

## Flow Chart

Very Most Imp	SA 230 / chp-6
	SA 300 / chp-2
	Chp 1
	Chp 11
Very Imp	SA 265, SA 260, SQC 1
	SA 200, SA 210, SA 220
Imp	SA 610, SA 315, SA 330, SA 450
	SA 700, SA 701, SA 705, CARO 2020
	SA 500

MUST  
DO

GOOD	Chp 5, Chp 9
	SA 299, SA 706, SA 710, SA 330
	SA 501, 505, 510, 520, 530, 550 560, 570, 580

Try to  
Read and  
Learn

N.A	Chp 10
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Audit Planning: deals with auditors responsibility to plan an audit of F.S

Benefits:

- ① Appropriate attention to important areas
- ② Identify and resolve potential problems
- ③ Efficient and Effective Audit
- ④ Selection of Team Members
- ⑤ Direction and Supervision of Team Review of work
- ⑥ Coordination with other Auditor and Expert.

Elements:

① Preliminary engagement activities § SA 220 & 210

② Planning activities - Most Imp.

↳ Establishing the overall audit strategy.

④ Identify characteristics and define scope of the engagement

↳ Applicable FRF

↳ Nature of business Segment

↳ Industry specific reporting

↳ Expected use of audit evidence

⑥ Ascertain the reporting objectives

↳ timetable for reporting

↳ Organize meeting discuss NTE

↳ Discussion with mgmt: (i) expected type and timing of reports.

(ii) communication on status of audit work.

⑦ Result of preliminary engagement activities

↳ Volume of transaction

↳ Significant industry development

↳ Significant change in FRF

↳ Other significant relevant development.

⑧ Consider the factor Time, relevance, extent.

- ↳ Development of Audit plans
  - ↳ NTE
    - ↳ Planned RAP
    - ↳ Planned FAP at assertion level.
  - ↳ Other planned audit procedure carried out to comply SA's

Just Read

- ③ Relationship between Audit strategy & Audit plan
- ④ Overall Audit strategy and the Audit plan - Auditor's responsibilities.

- ⑤ Changes to planning decision during the course of audit
  - ↳ change audit plan / strategy as necessary
  - ↳ Need to modify overall audit strategy / plan
    - ↳ unexpected events
    - ↳ change in condition
    - ↳ Audit Evidence - result of audit procedure
      - ↳ Obtain contradictory evidence.
      - ↳ Revise
        - ↳ RAP
        - ↳ FAP

- ⑥ Planning: Direction & Supervision.
  - ↳ plan NTE
  - ↳ Factor to be considered.
    - ↳ size and complexity of entity
    - ↳ Area of audit
    - ↳ Assessed ROMM

- ⑦ Documentation
  - ①
    - ↳ overall audit strategy
    - ↳ audit plan
    - ↳ significant change made during audit engagement
  - ② Document overall audit strategy
  - ③ Documentation of Audit plan.
  - ④ Record of proper planning
  - ⑤ Standard audit programs
  - ⑥ record of significant changes.

### ④ Audit programme:

↳ Series of verification procedures & verification obtaining sufficient evidence to express an informed opinion

↳ Detailed plan of applying the audit procedure

↳ with instruction

↳ techniques

↳ objectives

### ⑤ Evolution One Audit Programme - ~~Not~~ Not Practicable for All Business

↳ Factors: nature, size  
suitable

internal control

nature of services

↳ On account of such variation - Evolving.....

↳ Necessity to specify in detail

### ⑥ Assistant Engaged - Be Encouraged to Keep open mind.

↳ Frame standard programme. ↳ Start with

• nature, size and composition

• Internal control

• Given scope.

• Frame standard programme → provide minimum essential work

↳ Situation left out originally - Now found relevant included in Programme.

↳ Situation included originally - Now found irrelevant Excluded from Programme.

↳ Assistant Keep Open Mind

↳ Instruction to Assistant - To Note & Report Significant matters

### ① Periodic Review of Audit Programme.

- ↳ to assess whether same continues to be adequate
- ↳ Unless this is done, not to adequately known ✓
- ⇒ audit may be held as negligently conducted
- ↳ The utility of the audit programme can be retained and enhanced only ⇒ To check inadequacies or redundancies.
- ↳ List task to be carried out
- contain few essential instructions ↳ extent of checking  
↳ sampling plan
- ↳ rigidity to audit programme
- ↳ Undertaking to keep the programme as up to date.

### ② Construction / Development of Audit programme.

- ↳ obtain understanding of accounting system and internal control
- ↳ Prepare written audit programme
- ↳ Determine evidence reasonably available and identify the best evidence
- ↳ Apply only those steps → useful in accomplishing the verification
- ↳ Objective for each area ⇒ sufficient detail
- ↳ Consider → all possible error
- ↳ → timing of procedure
- ↳ Coordinate with ↳ client  
↳ assistants  
↳ expert
- ↳ Stay within scope & limitations of this assignment

### ③ Designed to Provide Audit Evidence

- ↳ Includes both ↳ Accounting  
↳ other Information
- ↳ Basis for forming an opinion & AP helps in obtaining that evidence.

↳ Best Evidence - Matter of PJ.

↳ To obtain evidence: Different procedure for diff transaction

↳ In most of assertions, much of evidence be drawn and each one should be considered and weighted to ascertain its weight to prove/disprove assertion

↳ Evidence from variety of field

↳ (a) Documentary Examination

(b) Physical Examination

(c) Statement of Management, officials, employees,

(d) Explanation of Third Parties

(e) Arithmetical calculation by the auditor

(f) State of Internal Control

(F) Advantages of Audit Programme.

↳ Selection of assistants

↳ Clear instruction for staff

↳ Responsibility fixation

↳ No Ignorance or overlooking

↳ Track Progress

↳ Supervision

↳ Safeguard for auditor

↳ Helpful for future audit

(g) Disadvantages

↳ Mechanical Approach

↳ Inflexibility/Rigidity

↳ Shelter for inefficient assistants

↳ Lack of Initiative

↳ Monotonous

## Audit Documentation

↳ audit procedure performed relevant audit evidence and conclusion the auditor reaches

## Records

↳ Objectives

- Sufficient & appropriate records

- Evidence that audit  $\leftarrow$  <sup>Planned</sup> performed } In accordance with SA

↳ Nature  $\Rightarrow$  Provides

- Evidence of the auditor's basis for conclusions

- that the audit was planned & performed in accordance with SAs

↳ Purpose

↳ Assisting the engagement team

↳ Assisting members  $\leftarrow$  <sup>Direct</sup> supervision } audit work

↳ Enabling engagement team  $\Rightarrow$  accountable

↳ Retaining records  $\rightarrow$  significant to future audit

↳ Enabling conduct of quality control with SQCI

↳ Enabling conduct of external legal or regulatory requirements

↳ Form, Content, Extent

- Sufficient to enable an experienced auditor having no previous connection understands

↳ NTE

↳ Results of audit procedure

↳ Significant matters

- Shall record

↳ Identifying characteristics of specific items

↳ who performed the audit work

↳ who review the audit work performed

- Document Discussion of Significant matter with Mgmt

- Document inconsistency addressed in final conclusion

## • Factors

- ① Size & Complexity
- ② Nature of audit procedure
- ③ Identified ROMM
- ④ Significance of audit ~~engagement~~ evidence obtained
- ⑤ Nature and extent of exception
- ⑥ Document conclusion not readily determinable
- ⑦ audit methodology tools used.

## ↳ ~~Includes~~

### ↳ Includes

- ① Audit Program
- ② Analysis
- ③ Issue Memorandum
- ④ Summaries of Significant matters
- ⑤ Letter of <sup>Confirmation</sup> ~~Representation~~
- ⑥ Checklists
- ⑦ Correspondence concerning significant matters

### ↳ Timely Preparation

- ↳ to Enhance the quality of ~~the~~ audit
- ↳ Facilitates effective review
- ↳ evaluation of audit evidence
- ↳ Document prepared after audit work less likely to be accurate.

### ↳ Audit File

- ↳ one or more folders in physical / electronic form ⇒ contain records ⇒ audit documentation for specific engagement

### ↳ Assembly of Audit Files

- ↳ After date of auditor's report
- ↳ SOA - requires firm to establish policy / procedure for timely completion of assembly
- ↳ Not more than 60 days after auditor's report.



- ↳ Changes can be made during final assembly process - if administration in nature.
- ↳ Not to be deleted before retention period.
- ↳ retention period → not shorter than 7 years.
- ↳ Documentation of Significant Matters and Related Significant Professional judgement
  - Significant matters:
    - Audit procedure indicating
      - ↳ FS materially misstated.
      - ↳ revise previous assessment of ROMM
    - Circumstances for significant difficulty in applying necessary audit procedures
    - Finding that result in modification of audit ~~opinion~~ opinion.
  - Important factors
    - The extent of ~~relevant~~ PJ exercised
    - Documentation of PJ
    - Carrying out subsequent audits, matter of continuing significance
- ↳ Completion Memorandum or Audit Documentation Summary
  - Retain as part
    - ↳ Significant matters identified during audit
    - ↳ how they were addressed.
- ↳ Ownership of Audit Documentation
  - Unless specified - auditor's property
  - At his discretion → can be available to client or in case of ~~assess~~

## Chpt Nature Scope & Objective of Audit

① Meaning and nature of audit

① definition of statutory audit

② Auditor should be independent. (i.e. he should form his opinion without being affected by any influence).

③ Financial statement audits are performed for all types of organisation such as partnership firms, Private Ltd, LLP etc.

④ Management is responsible to prepare financial statements.

② Following points should be kept in mind while auditing financial statement so that they don't mislead anyone.

① No omission of entries

② All entries are supported by sufficient and appropriate audit evidences.

③ F.S presents true & fair picture

④ Amounts are properly classified, described & disclosed in compliance with AS.

⑤ Information conveyed in F.S is clear and unambiguous.

③ Objective of statutory Audit.

① Mention overall objective of the auditor as per SA 200

② Reasonable assurance is a high level assurance but it is not an absolute assurance (complete assurance). Therefore auditor cannot give a guarantee that the financial

statements are free from Material misstatements

- (a) Auditor performs his audit procedure in accordance with SA's to obtain S.A/A.E so that he can reduce his audit risk to an acceptably low level
- (b) Misstatement can occur due to fraud or error or both
- (c) Auditor should express an opinion that whether financial statements are free from material misstatement or not through a written report.

(4) Qualities of an Auditor.

- (a) Tact
- (b) Caution
- (c) Firmness
- (d) good temper
- (e) integrity
- (f) position of trust
- (g) exhaustive knowledge of trust

(5) Benefits of Statutory Audit: Why audit is needed?

- (a) provide high quality informat. It gives confidence to its user
- (b) Moral check on employer.
- (c) help government to determine tax liabilities
- (d) reliable to lenders, banks and financial institutions for making credit decisions
- (e) detect fraud & error.
- (f) Operation of various control & point out

deficiency

(5) In case of company shareholder does not involve in daily affair of the company, director are responsible for management. Thus to check reliability and of statement giving true and fair view audit is necessary.

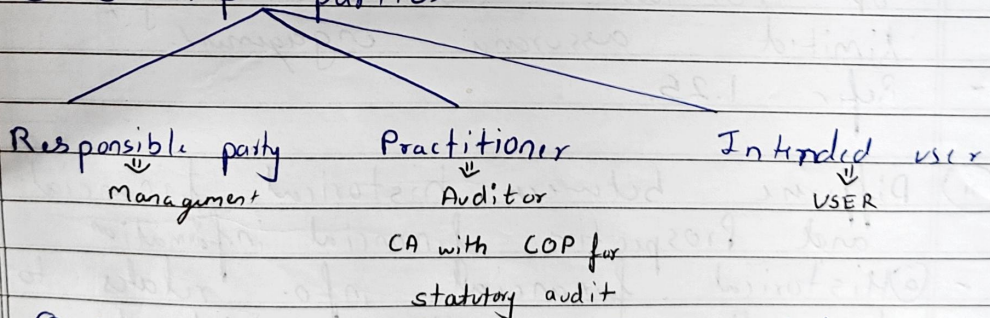
(6) Meaning of engagement

(a) It is a formal agreement between auditor and client generally these terms are included in a letter termed as engagement letter (SA 210)

(7) Auditing vs Investigation ER  
- Read pg no (1.12) module.

(8) Elements of an Assurance Engagement

(a) 3 imp parties



(b) Subject matter - For eg F.S or information that should be prepared by responsible party i.e management.

(c) Suitable criteria - It refers to the benchmarks used to evaluate the subject matter for eg to evaluate financial statement, criteria can be

AS / Ind AS, Guidance notes, applicable laws & Regulations etc.

⑧ Obtain Sufficient & Appropriate Evidence.  
 ↓ Quantity                      ↓ Quality

⑨ A written assurance report in appropriate form.

⑨ Meaning of Assurance Engagement.

Assurance Engagement means an engagement in which practitioner expresses a conclusion which is designed to enhance the degree of confidence of intended user other than the responsible party about the outcome of evaluation of subject matter against suitable criteria.

⑩ Difference between Audit & Review Engagement or reasonable assurance engagement vs limited assurance engagement.

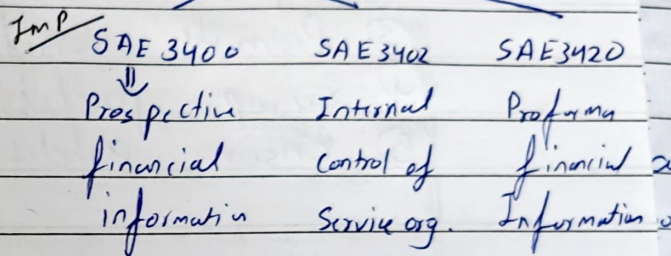
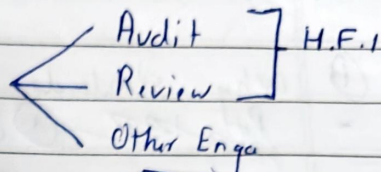
- Refer 1.25.

⑪ Difference between historical financial information and Prospective financial information

- ① Historical financial info relates to events transactions or condition which have occurred in past periods.

② Prospective financial info relates to future events and possible actions by the entity, this info is based on assumptions.

(12) Assurance Engagement can Be



(13) Write Short note on SRE, SAE  
- Refer pg no 1.39

(14) SRS's

- (a) It will apply in case of engagement either to perform agreed upon procedures regarding financial information or to perform compilation of financial information.
- (b) In such engagement we can also assist the management in the preparation and presentation of financial information without obtaining assurance.
- (c) Therefore while issuing report for compilation engagement, Practitioner should clearly state it is not an assurance engagement and no opinion is being expressed.
- (d) For eg: SRS 4400 to perform agreed upon procedures  
SRS 4410 compilation engagement.

(15) List of Engagement standards

- (a) SAs
  - (b) SAE's
  - (c) SRE's
  - (d) SRS's
- } Standard on Quality Control

① Why standards are needed

- ~~Part 132~~ ① Establish Benchmark with global practices
- ② Improve Quality of financial Reporting
- ③ Promote uniformity
- ④ Equip professional accountants
- ⑤ Ensure audit quality.

