

**CA FINAL AUDIT MAGIC CHARTS VOLUME 2****By CA SHANKAR LAKHWANI****(SA/SRS/SRE/SAE/CARO/Risk Assessment & Internal Control)****HELLO CHAMPIONS!!!!****Important Points to Keep in Mind before Referring Magic Charts**

- Magic Charts are to be referred for **1<sup>st</sup> Reading as well as subsequent Revisions**
- These Charts contain **ICAI Keywords**
- Covers **100% Syllabus**
- **No need** to refer ICAI Module

**Yes, you can & you will definitely clear your CA Exams in May 2025**

YouTube &amp; Telegram Channel - CA SHANKAR LAKHWANI

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**SA 200 - Overall Objectives of Independent Auditor & Conduct of an Audit in accordance with SAs**

- Audit is a reasonable assurance engagement.

**Q1) Inherent Limitations of Audit (ILA)**

N	<ul style="list-style-type: none"> <li>• Nature of Financial Reporting</li> <li>• Nature of Audit Procedures</li> <li>• Not in nature of investigation</li> </ul>
F	<ul style="list-style-type: none"> <li>• Timeliness of FR &amp; decrease in relevance of information over time</li> <li>• Future events</li> </ul>

**Q2) Is auditor correct when he argues that due to Inherent Limitations of Audit (ILA), he is unable to get persuasive audit evidence and therefore fraud occurred?**

No

Due to ILA, there is unavoidable risk that some <b>MM can't be detected even if audit as per SAs.</b>	<b>Audit Evidence - Persuasive &amp;</b> not conclusive (Auditor shouldn't be satisfied with less than persuasive audit evidence)
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- **ILA is not justification** for auditor to be satisfied with less than persuasive AE.

**Q3) Professional skepticism**

<ul style="list-style-type: none"> <li>• Questioning mind and <b>being alert</b> to conditions indicating possible misstatement (MST).</li> </ul>
<ul style="list-style-type: none"> <li>• Critical assessment of Audit evidence.</li> </ul>

SA 210 - Agreeing the terms of Audit Engagement

**Q1) Factors where it is appropriate to revise terms of engagement / remind entity of existing terms (Recurring Audits)**

Change	<ul style="list-style-type: none"> <li>• <b>Legal</b> requirements</li> <li>• Senior <b>management</b></li> <li>• <b>Ownership</b></li> <li>• Nature &amp; size of <b>business</b></li> <li>• <b>FRF</b></li> </ul>
	<ul style="list-style-type: none"> <li>• Any revised / special terms of engagement</li> </ul>
	<ul style="list-style-type: none"> <li>• Entity misunderstand objective and scope of audit</li> </ul>

**Q2) Auditor shall agree upon terms of engagement with management and these terms should be recorded in audit engagement letter or other form of written agreement. What should be included in Audit Engagement Letter?**

Audit engagement letter is sent by auditor to client. Contents of audit engagement letter -

1) Objective and <b>scope of audit</b>
2) Responsibilities of <b>auditor</b>
3) Responsibilities of <b>management</b>
4) Identification of <b>applicable FR framework</b> for preparation of FS
5) Reference of expected <b>form and content</b> of audit report

**Q3) Out of ORRFF, ORRF is there in engagement letter, then tell what is the discrepancy in engagement letter?**

F is missing (question may be framed where any component from ORRFF is missing. Identify & answer it. All points to be written.)

**Q4) Mgt has mentioned in audit terms that they will not be able to provide internal audit report. They also imposed limitation on scope of audit work. Whether auditor should accept audit engagement?**

1) If management imposed <b>limitation</b> on scope and this results in auditor <b>disclaiming</b> opinion, then auditor shall <b>not accept</b> engagement unless required by law.
2) If <b>preconditions</b> for audit <b>not present</b> , then auditor shall <b>not accept</b> engagement.
3) Conclusion - Auditor should not accept appointment due to limitation on scope of work.

**Q5) Preconditions for audit**

- 1) Determine whether FR framework is acceptable.
- 2) Management acknowledges & understands its responsibility -

For PPFS as per AFRF, including design, implementation & maintenance of internal control	To provide auditor with - <ul style="list-style-type: none"> <li>• All information</li> <li>• Additional information</li> <li>• Unrestricted access to those within entity</li> </ul>
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## SQC 1 - Quality Control for Firms that perform Audits & Reviews of Historical Financial Information & other Assurance and Related Services Engagements

### Q1) Objective of SQC 1 & SA 220 - Most Important Line

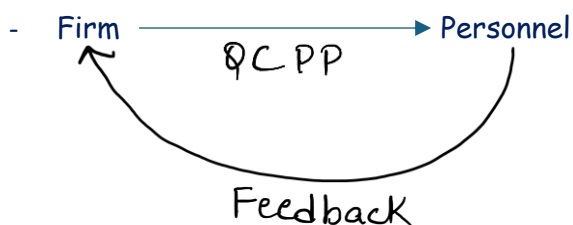
Firms should establish **quality control system** to provide reasonable assurance that -

- Firm and personnel **comply with PSRLR** (Professional Std. & Regulatory & Legal Reqt.)
- Reports** are **appropriate**

### Q2) Elements of quality control system

- Human Resources**
- Engagement Performance**
- Monitoring**
- Acceptance & continuance of client relations & specific engagements**
- Leadership Responsibilities**
- Ethical requirements**

- SA 220 - same elements except ~~HR~~ — Assignment of engagement teams



### Q3) Leadership Responsibilities for Quality

- Managing partners: ultimate responsibility
- Inner culture, experience
- Quality: Paramount and non-negotiable
- Paisa, Log, Paisa

Paisa, Log, Paisa

Firm assigns mgt responsibilities so that <b>commercial considerations do not override quality</b> of work	Firm's policies for <b>personnel</b> demonstrate overriding <b>commitment to quality</b>	Firm devotes sufficient <b>resources for</b> development of <b>QCPP</b>
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### Q4) Ethical requirements

#### (1) BCD In Out + Independence

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

(2) Firm 

If threats,

Threat eliminate	Khud hi eliminate (withdrawal from engagement)
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(3) Personnel → Firm

↓  
written confirmation of compliance with independence

↓  
**At least annually**

(4) Familiarity threat - same personnel for long time.

(5) Listed entities audit

EP to be rotated in at least <b>7 years</b>	Except sole practitioner
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### Q5) Acceptance & continuance of client relations and specific engagements

(1) Firm acquires vital info about client, before accepting engagement to decide about ICC.

• <b>Integrity</b> of client
• <b>Competence</b> to perform engagement
• <b>Compliance</b> with ethical requirements

(SA 220 - ICC + SM = Significant matters during current or previous engagement)

(2) Matters considered wrt integrity of client

• Identity and business <b>reputation</b> of client's owners, management & TCWG
• <b>Nature</b> of client's operations
• Info of <b>attitude</b> of client's owners, mgt & TCWG towards aggressive interpretation of AS
• Whether client <b>aggressively</b> concerned with maintaining firm's fees low
• Indications of inappropriate <b>limitation</b> on scope of work
• <b>Reasons</b> for appointment of firm and non-reappointment of previous firm
• Indications of <b>money</b> laundering and criminal activities

(3) Matters considered wrt firm's capabilities, competence, time and resources -

• Firm personnel - <b>knowledge</b> of industry
• Firm personnel - <b>experience</b> - regulatory requirement
• Firm personnel - <b>capabilities</b> and competence
• <b>Experts</b> - available
• Individuals - <b>eligibility</b> requirement - EQCR - available
• Firm - complete engagement - reporting <b>deadline</b>

(4) Firm obtains info causing to decline eng. if obtainable earlier, policies on continuance includes consideration of -

<ul style="list-style-type: none"> <li>Professional and legal responsibilities</li> <li>Whether firm to report to -</li> <li>1. Person who made appointment, OR</li> <li>2. Regulatory Authorities</li> </ul>	Possibility of withdrawing from - <ul style="list-style-type: none"> <li>Engagement</li> <li>Both engagement and client relation</li> </ul>
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(5) Policies on withdrawal from eng. / both eng. & client relation address issues -

• Discussing with <b>mgt and TCWG action</b> firm might take.
• If appropriate to withdraw, discuss with <b>mgt &amp; TCWG, withdrawal &amp; reasons.</b>

- Consider PRL reqt. to remain in place or discuss with **regulatory authorities, withdrawal & reasons.**
- Documenting** significant -
  - Issues**
  - Consultations**
  - Conclusions** & its basis

**Q6) Human Resources**

Firm to establish policies requiring that-

Identity & role of EP communicated to client's mgt/TCWG	Responsibilities of EP are defined & communicated to him	EP has appropriate capabilities & time to perform role
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**Q7) Engagement performance****(I) Consultation -**

<b>Difficult</b> /contentious matters	Within/outside firm	TEO matters (Technical, ethical, other matters)	Documentation
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**(II) Engagement Quality Control Review (EQCR)**

- Significant judgements** reviewed by EQCRr (Engagement Quality Control Reviewer)
- It doesn't reduce responsibilities of EP.
- Mandatory for audit of **listed entities**. Other - firm devise criteria.
- EQCR for audit of listed entities includes considering-
  - Significance and disposition of corrected / uncorrected **MST**.
  - Significant** risks and responses.
  - ET's evaluation of **independence**.
  - Whether WP **reflect** work performed & support conclusions.
  - Appropriateness** of report.
  - Judgements** made wrt materiality & significant risks.

- EQCRr

firm (ICAI Member)	partner/employee of other firm
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- EQCRr

- Objective
- No participation** in decisions of engagement team.
- EP consult EQCRr so as not to compromise EQCRr's objectivity.**
- If objectivity impaired - EQCRr replaced

**(III) Differences of opinion**

Within engagement team	Engagement team & consultant	Engagement partner and EQCRr
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- Report - after resolution of differences.
- Recommendations of EQCRr not accepted by Engagement partner + Matter not resolved to EQCRr's satisfaction

Established procedures - **consulting**

Another firm	Professional/regulatory body
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**(IV) Engagement documentation**

Audit	Other engagement
Engagement files to be completed in <b>max 60 days</b> after AR date	Appropriate time limit

- 2 reports on same subject matter - separate limit.  
Eg, Component AR - consolidation purpose & legal purpose
- **Engagement documentation - Firm's property**  
Discretion - available to client provided it doesn't undermine validity of work.
- Retention - **minimum 7 years** from AR date or if later, group AR date.

### Q8) Monitoring

Quality control monitored considering following factors -

1. Taking remedial <b>action</b> against personnel who didn't conform to quality control policies.
2. Taking <b>action</b> when -
a. deficiencies in design of quality control policies
b. non-compliance with quality control system.
3. <b>Conducting</b> monitoring by entrusting responsibility to partner/other persons with experience & authority.
4. Dealing with <b>complaints/allegations</b> -
a. Non-compliance of PSRLR
b. Against firm/employees
c. By within/outside firm
5. <b>Deciding</b> whether quality control system properly designed and implemented.
6. Examining whether new <b>developments</b> in PSRLR reflected in quality control policies.



SA 220 - Quality Control for Audit of Financial Statements**Q1) Leadership responsibilities**

Importance to <b>audit quality</b> of - <ul style="list-style-type: none"> <li>Performing work as per <b>PSRLR</b></li> <li>Complying with <b>quality control policies</b></li> <li>Issuing appropriate <b>report</b></li> <li>Engagement team's ability to raise <b>concerns without fear</b> of reprisals</li> </ul>	Fact - <b>Quality</b> is essential
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**Q2) Engagement partner's responsibility if EQCR**

Determine - <b>EQCRr appointed</b>	Discuss <b>significant matters</b> with EQCRr	<b>Not date AR until completion of EQCR</b>
<ul style="list-style-type: none"> <li>EQCRr's objective evaluation of significant judgments involve -</li> </ul>		
Discussion of significant matters with engagement partner	Review of audit documentation	Review of financial statements and audit report
Evaluation of conclusions reached in formulating AR		

**Q3) Documentation by engagement partner**

Issues - <ul style="list-style-type: none"> <li>Compliance with <b>ethical requirements</b></li> <li>How resolved</li> </ul>	Conclusion on compliance with <b>independence requirements</b>	Conclusion on <b>acceptance and continuance</b> of client relation
Nature and scope of consultation		

**Q4) Documentation by EQCRr**

<b>Procedures</b> on EQCR performed	<b>EQCR</b> completed on/ <b>before AR</b> date	Reviewer <b>unaware</b> of unresolved matters causing him to believe that <b>significant judgements/conclusions</b> - <b>inappropriate</b>
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**Q5) SQC 1 v/s SA 220**

SQC 1	SA 220
Entire firm	Audit
Responsibility - managing partner	Responsibility - Engagement partner
Audit, review, assurance, related services	Audit
Quality control policies - firm	Quality control policies - audit
PSRLR + report	SQC 1 is sine qua non for SA 220

**Q6) Mechanism for review of quality control****(I) Peer Review Board**

- Constituted by ICAI Council
- Objective of PR Board - Assurance assignments

Technical, professional & ethical standards complied	Proper system
<ul style="list-style-type: none"> <li>Quality enhancement by ICAI members.</li> <li>Check Karne wala - Peer Reviewer</li> <li>Check Karwane wala - Practice Unit</li> </ul>	
Unqualified report - PR certificate	Qualified report - <ul style="list-style-type: none"> <li>No PR certificate</li> <li>Reasons</li> <li>Date for follow-on review</li> </ul>

**(II) Quality Review Board**

- Set up by Central Government
- Members nominated by CG + ICAI Council
- Functions of Quality Review Board -

To make recommendations to Council as to quality	To review quality	To guide members to improve quality
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- Risk - Based Approach
- Review Karne wala - Technical Reviewer

**(III) National Financial Reporting Authority (NFRA)**

- Constituted under Companies Act 2013
- Duties

Monitor compliance with AS & SA	Rule 3 of NFRA Rules, 2018 - <ul style="list-style-type: none"> <li>Listed company</li> <li>Insurance/banking co.</li> </ul>	Oversee quality
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- NFRA investigate auditors of companies specified in Rule 3
- QRB - other than Rule 3 + Referred by NFRA

**SA 230 - Audit Documentation****Q1) Meaning**

Record of

Audit procedures	Audit evidence	Conclusions
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**Q2) Purpose**

Engagement team to plan and perform audit	Engagement team to supervise audit	Engagement team is accountable for its work
Continuing significance to future audit	EQCR/inspections (including external inspections)	

**Q3) Basics**

1. More accurate

Documentation after audit work <input checked="" type="checkbox"/>	Documentation with audit work <input type="checkbox"/>
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2. Auditor's responsibility to provide access of audit documentation to regulators, not 3<sup>rd</sup> party (after informing client).
3. Auditor's **discretion** to make portions/extracts **available to clients**, provided it does not undermine validity of work.

**Q4) Form, content & extent of audit documentation depends on/Factors affecting amount of working papers**

<b>Size and complexity of entity</b>	<b>Nature of audit procedures</b>	<b>Identified ROMM</b>
<b>Significance of audit evidence</b>	<b>Audit methodology and tools</b>	

**SA 240 - The Auditor's Responsibilities Relating to Fraud in Audit of Financial Statements****Q1) Fraud vs Error**

## 1. Fraud -

Intentional act involving deception to obtain unjust advantage	By mgt/employees/3 <sup>rd</sup> party
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2. Misstatement may arise from fraud/error.

3. Fraud (2 types of intentional MST)

MST resulting from fraudulent financial reporting	MST resulting from misappropriation of assets
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**Q2) Fraudulent FR/ Source of fraudulent FR**

1. Involves intentional MST including omission of amount/disclosures in FS to deceive FS users.

2. **Fraudulent FR** accomplished by -

<b>Manipulation, falsification, alteration</b> of accounting records	<b>Misrepresentation/Intentional omission</b> of significant info in FS	<b>Intentional misapplication</b> of accounting principles wrt amt, classification & disclosures
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3. Fraud by **mgt overriding controls** using techniques like -

Recording <b>fictitious journal entries</b> (particularly period end)	<b>Inappropriately adjusting assumptions</b> and changing judgements	<b>Omitting, advancing, delayed recognition</b> of transactions in FS
<b>Concealing facts</b> affecting FS amount	Engaging in <b>complex transactions</b> to misrepresent financial position	

**Q3) Misappropriation of assets**1. **Theft** of assets

2. By employees in small/immaterial amount.

3. Can also involve management who can conceal in ways difficult to detect.

4. It is accomplished by -

<b>Embezzling receipts</b> (eg, Collection on accounts receivable)	<b>Stealing physical assets</b> /intellectual property (eg, inventory for personal use/sale, colluding with rival by disclosing technological data)	Using entity's assets for <b>personal use</b> (eg, as collateral for personal loan)
Causing entity to <b>pay for goods/services not received</b> (eg, payment to fictitious vendors)		

**Q4) Responsibilities of management and auditor**

1. <b>Management</b> /TCWG - Responsibility of <b>prevention and detection of fraud</b> .
2. <b>Auditor</b> -
• Obtain <b>reasonable assurance</b> - FS - free of material MST - fraud/error.
• Due to inherent limitations of audit, there is risk that some <b>material MST may not be detected</b> , even if audit done as per SAs.

- **Risk** of not detecting MM from **fraud is higher than error**, because fraud involves carefully organised schemes to conceal it.
- **Risk** of not detecting MM from **management fraud is higher than employee fraud**, because management is in position to manipulate accounting records.
- Auditor - Responsible for **professional skepticism**.
- Auditor identify and assess ROMM due to fraud and address ROMM by response.
- Auditor - report - COA 2013 & CARO 2020

### Q5) Fraud risk factors

Events indicating incentive/pressure to commit fraud or provide opportunity to commit fraud.

#### A. Risk factors wrt MST arising from fraudulent FR

##### 1. Incentives/Pressure

- High competition/market saturation, with declining margins.
- High vulnerability to rapid changes (eg, technology)
- Significant decline in demand
- Operating losses
- Recurring negative cash flows
- Rapid growth/unusual profitability than rivals
- New accounting, statutory, regulatory requirements
- Need to obtain additional debt/equity financing to stay competitive.
- Unrealistic expectation eg, over optimistic press release/annual report message.
- Ability to meet listing requirement/debt repayment/debt covenant requirement.
- Adverse effects of reporting poor financials on significant pending transactions like business combination.
- Significant financial interest in entity.
- Compensation is contingent on aggressive targets.
- Personal guarantees of debts of entity.
- Excess pressure on management to meet targets.

##### 2. Opportunities

- Significant related party transactions not in ordinary course of business.
- Significant unusual/complex transactions, especially at period end.
- Significant operations across international borders in jurisdictions where differing business environment exist.
- Significant bank accounts/subsidiary/branch operations in tax haven jurisdictions.
- Strong financial presence/ability to dominate industry that allows entity to dictate T&C.
- Assets, liabilities, revenue, expenses based on significant estimates, involving subjective judgements.
- Use of business intermediaries for which no business justification.

##### 3. Attitudes/Rationalizations

- Communication of inappropriate values that are not effective.
- Non-financial management's excess participation in selection of accounting policies.
- Known history of violation of L/R.
- Excess interest by mgt in maintaining/increasing entity's stock price/earnings trend
- Management failing to remedy known significant deficiency in internal control.

- Interest by mgt in employing inappropriate means to minimise earnings for tax saving.
- Low morale of senior management.
- Owner - manager makes no distinction between personal and business transactions.
- Dispute between shareholders in closely held entity.
- Recurring attempt by management to justify inappropriate accounting.
- Relation between management and auditor is strained due to -

Disputes	Unreasonable demand on auditor <u>eg</u> Time constraint to complete audit	Restricted access to auditor	Dominant behaviour of management
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## B. Risk factors wrt MST from misappropriation of assets

### 1. Incentives/Pressure -

- Personal financial obligation may create pressure on management/employees to misappropriate assets.
- Adverse relation between entity and employees due to following reasons -

Known/anticipated future layoffs	Recent/anticipated change in employee compensation	Promotion/compensation, inconsistent with expectation
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### 2. Opportunities -

- Large amount of cash on hand.
- Inventory items - small in size, high value, high demand.
- Easily convertible assets like bearer bonds, diamonds, computer chips.
- Fixed assets - small in size, marketable, lacking observable identification of ownership.
- Inadequate internal control over assets -

Inadequate segregation of duties	Inadequate record keeping	Lack of complete & timely reconciliation of assets
Inadequate physical safeguards over cash, inventory, fixed assets		

### 3. Attitudes/Rationalizations

- Changes in behaviour/lifestyle
- Behaviour indicating dissatisfaction with entity
- Tolerance of petty theft
- Disregard for need for monitoring/reducing risks related to misappropriation of assets.
- Disregard for internal control over appropriation of assets by -
  - Overriding internal control
  - Failing to take action on internal control deficiencies

## Q6) Impossibility to continue audit/auditor unable to continue engagement

Determine <b>professional/legal responsibilities</b> + Whether requirement to <b>report</b> to - <ul style="list-style-type: none"> <li>• Person who made <b>appointment</b> or</li> <li>• <b>Regulatory authorities</b></li> </ul>	Consider whether appropriate to <b>withdraw</b> from engagement, if legally permitted	If auditor withdraws - <ul style="list-style-type: none"> <li>• Discuss with <b>mgt/TCWG</b>, <b>withdrawal &amp; reasons</b></li> <li>• Determine <b>professional/legal responsibilities</b> + Requirement to <b>report</b> to -               <ul style="list-style-type: none"> <li>○ Person who made <b>appointment</b> or</li> <li>○ <b>Regulatory authorities</b> withdrawal &amp; reasons</li> </ul> </li> </ul>
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Q7) In determining responses to assessed ROMM due to fraud at FS level, auditor shall -

Assign and supervise <b>personnel on basis of Knowledge</b> & skills & ROMM of engagement	Evaluate whether selection & application of <b>a/cing policies are indicative of fraudulent FR</b>	Incorporate <b>unpredictability</b> in selection of NTE <b>of audit procedures</b>
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Q8) Audit procedures responsive to risk of mgt override of controls

It is ROMM due to fraud + significant risk

Test <b>appropriateness of journal entries</b> /other adjustments	Review <b>accounting estimates</b> for <b>biases</b>	For significant transactions outside normal course of business - Evaluate whether <b>business rationale</b> suggest that they are entered for - <ul style="list-style-type: none"> <li>Fraudulent FR</li> <li>Misappropriation of assets</li> </ul>
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Q9) Written representation from mgt/TCWG.

They acknowledge responsibility for design, implementation, maintenance of <b>internal control</b> to prevent/detect fraud	They disclosed to auditor results of mgt's assessment of <b>ROMM</b> due to fraud	They disclosed to auditor their <b>knowledge of fraud</b> having material effect on FS
They disclosed to auditor their <b>knowledge of allegations of fraud</b> communicated by employees		

Q10) Communication Map

Auditor identified fraud -

Communicate to management	If management involved - communicate to TCWG	<u>Regulatory and enforcement authorities</u> - communicate to 3 <sup>rd</sup> parties (eg, RBI for banks) when - <ul style="list-style-type: none"> <li>Mgt/TCWG fails to take action OR</li> <li>There are provisions to do so</li> </ul>
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Q11) MCQ

If auditor concludes that **no ROMM due to fraud wrt revenue recognition** - Then auditor should **document reasons** for it.

Q12) Documentation

1. Auditor's documentation of understanding entity & envt. & assessment of ROMM includes -

<b>Significant decisions</b> reached during discussion among engagement team regarding susceptibility of FS to MM due to fraud	<b>Identified and assessed ROMM</b> due to fraud at FS level and assertion level
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2. Auditor's documentation of responses to assessed ROMM includes -

Overall <b>responses to assessed ROMM</b> due to fraud at FS level & assertion level	<b>Results of audit procedures</b> , including those designed to address risk of mgt override of controls
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**SA 250 - Consideration of Laws & Regulations in an Audit of Financial Statements****Q1) Responsibility of management**

- Ensure that entity's **operations** conducted as per **L/R**.
- **Policies** and procedures implemented by entity for prevention and detection of **non-compliance with L/R** -

<b>Monitoring legal requirement</b> & ensuring that operating procedures are as per reqt.	<b>Monitoring compliance</b> with Code of Conduct ( <b>CoC</b> )	Developing, publicizing & <b>following CoC</b>
Maintain <b>register of significant L/R</b> & complaints	Ensuring <b>employees</b> - properly trained & understand <b>CoC</b>	

**Q2) Responsibility of auditor**

1. Auditor is <b>not responsible for preventing non-compliance</b> and can't be expected to detect non-compliance with all L/R.		
2. Auditor - obtain reasonable assurance that FS free from MM - fraud/error.		
3. Auditor considers legal & regulatory framework.		
4. For L/R, potential effects of <b>inherent limitations</b> on auditor's ability to detect MM (SA 200) are greater because -		
There are <b>many L/R</b> that <b>don't affect FS</b> & not captured by info system	Non-compliance may involve <b>conduct</b> designed to <b>conceal</b> it. <u>Eg.</u> collusion, forgery, intentional misrepresentation to auditor	Whether non compliance or not - matter of legal determination by <b>court of law</b>

**Q3) 2 categories of L/R**

L/R having <b>direct effect</b> on determination of material amt & disclosures in FS (eg, tax & labor law)	L/R <b>not</b> having <b>direct effect</b> on determination of amt & disclosures in FS but compliance is fundamental to - <ul style="list-style-type: none"> <li>• Operations</li> <li>• Going concern</li> <li>• Avoid material penalties</li> </ul> <b>Non-compliance: material effect</b> on FS
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**Q4) Auditor's responsibilities**

1. Common for A & B -

Auditor obtains general understanding of:

<b>Legal</b> & regulatory <b>framework</b>	How entity is <b>complying</b> with framework
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2. For A -

Auditor to <b>obtain SAAE for compliance with L/R</b> .
<u>Eg.</u> Law for form and content of FS/industry specific FR issues.

3. For B -

Auditor's responsibility is limited to **specified audit procedures** to identify non-compliance with L/R having material effect on FS -



**Inquiry of management/TCWG** as to whether entity is complying with L/R

**Inspecting correspondence** with regulatory authorities

4. Auditor obtains **written representation** that known non-compliance are disclosed to auditor.

#### Q5) Audit procedures when non compliance identified/suspected.

1. Auditor to obtain -

Understanding of nature of **act and circumstances** in which it occurred

**Further information** to evaluate possible effect on FS

2. If auditor suspects non-compliance, he shall discuss with **mgt/TCWG**.

If mgt/TCWG **don't provide sufficient info and** effect of non-compliance is **material** to FS, auditor shall obtain **legal advice**.

3. If sufficient **info can't be obtained** wrt suspected non-compliance - auditor shall evaluate effect of lack of SAAE on **opinion**.

4. Auditor takes action.

#### Q6) Reporting of identified/suspected non-compliance.

1. Reporting to TCWG -

- Auditor communicates to TCWG matters of **non-compliance** coming to auditor's attention, other than inconsequential matters.

- Non-compliance - intentional & material

Auditor → communicate → TCWG  
ASAP

- Auditor suspects that **management/TCWG involved** in non-compliance.

Auditor → communicate → Next higher level (eg, Audit Committee/Board)

If **no higher authority** /auditor believes communication may not be acted upon/unsure as to person to whom to report - obtain **legal advice**.

2. Reporting in Audit Report

Non-compliance -

- material effect** on FS
- not reflected** in FS

Auditor **precluded by mgt/TCWG** from obtaining SAAE to evaluate if non-compliance occurred/not

Auditor unable to determine if non-compliance occurred/not due to **limitations** imposed by **circumstances**

**Qualified/adverse opinion**

**Qualified/Disclaimer**

**Give effect on opinion**

3. Reporting to regulatory and enforcement authorities

- Auditor to determine if he has responsibility/not to report to parties outside entity.

#### Q7) Documentation

**Non-compliance (Both - identified and suspected)**

Results of discussion with -

- Management/TCWG
- 3<sup>rd</sup> party

**SA 260 -Communication with TCWG****Q1) Basics**

1. TCWG - Oversees (strategic direction & FR process) + Accountability
2. Significance of communication with TCWG - Two way communication  
Helps in assisting

Auditor & TCWG	Auditor to obtain info to understand entity & environment	TCWG to oversee FR process
<ul style="list-style-type: none"> <li>• in understanding matters</li> <li>• in developing constructive working relation</li> </ul>		

**Q2) Matters communicated by auditor**

<b>Auditor's responsibilities</b> wrt FS audit	Planned <b>scope &amp; timing</b> of audit	<b>Significant findings</b> from audit
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**A. Auditor's responsibilities wrt FS audit**

To give <b>opinion</b> on FS prepared by management, with oversight of TCWG	Audit <b>doesn't relieve management/TCWG</b> of their responsibilities
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**B. Planned scope & timing of audit**

Overview of planned scope and timing of audit, including <b>significant risks</b> identified by auditor	<b>Effectiveness</b> of audit <b>shouldn't be compromised</b> (eg, By making audit procedures too predictable)
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**C. Significant findings from audit**

<b>Auditor's views</b> wrt significant <b>qualitative</b> aspects of entity's <b>a/cing</b> practices, policies & estimates + Why he considers a/cing practice <ul style="list-style-type: none"> <li>• Acceptable - AFRF</li> <li>• But not appropriate for entity</li> </ul>	<b>Significant difficulties</b> encountered during audit	Circumstances affecting <b>form and content</b> of audit report
Other <b>significant matters</b> relevant to oversight of FR process	Unless all TCWG = mgt <ul style="list-style-type: none"> <li>• <b>Significant matters</b> of audit <b>discussed with management</b></li> <li>• Written representation auditor is requesting</li> </ul>	

**Q3) Explain significant difficulties during audit**

<b>Restriction</b> on auditor by management	Unreasonably <b>brief time</b> to complete audit	Mgt <b>unwillingness to make going concern</b> assessment
Extensive <b>unexpected effort to obtain SAAE</b>	<b>Unavailability</b> of info	

**Q4) Significant matters of audit discussed with mgt**

Significant <b>transactions</b>	Business conditions affecting entity and business plans affecting <b>ROMM</b>	Concerns wrt mgt's <b>consultation</b> with other accountants on - <ul style="list-style-type: none"> <li>Accounting</li> <li>Auditing matters</li> </ul>
Discussion for <b>appointment</b> of auditor for a/cing practices, application of SAs	Significant matters on which there was <b>disagreement</b> with mgt, except initial difference of opinion due to incomplete facts	

**Q5) Communication of Auditor's independence for listed entities**Auditor  → TCWG

Statement that engagement team and others <b>complied with ethical requirements of independence</b>	<ul style="list-style-type: none"> <li><b>All relations</b> &amp; other matters between firm &amp; entity that has <b>bear on independence</b>, including total fees for audit &amp; non-audit services.</li> <li><b>Safeguards</b> to reduce/eliminate threats to independence.</li> </ul>
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**Q6) MCQ**

- Auditor shall communicate in writing with TCWG regarding significant findings from audit, if oral communication inadequate.
- Auditor shall communicate in writing with TCWG regarding auditor independence in case of listed entities.
- Documentation

<b>Oral</b>	<b>Writing</b>
<b>Matter + when + to whom communicated</b>	<b>Copy of communication</b>

**Q7) Circumstances in which auditor is required to include additional info in audit report as per SAs & for which communication with TCWG is required -**

1. Auditor expects to modify opinion ( <b>SA 705</b> )
2. Material uncertainty related to going concern is reported ( <b>SA 570</b> )
3. Key audit matters are communicated ( <b>SA 701</b> )
4. EOM or OM para ( <b>SA 706</b> )
5. Uncorrected material misstatement of other information ( <b>SA 720</b> )

- Auditor provides TCWG - draft of auditor report to facilitate discussion of how such matters will be addressed in audit report.

**SA 265 - Communicating Deficiencies in Internal Control to TCWG & Management**

**Q1) Auditor to communicate material weakness in internal control to management/audit committee through letter of weakness/management letter OR Internal control weakness.**

1. **Letter** → Areas of **weaknesses** in system  
→ Suggestions for **improvement**
2. It indicates that it discuss only **weaknesses** which came to **auditor's attention** & it doesn't determine adequacy of internal control.
3. Letter - **reference** document for mgt for **revising system** & insisting on implementation.
4. Letter - **minimize legal liability if major defalcation**/loss due to internal control weakness.

• Auditor → Communicate → Management

In writing, **significant deficiencies** in internal control communicated to TCWG

**Other deficiencies** in internal control **not communicated to mgt** by other parties & auditor - professional judgement - sufficient importance

- Auditor to include in **written communication** to TCWG of significant deficiencies in internal control -
  - a. Description of **deficiencies**  
Explanation of **potential effects**
  - b. **Sufficient information** to enable TCWG & mgt to understand context of communication. Auditor explain that -

Purpose of audit - opinion on FS

Audit - consideration of IC relevant to PPFS to design audit procedures. Not expressing opinion on effectiveness of IC

Report - Deficiencies identified by auditor & auditor - sufficient importance for reporting to TCWG

**SA 299 - Joint Audit of Financial Statements****Q1) Responsibility & coordination among joint auditors.**

- Each joint auditor is **responsible only for work allocated to him**.
- All joint auditors are **jointly & severally responsible** for -

Audit <b>work not divided</b> & done by all joint auditors	<b>Decision by all joint auditors wrt common areas</b> concerning NTE of audit procedures to be performed by each joint auditor	<b>Matters brought to notice of joint auditors by any one of them</b> & on which there is agreement among joint auditors
Ensuring <b>FS is as per statutes</b>	Ensuring presentation & disclosure of <b>FS is as per AFRF</b>	Ensuring <b>audit report is as per statutes, SAs &amp; pronouncements</b>

- If joint auditor comes across **matters** wrt **responsibility of other joint auditor** & which deserve their attention  
Said joint auditor → communicate → other joint auditor → in writing
- Responsibility of each joint auditor to determine NTE of audit procedures/study internal controls & risks - for work allocated to him.
- For pt. 2 - subpoint 2 above

All joint auditors responsible only for decisions wrt NTE of audit procedures	<b>Execution of audit procedures - individual responsibility</b> of joint auditor
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**Q2) Reporting**

- Normal case - **common audit report**
- Disagreement** by joint auditors - **separate audit report** by joint auditor who disagreed.
- 

Audit report of joint auditor makes <b>reference</b> to separate audit <b>report of other joint auditor</b>	Separate audit report of other joint auditor makes reference to audit report of joint auditor
<b>Reference - OM para (SA 706)</b>	

**Q3) In developing joint audit plan, what should joint auditors do?**

Identify <b>division</b> of audit areas & <b>common</b> audit areas	Ascertain <b>reporting objectives</b>	Consider & communicate among all joint auditors <b>factors</b> significant in directing <b>engagement team's efforts</b>
Consider <b>results of preliminary engagement activities</b> & similar previous engagements.	Ascertain <b>NTE of resources</b>	

**Q4) Basic points**

- Each joint auditor **assumes** -
  - Other joint auditor done their work as per SAs** & it's not necessary to review other's work.
  - Other joint auditors have brought to said joint auditor's notice any departure from AFRF.

2. Before finalizing report - joint auditors discuss & communicate respective conclusions with each other.
3. Joint auditors obtain - common engagement letter & **common written representation**.
4. Work is divided among joint auditors by mutual discussion. Work allocation document - signed by all joint auditors and communicated to TCWG.
5. If joint auditor expects to modify/include EOM or OM Para

Joint auditor → communicate → TCWG

Circumstances + wording of modification/para

6. Joint auditor document

NTE of audit procedures	Division of work
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7. When FS of branch/division audited by one of the joint auditors - other joint auditors proceed on the basis that FS comply with AFRF & present T&F view.

**SA 300 – Planning an Audit of Financial Statements****Q1) Benefits/usefulness of planning audit of FS**

Attention to important areas	Timely resolution of potential problems	Proper selection of engagement team
Direction & supervision of engagement team	Proper organisation & mgt of audit engagement	

**Q2) Nature & extent of planning varies according to/Factors affecting nature & extent of planning**

<b>Size</b> & complexity of auditee	Past <b>experience</b> and expertise	Changes in <b>circumstances</b>
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**Q3) Planning is not discrete phase of audit but continual & iterative process.**

1. Planning is not discrete phase of audit but continual & iterative process.
2. Begins after completion of previous audit & continues until completion of current audit.
3. Planning includes need to consider these **matters** –

<b>Analytical procedures</b> applied as RAP	Obtaining general understanding of <b>legal &amp; regulatory framework</b> & its compliance	Determination of <b>materiality</b>
Involvement of <b>experts</b>	Performance of <b>other RAP</b>	

**Q4) Elements of planning**

Preliminary engagement activities	Planning activities
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**I. Preliminary engagement activities –**

Performing procedures

Acceptance & continuance of client relations & audit engagement	Compliance with ethical requirements, including independence	Understanding terms of engagement
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**II. Planning activities**

Audit strategy (scope, timing, and direction)	Audit plan (nature, timing, and extent)
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**Q5) Contents of audit plan**

NTE of planned RAP	NTE of planned FAP	Other planned audit procedures
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**Q6) Changes in audit strategy and plan due to below factors**

Unexpected <b>events</b>	Changes in <b>conditions</b>	Audit <b>evidence</b>	Change in <b>law</b>
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**Q7) Factors while establishing audit strategy**

<b>Determination of characteristics of audit</b>	<b>Reporting objectives</b>	<b>Team's efforts</b>
<b>Considering results of preliminary engagement activities</b>	<b>NTE of resources</b>	



**Q8) Benefits of overall audit strategy**

<b>Management</b> of resources	<b>Allocation</b> of quantity of resources	<b>Timing</b> of deployment of resources	<b>Employment</b> of qualitative resources
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**Q9) Documentation**

<b>Audit strategy</b> (Record of key decisions)	<b>Audit plan</b> (Record of NTE of RAP)	<b>Changes in both with reasons</b>
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**Q10) Relation between audit strategy (AS) and audit plan (AP)**

<b>AS prepared before AP</b>	<b>AP - More detailed.</b> It gives NTE of audit procedures to obtain SAAE	<b>Change in one</b> will result in <b>change in other</b>
AS gives <b>guidelines</b> to make AP		

**Q11) Audit Programme**

<b>Allocates work</b> to team members, including list of procedures and <b>instructions</b>	It also estimates <b>duration</b> to complete audit
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**A. Matters to be considered while preparing audit programme**

<b>Nature of business</b>	<b>Overall plan</b>	<b>Internal control system and accounting procedures</b>
<b>Size of organisation &amp; management structure</b>	<b>Information of organisation of business</b>	<b>Accounting and management policies</b>

**B. Circumstances when audit programme altered -**

If <b>audit procedures</b> designed for <b>certain volume</b> of turnover and <b>volume increased</b> substantially	It is discovered that <b>internal control procedures were not as effective</b> as assumed when audit programme framed	Extraordinary <b>increase in book debts/stock value compared to last year</b>
Suspicion aroused/information received that <b>assets are misappropriated</b>		

Audit plan and programme reconsidered as audit progresses.

**C. Drawing up audit programme -**

When auditor is appointed to audit accounts of entity for first time, audit programme should be developed in **3 stages** stated below -

1. <b>Broad outline</b> of audit programme should be drawn up.
2. After internal & a/cing procedures are reviewed, <b>details</b> should be <b>filled</b> up on a consideration of deficiencies in internal control system.
3. After detailed checking procedure is over, extent to which <b>special procedures</b> that are required to be applied should be determined. <u>Eg</u> , physical inspection of fixed assets.

At each subsequent engagement, programme should be reviewed and **modified** on account of -

<b>Experience</b> gained during previous audit	Important <b>changes</b> that have taken place in business specially internal control system & a/cing procedures	<b>Evaluation of internal control</b> made for current year
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**Q12) Key phases in audit execution stage**

Execution planning	Risk & control evaluation	Testing	Reporting
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**Q13) Factors considered in development of audit plan**

<i>Terms of engagement</i>	<i>Legal requirement</i>	<i>Materiality</i>
<i>NTE of audit evidence</i>	<i>NTE of report</i>	

**Q14) Overall Audit Strategy & Audit Plan – Responsibility of Auditor**

Audit strategy and audit plan is responsibility of auditor. When discussing matters with management, care is required in order not to compromise effectiveness of audit. Eg, discussing NTE of AP with management may compromise effectiveness of audit by making audit procedures too predictable.

**SA 315 - Identifying & Assessing ROMM through understanding the entity & its environment****Q1) Assertions**

Transactions and events	Occurrence, completeness, accuracy, cut-off, classification
Account balance	Existence, completeness, valuation, rights and obligation
Presentation & disclosure	Occurrence, rights and obligation, completeness, classification, accuracy and valuation

**Q2) Significant risks/risks requiring special audit considerations/indications to judge that risks are significant or not/factors to be considered while exercising judgement that risks are significant or not.**

Auditor has to consider

Risk of <b>fraud</b>	Risk related to <b>significant economic/accounting development</b>	<b>Complexity</b> of transactions	Significant transactions with <b>related parties</b>	Significant transactions <b>outside normal course</b> of business
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**Q3) IT specific risks to internal control - Digital audit Ans. 7**

**Q4) Points to consider to evaluate 'knowledge of business' in conduct of audit/RAP to understand entity, environment, internal control and obtain knowledge of business.**

Understanding of

<b>Industry</b> regulatory & other external factors	Nature of <b>entity</b> - <ul style="list-style-type: none"> <li><b>Operations</b></li> <li>Types of <b>investments</b></li> <li><b>Ownership</b> &amp; governance structure</li> <li>Way in which entity is <b>structured &amp; financed</b></li> </ul>	Entity's selection & application of <b>accounting policies</b>	Measurement of entity's <b>financial performance</b>	Business <b>risks</b>
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**Q5) Major sources to obtain info of client's business.**

Client's policy and procedures manual	Annual reports of client	Discussion with client
Previous year's audit working papers	Visit to client premises	

**SA 320 – Materiality in Planning & Performing Audit****Q1) Materiality**

Benchmark x % (based on professional judgment)

	<b>Benchmark</b>
Profit making entity	Profit before tax
Loss making entity	Revenue
Public utility program	Total cost

% applied to PBT > % applied to revenue

**Q2) Factors to identify benchmark**

<b>Elements of FS</b> (Assets, liabilities, revenue, expenses)	Items of FS on which <b>users' attention is focused</b> (eg. for profit oriented entity - profit)	Relative <b>volatility</b> of benchmark
Entity's <b>ownership structure</b> and way it is <b>financed</b>	<b>Nature</b> of entity & its industry & <b>economic environment</b>	

**Q3) Re-evaluation of materiality/Revision of materiality**

While establishing overall <b>audit strategy</b> - auditor determines <b>materiality for FS as a whole</b>	If any class of transaction, a/c balance or disclosure (CAD) for which <b>MST of less amount</b> than overall materiality is material, then auditor determines <b>materiality for</b> that particular <b>CAD</b>	Revision of materiality for FS as whole takes place if auditor becomes aware of any <b>info</b> , which would have <b>caused auditor to determine different amt. initially</b>
If auditor concludes <b>lower materiality</b> for FS as a whole, auditor shall determine whether necessary to <b>revise performance materiality</b> & whether nature, timing & extent of <b>audit procedures are appropriate</b>		

**Q4) Meaning of performance materiality**

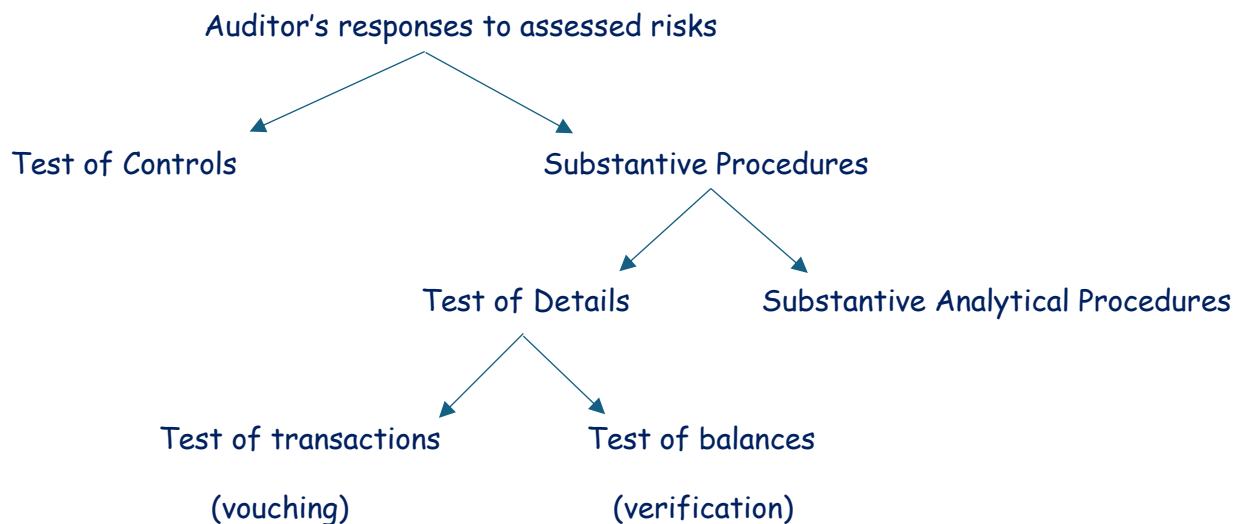
Amount set by auditor at **less than materiality** to reduce probability to low level that aggregate of uncorrected & undetected statements exceeds materiality for FS.

**SA 330 - The Auditor's Responses to Assessed Risks****Q1) Considerations of auditor to assess ROMM & his response to such risks****SA 315 - IARC**

- |   |
|---|
| 1. <b>Identify</b> risk - by obtaining understanding of entity, environment and internal control. |
| 2. <b>Assess</b> identified risks and evaluate whether they relate more pervasively to FS.        |
| 3. <b>Relate</b> identified risks to what can go wrong at assertion level.                        |
| 4. <b>Consider</b> likelihood of misstatement & whether it is material misstatement.              |

**SA 330 - "The Auditor's Responses to Assessed Risks"**

Consider <b>reasons for assessment given to ROMM</b> at assertion level, including	Obtain <b>more persuasive audit evidence</b>
<ul style="list-style-type: none"> <li>• <b>Likelihood of material misstatement</b></li> <li>• Whether risk assessment takes <b>controls</b> into account, thereby obtaining SAAE that whether controls are effective</li> </ul>	

**Q2) Basics**

- Auditor perform TOC when -

ROMM assessment at assertion level includes expectation - controls operating effectively	Substantive procedures alone can't provide SAAE at assertion level
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Auditor obtain more persuasive audit evidence - greater the reliance on operating effectiveness of controls

Risk Assessment & Internal Control

## Q1) Audit risk components

## A. Inherent Risk -

- Susceptibility of assertion to MST that could be material, assuming no controls.
- Arise from entity's size, objectives, operations, complexity & regulatory environment.
- Eg, techno development making product obsolete.

## B. Control Risk -

- Risk that internal control system will not prevent/detect/correct material MST.
- Internal control is missing.
- Some control risk always exists because of inherent limitations of internal control.

## C. Detection Risk -

- Risk that auditor will not detect MM even if all audit procedures applied.
- Inverse relation to ROMM at assertion level.

**AUDIT RISK = ROMM × Detection Risk**

**ROMM = Inherent Risk × Control Risk**

- ROMM = Risk that MM may exist in FS before start of audit.
- Audit materiality has inverse relation with audit risk.

## Q2) Steps for Risk Identification

1. Assess **significance** of assessed risk & impact of its occurrence
2. Determine **likelihood** of occurrence of assessed risk
3. Document **assertions** that are effected
4. Consider **impact** of risk **on** each **assertions**.
5. Identify degree of significant risks requiring separate **attention** by auditor
6. Enquire & document management's **response**

## Q3) Indicators of possible potential MST

Completeness	Existence	Recording	Cut-off procedures
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## Q4) Risk-based audit (RBA) approach

1. Analyzes audit risks, set materiality thresholds based on audit risk analysis & develops audit programmes that allocate **large portion of audit resources to high risk areas**.
2. Auditor doesn't need to perform audit procedures on all areas of audit.
3. Steps/Phases

## I. RISK ASSESSMENT

- Performing **client acceptance** or continuance procedures
- **Planning** overall engagement
- Performing **RAP** to understand business and identify inherent and control risks
- **Assessing ROMM** in FS
- Making informed assessment of ROMM at FS level and assertion level

## II. RISK RESPONSE

- Design and perform FAP that **respond to ROMM** and reduce it to acceptably low level.

### III. REPORTING

- Issuing **AR** based on audit findings.

#### Q5) Internal control system meaning

All policies & procedures by management to assist in achieving management's objective of ensuring-

- Efficient **conduct** of business
- Safeguarding of **assets**
- Prevention/detection** of error/fraud
- Accuracy** and completeness of accounting records
- Timely** preparation of reliable financial information

#### Q6) Objectives of internal control wrt accounting system

- Transactions** are executed through management authorisation.
- All **transactions** are promptly recorded in appropriate manner.
- Assets** and records - Safeguarded from unauthorised access, use, disposition.
- Assets** are verified at reasonable intervals & appropriate action is taken wrt discrepancies.

#### Q7) Basic accounting control objectives

Ensure all transactions are

<b>Recorded</b>	<b>Real</b>	<b>Properly valued</b>	<b>Recorded timely</b>	<b>Properly posted</b>	<b>Properly classified and disclosed</b>	<b>Properly summarised</b>
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#### Q8) Limitations of internal control

- Management's consideration that **cost doesn't exceed benefit**.
- Most internal control **not directed at transaction of unusual nature**. Potential of human error due to carelessness, distraction, etc.
- Possibility of **circumvention** of internal control by collusion with employees/with parties outside entity.
- Possibility that person responsible to exercise internal control could **abuse that responsibility**.
- Manipulations by management** wrt judgements in preparation of FS.

#### Q9) Structure of internal control - Write answer 13

#### Q10) Components of internal control

##### I. CONTROL ENVIRONMENT

Communication and enforcement of integrity and ethical values	Commitment to competence	Participation by TCWG
Mgt's philosophy and operating style	Organisational structure	Assignment of authority and responsibility

##### II. ENTITY'S RISK ASSESSMENT PROCESS

Risks can arise/change due to circumstances -

<i>New personnel - Different understanding of IC</i>	<i>New/revamped info system</i>	<i>New technology</i>
<i>New business models, products, activities</i>	<i>New accounting pronouncements</i>	

### III. CONTROL ACTIVITIES

Categorised as policies & procedures related to -

<i>Performance reviews</i>	<i>Information processing</i>	<i>Physical controls</i>	<i>Segregation of duties</i>
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Performance reviews - actual versus budget.

Physical controls -

Physical security of assets	Authorisation for access to computer programs	Periodic counting & comparison with amount on control records
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### IV. INFORMATION SYSTEM & COMMUNICATION

- Consist of infrastructure (physical and hardware components), software, people, procedures, data. Info system wrt FR objectives encompasses methods/records that -  
Write basic accounting control objectives

### V. MONITORING OF CONTROLS

- Whether controls operating as intended

#### Q11) Internal check system and its objectives

It implies organisation of overall system of book-keeping and arrangement of staff duties in such a way that no one person can carry through a transaction and record every aspect thereof.

Objectives of internal check system-

1. To <i>detect error and frauds</i> with ease.
2. To <i>increase efficiency of staff</i> working within organisation.
3. To <i>minimize possibility of</i> commission of <i>errors</i> and fraud by any staff.
4. To <i>locate responsibility area</i> and stages where actual fraud/error occurs.
5. To <i>prevent misappropriation of cash</i> & falsification of accounts.

Q12) Effectiveness of efficient system of internal check depends on following considerations/considerations on which effectiveness of internal check system depends -

Clarity of responsibility	Division of work	Standardization	Appraisal
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#### Q13) General conditions pertaining to internal check system

1. <i>Staff duties - rotated</i> from time to time.
2. <i>No single person should have complete control</i> over important aspect of business operation.
3. Every member of <i>staff encouraged to go on leave</i> at least once a year.
4. Persons - physical custody of assets - <i>not permitted to have access to BoA</i> .
5. <i>Budgetary control</i> exercised. Wide deviations - reconciled.



**Q14) Need for manual elements in internal control.**

Manual elements in internal control - more suitable when judgement and discretion required.

- |   |
|---|
| 1. Large, unusual, non-recurring transactions.  |
| 2. Circumstances where errors are difficult to define.                                      |
| 3. In circumstances requiring control response outside scope of existing automated control. |
| 4. In monitoring effectiveness of automated controls.                                       |

**Q15) Standard operating procedures**

- |  |
|--|
| 1. <b>Enterprise risk management</b> - Organisation - robust process to identify and mitigate risks.                             |
| 2. <b>Segregation of job responsibilities</b> - Multiple activities should not be concentrated with one individual.              |
| 3. <b>Job rotation in sensitive areas</b> - To avoid degeneration of controls.   |
| 4. <b>Delegation of financial powers document</b> - Organisation maintain clearly defined document on delegation of powers.      |
| 5. <b>Information technology based controls</b> - It's easier to embed controls through system instead of being human dependent. |

**Q16) Techniques of evaluation of internal control.****1. Questionnaire**

- |   |
|---|
| • Set of questions about each functional area.  |
| • Filled by company executives.   |
| • In use of internal control questionnaire, assumptions of elements of good control are - |

Employees concerned with accounting function are <b>not assigned custodial function</b>	<b>No single person has responsibility</b> to complete transaction all by himself	There should be <b>evidence to identify person who has done work</b>
Work of one - expected to come under <b>review of another</b>	Proper <b>documentation</b> and recording of transactions	

**2. Check List**

- |   |
|---|
| • Series of instructions/questions on internal control which auditor must follow/answer.  |
| • Distinction between internal control questionnaire and check list.  |
| ○ <b>ICQ</b> - Large number of <b>detailed questions</b>  |
| <b>CL</b> - Questions wrt main <b>control objective with area under review</b>  |
| ○ <b>ICQ</b> - Answered by company <b>executives</b>  |
| <b>CL</b> - Answered by <b>auditor</b>  |
| ○ Significance of " <b>NO</b> " in <b>ICQ</b> indicate <b>weakness</b> but significance of that weakness is not revealed automatically. |
| <b>CL</b> - Specific statement required when apparent weakness is material.   |

**3. Flow Chart**

- |   |
|---|
| • <b>Graphic presentation</b> of internal control in organisation.                  |
| • Comprehensive way to review internal control.                                     |
| • Gives <b>bird's eye view</b> of internal control.                                 |
| • Provides <b>neat picture</b> of whole department. More specifically it can show - |
| ○ <b>Number of copies</b> in which document raised/received.                        |
| ○ At what point <b>document</b>   |



- raised **internally**
- received from **external sources**
- **Checking authorisation** and matching at relevant stages
- Filing of **documents**
- **Final disposal** by sending out/destruction

### Q17) International Internal Control Frameworks

#### **A. Internal Control - Integrated Framework issued by Committee of Sponsoring Organisations of Treadway Commission (COSO Framework)**

- Introduced in 1992 as guidance on how to establish better controls.
- Components of COSO -

<b>Control environment</b>	<b>Risk assessment</b>	<b>Control activities</b>	<b>Information &amp; communication</b>	<b>Monitoring</b>
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- Framework lists 3 categories of objectives -

- a. **Operations objectives** - related to effectiveness and efficiency of operations.
- b. **Reporting objectives** - related to financial and non-financial reporting to stakeholders.
- c. **Compliance objectives** - related to compliance with L/R.

#### **B. Guidance on Assessing Control published by Canadian Institute of Chartered Accountants (CoCo)**

- Outlines criteria for effective control in 4 areas -

<b>Purpose</b>	<b>Commitment</b>	<b>Capability</b>	<b>Monitoring &amp; learning</b>
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#### **C. Control Objectives for Information & Related Technology (COBIT)**

- Has 34 high level processes covering 210 control objectives
- Used globally by all managers responsible for IT business processes.
- Framework created by ISACA (Information Systems Audit & Control Association) for IT governance & mgt.
- Categorised in 4 domains -
  - Planning and organisation
  - Acquisition and implementation
  - Delivery and support
  - Monitoring and evaluation

#### **D. Internal Control : Guidance for Directors on Combined Code, published by Institute of Chartered Accountants in England & Wales (Turnbull Report)**

#### **E. Sarbanes-Oxley Section 404 -**

SEC rules & PCAOB (Public co. A/cing Oversight Board) std. require that -

- Management perform formal assessment of controls over FR including test that confirm operating effectiveness of controls.
- Management includes in annual report ICFR assessment.
- External auditors provide 2 opinions as part of single integrated audit of company
  - Independent opinion on effectiveness of ICFR system
  - Traditional opinion on FS

**SA 402 – Audit Considerations relating to Entity using Service Organisation**

**Q1) A Ltd. gets its a/cing data processed by service organisation (SO). CA SRL is auditor of A Ltd. He wants to obtain understanding of how A Ltd. is using SO's services. What all understanding to obtain? OR What are additional precautions CA SRL would consider?**

**Understanding**

<b>Nature &amp; significance</b> of services & its effect on user entity's internal control	<b>Nature and materiality</b> of transactions	<b>Degree of interaction</b> between activities of service organisation and user entity	<b>Nature of relation</b> between service organisation and user entity
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**Q2) As an auditor of user entity, mention factors to be considered for financial reporting of service organisation (SO) ? OR What services of SO are relevant to audit of user entity's FS?**

Services of SO are relevant to audit of user entity's FS when they are part of user entity's info system, relevant to FR i.e., when those services affect any of following –

<b>Class of transactions</b> in user entity's operations, significant to user entity's FS	<b>Controls for journal entries</b> , including non-standard journal entries	<b>FR process</b> to prepare user entity's FS, including a/cing estimates
How <b>user entity's info system</b> captures events, significant to FS	<b>Procedures within IT &amp; manual system</b> by which user entity's transactions – initiated, recorded & reported in FS.	

**Q3) Type 1 Report**

(I) Description by mgt of SO of <ul style="list-style-type: none"> <li>• System</li> <li>• Control objectives</li> <li>• Controls</li> </ul> Designed and implemented as at <b>specified date</b>	(II) Report by service auditor to give reasonable assurance, including his opinion on (I)
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**Q4) Type 2 Report / report on description, design & operating effectiveness of controls of service Organisation.**

(I) Description by mgt of SO of <ul style="list-style-type: none"> <li>• System</li> <li>• Control objectives</li> <li>• Controls</li> <li>• Their design and implementation</li> <li>• Their <b>operating effectiveness throughout period</b></li> </ul>	(II) Report by service auditor to give reasonable assurance, including – <ul style="list-style-type: none"> <li>• Service auditor's opinion on (I)</li> <li>• Description of service auditor's <b>TOC &amp; its results.</b></li> </ul>
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**Q5) If user auditor is unable to obtain understanding from user entity, he will use these procedures –**

<i>Obtain Type 1/2 report</i>	<i>Contacting SO to obtain specific info</i>	<i>Visit SO to perform procedures giving info of controls at SO</i>
<i>Using another auditor to perform procedures giving info of controls at SO</i>		

**Q6) Reporting by user auditor**

1. User auditor - **modifies opinion** in user auditor's report (SA 705), if user auditor **unable to obtain SAAE** of SO's services.
2. User auditor **not to refer service auditor's work** in user auditor's report containing **unmodified opinion**, unless law/regulation says.
- 3.

If Law/regulation says (unmodified opinion)	Reference is relevant to understand modification (modified opinion)
<i>Reference will come but state that it doesn't diminish user auditor's responsibility</i>	

**Q7) Using type 1/2 Report**

Supports user auditor's understanding of controls at SO	To see if audit evidence is sufficient-appropriate (SAAE), check <ul style="list-style-type: none"> <li>• Service auditor's competence (except when ICAI member) &amp; independence from SO</li> <li>• Adequacy of standard of report</li> </ul>
User auditor shall - <ul style="list-style-type: none"> <li>• Check whether description of controls at SO is at date or for period.</li> <li>• Check if audit evidence is SAAE.</li> <li>• Check whether complementary user entity controls are relevant to user entity &amp; if yes, whether user entity implemented them.</li> </ul> Complementary user entity controls are controls that SO assumes, will be implemented by user entity.	

**Q8) Test of controls**

When user auditor expects controls at SO are effective, he obtains SAAE of operating effectiveness by -

Type 2 report	Performing test of controls (TOC) at SO	Using another auditor to perform TOC at SO
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If type 2 report, user auditor to determine whether it provides SAAE of operating effectiveness by -

Checking whether <b>description, design &amp; operating effectiveness of controls</b> at SO is at date or for period	Checking adequacy of - <ul style="list-style-type: none"> <li>• <b>Time period</b> of TOC</li> <li>• <b>Time elapsed</b> since TOC</li> </ul>	Checking whether <b>complementary user entity controls are relevant</b> to user entity & if yes, whether user entity implemented them & if yes, testing operating effectiveness
Checking whether <b>TOC by service auditor are relevant</b> to assertions in user entity's FS		

**SA 450 - Evaluation of Misstatements Identified During the Audit****Q1) Definitions**

<b>Misstatement</b>	Difference b/w amount, classification, presentation, disclosure of FS item & amount, classification, presentation, disclosure required as per AFRF. Misstatements can arise from error/ fraud.
<b>Uncorrected Misstatements</b>	Misstatements that auditor has accumulated during audit & that have not been corrected.
<b>Factual misstatements</b>	Misstatements about which there is no doubt.
<b>Judgmental misstatements</b>	Differences arising from judgements of mgt concerning accounting estimates that auditor considers unreasonable or selection or application of accounting policies that auditor considers inappropriate.
<b>Projected misstatements</b>	Auditor's best estimate of misstatements in populations, involving projection of misstatements identified in audit samples to entire populations from which samples were drawn.

**Q2) Accumulation of identified MST**

1. Auditor shall <b>accumulate MST</b> identified during audit, <b>other than those that are clearly trivial</b> .
2. Accumulation of clearly trivial amounts would not have a material effect on FS.
3. When there is <b>uncertainty about whether item is clearly trivial, it is considered not to be clearly trivial</b> .

**Q3) Consideration of identified misstatements as audit progresses**

Auditor shall determine whether overall **audit strategy & audit plan need to be revised**, if -

Nature of identified MST & circumstances of their occurrence indicate that <b>other MST may exist that, when aggregated with MST accumulated during the audit, could be material</b>	Aggregate of MST accumulated during audit approaches <b>materiality determined as per SA 320</b>
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If, at auditor's request, mgt has examined CAD & corrected MST that were detected, auditor shall perform additional audit procedures to determine whether MST remain.

**Q4) Communication & Correction of MST**

1. Auditor shall <b>communicate all MST accumulated during audit with mgt</b> , unless prohibited by L/R.
2. Auditor shall <b>request mgt to correct MST</b> .
3. If mgt <b>refuses to correct MST</b> communicated by auditor, <b>auditor shall obtain understanding of mgt's reasons</b> for not making corrections & shall take that understanding into account when evaluating whether FS as a whole are free of MM.

**Q5) Evaluating effect of uncorrected MST**

1. Auditor shall **reassess materiality determined as per SA 320** to confirm whether it remains appropriate in context of entity's actual financial results.
2. Auditor shall **determine whether uncorrected MST are material**, individually/in aggregate.
3. In making this determination, auditor shall consider -

**Size & nature of MST**, both in relation to CAD & FS as a whole & particular circumstances of their occurrence

Effect of uncorrected **MST related to prior periods** on CAD & FS as a whole .

#### Q6) Communication with TCWG

1. As per SA 260, auditor shall **communicate with TCWG - uncorrected MST & effect** that they, individually/in aggregate, may have on opinion in AR, unless prohibited by L/R.
2. Auditor's communication shall identify material uncorrected MST individually.
3. Auditor shall **request** that uncorrected MST be **corrected**.
4. Auditor shall also communicate with TCWG - effect of uncorrected MST related to prior periods on CAD/FS as a whole.

#### Q7) Written representation (WR)

Auditor shall request WR from mgt & TCWG, whether they believe effect of uncorrected MST are immaterial, individually & in aggregate, to FS as a whole.

#### Q8) Audit documentation

1. Amount below which MST would be regarded as **clearly trivial**.
2. All **MST accumulated** during audit & whether they have been corrected.
3. Auditor's conclusion as to whether uncorrected **MST are material**, individually/in aggregate, & basis for that conclusion.

SA 500 - Audit Evidence

**Q1) Methods to obtain audit evidence in performing compliance and substantive procedures.**

<b>Inspection</b>	Examination of doc/assets. Eg, test of controls, doc. of shares.
<b>Inquiry</b>	Info from knowledgeable person - financial/non financial, within/outside entity, formal/informal, written/oral.
<b>Analytical procedures</b>	Study relation between financial & non financial data to identify fluctuations & significant deviation from predictions.
<b>External confirmation</b>	Direct written response from confirming party.
<b>Recalculation</b>	Checking arithmetical accuracy of records.
<b>Reperformance</b>	Independent execution of procedures originally performed as internal control.
<b>Observation</b>	Looking at process performed by others. Eg, inventory counting <u>Limitation</u> - limited to point of time of observation.

**Q2) Factors affecting nature, timing & extent of audit procedures in case of mgt's expert.**

Ans. Same as SA 620. Ans. 4 - Part 2. Give reference of SA 500.

**Q3) Using the work of mgt's expert (eg, actuary)**

**ROLE OF AUDITOR**

Evaluate <b>competence, capability, objectivity</b> of expert	<b>Understand</b> his work	Evaluate his <b>appropriateness</b> of work
<b>How?</b>	<b>How?</b>	<b>How?</b>
Personal experience with past work/discussion/books by expert	See methods of work	Relevance of work, assumptions, source data

Famous question - Variation in gratuity/salary benefits

Auditor satisfied	Not satisfied
Use work of mgt expert	Report in audit report

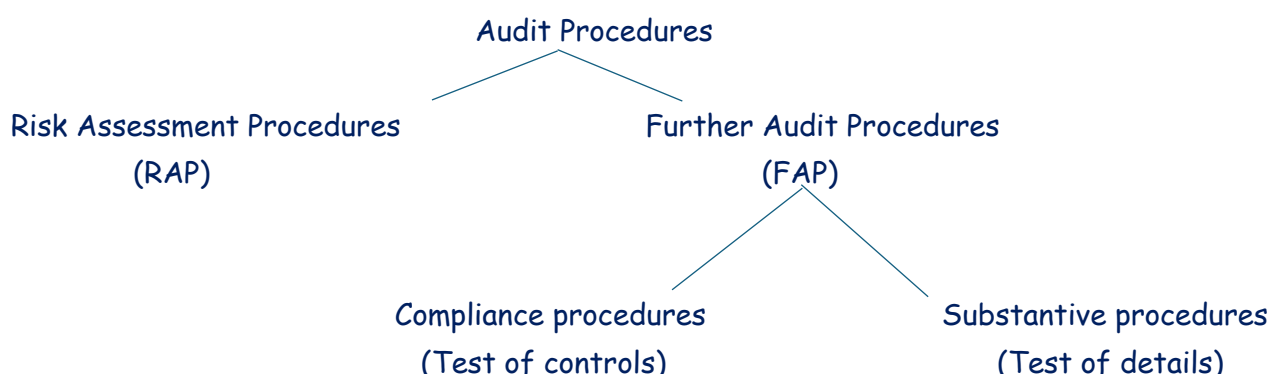
**Q4) Basics**

1. Audit evidence means info used by auditor

to arrive at conclusions	to form opinion
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It includes financial and non-financial info.

2.





## 3. Selection of items to obtain audit evidence -

100% examination (all items)	Specific items	Audit sampling (SA 530)
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## 4. Types of audit evidence

Depending on nature	Visual, oral, documentary
Depending on source	Internal and external

## 5. Reliability of audit evidence increases when -

<i>Obtained from independent (external) sources</i>	<i>Obtained directly by auditor</i>	<i>Obtained in documentary form</i>
<i>Controls are effective</i>	<i>Provided by original documents</i>	

## Q5) Factors affecting auditor's judgements as to sufficiency of audit evidence (AE)

<i>Materiality</i>	<i>ROMM</i>	<i>Size and characteristics of population</i>
Assertions - <ul style="list-style-type: none"> <li>less material</li> <li>less AE</li> </ul>	Assertions - <ul style="list-style-type: none"> <li>less ROMM</li> <li>less AE</li> </ul>	Small and homogeneous population - less AE  Large and heterogeneous population - more AE

**SA 501 - Audit Evidence - Specific Considerations for Selected Items**

**Q1) Need for physical verification of inventory/When inventory is material to FS, auditor obtains SAAE for existence and condition of inventory by attending physical inventory count. Why?**

<b>Evaluate</b> management instructions for recording results of physical inventory count	<b>Inspect</b> inventory	<b>Perform</b> test count	<b>Observe</b> performance of management count procedures
Audit procedures on <b>final inventory records to determine whether reflect actual</b>			

**Q2) Duty of auditor to ensure that 3<sup>rd</sup> party (who holds inventory) are not such with whom stock shouldn't be held & stock actually belongs to company.**

Perform these procedures

<b>Confirmation</b> from 3 <sup>rd</sup> party - <b>quantity and condition</b>	<b>Inspection</b> /other audit procedures ( <u>eg</u> , if <b>doubt about integrity</b> of 3 <sup>rd</sup> party)
	<ul style="list-style-type: none"> <li>Attending/arranging another auditor to <b>attend, 3<sup>rd</sup> party's physical counting</b> of inventory</li> </ul>
	<ul style="list-style-type: none"> <li>Obtaining another auditor's report/service auditor's report, on <b>adequacy of 3<sup>rd</sup> party's internal control</b> to ensure that inventory is properly counted &amp; safeguarded</li> </ul>
	<ul style="list-style-type: none"> <li><b>Inspecting documentation</b> <u>eg</u>, warehouse receipts</li> </ul>

**Q3) Audit procedures if physical count other than FS date.**

Ans 1 + Perform AP + Why? - For audit evidence about **change between 2 dates- properly recorded**

Factors to be considered-

1. Whether perpetual inventory records - properly adjusted.
2. Reliability of perpetual inventory records.
3. Reasons for significant difference between info obtained in physical count and perpetual inventory records.

**Q4) How sufficient appropriate audit evidence obtained when auditor couldn't attend physical inventory count due to unforeseen circumstances - earthquake and protest?**

Inventory count at <b>alternative date</b>	Audit procedures on <b>intervening transactions</b>
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**Q5) Attendance at physical inventory count is impracticable/impractical.**

- Why impractical? - **Nature and location** of inventory.
- Safety threat to auditor



3.

But

**General inconvenience** to auditor  $\neq$   
Impracticable

**SA 200** - If difficulty/time/cost, it doesn't mean that auditor will omit audit procedures.

4. **Alternative audit procedures** performed eg, inspection of documents of subsequent sale.
5. If alternative audit procedures impossible - **modify (SA 705)** due to scope limitation.

**Q6) Auditor wants to ensure that method adopted by management to determine segment info have resulted in disclosure as per AFRF. Guide auditor with examples of matters/presentation and disclosure of segment information.**

Examples of matters relevant when obtaining understanding of methods used by management in determining segment info and whether such methods are likely to result in disclosure as per AFRF.

<b>The allocation of assets and costs among segments.</b>	<b>Comparison with budgets Eg, Operating profit as % of sales</b>	<b>Consistency with prior periods and adequacy of disclosure wrt inconsistencies.</b>
<b>Sales, transfer, charges between segments and elimination of inter segment amount.</b>		

**Q7) Audit procedures to identify litigation/claims resulting in ROMM.**

Inquiry from <ul style="list-style-type: none"> <li>Mgt</li> <li>In-house legal counsel</li> </ul>	Reviewing minutes of meeting of TCWG	Reviewing legal expense account
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**Q8) Communication with external legal counsel.**

When AP indicate <ul style="list-style-type: none"> <li>Material litigation</li> <li>ROMM ↑</li> </ul> Auditor directly communicates with external legal counsel	Through <b>letter of inquiry prepared by mgt &amp; sent by auditor</b> requesting external legal counsel to communicate directly with auditor
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1. If it is unlikely that external legal counsel will respond to letter of general inquiry.

**Letter of specific inquiry**

<b>LoL (List of litigation)</b>	<b>Mgt's assessment</b> of outcome of litigation and estimate of financial implication	Request to confirm <b>reasonableness of mgt assessment</b> & provide further info if incomplete
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2. Auditor meets external legal counsel (ELC)

<b>Significant risk</b> wala matter	<b>Complex matter</b>	<b>Disagreement</b> between mgt & ELC
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3. Obtain WR - Litigation & claims - accounted & disclosed
4. Modify -

Mgt refuses auditor to communicate with ELC	ELC refuses to respond	No SAAE
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**SA 505 - External Confirmations****Q1) Basics**

1. External Confirmation - Audit evidence obtained as direct written response from 3<sup>rd</sup> party in paper/electronic/other medium.
2. Positive confirmation request -

Confirming party —————> Direct response whether agrees/disagrees —————> Auditor

3. Negative confirmation request -

Confirming party —————> Direct response only if disagrees —————> Auditor

4. Non - response

Confirming party didn't respond to positive confirmation request	Confirmation request returned undelivered
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5. Exception - Difference between

Info requested to be confirmed	Info provided by confirming party
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**Q2) Situations when external confirmation can be used**

Bank balance, accounts receivable/payable balance, inventory held by 3<sup>rd</sup> party, loan from lender.

**Q3) External confirmation procedures/controls over external confirmation requests.**

Determining <b>info</b> to be <ul style="list-style-type: none"> <li>• confirmed</li> <li>• requested</li> </ul>	Selecting <b>confirming party</b>	Designing <b>confirmation request</b> & determining that request is <ul style="list-style-type: none"> <li>• properly addressed</li> <li>• contain return info</li> </ul>	<b>Sending request</b> and follow-up request
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**Q4) Factors to be considered while designing confirmation request.**

<b>Assertions being addressed</b>	<b>Specific identified ROMM, including fraud risk</b>	<b>Layout &amp; presentation of confirmation request</b>
<b>Prior experience on audit</b>	<b>Method of communication (paper/electronic form)</b>	<b>Ability of confirming party to confirm</b>
<b>Mgt's authorisation to confirming party to respond to auditor</b>		

—Factors assisting auditor in determining whether external confirmation procedures are to be performed as substantive audit procedures -

Confirming party's knowledge of subject matter	Ability/willingness of confirming party to respond	Objectivity of confirming party (if confirming party is related, responses may be less reliable)
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**Q5) Positive confirmation request**

1. Definition in ans 1
2. Effects of using positive confirmation request -

Provide <b>reliable audit evidence</b>	<b>Risk</b> that confirming party may <b>reply w/o verifying</b> that info is correct	Solution of risk - Give <b>blank conf. request</b> & ask to fill amt. But low response rate due to high efforts
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**Q6) Negative confirmation request**

- Definition in ans 1
- Provide less persuasive audit evidence**
- Factors to consider/auditor not to use negative confirmation request as sole substantive audit procedure, unless all the following are present -

<b>Very low exception rate</b> expected	<b>Low ROMM &amp; SAAE</b> obtained as to operating effectiveness of controls	Auditor <b>isn't aware of circumstances</b> causing recipients to disregard request	Population of items subject to -ve conf. is <b>large no. of small, homogeneous trans.</b> /account balance
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- Failure to receive response does not imply misstatement** necessarily as negative confirmation request is to respond only if confirming party disagrees.
- Negative confirmation request to deposit holders of bank is useful to consider if balance is understated and not overstated.

**Q7) Mgt's refusal to allow auditor to send confirmation request.**

- Auditor shall

Inquire <b>reasons</b>	Evaluate implications on <b>ROMM</b>	<b>Alternative audit procedures</b>
2. Auditor	→ communicate	→ TCWG
If refusal unreasonable	Unable to obtain relevant/reliable audit evidence from alternative audit procedures	

- Auditor determines impact on audit **opinion (SA 705)**.

**Q8) Alternative audit procedures.**

<b>Accounts receivable</b>	<b>Accounts payable</b>
Examining - <ul style="list-style-type: none"> <li>subsequent cash receipts</li> <li>shipping documents</li> </ul>	Examining - <ul style="list-style-type: none"> <li>subsequent cash disbursed</li> <li>correspondence from 3<sup>rd</sup> party</li> <li>goods received note.</li> </ul>

**Q9) Results of external confirmation requests**

Response indicating agreement with info/providing info without exception	Unreliable response	Non response	Response indicating exception
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**Q10) MCQ/small case study**

- Choosing debtors, designing request and receiving responses is duty of external auditor and not internal auditor.
- If management refuses to send confirmation request, then **below reason is valid** -

**"Legal dispute**/ongoing negotiation with confirming party, resolution of which may be affected by untimely confirmation request"

Eg, CFO refused auditor to send confirmation request. Matter is sub judice. Efforts are being made for out of court settlement. No fraud risk factor. Is unwillingness of CFO justifiable?

Ans, **YES, justifiable**

SA 510 - Initial Audit Engagements - Opening Balances**Q1) Meaning of Initial Audit Engagement**

Engagement in which either -

FS for <b>prior period were not audited</b>	FS for <b>prior period audited by predecessor auditor</b>
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**Q2) Steps to ensure that closing balance of year 1 is b/f as opening balance of year 2 & opening balance has no misstatement.**

Auditor's objective - To obtain SAAE

Whether <b>opening balance has misstatements that materially affect current period FS.</b>	Whether appropriate <b>accounting policies</b> reflected in opening balance are consistently <b>applied in current FS</b> / changes are accounted & disclosed as per AFRF.
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**STEPS -**

1. Peruse copies of audited FS.
2. <b>For current assets &amp; liability</b> - collection/payment of opg. bal. of receivable/payable provides evidence of existence, rights and obligation, completeness & valuation at year start.
3. <b>For non current assets &amp; liability</b> - Examination of records/3 <sup>rd</sup> party confirmation.

**Q3) Procedures to follow when FS are audited for preceding period by another auditor.**

To obtain SAAE for opg bal - Auditor will <b>peruse copies of audited FS</b> + other documents of prior period FS like schedules of FS	Current auditor can place <b>reliance on closing balance of preceding period, except</b> when during performance of audit procedures for current period, <b>possibility of misstatements</b> in opening balance is indicated
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**Q4) Procedures to follow when FS are audited first time**

Since opening balance represent effect of transactions of preceding period, auditor has to obtain evidence having regard to nature of opening balance, materiality of opening balance and accounting policy	Auditor can obtain management representation for opening balance
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**Q5) If auditor not satisfied for correctness of opening balance, what approach to follow in drafting report?**

If auditor is unable to obtain SAAE for opening balance - express <b>qualified opinion/disclaimer of opinion.</b>	If objective 1, 2 not met -express <b>qualified/adverse opinion</b>
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**Q6) CA SL - 1<sup>st</sup> audit assignment - KPP P. Ltd.**

- obtained audit evidence for P&L items
- But for balance sheet, he left out confirmation from debtor of 150 lacs, continued as it is from last year.
- Management said that there are no receipts and further credits during this year.
- CA SL excluded from audit programme, audit of debtors on understanding that it is of last year, so already audited by predecessor auditor. Comment.

-Write Ans 2 + 3

- SA 580 - "Written Representations" - Auditor may consider it necessary to request management to provide WR about specific assertions in FS.

-CA SL should have requested mgt for WR for their views and he shouldn't exclude from audit programme.

-CA SL : **professional misconduct**, no due diligence, gross negligence as per Code of Ethics.

Q7) Auditor wants to be satisfied about sufficiency and appropriateness of opening balance to ensure they are free of MM. Audit procedures to be followed in initial audit engagement?  
OR Obtain SAAE whether opg balance has MST that materially affect current period FS.

Determine whether prior period <b>closing balance correctly b/f</b>	Determine whether opening balance reflect application of <b>appropriate accounting policies</b>	<b>Specific audit procedures</b>
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Auditor  $\longrightarrow$  communicate  $\longrightarrow$  TCWG

If opening balance has MST which exist in current period FS

Q8) Inventory - Current period audit procedures on closing inventory - provide little audit evidence of opening inventory. What additional audit procedures to be followed?

<b>Observing current physical inventory count</b> and reconciling to opening quantities	Performing audit procedures on <b>valuation of opening inventory</b>	Performing audit procedures on <b>gross profit and cut-off</b>
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**SA 520 - Analytical Procedures**

**Q1) Considerations while performing analytical procedures/Designing and performing substantive analytical procedures/Analytical procedures used as substantive procedures (tests)**

Determine <b>suitability of particular substantive analytical procedures</b> for given assertions, taking into account ROMM & TOD.	Evaluate <b>reliability of data</b> from which auditor's expectation of ratio is developed.	Develop <b>expectation of ratios</b> and evaluate whether expectation is precise.
Determine amount of <b>difference of recorded amount from expected values</b> that is acceptable without further investigation.		

**Q2) In audit of X Ltd, auditor used analytical procedures. Results show inconsistency with other relevant info. State course of action that auditor should take to ensure ROMM would be contained to low level fixed as per materiality level.**

If analytical procedures identify **fluctuations**, inconsistent with other relevant info, auditor shall investigate differences by -

<b>Inquiring mgt</b> & obtaining audit evidence relevant to mgt responses	Performing <b>other audit procedures</b>
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**Q3) Factors to determine that data used for designing analytical procedures is reliable.**

Source of info	Nature and relevance of info	Comparability of info	Controls over preparation of info
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**Q4) Analytical procedures for room rentals and payroll.**

1. **Payroll** - When entity has known number of employees at fixed rate throughout period, he can calculate estimated total payroll cost with accuracy.
2. **Room rental** - Room tariff, number of rooms, vacancy rates are to be considered first. Then auditor calculates estimated rental income.

-Auditor finds persuasive audit evidence and may eliminate test of details for further verification.

**Q5) Meaning (MCQ)**

1. Use analytical procedures near end of audit.
2. Analytical procedures -
a. Evaluation of financial info
b. through analysis of <b>relation among both financial &amp; non-financial data.</b>



**SA 530 - Audit Sampling****Q1) Basics**1. Sampling -Application of audit procedures to **less than 100% population**

All sampling units have chance of selection

Auditor - reasonable conclusion of population

2. Population - all items
3. Sampling units - items in population
- 4.

Tolerable MST - For TOD

Tolerable rate of deviation - For TOC

5. Sample - representative of population
6. Sample size - sufficient to reduce sampling risk.
7. Anomaly - MST not representative of MST in population.

**Q2) Sampling risk and risk factors in sampling techniques.**

**Conclusion based on sample may be different from conclusion had the same audit procedures been applied to population**

**JFU** - Non-sampling risk - Risk - wrong conclusion & reason not related to sampling risk

**Risk factors/types of erroneous conclusions -**

1. **TOC** - Controls more effective than actual.  
**TOD** - MM Doesn't exist when it does-

Concerned with **audit effectiveness**Leads to **inappropriate audit opinion**

2. **TOC** - Controls less effective than actual.  
**TOD** - MM exist when it doesn't

Concerned with **audit efficiency**Leads to **additional work** to establish that initial conclusions were incorrect**Q3) Approaches of sampling/types of sampling/statistical versus non-statistical sampling.**

<b>Statistical</b>	<b>Non-statistical</b>
Scientific rather than judgement based	Personal experience and knowledge of auditor
Uses mathematical laws of probability	Simple/judgement used
Wide application where population has large number of similar items	Element of surprise, no pattern 2023 - April, May, December 2024 - June, September, March (random testing)

**Q4) Principal methods of sample selection**

1. **Random sampling** - All items : known chance & random number tables.

<b>Simple random sampling</b>	<b>Stratified sampling</b>
<ul style="list-style-type: none"> <li>- Each unit - equal chance</li> <li>- Homogeneous population with similar range</li> </ul>	Dividing heterogeneous population into strata (Homogeneous sub population)

**2. Interval/systematic sampling**

Sampling units = sampling interval, example 50

Sample size

Determine start point from 1 <sup>st</sup> 50 & each 50th unit is selected	<ul style="list-style-type: none"> <li>• Ensure no pattern</li> <li>• Risk low - &gt;1 start point</li> </ul>
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**3. Monetary unit sampling -**

Value weighted selection	Monetary amount
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**4. Haphazard sampling -**

No structured technique	Not appropriate when using statistical sampling
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**5. Block sampling -**

Selection of block of contiguous items	Not appropriate as all items in block have similar characteristics
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**Q5) Sample size and factors influencing sample size**

Acceptable risk (willing to accept)



Sample size



Factors influencing sample size -

1. Expected rate of deviation/MST



Sample size



2. Assurance



Sample size



3. Reliance on OE of controls/TOC



Sample size



4. ROMM



Sample size



5. Tolerable rate of deviation/MST



Sample size



6. Stratification appropriate



Sample size



7. Sampling units



Sample size

Negligible effect

**Q6) Guide auditor about his role if audit sampling doesn't provide reasonable basis for conclusion/ evaluating results of audit sampling.**

As per SA 530 - Auditor evaluate -

<b>Results</b> of sample	<p>Whether audit sampling provided <b>reasonable basis for conclusion</b> of population .</p> <p>If <b>no</b>, auditor may -</p> <ul style="list-style-type: none"> <li>Request mgt to <b>investigate MST</b> &amp; make adjustments.</li> <li><b>Tailor NTE of FAP</b> to achieve assurance. Eg, TOC - extend sample size.</li> </ul>
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**Q7) Performing audit procedures**

Each item	NA - replacement item	If unable - deviation/MST
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**Q8) Projecting MST**

Exclude anomaly	If uncorrected, Non- Anomalous MST + Anomalous MST
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**Q9) Meaning and uses of stratification**

**Meaning** - Dividing **population into sub population** with similar characteristics.

**Uses** -

Sample size low without increasing sampling risk. Therefore, audit efficiency, high	Greater audit effort to larger value items	MST projected for each strata
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## SA 540 - Auditing Accounting Estimates, including Fair Value Accounting Estimates & Related Disclosures

### Q1) Accounting estimates with low estimation uncertainty and low ROMM.

AE in entities having business activities that are not complex	AE frequently made wrt routine transactions	AE derived from readily available (observable) data
Fair value AE where measurement model is well known (Inputs to model are observable)	Fair value AE where measurement method as per AFRF is simple	

### Q2) Accounting estimates with high estimation uncertainty, if based on significant assumptions.

AE wrt outcome of litigations	Fair value AE for derivative financial instrument, not publicly traded	Fair value AE for which highly specialised entity developed model is used.(Inputs can't be observed)
AE for wage revision agreement if negotiation with trade union is on the way		

### Q3) Degree of estimation uncertainty varies based on

Nature of AE	Extent to which there is generally accepted method to make AE	Subjectivity of assumptions used to make AE
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### Q4) Situations where AE, other than fair value AE required.

Allowance for doubtful accounts	Inventory obsolescence	Warranty obligations
Outcome of long-term contracts	Depreciation method/asset useful life	

### Q5) Situations where fair value AE required

Complex financial instruments not traded in open market	Assets/liabilities acquired in business combination	Share based payments
Property held for disposal	Exchange of assets/liabilities without monetary consideration	

### Q6) Audit reporting and disclosure.

I. Presentation of FS includes disclosure of material matters like

<b>Assumptions</b> used	<b>Method of estimation</b> , including model	<b>Basis for selection</b> of estimation
<b>Changes in method</b> of estimation from prior period and its subsequent effect	<b>Sources of estimation uncertainty</b>	

II. For accounting estimates having significant risk, even where disclosures are as per AFRF, auditor may conclude that disclosure of estimation uncertainty is inadequate.

**Q7) MCQ**

1. Auditor to obtain WR from management/TCWG, whether they believe assumptions in making accounting estimates are reasonable.
2. Documentation of accounting estimates

Basis of auditor's conclusion of reasonableness of accounting estimates & their disclosure that give rise to significant risk	Indicators of possible management bias
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**Q8) Auditor's responsibility/procedures****I. RISK ASSESSMENT PROCEDURES**

SA 315 - While performing RAP - Auditor to understand 2 things :

<b>Requirement of AFRF</b> wrt AE, including disclosures	<b>How management identifies transactions</b> that need AE by making inquiries
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**II. OBTAINING UNDERSTANDING OF HOW MGT. IDENTIFIES NEED FOR AE**

Inquiries of mgt about change in circumstances may include inquiries about whether -

Entity has engaged in <b>new type of transactions</b>	<b>Terms</b> of transactions have <b>changed</b>	<b>Accounting policies</b> related to AE have <b>changed</b>
<b>New conditions</b> /events occurred	<b>Regulatory</b> /other <b>changes</b> outside mgt control	

**III. HOW MANAGEMENT MAKES AE**

Estimation making process of management -

<b>Method, model</b> used in making AE	Relevant <b>controls</b>	Whether <b>mgt used expert?</b>
<b>Assumptions</b> underlying AE	Whether <b>change from prior period</b> in methods for making AE & if yes, why?	

**IV. ESTIMATION UNCERTAINTY**

For AE with significant risks, in addition to other substantive procedures as per SA 330, auditor shall evaluate following -

How management considered <b>alternative assumptions</b> and why it rejected them	Whether <b>significant assumptions</b> by management are reasonable	<b>Management's intent</b> and ability to carry out specific course of action
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- If mgt has not addressed effects of estimation uncertainty, auditor shall develop range to evaluate reasonableness of AE.

**Q9) Identify & address ROMM.****I. IDENTIFYING & ASSESSING ROMM (SA 315)**

Auditor shall determine -

Estimation uncertainty	Whether any AE with high estimation uncertainty has significant risk
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**II. RESPONSE TO ASSESSED ROMM (SA 330)**

A. Auditor determines -

Whether AFRF applied by mgt	Whether methods to make AE are appropriate	Whether changes in AE from prior period appropriate
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B. Auditor undertakes following -

Determine whether events up to date of audit report provide SAAE wrt a/cing estimate	Test check data used by management to make AE
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C. Auditor shall consider whether specialised skills wrt AE are required to obtain SAAE.

**Q10) Review of prior period AE**

1. Auditor review outcome of **AE included in prior period FS and subsequent re-estimation** for current period.
2. Outcome of AE differs from AE in prior period FS. To **identify reasons of difference**, auditor obtains -

Info as to <b>effectiveness of mgt's prior period estimation process</b>	<b>Audit evidence pertinent to re-estimation</b> of prior period AE in current period	<b>Audit evidence of matters</b> that may be required to be <b>disclosed</b> in FS
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3. Assist auditor to identify <b>management bias</b>	4. Review is <b>not intended to question judgements of prior period</b> made on basis of info available at that time.
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**ICAI QUESTION** - Mgt **cannot refuse** to provide information.**Q11) Management bias**

Management bias can be difficult to detect at account level.

1. It may only be identified when considered in aggregate of groups of AE or
2. All accounting estimates or
3. When observed over a number of accounting periods.

**SA 550 - Related Parties**

**Q1) How auditor can verify existence of related parties/RP relationships & transactions/ documents/records to gather RP info./Source of RP information.**

IT Returns	Internal audit reports	Life insurance policies of entity
Shareholder registers (to identify entity's principal shareholders)	Info supplied by entity to regulatory authority	

**Q2) Significant related party transactions outside normal course of business.**

<b>Complex equity transactions (corporate restructuring/ acquisition)</b>	<b>Transactions with offshore entities in jurisdictions with weak corporate law</b>	<b>Transactions without consideration (eg, leasing of premises)</b>
<b>Sales with large discount</b>	<b>Sale &amp; repurchase</b>	

**Q3) Review of records and documentation of company for RP transactions in normal course of business /Being alert for RP transactions**

1. Auditor ko alert rehna hai, jab wo inspect karega records/docs for RP transactions that mgt hasn't previously disclosed to auditor.
2. Auditor has to inspect -

<b>Bank, legal &amp; 3<sup>rd</sup> party confirmations</b>	<b>Minutes of meetings of shareholders and TCWG</b>	<b>Other records</b>
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3. Write answer 1.

**Q4) Dealing with biased RP transaction/audit procedures for transactions outside normal course of business.**

Auditor shall -

1. Inspect contracts and evaluate

<b>Business rationale</b> of transaction suggest <ul style="list-style-type: none"> <li>• Fraudulent financial reporting</li> <li>• Misappropriation of assets</li> </ul>	<b>Terms of transactions</b> are consistent with management <b>explanation</b>	<b>Transactions</b> are accounted and disclosed as per <b>AFRF</b>
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2. Obtain audit evidence whether **transactions are authorised**.
3. Remain alert for **unusual transactions**.
4. Obtain **written representation** - accounted and disclosed

**Q5) Meaning of RP**

1. Party that is

Related party as per AFRF	If AFRF establish no related party requirement
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- Person or entity that has control/significant influence directly/indirectly over reporting entity
- Entity over which reporting entity has control/significant influence directly/indirectly
- Another entity that is under common control with reporting entity by
  - Common controlling ownership
  - Close family members
  - Common key management

Parties under common control by state (national/regional/local govt) are not related unless they engage in significant transaction/share resources to a significant extent with one another.

#### Q6) Tell disclosure/reporting requirements

1. Long-term borrowings from parent company has no written terms and neither interest nor principal is repaid.
2. Computers received from parent co. free of cost of 23,000 & no disclosure is made in notes.
3. RPT of 325,000. But arm's length price is only 300000. It is not disclosed in notes.
4. CFO refused to provide information of RPT of 47 lakhs since it is confidential.
  - CFO is wrong as denying for details is imposing limitation on scope of auditor as per SA 705.
  - Disclosure in FS as per Ind AS 24/AS 18.
  - CARO 2020 - Whether Sec 177 & 188 of COA 2013 complied with.
  - Reported to TCWG.

Q7) Engagement team's discussion that SA 315 & SA 240 include specific consideration of susceptibility of FS to material misstatement. What are matters to be addressed in engagement team's discussion?

Nature & extent of entity's <i>relations &amp; transactions with RP</i>	Emphasis on maintaining <i>professional skepticism</i>	<i>Records</i> indicating RP transactions
Circumstances indicating existence of <i>RP transactions that mgt hasn't identified/disclosed to auditor</i>	Consideration of how RP may involve in fraud. <u>Eg -</u> <ul style="list-style-type: none"> <li>• Fraudulent FR</li> <li>• Misappropriation of assets</li> </ul>	

#### Q8) Inquiry of management by auditor.

Identity of RP + changes from prior period	Nature of relation between entity and RP	Whether trans b/w entity & RP & if yes, type & purpose of transaction
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#### Q9) Communication with TCWG.

Auditor → significant matters about RP → TCWG

For eg -

Non-disclosure by mgt of significant RPT	Significant RPT not authorised	Disagreement with mgt wrt a/cing of significant RPT as per AFRF	Non-compliance with L/R
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**Q10) Identification of previously unidentified/undisclosed RPT (Mgt didn't identified/ disclosed to auditor)**

Auditor determine whether circumstances confirm <b>existence of transactions</b>	<b>Communicate with team</b>	Request mgt to identify <b>all transactions with newly identified RP</b>
Perform more <b>substantive procedures</b>	<b>Reconsider risks</b> wrt other RP	If non-disclosure by management appears intentional, evaluate <b>implications for audit</b>

**SA 560 - Subsequent Events****Q1) Meaning of Subsequent events**

1. Events **between date of FS and date of AR.**
2. Facts that become known to auditor **after date of AR.**

**Q2) Auditor's responsibility/audit procedures for events between FS date and AR date.**

1. Auditor - audit procedures - to obtain SAAE - all **subsequent events that require disclosure in FS are identified.**
2. Auditor **not expected to perform additional procedures if previous one gives satisfactory conclusions.**

3. Following **procedures** by auditor -

Obtain understanding of management procedures	Inquiring mgt & TCWG	Reading entity's latest subsequent interim FS
Reading minutes of meetings of owners, management & TCWG		

4. Auditor **obtain WR** from management and TCWG that all SE which requires disclosure are disclosed/adjusted.

**Q3) Fire in April 2021. Material destroyed which was lying since March 2021. FS not adopted till fire date.**

SA 560 & AS 4 - **Non adjusting event.** No conditions exist at B/S date (31/03/21). Don't create provision but disclosure is needed.

**Q4) Auditor wants to conduct inquiry of mgt as to whether any SE have occurred which might affect FS. Guide him with matters where specific inquiry can be conducted to evaluate subsequent events.**

1. Whether new commitment, borrowings, guarantees are entered into.
2. Whether sales/acquisition of assets are planned.
3. Whether there are any developments in contingencies.
4. Whether unusual accounting adjustments made.
5. Whether any events wrt recoverability of assets.

**Q5) X Limited hasn't included in B/S (31/03/21) 1.5 crores (arrears of salary for two years) as a result of negotiation. Negotiation concludes on 30/04/21. Audit report date 31/05/21. Negotiation result become known to auditor on 15/05/21.**

- SA 560 & AS 4 - 1.5 cr : material amount. It is the event after B/S date.
- Auditor - procedures - obtain SAAE - period from FS (31/03/21) to AR (31/05/21).
- **Create provision** for outstanding expenses
- **Conclusion** - Auditor should request mgt to adjust 1.5 crore by making provision for expense. If management doesn't accept, auditor should qualify auditor report.

**Q6) Year 2020-21. AR date 04/05/21. Incentive received from government in May 2021. Amended accounts 08/05/21. Management requires auditor to issue fresh audit report of 2020-21 in which incentive from government is shown.**

**Facts which become known to auditor after date of AR but before FS are issued.**

1. **No obligation of auditor** to perform procedure regarding FS after AR date.
2. But if a fact causes auditor to **amend AR**, he shall -

<b>Discuss matter with mgt &amp; TCWG</b>	<b>Determine whether FS needs amendment</b>	<b>Inquire how mgt addresses matters in FS</b>
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3. Date of **new AR shall not be earlier than date of approval of amended FS.**
4. If **management amends FS**, auditor shall -

<b>Carry out audit procedures on amendment</b>	<b>Extend audit procedures</b> to date of new report
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5. If FS issued without necessary amendment, auditor shall take action to seek to prevent reliance on AR.

**CONCLUSION** - Write summary of case + 1 std line - Date of new AR shall not be earlier than date of approval of amended FS.

**NOTE-** Same answer if facts become known to auditor after FS issued.

**Q7) FY 2020-21. AR 25/07/21. Case file against company on 04/08/21. Incident for which case filed 17/01/21. Mgt decided to amend FS of FY 2020-21. Mgt decided to disclose matter as contingent liability in notes with no additional disclosures. Auditor decides to include this matter in EOM para. Mgt told auditor that disclosure as contingent liability is enough as auditor would be including matter in EOM para.**

- (A) Whether auditor properly adhered to his responsibilities on becoming aware of court case.

Ans. Yes, properly adhered. Write answer 6.

- (B) Whether contention of management is valid wrt disclosure?

Ans. As per SA 706, EOM Para is not substitute for -

<b>Modified opinion as per SA 705</b>	<b>Disclosures in FS</b>	<b>Reporting as per SA 570</b>
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- Management feels that disclosure as contingent liability is enough and no further disclosure is required since auditor is including matter in EOM Para.
- **Mgt contention is invalid since EOM Para is not substitute of disclosures** in FS that are necessary to achieve fair presentation.

**SA 570 - Going Concern****Q1) Events casting significant doubt on going concern.****I. Financial Events**

Net liability position	Fixed term borrowings maturing w/o prospects of repayment	Withdrawal of financial support by creditors
-ve cash flows/substantial operating loss	Adverse ratio	Arrear of dividend
Inability to pay creditors on due date	Inability to comply with T&C of loan	Change from credit to COD transactions with suppliers
Inability to obtain finance for new product		

**II. Operating Events**

Mgt intention to liquidate/cease operations	Loss of key mgt/customer/supplier/market/franchise/license	Labour difficulties
Shortage of important supplies	Emergence of highly successful competitor	

**III. Other Events**

Non compliance with L/R	Change in L/R/govt policy adversely affecting entity	Pending legal/regulatory proceedings resulting in claims unlikely to satisfy
Uninsured/underinsured catastrophe		

**Q2) MCQ**

1. Going concern - Fundamental accounting assumption
2. If no GC - FS prepared on liquidation basis.
3. Auditor - **SA 315 - Risk Assessment Procedures (RAP)**
  - Auditor checks whether events of Ans. 1 exist.
  - Auditor checks whether mgt performed GC assessment.

Assessment done	Assessment not done
<b>Auditor discuss assessment with mgt &amp; mgt's plans to address events, if any.</b>	<b>Auditor discuss with management basis of use of GC basis of accounting</b>

4. If normal FS - use GC basis of a/cing.
5. Preliminary going concern assessment - management.  
Next going concern assessment - auditor.
6. Auditor will cover same period considered by management.
7. If management covers less than 12 months from FS date, auditor requests management to **cover at least 12 months.**

**Q3) Additional audit procedures when events cast significant doubt on GC to determine whether material uncertainty exists.**

When management not performed GC assessment - <b>request management to make assessment</b>	<b>Evaluating</b> management plans for <b>future actions</b> for GC assessment	When entity prepared <b>cash flow forecast</b> , evaluate- <ul style="list-style-type: none"> <li><b>Reliability</b> of data</li> <li>Determine whether adequate support for <b>assumptions</b></li> </ul>
Consider whether <b>additional info</b> available	Requesting <b>WR</b> from management/TCWG for <b>future plans</b> and feasibility.	

**Q4) Reporting**

- I. Use of GC basis of accounting - inappropriate - **adverse opinion**.
- II.** Management unwilling to make/extend assessment - consider implications on AR (**Qualified/Disclaimer**)
- III. Use of GC basis appropriate but material uncertainty (MU) exists -

<b>MU Disclosed</b>	<b>MU not disclosed</b>
<b>1. Unmodified opinion</b> 2. Separate section - "MU related to GC"	<b>1. Qualified/adverse opinion</b> 2. Mention in basis of opinion para

**NOTE** - If use of GC basis appropriate - No para needed in AR mentioning it.

- If events casting significant doubt on GC are there but no MU exists - make disclosure in FS about events.
- Auditor communicate with TCWG - events of Ans. 1

**SA 580 - Written Representation****Q1) Meaning**

1. Written statement by management to auditor to confirm certain matters or to support other audit evidence.
2. It is in the form of management representation letter.

**Q2) Extent of reliance on WR/Reliability of WR/Doubt as to reliability of WR.**

If auditor has concerns about integrity of mgt, he shall <b>determine effect on reliability of WR</b>	If WR- <b>inconsistent with other audit evidence</b> - auditor perform <b>procedures to resolve matter</b>	If <b>WR not reliable</b> - Auditor take action, including determining <b>effect on audit opinion</b> .
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**Q3) If mgt refuse to provide WR, auditor shall**

<b>Discuss</b> matter with <b>management</b>	<b>Re-evaluate integrity of mgt</b> and evaluate effect on reliability of WR and audit evidence	Take action including determining <b>effect on audit opinion (SA 705)</b>
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**Q4) Reporting**

Disclaimer of opinion	
No WR	WR not reliable (doubt about mgt's integrity)

**Q5) Date & period**

<b>Date</b> - Near to but not after date of audit report	<b>Period</b> - Covers <b>all FS &amp; all period</b> referred to in AR	WR are given by <b>current mgt</b>
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**Q6) MCQ**

WR do not provide SAAE (though they provide necessary audit evidence)	WR are not substitute of other audit evidence	WR do not include - <ul style="list-style-type: none"> <li>FS and its assertions</li> <li>Books and records</li> </ul>
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**- What?**

Preparation of FS	All info provided	All transactions recorded (completeness of transactions)
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Qualifying language - To the best of our knowledge and belief**- Why?**

Those who signed terms - no longer responsible	Terms - last year	Changes in circumstances	Management misunderstanding
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**- If law - Written public statement, auditor may ~~WR~~**



**SA 600 - Using The Work of Another Auditor****Q1) Basics**

1. When auditor delegates/uses work of another auditor, he will continue to be responsible for opinion.
2. He will rely on work of others, provided he exercises skill and care and is unaware of reason to believe that he should not have relied.
3. Audit report states fact of reliance.

**Q2) Factors to consider before accepting work as principal auditor (PA)**

<b>Materiality</b> of portion of financial information which PA audits	<b>PA's</b> degree of knowledge of business of components	<b>ROMM</b> in financial info of components audited by other auditors.	<b>Performance</b> of additional procedures as per SAs regarding components audited by other auditors, resulting in PA's significant participation in audit
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**Q3) Principal auditor's procedures**

1. PA - **right to visit & examine books of accounts of component.**
2. PA to consider professional competence of OA if OA is not ICAI Member.
3. PA to perform following procedures to obtain SAAE that OA's work is adequate

<p>Advise OA of use of his work &amp; report &amp; make arrangements for coordination at planning stage of audit</p> <p>PA to inform OA of -</p> <ul style="list-style-type: none"> <li>• Areas of special consideration</li> <li>• Time table for completion of audit</li> <li>• Procedures for identification of inter component transactions</li> </ul>	<p>Advise OA of significant</p> <ul style="list-style-type: none"> <li>• Accounting</li> <li>• Auditing</li> <li>• Reporting</li> </ul> <p>Requirements and obtain representation of its compliance.</p>
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## 4. PA

Discuss with OA audit procedures applied	Review written summary of OA's procedures
5. PA to document in working papers	
<ul style="list-style-type: none"> <li>• Components audited by OA</li> <li>• Procedures and conclusions</li> <li>• OA's report - modified</li> </ul> <p>PA to document how he dealt with qualification in OA's report in framing own report.</p>	<p style="text-align: center;"><b>X</b></p> <p>Reason of limiting procedures if OA complies quality control policies.</p>

**Q4) Coordination between PA and OA.**

1. Sufficient liaison between PA & OA.
2. PA → written communication → OA
3. OA to coordinate with PA by

Bringing significant findings to PA's attention	Adhering to timetable	Complying with statutory requirement
4. PA to advice OA of matters having imp. bearing on OA's work. 5. PA requires OA to answer detailed questionnaire. 6. OA should respond to questionnaire timely.		

**Q5) Reporting**

PA - <b>Qualified/disclaimer</b> if <ul style="list-style-type: none"> <li>• <b>OA's work can't be used &amp;</b></li> <li>• <b>PA unable to perform sufficient additional procedures</b> for component</li> </ul>	If OA gives modified report - PA considers whether modification required in PA's report
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**Q6) Division of responsibility**

1. PA is not responsible for OA's work except if suspicion of reliability of work.
2. PA's report - Division of responsibility & shows extent of OA's work.
3. But if PA notice material discrepancies, he should bring to OA's knowledge + state in audit report.

**SA 610 - Using the Work of Internal Auditor****Q1) Basics**

1. External auditor - **sole responsibility of audit** & not reduced by use of IA's work.
2. External auditor should be independent. No such requirement for internal auditor.
3. Using work of internal auditor

Using work of <b>Internal Audit Function (IAF)</b>	IAs provide <b>direct assistance</b> under direction, supervision, review of external auditors (EA)
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4. Internal audit function - Perform assurance & consulting activities to improve entity's governance, risk management & internal control process.

**Q2) Evaluating if work of internal audit function can be used OR Can stat auditor (external auditor) rely on IA's work?**

EA shall evaluate OCD -

Extent to which IAF's organisational status & policies support <b>objectivity</b> of IAs	Level of <b>competence</b> of IAF	Whether IAF applies systematic & <b>disciplined</b> approach, including quality control
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- **EA not to use IAF's work if no OCD.**

**Q3) IAF's work that can be used by EA**

Testing <b>operating effectiveness of controls</b>	<b>Inventory count</b> observation	Substantive procedures with <b>limited judgement</b>
<b>Tracing transactions through info system</b> , relevant to FR	Testing of compliance with <b>regulatory requirements</b>	Audit/review of <b>insignificant subsidiaries</b>

**Q4) When EA use less work of IAF and performs more work directly.**

<b>More judgement</b> in planning and performing audit procedures and evaluating audit evidence	Assessed <b>ROMM is high</b> at assertion level, with special consideration to significant risks	<b>Less objectivity</b>	<b>Less competence</b>
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**Q5) What factors weigh considerations in opting to make use of direct assistance of IAs?**

To determine nature and extent of work that can be assigned to IAs providing direct assistance, EA shall consider

<b>Judgement</b> wrt planning and performing audit procedures and evaluating audit evidence	Assessed <b>ROMM</b>	Evaluation of existence of <b>threats to objectivity</b>
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**Q6) Factors relevant in evaluating significance of threats to objectivity of internal auditor**

Extent of objectivity of internal auditor	Family/personal relation	Association with division	Significant financial interest other than remuneration
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Q7) EA not to use IA to provide direct assistance to perform these procedures

Involving <b>significant judgements</b>	<b>ROMM high</b> & judgment more than limited	Relate to <b>work with which IAs involved</b> & reported to mgt/TCWG by IAF
Relates to <b>decisions EA makes about IAF</b>		

Q8) Significant judgements

<b>Assessing ROMM</b>	<b>Evaluating sufficiency of test performed</b>	<b>Evaluating appropriateness of mgt's use of GC assumption</b>
<b>Evaluating adequacy of disclosures in FS</b>	<b>Evaluating significant accounting estimates</b>	

Q9) Audit documentation by EA if EA uses IAs to provide direct assistance

Evaluation of significance of <b>threats to objectivity</b> of IAs	<b>Written agreement</b> from entity & IA	<b>Work papers</b> of IAs
<b>Who reviewed work</b> <b>Date of review</b> <b>Extent of review</b>		

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**SA 620 - Using the Work of Auditor's Expert****Q1) Basics**

NA when auditor uses work of mgt expert (SA 500)

<b>Auditor's expert</b>	<b>Mgt's expert</b>
Expertise in other than accounting, auditing	Same
Whose work used by auditor	Whose work used by entity in preparing FS
Internal/external expert	

Auditor has sole responsibility for audit opinion and is not reduced by use of expert's work.

**Q2) Expertise in other than accounting, auditing includes expertise in/types of reports, opinion, statements auditor can obtain from expert.**

Valuation of complex financial instruments, L&B, P&M	Actuarial calculation of liabilities	Estimation of oil and gas reserves
Interpretation of contracts, law, regulation	Analysis of complex tax compliance issues	

**Q3) Auditor's expert to assist auditor in following**

Understand entity, environment, internal control ( <b>SA 315</b> )	Identifying and assessing ROMM ( <b>SA 315</b> )	Determining response to assessed risks at FS level ( <b>SA 330</b> )
Designing further audit procedures - TOC and substantive procedures ( <b>SA 330</b> )	Evaluating if audit evidence is sufficient and appropriate ( <b>SA 500</b> )	

**Q4) Considerations to decide whether to use auditor's expert.**

Whether management used <b>management's expert</b>	<b>Nature and significance of matter</b> , including complexity	<b>ROMM</b> in matter
Expected nature of <b>procedures to respond to risks</b> , auditor's knowledge & experience with work of experts & alternative source of audit evidence		

- If management used mgt's expert, also consider -

<b>Nature, scope, objectives of mgt expert's work</b>	<b>Mgt expert's competence &amp; capabilities</b>	<b>Extent to which mgt can exercise control over mgt expert's work</b>
<b>Controls in entity over mgt expert's work</b>	<b>Whether mgt expert subject to technical performance standards</b>	

**Q5) To determine NTE of auditor's procedures, auditor shall consider these matters -**

<b>Nature of matter</b> to which expert's work relates	<b>Significance of expert's work</b> in context of audit	<b>Auditor's knowledge &amp; experience</b> of previous work of that expert
Whether expert is subject to audit <b>firm's quality control policies &amp; procedures</b>		

- Factors suggesting need for different/more extensive procedures -

Auditor's expert's work relates to <b>significant matter</b> - subjective/complex judgement	Auditor <b>hasn't previously used expert's work</b> & has no prior knowledge of expert's competence /capability	Auditor's expert is performing <b>integral procedures</b> , rather than being consulted for advice on individual matter
External expert & thus <b>not subject to firm's quality control policies</b>		

### Q6) Evaluating objectivity of auditor's external expert

Inquire entity of interests and relations with experts	Discuss with experts about safeguards - Interest & relations - <ul style="list-style-type: none"> <li>Financial interest</li> <li>Business and personal relation</li> <li>Provision of other services by expert</li> <li>Auditor obtain WR from expert of interest/relation with entity</li> </ul>
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### Q7) Auditor shall agree in writing with auditor's expert on-

<b>Nature, scope, objectives</b> of expert's work	<b>Roles and responsibilities</b> of auditor and expert	<b>NTE of communication</b> between auditor and expert
Need for expert to observe <b>confidentiality</b> requirements		

### Q8) Auditor shall evaluate adequacy of expert's work/extent of rely on expert's work/evaluative or review procedures

<b>Relevance &amp; reasonableness</b> of expert's <b>findings/conclusions</b> & their consistency with other audit evidence	If expert's work involves use of significant assumptions/methods, <b>relevance &amp; reasonableness of assumptions and methods</b>	If expert's work involves use of source data, <b>relevance, completeness &amp; accuracy of source data</b>
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- Specific procedures to evaluate adequacy of auditor's expert's work

<b>Inquiries</b> of auditor's expert	<b>Reviewing</b> auditor's expert's <b>working papers/reports</b>
<b>Corroborative procedures</b> <ul style="list-style-type: none"> <li><b>Observing</b> expert's work</li> <li><b>Examining</b> published data <u>Eg</u>, statistical reports</li> <li><b>Confirming</b> relevant matters with 3rd parties</li> <li><b>Performing</b> detailed analytical procedures</li> <li><b>Re-performing</b> calculations</li> </ul>	<b>Discussion with another expert</b> having expertise when findings of auditor's expert are not consistent with other audit evidence
<b>Discussing auditor's expert's report with management</b>	

- Factors relevant to auditor's evaluation of assumptions and methods include whether they are -

Generally accepted within auditor's expert's field	Consistent with the requirements of AFRF	Dependent on use of specialised models
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- Procedures to test source data

Verifying origin of data & testing internal controls of data	Reviewing data for completeness and internal consistency
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**Q9) If auditor determines that auditor's expert's work is not adequate, he shall**

Agree with expert on nature & extent of further work	Perform further audit procedures
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**Q10) Reporting**

1. If auditor concludes -

Auditor's expert's work not adequate	Auditor can't resolve matter by additional audit procedures (further work) by auditor & expert
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*Auditor - modified opinion (since no SAAE)*

2. Auditor *not to refer work of expert in audit report with unmodified opinion*, unless required by law/regulation.

3.

If required by L/R (unmodified opinion)	If reference is relevant to understand modification (modified opinion)
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*Auditor indicates that it doesn't reduce auditor's responsibility*

**Q11) Written agreement required when auditor and expert**

1. *Sensitive maamla* - sensitive information
2. *Complex maamla* - complex matter
3. *Naya maamla* - auditor hasn't previously used expert's work
4. *Bada maamla* - greater extent of work

**Q12) Auditor obtain understanding of other field by -**

Experience in auditing entities that require such expertise in preparation of FS -
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- Education in that field - courses, discussion with individuals having expertise in field
- Discussion with auditors who have performed similar engagements



**SA 700 - Forming an opinion & Reporting on Financial Statements****Q1) Basic elements of audit report**

Title	Addressee	Auditor's opinion
Basis for opinion	Going concern (SA 570)	KAM (SA 701)
Other info (SA 720)	Responsibilities for FS (mgt's responsibility)	Auditor's responsibilities for audit of FS
Location of description of auditor's responsibilities for audit of FS	Other reporting responsibilities (separate section)	Signature of auditor
Place of signature (City where audit report signed )	Date of auditor's report (not before SAAE)	

**Q2) Title - Independent Auditor's Report****Q3) Auditor's Opinion**

Opinion +

Entity	State that <b>FS has been audited</b>	Title of each statement of FS
<b>Notes</b> , including summary of significant accounting policies	<b>Period</b> of FS	

**Q4) Basis for opinion**

Audit done as per SAs	Refer to section of audit report having auditor's responsibilities	State that auditor is independent
State whether auditor believes audit evidence to be sufficient and appropriate		

**Q5) Location of description of auditor's responsibilities**

Within body of auditor report	Within appendix to AR	AR has reference of website
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**Q6) Audit report if audit as per SAs & International SAs**Audit report will **refer to both only** if -

<b>No conflict</b> between both leading auditor to - <ul style="list-style-type: none"> <li>Form different opinion</li> <li>Not include EOM/OM Para</li> </ul>	Audit report <b>include all elements</b> as per SAs
If both referred in AR, it should <b>identify jurisdiction of other SAs</b> clearly	

**Q7) Supplementary information presented with FS**

Supplementary info not required by AFRF is presented with FS; auditor evaluate whether it is integral part of FS

If yes

Give opinion

If no, differentiate it from FS

If done

OK

If not differentiated

Auditor asks mgt to change presentation of supple information

If mgt agrees

OK

If mgt refuses

Auditor identify supple info + explain in AR that it is not audited

**Example 1** Notes to FS has explanation/reconciliation of compliance with another FRF - supple info is not differentiated - thus, auditor will give opinion.

**Example 2** Additional P/L A/c with specific expenditure or income is given in separate schedule and is appendix to FS - Supple info is differentiated - thus, auditor will not give opinion.

**SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report****Q1) Definition**

1. Matters, which in auditor's professional judgement, are of **most significance in audit of current period**.
2. These are selected from **matters communicated with TCWG**.
3. Purpose of communicating KAM

Communicative value of audit report increases	Additional info to users	Assist users in understanding entity and significant management judgment
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4. No KAM if

Law/regulation says	Adverse Consequences > Benefits
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**Q2) Communicating KAM is not -**

<b>Substitute of disclosures as per AFRF</b>	<b>Substitute of reporting when material uncertainty of events that cast significant doubt on GC (SA 570)</b>	<b>Substitute of modified opinion (SA 705)</b>	<b>Separate opinion on individual matters</b>
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**Q3) Applicability of SA 701**

1. General purpose financial statements of

<b>Listed entities</b>	Situation when auditor decides to communicate KAM	Required by law/regulation
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2. SA 705 - If disclaimer of opinion is there, KAM is not communicated, unless reqd by L/R.
3. If there is **no KAM**, then also **KAM Para** is given in audit report. But **mention** in KAM Para that there is **no KAM**.

**Q4) Factors to consider in determining KAM**

SA 315 - <b>ROMM/Significant risk high</b>	<b>Significant auditor judgement</b> wrt areas with significant management judgement, including a/cing estimates with high estimation uncertainty	Effect on audit of <b>significant events/transactions</b>
--	---	---

Matters not related to financials can be KAM if it requires significant attention of auditor and it has impact on audit.

Eg, **implementation of new IT system**/significant changes in old systems

**Q5) Examples of KAM**

Impairment assessment	Provision for loss & contingency	Valuation of financial instruments
<b>Revenue recognition matters</b>	Tax matters	

**SA 705 - Modifications to the Opinion in the Independent Auditor's Report****Q1) Circumstances & types of modification**

Circumstances -

When MM is there	When SAAE not there
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Types of modification -

<b>Qualified opinion (Q)</b>	<b>Adverse opinion (A)</b>	<b>Disclaimer of opinion (DOO)</b>
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	QO		AO	DOO
SAAE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Material	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Pervasive	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Rare Case of disclaimer of opinion -

- Multiple uncertainties are there
- SAAE obtained
- But not possible to form opinion due to -

Interaction of uncertainties	Cumulative effect on FS
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**Q2) Pervasive**

Describes effect of misstatement on FS.

Not confined to specific element	If confined - represents substantial portion of FS	Disclosures fundamental to users' understanding
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**Q3) Decision as to which modified opinion is appropriate depends on -**

Nature of matter giving rise to modification	Auditor's judgement about pervasiveness
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**Q4) Special considerations for modified opinion****I. QUALIFIED OPINION**

Auditor states that except for effects of matter in Basis for Qualified opinion section:

<b>Fair presentation framework</b>	<b>Compliance framework</b>
FS present fairly, in all material respects as per AFRF	FS prepared, in all material respects, as per AFRF

When inability to obtain SAAE - use phrase "except for possible effect of matter"

**II. ADVERSE OPINION**

Auditor state that due to significance of matter in Basis for Adverse opinion section -

<b>Fair presentation framework</b>	<b>Compliance framework</b>
FS do not present fairly, as per AFRF	FS not prepared, in all material respects, as per AFRF

**III. DISCLAIMER OF OPINION**

Auditor shall -

State that no opinion expressed	State that due to significance of matter in Basis for DOO section - he is unable to obtain SAAE	Amend statement in SA 700, indicating FS audited, to state that auditor was engaged to audit
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### Q5) MCQ

- Opinion section **heading changed to "Qualified Opinion/Adverse Opinion/Disclaimer of Opinion"** in case of modified opinion.
- Basis for Opinion section **heading changed to "Basis for QO/AO/DOO"**, in case of modified opinion.
- If MM is of non-disclosure of info, auditor shall -

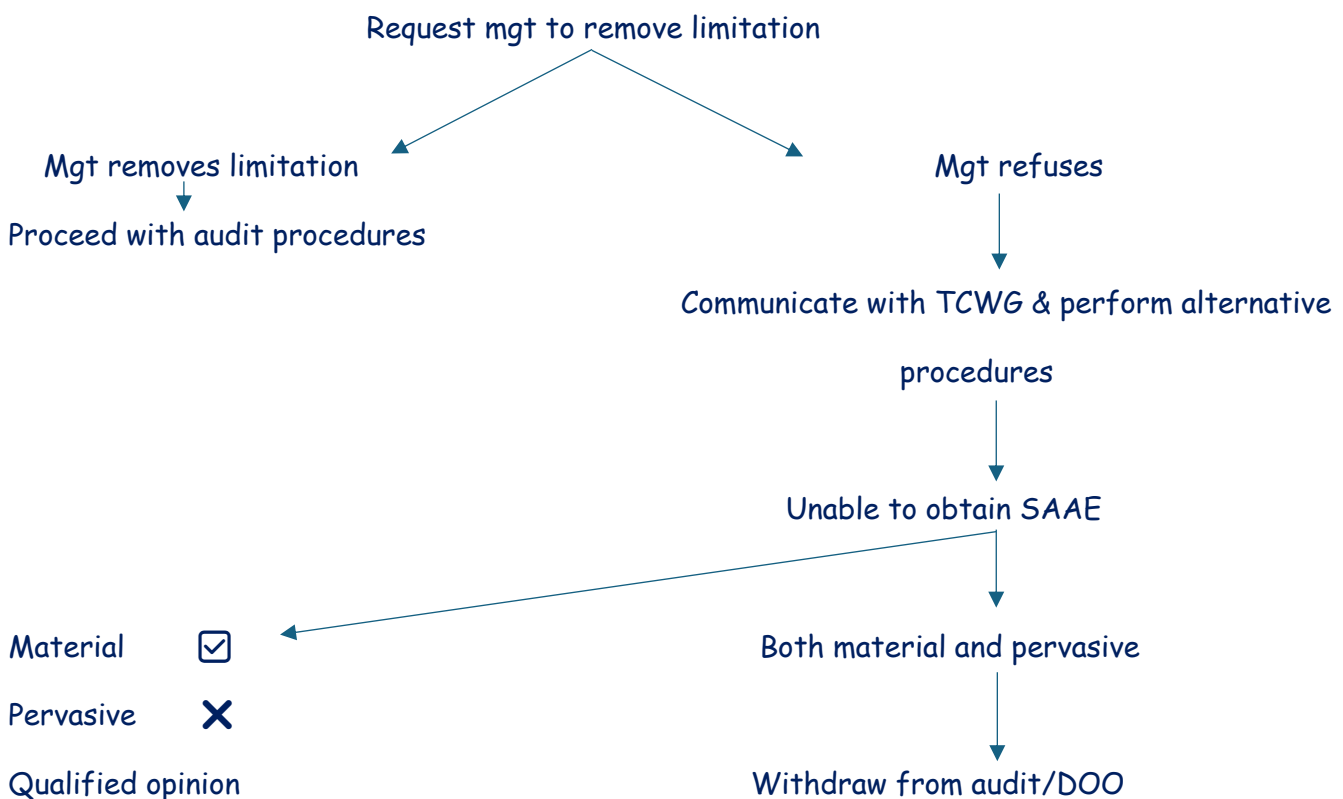
<b>Discuss with TCWG</b>	<b>Describe omitted info</b> in "Basis for Opinion"	<b>Include disclosure</b> , if practicable & if SAAE obtained
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- If auditor expects to modify opinion,

Auditor → communicate → TCWG

Circumstances of expected modification	Wording of expected modification	Audit findings	Types of misstatements
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### Q6) Inability to obtain SAAE due to management imposed limitation



**Q7) Withdrawal of auditor**

1. Auditor → before withdrawal communicate to → TCWG

Misstatement that would have given rise to modification
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2. Withdrawal not permitted without Audit/Review report -

Listing agreement and SEBI directive on resignation of auditor -

If auditor proposes to resign -

<i>Within 45 days from end of any quarter</i> , auditor before resignation - issue <i>audit/Limited review report of such quarter</i>	<i>After 45 days from end of any quarter</i> , auditor before resignation - issue <i>audit/Limited review report of such quarter and next quarter</i>	If limited review <i>report issued for all 3 quarters</i> , auditor before resignation - issue <i>audit report for full year</i>
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3. Auditor mentions reason of resignation in resignation letter to company.

4. *Unlisted company's auditor shall not mention "professional pre-occupation"* as reason.

**Q8) Disclaimer of opinion**

When auditor disclaim opinion on FS, auditor's report shall not include following elements -

- |   |
|---|
| 1. Reference to section of AR where auditor's responsibilities are described.     |
| 2. Statement about whether audit evidence obtained is sufficient and appropriate. |

When auditor disclaims opinion due to inability to obtain SAAE, auditor shall amend description of auditor's responsibilities to include only following -

- |   |
|---|
| 1. Statement that auditor's responsibility is to conduct audit as per SAs.  |
| 2. Statement that auditor was unable to obtain SAAE.                        |
| 3. Statement about auditor independence and other ethical responsibilities. |

**SA 706 - Emphasis of Matter Paragraphs & Other Matter Paragraphs in Independent Auditor's Report**

**Q1) Meaning of EOM & OM Para**

1. EOM Para - Emphasis of Matter Paragraph

Para in audit report	Refers to matter <b><i>presented/disclosed in FS</i></b>	<b><i>Fundamental to users' understanding of FS, in auditor's judgment</i></b>
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2. OM Para - Other Matter Paragraph

Para in audit report	Refers to matter <b><i>not presented/disclosed in FS</i></b>	<b><i>Fundamental to users' understanding of audit, auditor's responsibilities, audit report</i></b>
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3. EOM & OM para are given in separate section of audit report with heading "EOM/OM"

**Q2) EOM Para provided when**

1.

<b><i>No modification as a result of matter</i></b>	No KAM (SA 701)
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2. These circumstances include -

FRF prescribed by L/R is unacceptable but for fact that it is prescribed by L/R	<b><i>To alert users - FS is as per special purpose framework</i></b>	Facts become known to auditor after AR date & auditor provides new auditor report ( <b><i>subsequent event</i></b> )
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3. Circumstances when auditor includes EOM Para

Uncertainty of future outcome of litigation/regulatory action	Early application of new AS, having material effect on FS	Significant subsequent event b/w FS date & AR date
Major catastrophe having significant effect on financial position		

**Q3) EOM Para is not substitute of**

<b><i>Disclosure in FS as per AFRF</i></b>	<b><i>Modified opinion (SA 705)</i></b>	<b><i>Reporting when material uncertainty wrt events casting significant doubt on going concern (SA 570)</i></b>
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**Q4) OM para provided if -**

Not prohibited by L/R	No KAM
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MCQ - If auditor expects to include EOM/OM, he shall communicate with TCWG - expectation and wording



**SA 710 - Comparative Information - Corresponding Figures & Comparative FS****Q1) Basics**

## 1. Corresponding Figures -

Amount/disclosures of prior period are integral part of current period FS	Read only
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2. Comparative FS - Amount/disclosures of prior period are included for comparison with current period.

3. Difference

<b>Corresponding figures</b>	<b>Comparative FS</b>
Audit opinion - only current period	Audit opinion - each period

**Q2) Auditor's procedures/responsibilities wrt comparative information**

1. To determine FS has **appropriately classified** comparative info, auditor should -

Ensure comparative info <b>agrees with</b> amount/disclosure in <b>prior period</b>	<b>Accounting policies are consistent</b> with current period	If <b>change</b> in application of a/cing policies, whether properly <b>disclosed &amp; presented</b>
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2. If **Misstatement** in comparative information,

Auditor perform <b>audit procedures</b> to obtain SAAE	If auditor audited prior period FS, follow <b>SA 560</b>
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3. **SA 580** - Auditor request **WR** for all periods in audit opinion + obtain specific WR for prior period item disclosed in current year's FS.

**Q3) Corresponding figures - Audit reporting**

Audit opinion **not refer to corresponding figures, except** in following circumstances -

Audit report of <b>prior period has modified opinion and matter is unresolved</b> - Auditor modifies current period FS.	Auditor obtains SAAE that <b>MM in prior period FS on which unmodified opinion previously issued</b> - Auditor verify whether MST dealt as per AFRF & if not - qualified/adverse opinion on current period FS
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**Q4) Comparative FS - Audit reporting**

Audit opinion is of <b>each period</b>	If <b>opinion</b> on prior period FS <b>differs</b> from previous opinion - auditor disclose reason in <b>OM para</b>	MM affecting prior period FS on which predecessor auditor reported without modification. Auditor report to mgt/TCWG & request predecessor auditor be informed. If new report, auditor report on only current period
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**Q5) Reporting common for both - corresponding figures and comparative FS**

1. Prior period FS audited by **predecessor auditor**, auditor to state in **OM Para**

FS of prior period audited by predecessor auditor	Type of opinion by predecessor auditor	Date of audit report
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2. If prior period FS **not audited** - Report it in **OM Para**. But it won't relieve auditor from responsibility to obtain SAAE that opening balance do not have MM.

**SA 720 - The Auditor's Responsibilities Relating to Other Information****Q1) Basics**

1. Auditor reads other information (OI). If it is materially inconsistent with FS, it indicates that there is MM in FS or OI.
2. Not applicable to -

Preliminary announcement of financial info

Securities offering documents (**eg**, prospectus)

3. Other info in annual report - Financial & Non-financial (other than FS & audit report)

**Q2) Responding when auditor concludes that MM of OI exists.****I. If auditor concludes that there is MM in OI -**

Auditor → Request → Mgt

to correct OI

If mgt

<u>Agrees</u>	<u>Refuses</u>
Auditor determines that correction made	Auditor → Request → TCWG to correct OI

**II. If auditor concludes that there is MM in OI obtained prior to audit report (AR) & OI not corrected after communicating with TCWG,**

Auditor

<ul style="list-style-type: none"> <li>Consider implications on AR</li> <li>Communicate with TCWG - plan to address MM in AR</li> </ul>	Withdraw from engagement, if possible
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**III. If auditor concludes that there is MM in OI obtained after AR,**

Auditor

If OI corrected	If OI not corrected
Perform necessary procedures	after communicating with TCWG, take action considering auditor's rights, to bring uncorrected MM to users' attention

**Q3) Reporting**AR has separate section with heading "**Other Info**". This section includes -

Statement that <b>management is responsible for OI</b>	Identification of <ul style="list-style-type: none"> <li><b>Other info</b> obtained by auditor prior to AR</li> <li><b>For listed entity -</b> OI expected to be obtained after AR</li> </ul>	<b>No audit opinion</b> /assurance on OI by auditor
Auditor's <b>responsibilities of reading, considering, reporting</b> on OI as per SA 720	If OI obtained prior to AR, Either <ul style="list-style-type: none"> <li>Statement that <b>auditor has nothing to report</b>, OR</li> <li>Statement that describes <b>uncorrected MM of OI</b>, if any</li> </ul>	

**Q4) Obtaining, Reading & Considering Other Info (OI)****Obtaining Other Info (OI) -**

Auditor shall -

- |   |
|---|
| <ul style="list-style-type: none"><li>Determine, through discussion with management, which <b>document comprises annual report</b> &amp; manner &amp; timing of issuance of such document.</li></ul>  |
| <ul style="list-style-type: none"><li>Make appropriate arrangements with mgt to obtain <b>final version of document</b> prior to AR date.</li></ul>   |
| <ul style="list-style-type: none"><li>If <b>document</b> will <b>not</b> be <b>available</b> until after date of AR, request mgt to <b>provide WR</b> that final version of document will be provided to auditor prior to its issuance by entity.</li></ul> |

**Reading and considering other info (OI) -**

Auditor shall read OI and consider -

- |  |
|--|
| <ul style="list-style-type: none"><li>Whether there is <b>material inconsistency between OI &amp; FS</b>.</li></ul>                                |
| <ul style="list-style-type: none"><li>Whether there is <b>material inconsistency b/w OI &amp; auditor's knowledge</b> obtained in audit.</li></ul> |

**Reporting Miscellaneous**

- In case of unmodified opinion, don't use -

With the foregoing explanation	Subject to
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**Q1) Certificate for special purpose versus audit report**

<b>Certificate</b>	<b>Report</b>
Auditor verify accuracy of facts	Formal statement after inquiry, examination, review
No opinion Eg, Certify import export value of Company	Opinion Differs from one professional to other No question of exactitude as judgements

**Q2) Duties of auditor****1. Duty to Inquire**

a. Whether loans and advances shown as deposits.
b. Whether personal expenses charged to revenue.
c. Whether shares, debentures sold at less than cost (Not investment or banking company)
d. Whether transactions which are book entries are prejudicial to interests of company.
e. Whether loans and advances made are properly secured and terms are prejudicial to interest of company/members.
f. If shares allotted for cash, whether cash received and if no cash received - position in BoA is not misleading.

**Research Committee of ICAI**

OK	Adverse
Don't Report	Report

**2. Duty to sign audit report.****3. Duty to comply with auditing standards.****4. Duty to audit report - Sec 143(3) of COA 2013**

A. Whether obtained info necessary. If **X** - details and effect on FS.

B. Whether  Proper books of accounts kept by Company  
 Proper returns received from unvisited branch

C. Whether report on a/cs of branch audited by other auditor - sent and manner of dealing.

D. Whether P/L & B/S as per books of accounts.

E. Whether financial statements comply with AS.

F. Comments on financial transactions having adverse effect.

G. Whether Director disqualified.

H. Qualification related to maintenance of accounts.

I. Whether internal financial controls wrt financial statements -

In place	Operating effectiveness
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**Not applicable to private company -**

One person company or small company	<p><b>Turnover &lt; 50 crores</b> &amp; <b>Aggregate borrowings &lt; 25 crores</b></p> <p>Bank ← FI → Body corporate at any point of time</p>
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## J. Other matters

- Whether co. disclosed impact of pending litigation on financial position.
- Whether provision for material foreseeable loss on long-term contracts, including derivatives.
- Whether delay in transferring amount to Investor Education & Protection Fund.
- Whether dividend declared/paid as per section 123.
- Whether co. used a/cing software with feature of recording audit trail (edit log)

Operated throughout year	Not tampered	Preserved
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- (i) Whether mgt represented - no funds - A/L/I/G/S

Company → Intermediary → Ultimate Beneficiary

(ii) Ultimate Beneficiary ← Company ← Funding Party

(iii) No material misstatement in (i) & (ii)

- Auditor states if excess remuneration paid to directors.

- Applicable for auditors of public companies in Audit Report section "Report on Other Legal & Regulatory Requirements".

5. **Duty to report on frauds** - Sec 143(12)

A. Individual **fraud amt. 1 crore or above** against co. by officers/employees.

Auditor → Report → CG

-Auditor → Report → Board/AC

immediately but not later than **2 Days of knowledge of fraud,**

seeking **reply within 45 Days**

**-Reply** ✓

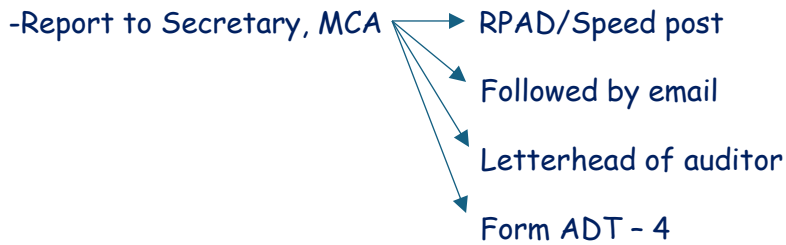
Auditor → Forward within **15 Days of receipt of reply** → CG

Report + Reply + Comments on reply → CG

**-Reply** ✗

Auditor → Forward → CG

Report + Note having report for which no reply → CG



### B. Fraud *less than 1 crore*



<i>Report</i>	<i>Board's Report</i>
Nature of fraud with description	Same
Approx. amount	Same
Parties	Parties, if remedial action not taken
	Remedial action

-No contravention if good faith.

-CA/CS (secretarial auditor) /CMA (cost auditor)

*Penalty: 5 lakh - Listed co. & 1 lakh - other co.*

-CARO 2020

6. *Duty to report on other matter specified by CG.*

7. *Branch auditor.*

8. *Duty to state reason for qualification/negative report.*

**CARO 2020****Companies (Auditor's Report) Order, 2020**

<b>Applicable</b>	<b>Non applicable</b>
<b>All companies (including foreign co.)</b>	Banking co., insurance co., Section 8 co., One Person co., Small co.  Private company, not subsidiary/holding of public co. <ul style="list-style-type: none"> <li><b>PUSC &amp; R/S upto 1 cr.</b> as on B/S Date &amp;</li> <li><b>Total borrowings upto 1 cr.</b> from bank/FI at any point of time &amp;</li> <li><b>Total Revenue</b> (including revenue from discontinuing operations) <b>upto 10 cr.</b> during FY</li> </ul>
	Audit report on conso FS

**21 Clauses -****1) Fixed Assets**

- Tangible/Intangible
- Records - DQS (Details - Quantity/Situation)
- Physical verification ☒ / ☒
- Material discrepancy - Report
- Title deeds of immovable property - name of co. (If lessee - NA)

If title deeds not on company's name -

Description	Gross carrying value	Held in the name of	Whether promoter, director or their relative or employee	Reason of not in company's name	Holding period
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- Revaluation of PPE/intangible assets ☒ / ☒  
Revaluation by registered valuer ☒ / ☒
- If revaluation - **specify change amount, if change is 10% or more** in aggregate of **net carrying value** of **each class of PPE**/intangible assets.
- Proceedings initiated/pending - Benami Transactions (Prohibition) Act 1988  
If yes - whether disclosed in FS

**2) Inventories**

- Physical verification ☒ / ☒
- Discrepancy 10% or more aggregate - each class of inventory.** If yes - dealt in BoA.
- At any point of year - company has been sanctioned **working capital limit > 5 crore** from banks/FI in aggregate on security of current assets.
- Quarterly returns - Co. files with bank/FI are in agreement of BoA. If not - details.

**3) Company - Investment/Guarantee/Security/Loans & Advances - Company**  
**Firm/LLP**  
**Others**



- Not Applicable - Company principal business - Give loan.
- Total amount } Subsidiaries, Associates, JV
- Balance outstanding on B/S Date } Other Parties
- Investment/guarantee/security/loans & advances - not prejudicial to interests of company.
- Repayment of principal and interest component - regular.
- If overdue, state amount **overdue > 90 days**.

Whether reasonable steps taken for recovery of principal and interest.

- Loans and advances - renewed/extended/fresh loan granted to settle overdue of existing loan of same party.  
If so - specify amount and % to total L&A granted.
- Company granted L&A → Loan repayable on demand  
→ without terms/period of repayment

If so - specify amount, % to total L&A granted & aggregate amount of loan to Promoters/related parties.

#### 4) **Investment/guarantee/security/loans and advances - Section 185 & 186 of COA.**

If not - details.

#### 5) **Deposits accepted by company/deemed deposits - Check DPO**

- RBI ke Directives
  - Companies Act ke Provisions
  - NCLT ke Orders
- } complied

#### 6) **Whether maintenance of cost records specified by CG under COA**

& whether accounts & records made & maintained

(General review ☒ , Detailed examination ☒)

#### 7) **Co. - regular in depositing** undisputed statutory dues (Eg, tax)

If no - **outstanding > 6 months** (Last day of FY) - Report

Disputed statutory dues - Amount & forum where dispute pending

(Mere representation to Department is not dispute)

#### 8) **Transaction not recorded in BoA** - disclosed as income during the year in tax assessment under Income Tax Act, 1961

If yes - previously unrecorded income - properly record in BoA.

#### 9) **Co. - default in repayment of loans/interest**

If yes - period & amount

(ICAI Question - Report in case of reschedulement also)

Nature of borrowing	Name of lender	Amt. unpaid on due date	Principal/interest	Delay period	Remarks
	<ul style="list-style-type: none"> <li>Banks</li> <li>FI</li> <li>Govt</li> </ul> Lenderwise details				

- Company - wilful defaulter
- Term loan applied for authorised purpose.  
If not - amount diverted and purpose
- Funds raised on short term basis utilised for long-term. If yes - nature and amount.
- Company - taken funds to meet obligation of subsidiaries, associates, joint ventures.
- Company raise loans on pledge of securities of subsidiaries, associates, joint ventures.

10) **Money raised by IPO/FPO applied for authorised purpose.**

If no → Details

→ Default and subsequent rectification

- Company → Preferential allotment
- Private placement of shares/convertible debentures

If yes - funds used for authorised purpose

11) **Fraud** \_\_\_\_\_ by/on \_\_\_\_\_ company

If yes - Nature & amount

- Report section 143 (12) - Filed by auditor to CG in Form ADT - 4
- Auditor considered whistle-blower complaints.

12) **Nidhi Company**

- Net owned funds : Deposits  
1 : 20 to meet out liability
- Maintain **10% unencumbered term deposits** to meet out liability.
- Default in payment of interest on deposit/repayment.

13) **Related Party Transactions** - Section 177/188 of COA

AS ke hisaab se details in FS.

14) **Company - internal audit system - size and nature of business**

Internal audit report - considered by statutory auditor.

15) **Non-cash transactions with directors/persons connected with him** - Section 192 of COA.

16) **Whether company is required to be registered under section 45-IA of RBI Act, 1934**

& if yes - whether registration obtained.

- Company - conducted - Non-banking financial activity  
Housing finance activity

without certificate of registration from RBI.

- Company - core investment company (CIC).  
If yes - criteria of CIC ☒  
If exempted/unregistered CIC - Criteria ☒
- Does group to which company belongs has > 1 CIC.  
If yes - Number of CIC in group

17) Company incurred **cash losses** - in financial year  
in immediately preceding FY

If yes - Amount

**18) Resignation of statutory auditors**

If yes - auditor consider - objections, concerns & issues of outgoing auditors.

**19) Whether auditor - opinion - that no **material uncertainty** as on date of AR that co. is capable to meet its liabilities as on B/S date as & when they fall due **within 1 year from B/S Date.****

20)

<b>Non-ongoing project</b>	<b>Ongoing project</b>
Company transfer unspent amt. to Sch VII Fund within <b>6 months of expiry of FY</b>	Unspent amount of CSR transfer to special a/c u/s 135

**21) Qualification/adverse remarks by respective auditors in CARO Report** of company in Consolidated FS.

If yes - details of company

Para Number of CARO Report - Qualification/Adverse remark

**Question - Physical Verification 30% value inventory, 70% next year**

1. Physical verification <input checked="" type="checkbox"/> / <input checked="" type="checkbox"/>
2. Coverage and procedure of physical verification - appropriate or not.
3. Periodicity of physical verification depends on nature/location.
4. Management decides periodicity.
5. Normally, if practicable - all items - once/year.
6. Auditor examine - evidence/records of physical verification.
7. Here, 30 % due to lack of time and resources.
8. CARO requirement not fulfilled.
9. Auditor point out - areas where procedures are inadequate & unreasonable.
10. Auditor consider impact on FS and report accordingly.

## SA 800 - Special Considerations - Audits of Financial Statements prepared in accordance with Special Purpose Frameworks

**Q1) What is special purpose framework?**

FRF to meet	<b>Specific FIN</b> (Financial information needs) of <b>Specific users</b>
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FRF	Fair presentation framework
	Compliance framework

Examples	Cash basis of accounting & cash flow info for creditors
	FR provisions by regulator
	FR provisions of contract (eg, bond indenture, loan agreement, project grant)

General purpose framework	Special purpose framework
Common FIN of wide users	Specific FIN of specific users

FS	Complete set of SPFS with significant a/cing policies & other explanatory info
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**Q2) Considerations when accepting such engagement.**

- **Specific FIN of specific users** - Key factor to determine acceptability of FRF.
- FRF encompass **FR std.** established by

<b>Authorised org</b> following established process	<b>L&amp;R</b> /Regulator	<b>Contract</b>
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- If c - consider whether framework exhibits **attributes exhibited by FRF** as per **SA 210**. It is a matter of professional judgement.
- **SA 210** requires auditor to determine

whether <b>conflicts</b> b/w FR std & L/R reqt	If yes - actions
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**Q3) MCQ**

<ul style="list-style-type: none"> <li>• To compute net assets, very prudent estimates of allowances for uncollectible debtors are taken.</li> </ul>
<ul style="list-style-type: none"> <li>• It is not neutral when compared to general purpose framework.</li> </ul>

**Q4) Considerations when planning and performing such audit.**

- **SA 200** requires auditor to comply with

Relevant ethical reqt, including independence	All SAs relevant to audit
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- Auditor to comply with each reqt of SA, unless it is not relevant because it is conditional/ depart from reqt in SA by performing alternative audit procedures.

- **SA 320** - Materiality depends on

Common FIN of wide users (General case)	<b>Specific FIN of specific users</b> ✓
<ul style="list-style-type: none"> <li>• <b>SA 315</b> - Obtain understanding of a/cing policies. If FS as per contract, auditor obtain <b>understanding of significant interpretations of contract</b> made by mgt. Interpretation is significant when adoption of other reasonable interpretation would have produced material difference in info presented in FS.</li> <li>• <b>SA 450</b> - Mgt &amp; specific users determine <b>THRESHOLD below which MST not corrected</b>. Also, apply SA 320 (Auditor not relieved).</li> <li>• <b>SA 260</b> - Auditor to communicate with TCWG. When both GPFS + SPFS - <b>Person responsible</b> for oversight of preparation of <b>SPFS may not be same as TCWG</b> Responsible for oversight of preparation of GPFS.</li> </ul>	

#### Q5) Forming an opinion and reporting

- Consider **SA 700**
- