair view

Modified Opinion

- **Qualified Opinion** – FS of the entity show a true and fair view **except for** (Refer HCC AR Page 71)
- **Adverse Opinion** - FS of the **entity do not** show a true and fair view
- **Disclaimer of Opinion** – We are unable to form and express an opinion on the FS (Refer Ricoh India AR Page 12)

SA 705: MODIFICATION TO AUDITOR'S OPINION AFTER PERFORMING AUDIT PROCEDURES





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

Types of modified Opinion

Considerations while issuing modified Opinion

Issued when:
F.S. are misstated having material but not pervasive effect

Or

Auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material but not pervasive effect.

Issued when F.S. are misstated having material and pervasive effect.

Issued when auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material and pervasive effect.

Opinion Section

Use the heading -

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion

Wordings of opinion:

Except for the effects of matters prescribed in "Basis of Qualified Opinion" section, the F.S. have been prescribed fairly in all material respects in accordance with [applicable FRF].

In auditor's opinion, because of significance of the matters described in "Basis of Adverse Opinion" section, the F.S. does not give a true and fair view of _____ in accordance with [applicable FRF].

Because of significance of matters described in the Basis for Disclaimer of Opinion" section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinion on F.S.

Basis for opinion section

Amend the heading - Basis for qualified opinion
Basis for adverse opinion
Basis for disclaimer of opinion

- Include a description of matter giving rise to modification

Cause of Modification	Description
Material Misstatement in Amount	<ul style="list-style-type: none"> Description of misstatement Qualification of financial effect if determinable. If not determine able state the fact.
Material Misstatement in Disclosure	Explanation how the disclosures are misstated.
Material Misstatement due to non-disclosure of required information	Describe nature of omitted information. And Include the omitted disclosure provided it is practicable.
Inability to obtain SAAE	State the reason for inability.

- Amend the statement w.r.t. auditor believing that audit evidences are sufficient and appropriate to provide a basis for "Qualified Opinion" or "Adverse Opinion".
- In case of disclaimer auditors report shall not include the reference to section of auditor's report that describes the auditor's responsibilities and statement w.r.t. auditors believing that sufficient appropriate audit evidence obtained.

Auditor's responsibility section

When an auditor disclaims the opinion the auditor shall amend the description of auditor's responsibilities to include only the following:

- Statement that the auditor's responsibility is to conduct an audit in accordance with Standard on Auditing and to issue Auditor's Report.
- Statement that because of significance of matters described in basis for disclaimer of opinion section, auditor was not able to obtain SAAE to provide a basis for an audit opinion.
- Statement about auditor's independence and other ethical requirements.

	Pervasive	Not Pervasive
Material Misstatement	ADVERSE	QUALIFIED
SAAE not obtained for material Transactions	DISCLAIMER	QUALIFIED

SA 701 “Communicating Key Audit Matters in the Independent Auditor's Report” (w.e.f. 01.04.2018)

Applicability

SA 701 applies to audit of complete set of general-purpose financial statements of listed entities and circumstances when auditor decides to communicate key audit matter in the auditor's report.

SA 705 prohibits the auditor from communicating key audit matters when the auditor disclaims the opinion on the financial statements.

Meaning and Purpose of Key Audit Matters

Meaning: Those matters that in the auditor's judgement were of most significance in audit of financial statement of current period.

These are selected from matters communicated with TCWG.

Purpose

- a) To enhance the communicative value of the auditor's report by providing greater transparency.
- b) To provide additional information to intended users of F.S. to assist them in understanding those matters that in auditor's judgement were of most significance.
- c) To assist intended users in understanding the entity & areas of significant management judgement.
- d) To provide a basis to further engage with management and TCWG about certain matters relating to the entity.

Consideration for determining Key Audit Matters

Key Audit Matters are to be determined from the matters communicated to TCWG Considering the following:

- a) Areas of high assessed RMM.
- b) Significant auditor judgement relating to financial statement that involved management judgement for Ex. accounting estimates having high estimation uncertainty.
- c) Effect of significant event or transactions occurred during the year.

Circumstances in which a matter determined to be key audit matters is not communicated

- Law or regulation precludes public disclosure about the matter; or,
- Auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.
- It will not be applied if entity has publicly disclosed information about the matter.

Key Audit Matters

Key audit matters

Revenue recognition – Advertisement revenue

Company has recognised advertisement revenue of ₹ 21,372.00 lacs for the year ended 31 March 2019 (Refer Notes 21 and 2(h) to the standalone financial statements), being 50 % of total revenue.

