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AUDIT-95

CA Final & CA Inter Audit

Abki Baar Audit Mei Exemption Paaar!



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AIR 5,6,32

*Free Revision
Videos &
Notes*

Brief about Author

- All India Ranker at all 3 levels of CA
- Scored 95 Marks in Audit - Highest marks in history of ICAI till Nov 23
- Articleship at KPMG, Mumbai in Statutory Audit Domain
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SRE 2400 - Engagements to Review Historical FS

Audit	Review
Performs elaborate & extensive procedures	Perform fewer procedure focusing on inquiry & AP
Draws reasonable conclusions on basis of SAAE	Draws limited conclusions on basis of SAAE
Provides assurance opinion whose language is positively worded	Provides assurance conclusion whose language is negatively worded
Reasonable assurance engagement providing reasonable level of assurance	Limited assurance engagement providing lower level of assurance than Audit

Review is related to FS prepared on basis of **historical financial info just like audit**

<ul style="list-style-type: none"> • SRE 2400 deals with practitioner's responsibility performing review of FS when he is not auditor of FS • Practitioner performs primarily Inquiry & AP to obtain SAAE. If FS have MM, he performs necessary additional procedures 	<p>Objectives</p> <ul style="list-style-type: none"> • Obtain limited assurance about whether FS are free from MM & whether practitioner believes FS are not prepared, in all material respects, as per AFRF • Report on FS & communicate as per SRE <p>When limited assurance cannot be obtained & modified conclusion is insufficient in circumstances, Practitioner shall either disclaim conclusion or withdraw, if possible under L&R</p>
<p>Ethical Requirements & Engagement Level QC</p> <p>Comply with ethical requirements, including independence & EP is responsible for overall quality of each review engagement</p> <p>Factors affecting Acceptance of Review</p> <p>Unless required by L&R, practitioner shall not accept review engagement if -</p> <ul style="list-style-type: none"> • He is not satisfied - <ul style="list-style-type: none"> ○ There is rational purpose for engagement. Rational Purpose may not be present if - <ul style="list-style-type: none"> ▪ L&R requires FS to be audited ▪ There is significant limitation on scope ▪ He suspects association of his name with FS in inappropriate manner ○ That review engagement would be appropriate. If not appropriate, he may recommend another type of engagement, for eg - <ul style="list-style-type: none"> ▪ Audit is more appropriate than review ▪ If circumstances prohibit assurance engagement, he may recommend compilation or other engagements 	<p>Preconditions for Accepting Review Engagement</p> <ul style="list-style-type: none"> • Determine if FRF is acceptable & in Special Purpose FS, obtain purpose of FS & users • Obtain agreement of Mgt that it acknowledge & understands its responsibilities - <ul style="list-style-type: none"> ○ For preparation of FS as per AFRF ○ For such IC as necessary to enable FS preparation free from MM ○ To provide practitioner with - <ul style="list-style-type: none"> ▪ Access to all info ▪ Additional info that he may request ▪ Unrestricted access to persons within entity to obtain audit evidence <p>If practitioner is not satisfied for above matters, he shall discuss with Mgt or TCWG</p> <p>If changes cannot be made, he shall not accept engagement unless required by L&R. If required by L&R, he shall not include reference to review conducted as per this SRE</p> <p>If, after accepting engagement, practitioner is not satisfied as to any preconditions, he shall discuss with Mgt or TCWG & determine -</p>