## SQC-1- Standard on Quality Control

① Standard on Quality Control.

- ① It is applicable for all the engagement covered under engagement standards for eg:

(a) Audit as per SA

(b) Review as per SRE

(c) Assurance engagement as per SAE

(d) Related Services as per SRS

② As per SQ C firm should establish a system of Quality Control that is designed to provide reasonable assurance to the firm about the following

• That the firm and its personnel comply with all applicable professional & technical standards and rules & regulations

• That the reports issued by the firm are appropriate in the circumstances

③

② Elements of system of Quality Control

- The firm's system of Quality Control should include Policies & Procedure addressing each of the following elements

(a) leadership responsibilities for quality within the firm

(b) Ethical requirements

(c) A & C analysis

(d) Human resources

(e) Engagement performance

(f) Monitoring



## ④ Leadership Responsibilities for quality within firm

- ① SQC requires firm to establish policies & procedures to promote an internal culture that recognises that quality is essential while performing any engagement.
- ② firms CEO or Managing partner or overall department leader are responsible for firm's System of Quality Control.
- ③ They should have sufficient & appropriate experience, ability and authority to fulfil this authority.

## ⑤ Ethical requirements

- ① firm should establish policies & procedures to provide with reasonable assurance that the firm and its personnel comply with applicable ethical requirements as per code of ethics issued by ICAI and independence requirements as per applicable legal & regulatory requirements.
- ② As per code of ethics fundamental principle includes the following.
  - (a) Integrity
  - (b) Objectivity
  - (c) Professional Competence & due care
  - (d) Confidentiality
  - (e) Professional Behaviour.
- ③ Firm should design a mechanism through which all engagement partner will provide details of independence requirement for all their client to the firm. Firm should address

from all its personnel that whether they comply with all applicable independence & ethical requirements.

- ④ All breaches of independence should be promptly notified to the firm & appropriate action should be taken to ensure compliance with applicable requirements.

### Acceptance & Continuance of Client relationship

① Following information is vital before accepting an engagement.

- Integrity of client (Note - d)
- Competence of Engagement team
- Compliance with ethical requirements

② If there is any conflict of interest or other issues then firm should not accept such engagements

③ If conflicts or issues are identified after accepting the engagement, then the firm should determine the following.

- Their professional & legal responsibility to inform about these circumstances to the appointing authority or any regulator if applicable.
- Firm should consider the possibility of withdrawing either from the engagement or from both engagement & overall client relationship.

18

### (d) ~~Matter~~ Integrity of Client

- Matters to be considered while evaluating the integrity of a client
  - ~~Identifying~~ Identity and business reputation of client's principal owners KMP & TCGs.
  - Nature of client's operation
    - attitude of client's principal owners
    - client is aggressively concerned with maintaining firm's fee as in appropriate limitation
    - Money laundering or other criminal activities

### (e) Human resources.

(1) Firm should establish policies & procedures to provide with reasonable assurance that they have sufficient personnel with capabilities competence & commitment which is necessary to comply with applicable professional standards & legal & regulatory requirements and to issue appropriate reports.

(2) Such policy & procedure should address relevant HR issues

- Recruitment
- Compensation
- Training
- Career development
- Performance evaluation.

## (F) Monitoring

- Quality control should be adequate and they should operate effectively.

## (G) Engagement Performance

① To ensure consistency in quality of engagement performance for every engagement, team members should be properly briefed or instructed about objectives, compliance with engagement standards, ensuring regular supervision & review of their work, and evaluating whether appropriate document is maintained for every engagement.

② If required firm should consult with experts (they maybe internal or external) regarding difficult or contentious matters with respect to every engagement.

## ③ Engagement Quality Control Review

In case of listed companies quality control review is mandatory.

for every engagement where quality control review is applicable, proper reviewer should be appointed, all important matters should be discussed & review should be completed before reviewing any reports.

In case of difference of opinion within engagement team or with those consulted (i.e. experts) or between engagement partner & quality control reviewer then such differences should be resolved.

In case recommendations of quality control reviewer are not accepted by engagement

particular and the matter is not resolved to the reviewer's satisfaction then the matter should be resolved by the following well established procedures of the firm this may include consulting with other practitioners or firms or a professional or regulatory body.

#### ④ Guidelines regarding documentation

- Policy for Assembly of Engagement file - be completed in not more than 60 days after the date of report.
- Ownership of documentation or working papers will be with the firm and before giving access of their documentation to client or any third party they should consider Confidentiality & independence.
- Retention period for audit engagement is not shorter than 7 years from date of auditors report.

## Chp-1 - Nature OBJECTIVE & SCOPE

21

(Noted)

## Chp II - Ethics of Audit Engagements

### Professional Skepticism

- ↳ Attitude of being alert to condition
- ↳ helps in critical assessment of audit evidence
- ↳ Maintain PS throughout audit but more consciously under:
  - ① Contradictory evidence
  - ② Condition indicate a possible fraud
  - ③ Inquiry - bring question on reliability of audit  $\leftarrow$  document Evidence

~~to~~ To reduce following risks

- ↳ PS through audit to reduce following risks
  - ① Risk of overlooking Unusual Circumstances
  - ② Risk of Overgeneralising while drawing conclusions
  - ③ Risk of Using inappropriate NTE

### Ethics

- ↳ Moral principle governs persons behavior / conduct of an activity
- ↳ CA's responsible for enhancing confidence of intended user  $\rightarrow$  they are expected to fulfill all their responsibility
- ↳ CA in practice or service has to abide ethical behavior  
ICAI design & implement ethical requirements
- ↳ Any deviation brings disciplinary mechanism into action  
result in firms suspension of membership or permanent removal.

SQC-1 (Noted)

# # Internal Control

Meaning: Process designed, implemented & maintained by TCWA and other personnel

## Objectives

- Achievement of an entity's objective
- Reliability of FR
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with applicable law & regulations

## Inherent Limitation

- Error of human judgement
- Cost Benefit Analysis
- Circumvention by collusion of two/more people
- Management interferences
- Not targeted toward unusual transaction
- Limitation in case of small entities

## Benefit of Understanding

- Identifying typ. of ROMM
- Factor that affect ROMM
- Design NTF For FAP

## COSO Framework

## Components

- Control Environment
- Entities RAP (incl. Risk identification also)
- Control activities
- Information systems (incl. Related business processes that are relevant to FR & communication)
- Monitoring of Controls

All internal controls may not be relevant for purpose of Audit

Objectives ① FR

② Compliance

③ Operation

} IC's

↑ May

not be relevant for Statutory Audit

Factors to be Kept in Mind while <sup>determining</sup> Controls relevant for audit

- Materiality
- The significance of Related Risk
- The size of entity
- The nature of entities business
- Applicable legal & regulatory requirements

Example of Control which may be relevant for purpose of Statutory Audit

- Control over Completeness & Accuracy of information generated from System
- IC designed for Safeguard of Asset can be either
  - ◀ Physical access control
  - ◀ Logical access control

Nature & Extent of Understanding Audit Control

Capable of effectively <sup>Preventing</sup> <sup>Detecting</sup> <sup>Controlling</sup> } material mistakes

Design of control is considered first.

↳ Improper Design ⇒ significant deficiency

↳ RAP to audit evidence about design & implementation of relevant control includes:

- Inquiring of entity personnel
- Observing the application of specific control
- Inspecting Document and report
- Tracing transactions through the information system relevant to FR.

↳ Inquiring alone is not sufficient for such purpose.

↳ Obtain understanding of entity's control is not sufficient to test their operating effectiveness ⇒ unless ⇒ some automatic

Methods of evaluation of Internal Control

Narrative record

Check list

Internal Control Questionnaire

Flow Chart



### ① Narrative Records

- Complete exhaustive description of system found in operation
- No formal control system is in operation
- Disadvantages
  - Ⓐ Comprehend system in operation is quite difficult
  - Ⓑ Identifying weakness or gaps in system
  - Ⓒ Incorporate arising on reshuffling of manpower, etc.

### ② Check List

- Series of instruction and/or question which a member of auditing staff must follow and/or answer.
- Initial span against instruction Yes, No, N.A

### ③ Internal Control Questionnaire

- Comprehensive series of questions
- Widely used for collecting information
- Existence operation and efficiency
- Review can more easily be made on an interim basis

### ④ Flow Chart

- Graphic presentation of each part of company's system of internal control.
- It gives bird's eye view of the system and flow
- help to understand and evaluate IC.

#

## Automated Environment (AE)

### Key Features

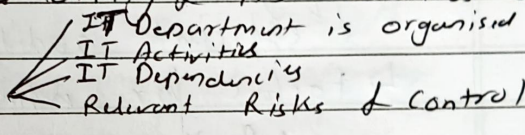
- Enables faster business operation
- Accuracy in data processing and computation
- Ability to process large volume of transactions
- Integration amongst business operation
- Better security & control
- Less prone to human errors
- Provides latest information
- Connectivity and networking capabilities

Risk arise from use of IT System

- Inaccurate processing of data.
- Unauthorized access to data
- Direct data changes
- Excessive access / Privileged access
- Lack of adequate segregation of duties
- Unauthorized changes to system / program
- Failure to make necessary changes to system
- Loss of data

Understanding & documenting AE

↳ Understanding ~~Business~~ entity & its business (incl. IT)

↳ Involves understanding how 

- IT Department is organised
- IT Activities
- IT Dependencies

 Relevant Risks & Control

↳ Info Information System being used

- Their purpose
- Location of IT system.
- Version
- Architecture
- Interfaces with system
- Inhouse vs Packaged
- Outsourced activities
- Key person

Note: After understanding the above info auditor should maintain an appropriate document for scan

Impact of IT related risks.

- Impact on Substantive checking:
  - Inability to address may lead to non-reliance of data obtained from system
  - Data / Reports have to be tested thoroughly for C & A
  - Could lead to increased substantive checking
- Impact on Control: Non reliance on automated control systems calculation & accounting procedure.

• Impact on reporting: regulatory requirement of IFC may lead to modification

### Testing Methods

- ↳ Different ways testing is performed in AE, 4 audit tests
- ↳ Inquiry - most efficient  
gives least audit evidence alone is not sufficient
- ↳ Reperformance - most effective  
time consuming  
least efficient
- ↳ Inquiry in combination with inspection gives most effective & efficient audit evidence.

↳ Factors for which audit test to use.

- Risk assessment
- Control environment
- desired level of evidence required.
- history of errors/mistake
- Complexity of business
- assertion being addressed, etc

↳ most common method

- walkthrough of one end to end transaction
- process transaction under diff scenarios
- Inspect the configuration defined in application

### Internal financial control (IFC) as per regulatory requirements

↳ refers to policies & procedure

- Reliability of R.R
- Effectiveness and efficiency of operation
- Compliance with applicable laws & regulation
- Safeguarding of assets
- Prevention & detection of fraud.

For responsibilities refer pg no 363

## Assess & report audit findings

↳ Certain findings or exceptions in IT <sup>environment</sup> Controls need to be assessed and reported to relevant stakeholders incl Mgmt / TCWA

↳ deficiency in IC exists if control is <sup>designed</sup> <sup>implemented</sup> <sup>operation</sup>

misstatement { Prevent, detect, correct } → unable to ← such that

## Data Analytics for Audit

↳ combination of processes, tools & techniques to tap vast amount of electronic data to obtain meaningful information

↳ Data analytics in terms   
 ↳ Increased profitability   
 ↳ Better customer service   
 ↳ Gaining competitive advantage   
 ↳ More efficient operations

↳ use → tools & techniques in ~~audit~~ audit process and obtain result.

↳ use of CAATS

- Check completeness of data & population
- Selection of audit sample
- Recalculation of balances
- Reperformance of mathematical calculations
- Analysis of Journal entries
- Fraud investigation
- Impact of control deficiencies

## Digital Audit

↳ Entities embracing digitization { Automation is Key operation Rethink the way of business

↳ Companies revamp <sup>AI</sup> <sup>Data analytics</sup> to expression of final opinion

↳ Use - right from planning <sup>AI</sup> <sup>Data analytics</sup> & other latest tech.

↳ Make use of <sup>AI</sup> <sup>Data analytics</sup> & other latest tech.

↳ can conduct audit in better way

# Types of Control in an AE

General IT                      Application                      IT-dependency.

## General IT Control

- ↳ Maintain the integrity of information & security of data
- ↳ Includes: Data centre & Network operation
  - Program change
  - Access security
  - Application system acquisition, development & maintenance

↳ Known as pervasive control

(a) Control over Data centre & network operations

- ↳ Ensure that production system are processed.
- ↳ overall mgmt of computer operation activities
  - Preparing & scheduling & execution of batch Job
  - ↳ Maths given as BPC & DRP

(b) Program Change

(c) Access Security

(d) Application System acquisition and development/maintenance

## Application Control

- ↳ Includes both automated / Manual Control
- ↳ embedded into IT Application

## IT dependent Control

- ↳ Manual Control use form of data/information.
- ↳ Performed manually, the design and effectiveness
- ↳ Due to inheritance dependency on IT

## Meaning

- Person / Org responsible for overseeing strategic direction & obligation relation with accountability.
- May include Mgmt Personnel.
- Governance structure vary by entities.
  - ↳ In some entity - Supervisory board exist
  - ↳ In other both supervisory & executive performed by single
  - ↳ In some case all or some TCWG involved mgmt.
- Auditor need to discuss & agree relevant person matter to be communicated by auditor

### (a) Auditor's responsibility in relation of FS audit.

- responsible for forming and expressing opinion on FS that have been prepared by mgmt overseight by TCWG.
- Audit does not relieve mgmt & TCWG with responsibilities.

### (b) Planned scope & timing of the audit.

- ↳ an overview of scope & timing (incl communication about significant risk)

### (c) Auditor shall communicate with TCWG / Significant findings

- Auditor's view about significant qualitative aspects of entities accounting practices. Also need to explain consideration of significant accounting practices not to be must appropriate.
- Significant difficulties
- Unless all TCWG involved in mgmt
  - Significant matters arised during audit, subject to correspondence

• Circumstances form & content of Auditor's report

• Any other significant matter as auditor's PS.

### (d) In case of Listed entities.

- Statement that engagement team has complied with relevant ethical requirements.
- All relationships and other matters between the

firm (network firm) & entity. May reasonably be thought to bear on independence.

- Total fees for audit & non-audit services
- Related safeguards applied to eliminate threat to independence.

### Communication Process

- Communicate form, timing & expected general content
- Communicate in writing - significant findings
- Need not to include all matters that arise

### Adequacy of communication process

- Evaluate Two-way Communication
- If has not, shall evaluate effect of ROMM & shall take appropriate action, May consider withdrawal.

### Documentation

- Matter communicated orally shall incl in audit documentation.
- Also shall retain a copy.

### Significance of communication with TCWG

↳ It is important, effective 2 way communication in assisting

(a) Understand matters - audit in context - develop constructive working relationship - independence & objectivity

(b) In obtaining info relevant to audit - identify appropriate sources of audit evidence

(c) TCWG fulfill responsibility reduces ROMM

### Objectives:

(a) Communicate clearly overview of planned scope & timing

(b) Obtain from TCWG Information

(c) Provide info to TCWG significant / Relevant to the responsibility.

(d) Promote effective 2 way communication.

## Meaning:

(a) Deficiency exists when:-

- A control is <sup>Designed implemented operation</sup> unable to <sup>Prevent or detect correct misstatements</sup>
- Control necessary to PDCM on timely basis is missing.

(b) Significant deficiency - a deficiency or combination of deficiencies <sup>misst situation</sup>

- Only when ~~misstatement~~ occurred. / potential magnitude of misstatement.
- Exists even though auditor has not identified misstatement.

Process to communicate Significant deficiencies with TCWG.

↳ Communicate in writing on timely basis

- has communicated or intends to communicate directly to mgmt
- Other deficiencies that have not been communicated to mgmt by other party in auditor's PJ important to misst mgmt attention

↳ shall include

- Description of deficiencies - explanation of potential effects
- Sufficient information understanding context of communication

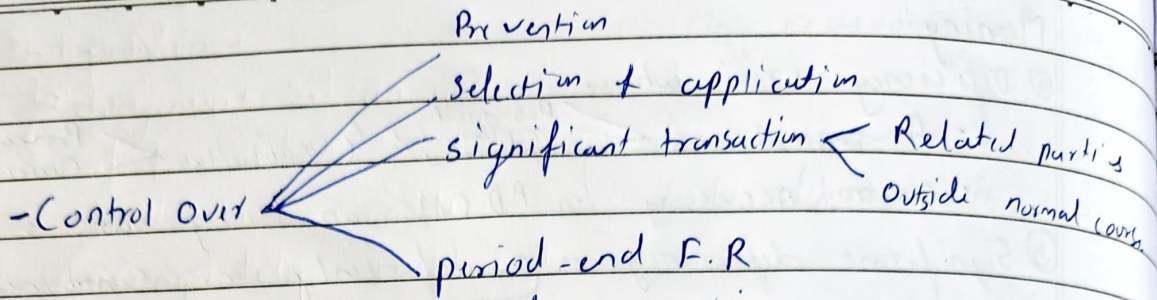
↳ shall explain

- express opinion on F.S
- consideration on IC not for purpose of expressing opinion on effectiveness
- Matter being reported auditor has concluded of sufficient information <sup>Matter considered for</sup> significant deficiency in IC.

Examples of ~~indicator~~ <sup>matter</sup> of significant deficiency in IC.

- likelihood leading to material misstatement
- susceptibility ~~to~~ to loss
- Subjectivity and complexity.
- Am<sup>+</sup> exposed to deficiencies
- The volume of activity occurred / could occur
- Importance of control.
  - General monitoring control





- Cause & frequency of exception.
- Interaction.

Example of indicator of Significant deficiency in I.C.

- Evidence of ineffective aspects.
  - significant transaction are not properly scrutinized
  - Identification of mgmt's fraud - not prevented by Internal Control
  - Mgmt's failure to implement appropriate remedial action
- ~~Ineffective~~ Ineffective entity. R.A.P, mgmt failure
- Ineffective response
  - MMS detected, but not prevented
  - MMS due to error or fraud.

Overall Objectives of Independent auditor ~~and the~~ <sup>Independent</sup> and the Conduct of an Audit in Accordance with Standards on Auditing.

Objective:

- ↳ Obtain reasonable assurance → F.S → Free from MMEs arise at conclusion on → F.S are prepared as per Applicable FRF
- ↳ To Report on F.S and communicate as per SA's
- ↳ Consequences if he fails to achieve his objective
  - Qualified opinion is not sufficient
  - Give disclaimer of opinion or should withdraw

Note:- Reasonable assurance is not a complete guarantee. Although high-level of assurance but not complete assurance.

Requirements

- Ethical Requirement relating to the audit of F.S
- an attitude of Professional Skepticism
- exercise P.J.
- Obtain S.A / A.E
- Follow all SA's

Ethical requirements

- Integrity
  - Be honest & straight forward toward user of F-S
- Objectivity
  - Opinion of auditor should be unbiased.
- Professional Competence & due care
  - Should be duly qualified & experienced exercise due care.
- Confidentiality
  - Keep all info received from client confidential
  - not disclose same unless legal or professional requirement
- Professional behaviour
  - Auditor should maintain

### Independence

- ↳ Judgement of an auditor not be as per wishes or direction of his client or as per his own self-interest - not act under any influence
  - completely unbiased manner
- ↳ There are two interlinked perspectives.
  - Independence of mind - state of mind that allows, express an opinion free from any influence.
    - Act with Integrity & exercise objective & Professional skepticism (Questioning Mind)
  - Independence in appearance - Disclose all the significant facts and circumstances otherwise third party would conclude auditors ethical requirement has compromised.

### Threats

- ↳ Self Interest threat
  - Direct/indirect financial interest in a client
  - Loan or guarantee - concerned client
  - Insecurity of losing a client
  - Close business relationship
  - Potential employment
  - Contingent fees
- ↳ Self Review threat
  - Arises when personnel review any work which actually carried out that work
- ↳ Advocacy Threat
  - Promotes a client's opinion to a point where objectivity gets compromised.
  - Promotes share of a company
  - becomes witness under litigation
  - Act as an Advocate

### ↳ Familiarity Threat.

- Professional too readily accepts clients POV though not gathered S.A - A.E (close relation)
- Close relation
- Person at senior position - formerly partner of audit firm
- Long association between senior employee
- Acceptance of significant gift or hospitality

### ↳ Intimidation threat

- Dismiss or replace professional as per wish of mgmt.
- Filing civil or criminal case or false fraud
- Use of physical force or violence.

### Safeguard.

↳ Context in which they practice, safeguard available to eliminate threat.

### ↳ Guiding Principles

- Should always be independent
- Secure ethical requirement
- Before accepting audit - must conscientiously consider threat to his independence
- Desist from task or put safeguard to eliminate
- unable to fully implement credible / adequate safeguard  
⇒ must not accept the audit.

### Professional Judgement

↳ Professional Knowledge, Training and Experience.

↳ To conduct proper audit

- interpretation of relevant ethical requirements
- informed decision cannot be made without application of relevant knowledge

↳ Necessary for decision regarding

- Materiality

- NTE
- Evaluate audit Evidence
- Communicate with TCWG
- Use external confirmation or not

### Sufficient & Appropriate Audit evidence.

- ↳ necessary to support audit evidence
- ↳ Primarily obtained from audit procedures
- ↳ Interrelated.
- ↳ sufficiency - quantity
- ↳ appropriateness - quality
- ↳ Matter of PJ.

### Inherent Limitation

- ↳ auditor cannot reduce risk to zero
- ↳ at glance

- Complex nature of financial reporting
  - items are valued - mgmt judgement estimates -> highly subjective
  - Judgement / estimate change => Such uncertainty cannot change / eliminated

- The nature of audit procedure
  - Practical & legal limitation
  - Fraud / sophisticated & carefully organized scheme - not be able to detect.
  - Not an official investigation.

- User Limitation w.r.t time & cost
  - User expect reasonable time & cost
  - Resort to test checking
  - Effort toward risky area only

- Other matters: assertion subject matters includes:
  - Fraud
  - Existence / completeness of related party relation.

~~SA-700 Series from volume 1~~

~~SA-200 Series from volume 1~~

Notes

SA-220

① Quality Control for an Audit of Financial Statements

② As per SA 220 the objective of the auditor is to implement Quality Control Procedures at the engagement level that provides the auditor with reasonable assurance regarding the following

① The audit complies with all professional & Technical Standard and legal & Regulatory requirements

② The audit report issued is appropriate in the circumstances.

③ Engagement partner is responsible for following matters

① Leadership responsibility

② Compliance with ethical requirements including independence

③ Acceptance & Continuance of client relationship

④ Assignment of appropriate engagement team members

⑤ For overall engagement performance

⑥ Monitoring.

In detail from volume 1

② Leadership Responsibility for Quality on Audit

④ Engagement partner should take responsibility for overall quality on each audit engagement.

⑤ Engagement partner should emphasise on the following aspects to ensure audit quality

- Performing work that complies with applicable professional standards and legal requirements
- Issuing audit report that is appropriate in the circumstances.
- Complying with firms quality control ~~policy~~ policy & procedure.
- Compilation of final audit file should be done in 45 days.

③ Relevant ethical requirements engagement partners should ensure that all the team members complies applicable independence & Ethical requirement, In case of any threat to independence Engagement partner should try to apply safeguards to Independence so that such threats be able to eliminate or reduce to acceptable level. In case of extreme circumstance engagement partner may consider withdrawal.

④ Acceptance & Continuance of Client relationship

- (a) engagement partner should perform acceptance & Continuance analysis to obtain such info which will be necessary to decide whether to accept an initial audit engagement or to continue an existing engagement with the client.
- (b) Information may include the following.
  - Integrity of principal owner or top level managers.

- Competence and capability of engagement team members including availability of time and resources.

- Compliance of ethical requirement including independence by engagement team members.

- Significant matters that have arisen during current or previous year audit engagement.

(5) Assignment of engagement team

It is the responsibility of engagement partner that competent capable team member are assigned to the audit engagement so that overall engagement can be performed in accordance with professional standards and legal & Regulatory requirements.

(6) Engagement Performance

(a) Engagement Partner has the responsibility for direction, supervision & review so that audit engagement is performed in accordance with

(b) It is responsibility of engagement partner to review the audit documentation before audit report is issued. Engagement partner should ensure that S.A.A.E has been obtained to support the conclusion reached and for issuance of audit report.

(c) Engagement partner is also responsible for undertaking appropriate consultation on



difficult or contentious matter. (For eg he may consider use of auditor's expert in case of certain pending litigation).

(d) In case of listed companies or certain other engagements for which firm may determine that a quality controlled review is required then for such engagements, engagement partner should consider the following

- Determine that quality control reviewer has been appointed.
- Engagement partner should discuss all significant matter identified during the audit with the quality control reviewer.
- Engagement partner should not put date on the auditor report until the completion of quality control review.

(e) If there is a difference of opinion between engagement partner & quality control reviewer or within the engagement team or with those consulted by the auditor then they should follow firm's Policy & procedures to resolve such differences of opinion.

(7) Monitoring.

- (a) Engagement partner should evaluate whether an effective system of Quality Control including Monitoring Process is designed and implemented to achieve the objective of SA 220

- ⑥ Engagement partner should document the following matters regarding each audit engagement.
- Issues identified regarding compliance with ethical requirements.
  - Conclusion reached regarding A & C analysis.
  - Nature, scope and conclusion drawn by Undertaking consultation (ie using the work of expert during the audit).
  - Issues related to independence requirements (if any).

+

Volume 2 pg no - 290 - Threats  
Safeguards

### Chp-11

#### Professional Skepticism

- ① It refers to the attitude of being alert to the condition (ie maintaining an attitude of Questioning Mind.
- ② Professional Skepticism will help in critical assessment of audit evidence obtain by the auditor.
- ③ Auditor should maintain professional skepticism throughout the audit but more consciously under following circumstances
- If he comes across contradictory audit evidences
  - Condition that indicate a possible fraud.
  - Inquires brings into question the reliability of documents or audit evidences
- ④ Maintaining professional skepticism throughout the audit is necessary if the auditor wants to

Does  
about  
J-R

reduce the following risks

- Risk of overlooking unusual circumstances
- Risk of over generalising, while drawing conclusions from audit evidence.
- Risk of using inappropriate assumptions while determining the nature, timing and extent of audit procedure to be performed and while evaluating the results of such audit procedures

### Ethics

- (a) The term ethics means moral principal which governs the persons behavior or his conduct of an activity.
- (b) CA's are responsible for enhancing confidence of intended users through their assurance engagement report therefore they are expected to fulfil all their responsibilities in ethical professional manner.
- (c) A CA either in practice or in service has to abide by ethical behaviours. the institute of Chartered accountants of India designs and implements the ethical requirement for eg. fundamental principal of professional ethics.
- (d) Any deviation from ethical responsibilities bring disciplinary mechanism into action against the CA's, such disciplinary procedure may results into fines, suspension of membership or permanent removal from membership.

## Agreeing the Terms of Audit Engagement Preconditions for an audit

- Use by Mgmt of an acceptable FRF
- In preparation of FS
- Agreement of mgmt's to premise on audit is conducted for Preconditions to establish.
  - Determine framework is acceptable
  - Mgmt acknowledges & understood responsibility
    - Use Applicable FRF
    - Internal control
    - Auditor is provided with
      - ↳ Access to all information
      - ↳ Additional information
      - ↳ Unrestricted access to persons within the entity.

## Agreement on audit engagement terms

- ↳ Objective & scope
- ↳ responsibility of auditor
- ↳ responsibility of mgmt
- ↳ Applicable FRF
- ↳ expected form & content of any report

SA-220 (noted)

SA-610

Internal audit - Refers to a function of entity that perform assurance of consulting activities designed to evaluate & improve

- Effectiveness of entities governance
- Entities risk Mgmt processes
- Internal Control processes

Objective & Scope

- Activities Relating to Governance
  - Risk Management
  - Internal Control
- ↳ Evaluation of IC
  - ↳ Examination of financial/operating info.
  - ↳ Review of operating activities
  - ↳ Review of compliance with law & Regulation

SA610 - Using the Work of Internal Auditor  
Scope of SA610.

- ↳ external auditors responsibility if using work of Internal auditor
- obtaining audit evidence
- Provide direct assistance, under direction & supervision
- ↳ Modifying the NTE
- ↳ It remains decision

Evaluating Internal Audit Function (IAF)

- ↳ Objectivity
- ↳ Competence
- ↳ systematic & disciplined approach incl quality control

Circumstances IAF cannot be used.

- ↳ status and relevant policies/procedures not adequate
- ↳ lacks sufficient competent

↳ does not apply a systematic / disciplined approach  
Using Work of IAF

If external auditor plans to

↳ discuss the ~~planned~~ planned use

↳ read the report

↳ Perform SAP on the body of work

Discussion & Coordination with IAF

• Discussing planned use of their work, may be useful to address the following

↳ Timing of such work

↳ Nature of the work performed

↳ Extent of audit coverage

↳ Materiality

↳ Documentation

↳ Review & Reporting

Determining whether in which area and to what extent external auditor can use direct assistance of internal auditor

- May be prohibited by law or regulation

- If not prohibited by law or regulation and external auditor plans to use internal auditor

• Provide direct assistance

• evaluate existence and significance of threat

• level of competence

• can include Inquiry

External auditor shall not use internal auditor

- Involve making significant judgments

- Relate to higher assessed ROMM

- Relate to work with which the internal auditor has been involved.

- Relate to decision the external auditor makes.

Prior to using Internal auditor to provide assistance for purpose of audit

↳ Obtain written agreement from an authorized representative of the entity.

It won't intervene in work.

↳ Confidential Specific matter as instructed by the external auditor.

External Auditor Responsibility for Audit

↳ Sole responsibility

↳ Not reduced when using work of Internal Auditor

↳ Neither IAF nor the Internal auditor are independent

↳ defines the conditions

↳ defines the necessary work effort

↳ designed to provide a framework

SA - 330 - Noted along / SA - 315

## SA-330 - Auditor's response to assessed risk

## ① Objective

- The Objective of the auditor is to obtain SAAE about identified and Assessed ROM through designing & implementing appropriate responses to those risks.

## ② SA 330 states that

- Auditor shall design & implement overall responses to address ROM at overall financial statement level
- Design & perform further audit procedures to address ROM at assertion level

③ Circumstances when auditor should design and perform Test of Controls to obtain SAAE regarding ~~off~~ ~~from~~ ~~proper~~ operating effectiveness of relevant control.

- When Substantive procedure alone cannot provide SAAE at Assertion level
- When Auditor's Assessment of ROM includes an expectation that the controls are operating effectively (when auditor has an intention to rely on entities internal control)

## ④ Test of controls (In detail)

- ① Nature of TOC - ① While designing and performing TOC auditor can use any of the following procedures to obtain SAAE
  - Inquiry
  - Observation



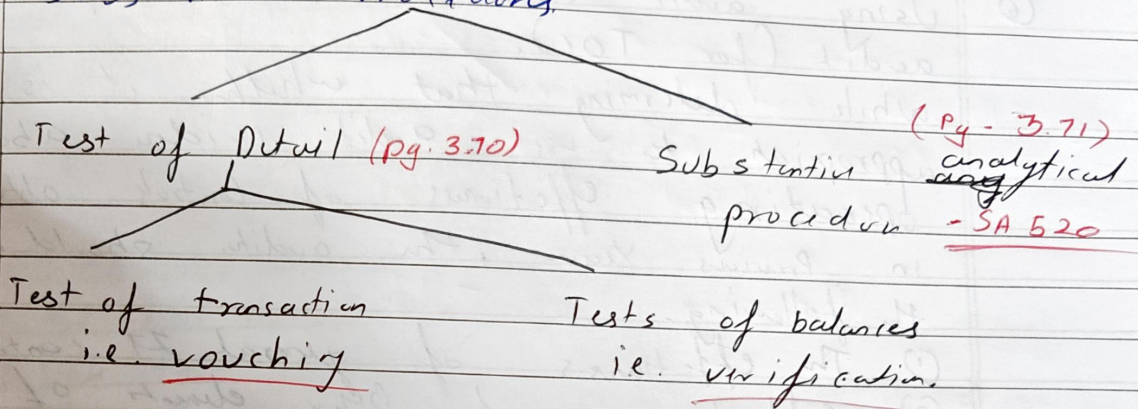
- Inspection
  - Reperformance.
- (2) Enquiry alone is not sufficient. ∴ audit should audit procedure in combination with enquiry.
- (3) Inquiry combined with inspection or reperformance may provide more assurance than Inquiry Observation.
- (4) When more persuasive audit evidence are needed regarding effectiveness of controls than it will be appropriate to increase extent of testing.
- (5) Extent of TOC - following matters should be considered while determining the extent of TOC to be performed.
- (1) frequency of performance of control
  - (2) Expected rate of deviation from a control
  - (3) The Extent to which auditor wants to rely on operating effectiveness of control (i.e. how much assurance is needed).
  - (4) Availability of reliable & relevant audit evidences.
  - (5) The length of time during the audit period the auditor is considering for Internal control.
- (6) Timing of TOC -
- (1) Auditor shall test control for particular time or throughout the period.
  - (2) Some controls needs to be checked only at a specific point of time such as Physical verification of inventory performed by Management. for other controls there are no

time constraint.

- ④ Operating Effectiveness of Controls.
  - Evaluation operating effectiveness of Controls
    - Auditor May identify misstatements during Substantive Procedure which may indicate that controls may not be operating effectively.
    - Absence of Misstatement detected ~~by~~ detected by substantive procedure does not guarantee that the controls are operating effectively.

- ⑤ Specific Enquiries when deviation from Controls are detected.
  - ① When auditor comes across deviation in internal controls on which auditor intends to rely he should specific Inquiries from the management or respective employee to understand the matter and its potential consequences.
  - ② Auditor should determine whether additional control are necessary for the purpose of understanding and testing to address the risk which may arise due to detection of such deviation.
  - ③ Auditor should determine that are there any potential ROM that needs to be addressed using substantive procedure.

## (5) Substantive Procedures



## (a) Meaning of Substantive Procedure

- Substantive Procedures are those audit procedures which help in detecting MMS at the assertion level. It includes Test of detail & SAP

## (b) Nature & Extent of Substantive Procedure

- (1) Only SAP to reduce the audit risk to an acceptably low level

(2) Only TOD

(3) Combination of SAP & TOD

(4) Extent - The conclusion of compliance procedure helps in determining nature, timing & extent of ~~Substantive~~ Substantive Procedures to be performed. For eg: If Internal Controls at an assertion level are not reliable then the extent of Substantive Procedure should be increased.

⑥ Using audit evidence obtained in previous audit (for TOC).

- While determining that whether it is appropriate to use audit evidence about operating effectiveness of controls obtained in previous year, the auditor should consider the following.

① The effectiveness of general IT controls  
 ② Effectiveness of other elements of Internal Control such as control environment, entities risk assessment process, monitoring process, etc.

③ The risk arising from characteristics of control i.e. whether automated or Manual.

④ Other factors such as changes in personnel responsible for controls, Deviations identified in these controls during previous audit etc.

⑦ While designing FAP auditor shall consider the following.

① Outcome of ROM assessment

② Likelihood of MMS

③ Whether auditor intends to rely on internal controls for respective assertions or

④ Need more persuasive evidence when audit assessed risk is high.

SA-315 -

## Identifying & Assessing the ROMM through Understanding the Entity & its Environment

### Inclusion of RAP

#### ① Inquiries of Mgmt & other within Entity

- Internal audit personnel
- Employees involved in initiating
- In house legal counsel
- Marketing & Sales personnel
- Risk Management function
- Information system personnel.

#### ② Analytical Procedure (AP)

- ↳ AP performed as RAP includes both financial & non financial info
- ↳ help to identify unusual transaction or event and amount, ratio and trends
- ↳ Identifying ROMM especially ROMM due to fraud.
- ↳ Data aggregated at high level
- ↳ Provide broad initial indication when MMS exist.

#### ③ Observation & inspection

- ↳ entity's operation
- ↳ Documentation
- ↳ Report prepared by mgmt
- ↳ Premises & Plant facilities,

### Understanding Entity & its Environment

#### ① Relevant industry, regulatory and other external factor incling applicable FRF.

- ↳ Competitive environment, Supplier & customer
- ↳ Engaged seasonal activities.
- ↳ may give rise to specific ROMM
- ↳ consider include accounting principals and indsty specific regulatory framework

## ② The nature of the entity

- ↳ its operation
- ↳ its ownership & governance structure
- ↳ Types of investment that entity, investment is special-purpose.
- ↳ classes of transactions, account balances & disclosures to be expected.
- Complex structure often introduced issues that may give rise to ROMM.
  - ↳ Business operation such as nature of resources
  - ↳ Investment & Investment activities
  - ↳ Financing & Financing activities
  - ↳ FR such as accounting principle.

## ③ The entity's selection & application of accounting policies incl. the reasons for changes thereto

- ↳ Applicable FRF & accounting policies in relevant industry

## ④ The entity's objectives & strategies, & those related business risk that may result in ROMM

- ↳ To respond to these factors the entity management
- ↳ Strategies are approach by which mgmt tends to achieve its objectives
- ↳ Business Risk is broader than ROMM
- ↳ However auditor does not have a responsibility to identify/assess all business risk because all risk don't give rise to ROMM

### ↳ ROMM includes:

- Industry development
- New product & services
- Expansion of business

## ⑤ Measurement & review

- ↳ These pressure, in turn, may motivate mgmt to take action to improve business performance.

↳ It includes

- Key Performance indicators
- Period-on-period financial performance
- Budget, forecasts
- Credit rating agency reports

Significance of understanding Entity & its Environment

- ↳ helps → planning → identifying area for special attention
- ↳ A proper audit is not possible

A Continuous Process

↳ Assessing ROMM

↳ Determining Materiality

↳ Appropriateness of selection & application of Accounting policies

↳ Identifying Sparsas for Special Audit

↳ Developing expectation

↳ Evaluating Sufficiency & appropriateness of audit evidence

Special audit Consideration

↳ risk of Fraud

↳ risk is related to recent significant economics

↳ complexity of transactions

↳ Risk involves significant transaction with related parties

↳ Degree of subjectivity - especially those measurements involving a wide range

↳ Involves significant transactions that are outside normal course of business

ROMM - Significant for Non-Routine Transactions

↳ Management Intervention

↳ Greater manual Intervention

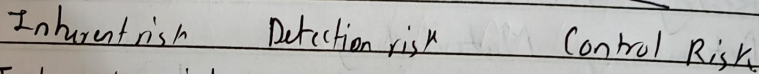
↳ Complex calculation or accounting principle

↳ Nature of Non-routine transaction

ROMM

- ↳ Financial statements prior are misstatement prior to audit
- ↳ Probability of frauds or error in F.S before audit.
- ↳ ROMM exist at two level
  - Overall financial statements
  - Assertion level

Audit Risk



Inherent risk

- ↳ susceptibility of assertion  $\left\{ \begin{array}{l} \text{class of transaction} \\ \text{account balance} \end{array} \right\}$  individually or when aggregated
- ↳ considering existence of IC  $\left\{ \begin{array}{l} \text{balance of a account} \\ \text{disclosure required} \end{array} \right\}$  to be made in F.S of entity - Inherent risk
- ↳ IR higher  $\left\{ \begin{array}{l} \text{some assertion} \\ \text{related class of transaction, account balance} \end{array} \right\}$

Control risk

- ↳ Misstatement that could occur in a assertion about class of transaction, account balance or disclosure  $\Rightarrow$  Individually or aggregated  $\left\{ \begin{array}{l} \text{Presented} \\ \text{detected} \\ \text{corrected} \end{array} \right\}$  on timely basis
- ↳ Existing & operating in entity not be efficient enough to stop from happening, find & then rectify any MMS / account or disclosure
- ↳ Inverse relation between control risk & efficiency

Detection risk

- ↳ Risk that procedures performed by the auditor are acceptably low level will not detect misstatement that exists
- ↳ Sampling risk
- ↳ Non Sampling Risk



## Evaluation of Misstatement Identified during Audit

Accumulation of Misstatement other than those are clearly trivial.

### Consideration of Identified Misstatement

↳ identified misstatement occurrence indicate that other misstatement may exist.

↳ aggregate of misstatement accumulated during audit

- Request mgmt for class of transaction

- Perform procedure to determine actual misstatement

### Communication & Correction of misstatement

↳ Communicate on timely basis all misstatement

↳ to appropriate level of mgmt.

↳ Correction enables mgmt to maintain accurate accounting books ⇒ reduce the risk

↳ Mgmt refuses - some or all misstatement, the auditor shall obtain understanding reason for not making the corrections

### Evaluate the effect of uncorrected misstatement.

↳ Prior to evaluating the effect of uncorrected MS.

↳ Individually or in aggregate

- Nature and size of misstatement

- Effect of uncorrected Misstatement

- ~~Final~~ financial statement as a whole.

Communicate with TCWG

## Audit Evidence

↳ information used by auditor in arriving at conclusion includes both information in

### • Accounting Records

↳ initial accounting entries

↳ invoices

↳ contracts

↳ General & subsidiary ledger

↳ Work sheets / Spreadsheets

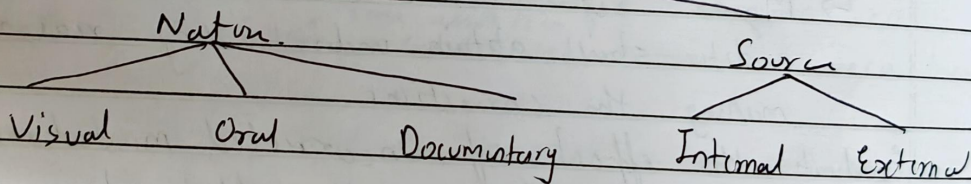
### • Other information

↳ Minutes of Meeting

↳ Written Confirmation

↳ Manual containing details of I.C

## Type of Audit Evidence



Visual - Observing physical verification

Oral - discussion with mgmt

Documentary - PD certificates, loan agreement

Internal - Originates within the organisation

External - Originates outside the organisation

## Reliability

↳ Generalisation about reliability are subject to important exceptions.

↳ May be useful:

• increased when obtained from independent sources

• increased when related control are effective

• Obtain directly by auditor More reliable than

obtained indirectly or by inference.

- Document form - more reliable than oral.
- Original document + more reliable than Photocopies.

### Relevance:

- ↳ logical connection with or bearing upon the purpose of audit procedure - direction of testing.
- ↳ Set of audit procedure relevant to certain assertion but not other inspection of documents.
- ↳ Related to receivables after the period.
- ↳ Existence of inventory.
- ↳ valuation of inventory.

### SAAE

- ↳ Sufficiency - quantity
- ↳ Appropriateness - quality.

### • Factors

#### (a) Materiality

- ↳ Significant of classes
- ↳  $<$  Evidence  $\therefore <$  Material.
- ↳  $>$  Evidence  $\therefore >$  Material

#### (b) ROMM

- ↳ Inherent risk
- ↳ control risk
- ↳  $<$  Evidence  $\therefore <$  ROMM
- ↳  $>$  Evidence  $\therefore >$  ROMM

#### (c) Size & characteristics of Population

- ↳  $<$  Evidence in case of Smaller / more homogeneous population
- ↳  $>$  Evidence in case of Larger / more heterogeneous population

## Audit Procedures

RAP

FAP

Test of Control

Substantive procedure

Includes

- ① Inspection - Examining records, internal / External, in paper / Electronic form, other media.
- ② Observation - Looking at a process or procedure performed by other eg: Inventory counting.
- ③ External Confirmation - Evidence obtained as direct response from Third Party.
- ④ Recalculation - Checking Mathematical accuracy of documents or records.
- ⑤ Reperformance - procedure or control Originally performed.
- ⑥ Analytical Procedure - Consists of evaluation of financial information relationship among both financial & non financial data.
- ⑦ Inquiring - Seeking information of knowledgeable person formal written inquires to informal oral inquiring.

RAP - Performed to obtain understanding of entity and its environment

FAP ~~under~~ ~~the~~ ~~scope~~ ~~of~~ ~~the~~ ~~audit~~ ~~program~~

↳ TOC - designed to evaluate operating effectiveness

↳ S.P - designed to detect MMS

## Audit trials

↳ documentation flow of transaction

↳ Investigate how translated into accounts

↳ Act as a record keeper

↳ reduce fraud, material error, unauthorised use

↳ Enhance internal control / data analysis of Problem area

## Selecting Items for testing

- ↳ Selecting all Items

• 100% examination is unlikely

• More common for Test of detail

- ↳ ~~High value or key items~~ Select specific items

• High value or exhibits some other characteristic

• A certain amount - proportion of total amount of class of transaction

• Nature of entity & nature of transaction

- ↳ Audit Sampling

• Designed to enable conclusion - testing on sample

## Work of Mgmt Expert

↳ Evaluate competence, capability & objectivity

↳ Obtain an understanding of the work

↳ Evaluate the appropriateness of that expert work as audit evidence for relevant assertion.

CARO 2020

SA 700

SA 701

SA 705

} Volume 1 (Refer)