We identified advertisement revenue as a KAM considering –

- There may be an inherent risk regarding the existence and accuracy of revenue given that the advertisements are availed through various direct customers including a number of small players, individual advertisement agents and large advertisement agencies;

How our audit addressed the key audit matter

In relation to recognition of revenue from advertisements, we have:

- Considered the appropriateness of management’s revenue recognition policy in light of the requirements of Ind AS 115;
- Assessed the reasonableness of the timing and amount of revenue recognised during the year;
- Assessed the design, implementation and operating effectiveness of management’s key internal controls over revenue recognition;
- assessed with assistance from our internal IT specialists, the design, implementation and operating effectiveness of management’s key internal IT controls over the completeness and accuracy of the scheduling, billing and accounting system;
- tested the completeness and accuracy of financial information contained within the advertisement module and billing systems, which included system generated reports, recording of revenue, and accrual of revenue at period end;
- Detailed testing on a sample of sales transactions from

SA 701 “Communication Key Edit Matters in the Independent Auditor's Report” (w.e.f. 01.04.2018)

Manner of Reporting

Use separate section titled as “Key audit Matter’s”.

Use introductory language in this section as –

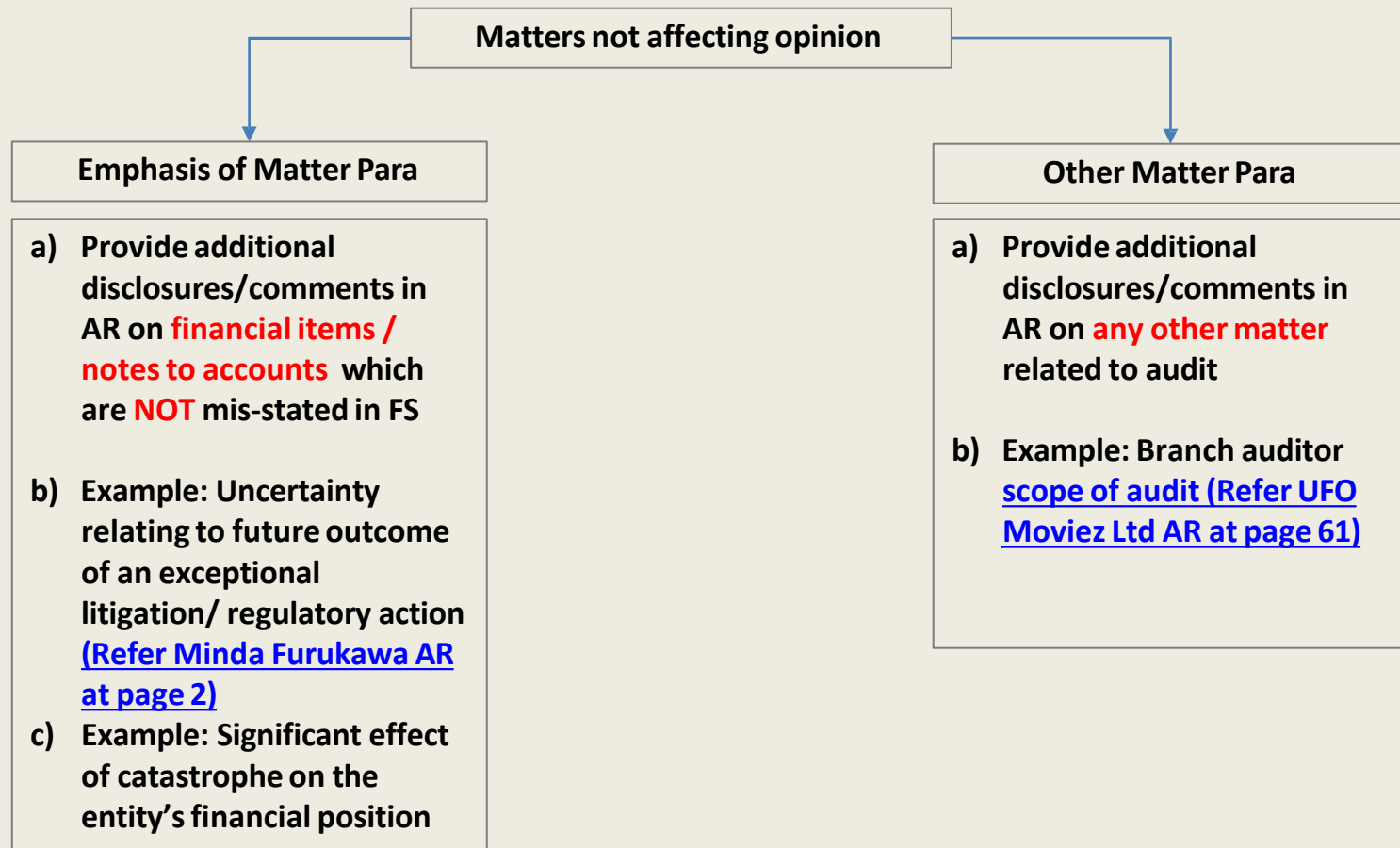
“Key audit Matters are those matters that in the auditor's judgement were of most significance in the audit of financial statements of current period and these matters were addressed in the context of audit of financial statements as a whole and auditor does not provide a separate opinion on these matters”. Description of each key audit matters shall follow the introduction.

Description of key audit matters shall address the reason why the matter was considered as key audit matter

Modified opinion Vs. Going concern Vs. Key Audit Matters

- Key audit matters is not a substitute for modified opinion under SA 705 for reporting required under SA 570 w.r.t. existence of material uncertainty as to events that cast significant doubt on an entity ability to continue as a Going Concern.
- Auditor shall report modification/ Going concern in accordance with applicable SA, and include a reference to basis for Qualified (Adverse) opinion or the material ascertaining related to going concern section in the Key Audit Matters Section.

Matters not affecting opinions– SA 706



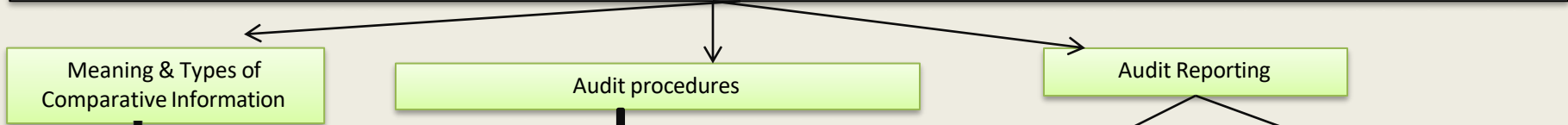
Emphasis of Matter Para

1	Meaning
	A para included in the Auditor's report that refers to a matter appropriately reflected/disclosed in the financial statement that in the auditor's judgement is of such significance that it is fundamental to the user's understanding of financial statement.
2	Requirements
	EOM Para is not a substitute of Key Audit Matters or Modified Opinion. EOM should be included within a separate section titled as "Emphasis of Matter". EOM should refer only to information presented/disclosed in the financial statements. It must be indicated that auditor's opinion is not modified in respect of this matter.
3	Circumstance when EOM Para can be issued
	Uncertain situation as to future outcome of an exceptional litigation. Significant subsequent events. Early application of new AS in advance of its effective date. Occurrence of major catastrophe that may have a significant effect on entity financial position.
4	Location in Audit Reports
	Immediately following the "Basis of Opinion Section".

Other Matter Para

1	Meaning
	A para include in Auditors Report that refers to a matter other than presented/disclosed in financial statement that in the auditor's judgement is relevant for users understanding of audit auditor's responsibilities or auditor's report.
2	Requirements
	<ul style="list-style-type: none"> • OM Para is not a substitute of Key Audit Matters. • OM Para should be included in the auditor report in a separate section termed as "Other Matter". • Differentiate "Other Matter" with Key Audit Matter.
3	Location in Audit Reports
	<ul style="list-style-type: none"> • Immediately after the "Key Audit Matter" section. • If other matter is related with other legal and regulatory requirements, it needs to be placed in "Reporting on other legal and Regulatory requirements" Section.

SA 710 “Comparative Information - Corresponding Figures And Comparative Financial Statements”.



1	Comparative Information	The amounts and disclosures includes in the F.S. in respect of one or more prior periods in accordance with applicable FRF.
2	Corresponding Figures	Comparative information where amounts and other disclosures for the prior period, are included as an <u>integral part of current period F.S.</u> , and are intended to be read only in relation to the amounts and other disclosures relating to the current period.
3	Comparative F.S.	Comparative information where amounts and other disclosures for the prior period, are included for <u>comparison with the F.S. of the current period</u> but, if audited, are referred to in auditor’s opinion.

1	Determine	Whether F.S. include Comparative information required by FRF, & Whether such information is classified appropriately.
2	Evaluate	a) Whether the comparative information agrees with the amounts and other disclosures presented in the prior period; and b) Whether the accounting policies reflected in the comparative information are consistent with those applied in the current period. c) Whether, changes in accounting policies, if any, have been properly accounted for and adequately represented and disclosed.
3	Doubt over existence of misstatement	Perform additional audit procedure to obtain sufficient appropriate audit evidence to determine existence of material misstatement. Note: SA 560 “Subsequent Event” also applies if auditor had audited the prior period F.S.
4	Obtain WR	From management to re-affirm that the WR it previously made with respect to the prior period remain appropriate

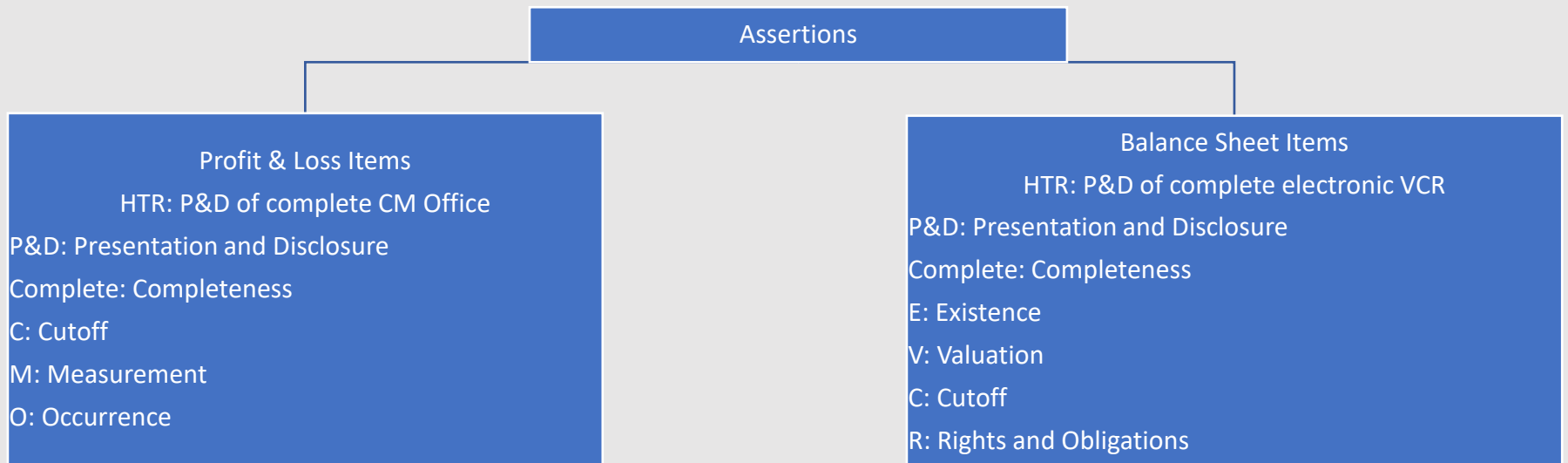
1.	Audit opinion to refer to each period for which F.S. are presented and on which opinion is expressed.
2.	If opinion on prior period FS expressed in current period differs from opinion expressed in the relevant prior period, give substantive reason for difference in Other Matter Para.

Audit opinion not to refer to corresponding figures EXCEPT:
<ul style="list-style-type: none"> • Auditor's report in prior period F.S. was modified and the subject matter is still unresolved: Modify current audit report also. • Auditor obtains audit evidence w.r.t. existence of material misstatement in prior period F.S. on which unmodified opinion was issued: Express qualified/ adverse opinion on current F.S. w.r.t. Corresponding figures if misstatement has not been dealt as required by applicable FRF.

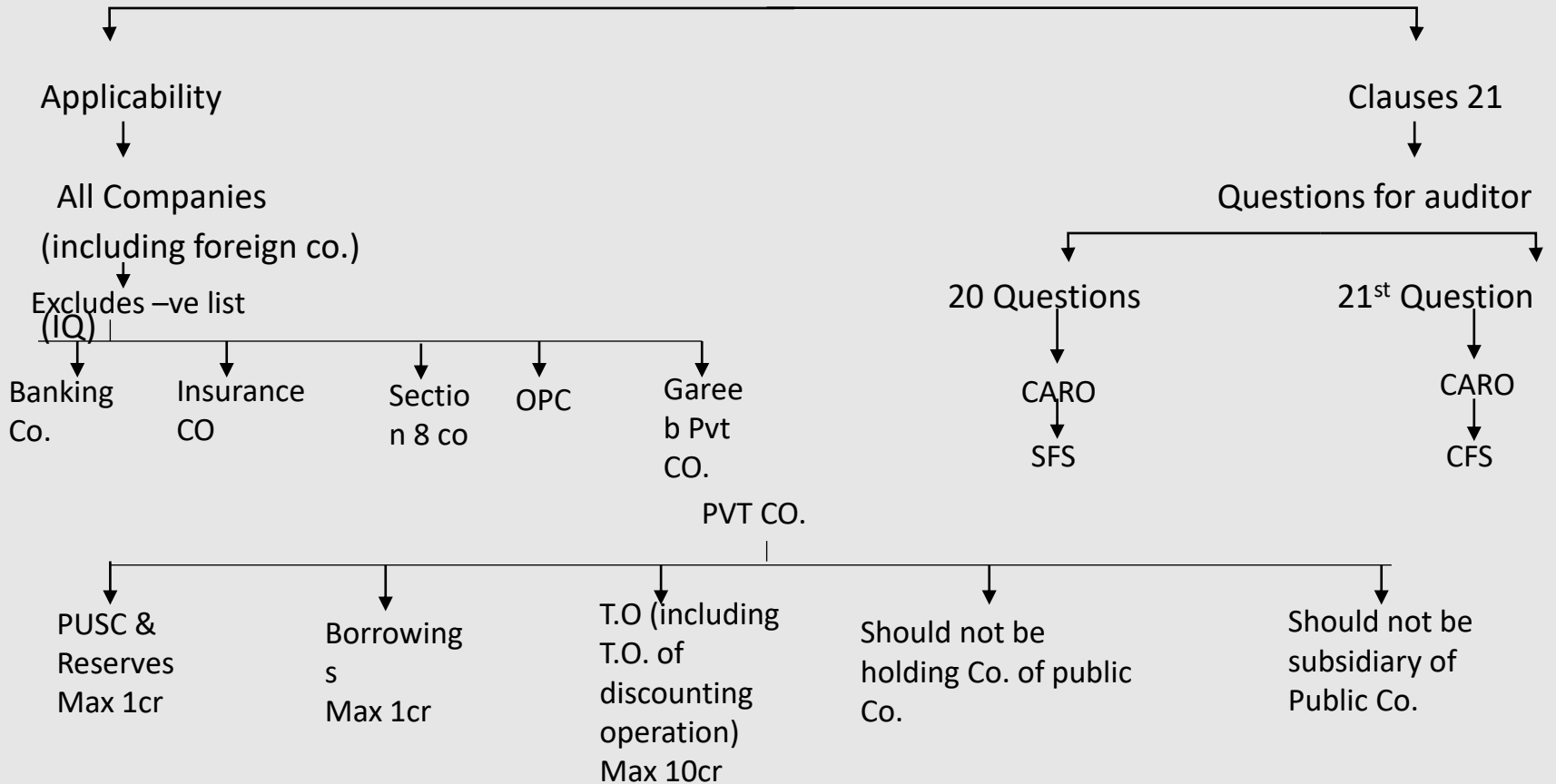
1	Prior Period F.S. Audited By Another Auditor
	Audit report to also contain other matter para, stating that: F.S. of prior period where audited by predecessor auditor. Type of opinion expressed by him (reason for modifications, if any) Date of that report.
2	Prior period F.S. are Unaudited
	Include other Matters para That corresponding F.S. are Unaudited. But this does not relieve the auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current F.S.

ASSERTIONS

Definition :- It refers to the representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.



CARO 2020



CLAUSES

Clause 1 to 7

- 1) FA Transaction 192
- 2) Inventory
- 3) Loan given
- 4) L85, L86
- 5) Deposits
- 6) Cost records
- 7) Statutory dues

Clause 8 to 14

- 8) Undisclosed Income
- 9) Loans taken & not repaid
- 10) IPO FPO 42, 62
- 11) Fraud Reporting
- 12) Nidhi Company
- 13) Related Party disclosure
- 14) Internal audit Dept

Clause 15 to 21

- 15) Non Cash
- 16) NBFC Reg +CIC
- 17) Cash Losses- Khatra
- 18) Stat auditor registration
- 19) Going concern
- 20) CSR
- 21) CFS- ve remark by subsidiary auditor