<ul style="list-style-type: none"> • He believes that ethical requirements, including independence, will not be satisfied • His preliminary understanding indicates that info to perform review is likely to be unavailable or unreliable • He doubts Mgt's integrity that will affect performance of review • Mgt or TCWG impose limitation on scope of work such that it will result in him disclaiming conclusion on FS 	<ul style="list-style-type: none"> • Whether matter can be resolved • Whether to continue engagement • Whether & how to communicate matter in report
<p>Agreeing to Terms of Engagement</p> <ul style="list-style-type: none"> • Prior to performing engagement • Recorded in engagement letter • On recurring engagement, evaluate if terms need to be revised & need to remind Mgt of existing terms • Not agree to change in terms if there is no reasonable justification for doing so • If, prior to completing review, he is requested to change to engagement for which no assurance is obtained, he shall determine if there is reasonable justification • If terms are changed, He & Mgt shall agree & record new terms in engagement letter 	<p>Materiality in Review of FS</p> <ul style="list-style-type: none"> • Practitioner's judgment about what is material is same regardless of level of assurance obtained by him for expressing conclusion • He shall revise materiality when becoming aware of any info during review that would have caused him to determine diff amount initially <p>Obtaining Understanding of Entity</p> <p>To identify areas where MM are likely to arise & design procedures to address those areas</p>
<p>Designing & Performing Inquiry & AP</p> <p>Inquiry - It includes seeking info from Mgt & other persons within entity Depending on circumstances, inquiries also about -</p> <ul style="list-style-type: none"> • Actions taken at meetings of owners, TCWG that affect info & disclosures in FS • Communications entity has received from regulatory agencies • Matter aroused in applying other procedures <p>AP - Practitioner considers whether data from a/cing system & records is adequate for performing AP</p> <p>Why "Inquiry" & "Analytical procedures" are important in Review?</p> <ul style="list-style-type: none"> • Inquiry is principal source of evidence about Mgt intent. In that case, understanding Mgt's past history of performing its intentions, 	<p>Procedures to Address Specific Circumstances</p> <ul style="list-style-type: none"> • Related parties - Practitioner shall remain alert for existence of RP that Mgt has not previously disclosed to him. If he identifies significant transactions outside normal course of business, he shall inquire Mgt about nature of transactions, involvement of RP & business rationale • Fraud & Non-compliance with L&R - When Practitioner identifies/suspects them, he shall communicate to Mgt or TCWG & request assessment of effects on FS & determine if there is responsibility to report fraud or illegal acts to party outside entity • Going concern - If practitioner becomes aware of events or conditions that may cast significant doubt about entity's ability to continue as GC, he shall - <ul style="list-style-type: none"> ◦ Inquire Mgt's future plans & its feasibility

<p>reasons for choosing action & Mgt's ability to pursue action may provide info to corroborate evidence obtained through inquiry</p> <ul style="list-style-type: none"> • Application of professional scepticism is important to evaluate if FS have MM • Inquiry also assists to update practitioner's understanding of entity to identify areas where MMs are likely to arise in FS <p>AP assists practitioner to</p> <ul style="list-style-type: none"> • Update understanding of entity, to identify areas where MM are likely to arise in FS • Provide corroborative evidence for inquiries or AP already performed • Identify inconsistency from expected trends • Serve as additional procedures when he believes that FS have MM 	<ul style="list-style-type: none"> ○ Evaluate result of inquiry, to consider if Mgt response provide sufficient basis to - <ul style="list-style-type: none"> ▪ Continue to present FS as GC if AFRF includes assumption of GC or ▪ Conclude if FS have MM for entity's ability to continue as GC ○ Consider Mgt's responses in light of all info present • Use of work performed by others - If practitioner uses work performed by another practitioner or expert, he shall be satisfied that work performed is adequate for his purposes. When he is engaged to review FS of group, planned NTE of procedures are directed at achieving his objectives for group FS
<p>Additional procedures when FS may have MM</p> <ul style="list-style-type: none"> • Additional Inquiry or AP - In greater detail or focused on affected items or • Other procedure - TOD or confirmations <p>Practitioner performs additional procedures to</p> <ol style="list-style-type: none"> Conclude that matter will not cause MM in FS - no further procedures are required or Determine that matter causes MM in FS - No further procedures are required & he will conclude that FS have MM <p>The evaluation of results of additional procedures may enable practitioner to get to (a) or (b) above.</p> <p>If not, he is required to -</p> <ul style="list-style-type: none"> • Continue performing additional procedures until he reaches either (a) or (b) or • If he is not able to reach either a or b, then scope limitation exists & he is not able to form unmodified conclusion on FS 	<p>Subsequent Events</p> <ul style="list-style-type: none"> • If practitioner becomes aware of events occurring b/w date of FS & date of report that require adjustment or disclosure in FS, he shall request Mgt to correct those misstatements • He has no obligation to perform any procedures after date of report. However, if, after date of report but before FS are issued, fact is known that may have caused him to amend report, he shall - <ul style="list-style-type: none"> ○ Discuss with Mgt or TCWG ○ Determine if FS need amendment ○ If so, inquire how Mgt intends to address matter in FS • If Mgt does not amend FS when he requires & his report is already provided to entity, he shall notify Mgt & TCWG not to issue FS. If FS are issued without amendments, he shall take action to prevent reliance on report
<p>Written Representations</p> <p>If Mgt modifies or not provide WR, it may alert practitioner that significant issues may exist</p>	<p>Forming conclusion on FS</p> <p>Practitioner shall consider impact of -</p> <ul style="list-style-type: none"> • Uncorrected misstatements identified during current & previous year's review • Qualitative aspects of a/cing practices

<p>WR shall include that -</p> <ul style="list-style-type: none"> • Mgt has fulfilled responsibility for FS preparation as per AFRF & has provided practitioner with all info as per terms & • All transactions are recorded in FS <p>If L&R requires Mgt to make written public statements of responsibilities & such statements provide WR required above, matters covered by such statements need not be included in WR</p> <p>Practitioner shall also request Mgt's WR that Mgt has disclosed to him -</p> <ul style="list-style-type: none"> • Significant facts of frauds or suspected frauds known to Mgt • Known non-compliance with L&R • Identity of RP & all RP relationships & transactions of which Mgt is aware • All subsequent events requiring adjustment or disclosure, are adjusted or disclosed • All info to use of GC assumption in FS • Material commitments or contingencies affecting FS • Material non-monetary transactions <p>If Mgt not provides WR, practitioner shall -</p> <ul style="list-style-type: none"> • Discuss with Mgt & TCWG • Re-evaluate integrity of Mgt & effect on reliability of WR & evidence • Take appropriate actions & effect on conclusion in report <p>Practitioner shall disclaim conclusion on FS, or withdraw, if possible under L&R, if -</p> <ul style="list-style-type: none"> • There is sufficient doubt about integrity of Mgt such that WR are not reliable or • Mgt not provides WR for its responsibilities 	<p>Unmodified Conclusion - When practitioner has obtained limited assurance to conclude that "nothing has come to his attention to believe that FS are not prepared (compliance framework)/do not give a true & fair view (fair presentation framework), in all material respects, as per AFRF"</p> <p>When practitioner modifies conclusion, he shall</p> <ul style="list-style-type: none"> • Use heading "Qualified Conclusion," "Adverse Conclusion" or "Disclaimer of Conclusion" • Provide description of matter, under heading "Basis for Conclusion" immediately before conclusion para <p>When expressing qualified conclusion, use - "Based on our review, except for effects/possible effects of matter described in Basis for Qualified Conclusion para... (same as unmodified conclusion para)</p> <p>When expressing adverse conclusion, use - "Based on our review, due to significance of matter described in Basis for Adverse Conclusion para, FS do not give true & fair view/ are not prepared, in all material respects, as per AFRF"</p> <p>In Basis for Qualified/Adverse conclusion para</p> <ul style="list-style-type: none"> • Describe & quantify financial effects of MM. If impracticable, he shall so state • Explain how disclosures are misstated if MM relates to disclosures or • Describe nature of omitted info if MM relates to non-disclosure of info. Unless prohibited by L&R, he shall include omitted disclosures, if practicable
<p>Inability to obtain SAAE - Practitioner shall</p> <ul style="list-style-type: none"> • Express qualified conclusion if possible effects of undetected misstatements could be material but not pervasive or • Disclaim conclusion if possible effects of undetected misstatements could be both material & pervasive 	<p>Elements in Practitioner's Report</p> <ul style="list-style-type: none"> • Title indicating independent practitioner • Addressee, as per circumstances • Introductory para that - <ul style="list-style-type: none"> ○ Identifies FS, including title of each statement & date & period of FS ○ Refers to significant a/cing policies ○ States that FS have been reviewed • Description of Mgt's responsibility for - <ul style="list-style-type: none"> ○ FS preparation as per AFRF

<p>Practitioner shall withdraw, when</p> <ul style="list-style-type: none"> • Due to limitation on scope imposed by Mgt after accepting engagement, he is unable to obtain SAAE to form conclusion & • Possible effects of undetected misstatements are material & pervasive & • Withdrawal is possible under L&R <p>When disclaiming conclusion, practitioner shall state in conclusion para that</p> <ul style="list-style-type: none"> • Due to significance of matter described in Basis for Disclaimer of Conclusion para, he is unable to obtain SAAE to form conclusion & • He does not express conclusion on FS • He shall also include reason for inability to obtain SAAE, whenever there is inability <p>Documentation</p> <p>Practitioner shall document following, sufficient to enable experienced practitioner, having no previous connection with engagement, to understand -</p> <ul style="list-style-type: none"> • NTE of procedures performed to comply with this SRE & L&R - <ul style="list-style-type: none"> ○ Who performed work & date completed ○ Who reviewed work performed for QC & period & extent of review • Results from procedures & practitioner's conclusions on basis of results • Significant matters aroused - <ul style="list-style-type: none"> ○ Discussions with Mgt & TCWG ○ If practitioner identified info that is inconsistent with his findings, document how inconsistency was addressed 	<ul style="list-style-type: none"> ○ Such IC as necessary for FS free from MM • If FS are Special Purpose FS - <ul style="list-style-type: none"> ○ Description of purpose of FS & users or reference to note that contains that info ○ If Mgt has multiple FRF, its responsibility to determine AFRF is acceptable • Description of practitioner's responsibility to express conclusion • Description of review of FS & following - <ul style="list-style-type: none"> ○ Practitioner performs procedures, primarily consisting of Inquiries & AP ○ Procedures in review are substantially less than those in audit & practitioner does not express audit opinion on FS ○ Review is limited assurance engagement • Para under heading "Conclusion" containing - <ul style="list-style-type: none"> ○ Practitioner's conclusion on FS & ○ Reference to AFRF used • When conclusion is modified - <ul style="list-style-type: none"> ○ Para containing modified conclusion ○ Para providing description of matter • Reference to practitioner's obligation to comply with ethical requirements • Date of report - No earlier than date on which SAAE is obtained, including that - <ul style="list-style-type: none"> ○ FS are prepared ○ Those with authority have taken responsibility for FS • Practitioner's signature • Place of signature
<p>EOM & OM Paras in Report</p> <ul style="list-style-type: none"> • Include EOM Para when he has obtained SAAE that matter is not MM in FS. EOM Para shall be included immediately after Para containing conclusion under heading "EOM" • Include OM Para if not prohibited by L&R 	<p>Other Reporting Responsibilities</p> <p>Addressed in separate section headed "Report on Other L&R Requirements"</p>

<p>Understanding Entity & its IC</p> <p>Procedures performed by auditor to update understanding of entity & its IC include -</p> <ul style="list-style-type: none"> • Inquiring of Mgt of process by which interim financial info has been prepared • Inquiring of Mgt about effect of changes in entity's business activities • Inquiring about any significant changes in IC • Inquiring about results of Mgt's assessment of risk of MM as result of fraud • Considering nature of any corrected/ uncorrected MMs in prior year's FS • Considering materiality for interim financial info to determine NTE of procedures & evaluating effect of misstatements • Reading documentation of preceding year's audit & reviews to identify matters that may affect current-period interim financial info • Considering any significant risks that were identified in audit of prior year's FS • Reading most recent annual & comparable prior period interim financial info • Considering significant a/cing & reporting matters that are of continuing significance • Considering results of any audit procedures performed for current year's FS • Considering results of any internal audit performed & subsequent actions taken by Mgt • Recently appointed auditor, who has not yet performed audit of annual FS, shall obtain understanding of entity for preparation of both annual & interim financial info 	<p>Inquiries, Analytical & other Review procedures</p> <p>Auditor performs following procedures -</p> <ul style="list-style-type: none"> • Read minutes of meetings to identify matters affecting interim financial info • Consider effect of matters giving rise to modification of audit or review report • Communicate with other component auditors • Inquiring Mgt about following - <ul style="list-style-type: none"> ○ If interim info is prepared as per AFRF ○ If there are new accounting principle ○ If there are changes in a/c principles ○ If there is any uncorrected misstatements ○ Unusual situations affecting interim info ○ Significant assumptions & Mgt's intention ○ If RP are appropriately disclosed ○ Significant changes in commitments ○ Significant changes in contingent liabilities ○ Compliance with debt covenants ○ Matters questioned in review procedures ○ Significant transactions in last days of interim period or first days of next period ○ Knowledge of any fraud or suspected fraud having material effect on interim info ○ Knowledge of any allegations of fraud ○ Knowledge of non-compliance with L&R • AP to identify unusual relationships reflecting MM in interim financial info <p>Subsequent Events, WR & GC same as SRE 2400</p>
<p>Direct communication with entity's lawyer</p> <ul style="list-style-type: none"> • It is appropriate if matter causes auditor to question if interim info is not prepared, in all material respects, as per AFRF, & • He believes entity's lawyer may have info 	<p>Evaluation of Misstatements</p> <ul style="list-style-type: none"> • Auditor evaluates, individually/in aggregate, if uncorrected misstatements are material & if material adjustment is required in interim financial info
<p>Auditor's Responsibility for Accompanying Info</p> <ul style="list-style-type: none"> • Read other info to consider if it is materially inconsistent with interim financial info • If materially inconsistent, consider if interim financial info/other info needs to be amended 	<p>Communication with Mgt & TCWG</p> <ul style="list-style-type: none"> • When material adjustment in interim info is necessary, auditor shall communicate this matter as soon as practicable to Mgt

<ul style="list-style-type: none"> • If amendment is necessary in interim info & Mgt refuses, consider implications for report • If amendment is necessary in other info & Mgt refuses, either describe inconsistency in report, or withholding issuance of report or withdrawing • If other info include MM of fact, discuss with Mgt to consider if valid diff of judgment exists & whether to request Mgt to consult with qualified 3rd party for resolution • If Mgt refuses to correct MM of fact, notify TCWG & obtain legal advice 	<ul style="list-style-type: none"> • If Mgt does not respond within reasonable period, inform TCWG, as soon as practicable, either orally or in writing, depending on nature, sensitivity, significance & timing of matter. If communicated orally, auditor documents communication • If TCWG do not respond within reasonable period, auditor should consider - <ul style="list-style-type: none"> ○ Whether to modify report or ○ Withdrawing from audit of Interim FS ○ Withdrawing from audit of annual FS • During existence of fraud or non-compliance with L&R, auditor shall communicate as soon as practicable to Mgt & consider need to report to TCWG & implication for review
<p>Elements of Reporting</p> <ul style="list-style-type: none"> • Appropriate Title • Addressee • Identification of interim info & title of each statements & date & period • In case of Complete Set of general-purpose FS, statement that Mgt is responsible for preparation of interim info as per AFRF • In other cases, statement that Mgt is responsible for interim info as per AFRF • Statement that auditor is responsible for expressing conclusion on interim info • Statement that review was conducted as per SRE 2410 • Statement that review is substantially less in scope than audit • In case of complete set of FS to achieve fair presentation, whether interim info does not give true & fair view, in all material respects, as per AFRF • In other cases, whether interim info is not prepared, in all material respect, as per AFRF • Date of report • Place of Signature • Signature & membership number • Firm's registration number • UDIN for Both SRE 2400 & SRE 2410 	<p>Departure from AFRF</p> <ul style="list-style-type: none"> • If material adjustment is required in interim info for it be prepared as per AFRF - Auditor should express qualified / adverse conclusion • If interim info is materially affected by departure from AFRF & Mgt don't correct, auditor modifies review report. Modification describes nature of departure & effects on interim info • If info necessary for adequate disclosure is not included in interim info, auditor modifies report & if practicable, includes necessary info in report. Modification to report is accomplished by adding explanatory para to report & qualifying conclusion • When effect of departure is so material & pervasive to interim financial info that qualified conclusion is not adequate to disclose misleading nature of interim financial info, auditor expresses adverse conclusion <p>Documentation</p> <ul style="list-style-type: none"> • Should be sufficient & appropriate to provide basis for auditor's conclusion • To provide evidence that review was performed as per this SRE & applicable L&R requirement

Limitation on Scope

When auditor is **unable to complete review**, he should **communicate**, in **writing**, to **Mgt & TCWG**, **reason** why review cannot be completed & consider if it is **appropriate to issue report**

Limitation on Scope Imposed by Mgt

- Auditor **does not accept** engagement if auditor would be **unable to complete review** because of limitation on scope **imposed by Mgt**
- If, **after accepting** engagement, Mgt imposes **limitation on scope**, auditor **requests** its removal. If **Mgt refuses** & auditor is unable to complete review & express conclusion, He **communicates**, in **writing**, to **Mgt & TCWG**, **reason** why review cannot be completed
- If **L&R requires** auditor to **issue report**, He shall **disclaim conclusion** & provide in report **reason** why review **cannot be completed**

Other Limitations on Scope

- There may be some **rare circumstances** where **limitation** on scope is clearly **confined to one** or more specific matters that, while **material**, are **not pervasive** to interim info. In such cases, auditor **modifies report** by indicating that, except for **matter described in explanatory para**, review was conducted as per **this SRE** & by **qualifying** conclusion
- If auditor expressed **qualified** opinion on **latest annual FS** because of **limitation** on scope of that audit, He shall consider **if** that **limitation** on scope **still exists** &, if so, **implications for report**

Going Concern & Significant Uncertainties

- If **material uncertainty exists** & adequate **disclosure is made** in interim info, auditor **modifies** report by adding **EOM Para**
- If auditor had **modified prior audit or review** report by adding **EOM Para** to highlight **material uncertainty** & If material uncertainty **still exists** & adequate **disclosure is made** in interim info, auditor **modifies current period** report by **adding para** to highlight **continued** material uncertainty
- If material uncertainty is **not adequately disclosed** in interim info, auditor shall **express qualified or adverse** conclusion & **include reference** to such material uncertainty

Other Considerations

- If Mgt has **not included review report** in doc containing interim info, auditor seeks **legal advice** to determine course of **action**
- If in **above case**, report is **modified**, Auditor may also **resign** from audit of **Annual FS**
- **Condensed Set** of Interim info does **not include** all **info** as in **complete set**, but presents **significant events & changes** since annual reporting date, as it is **presumed** that **users** of interim info have **access to latest audited FS**. Eg listed entities
- In **other cases**, interim info include **statement** that it is to be **read with latest audited FS**. In its **absence**, auditor considers whether interim info is **misleading** & **implications** for **report**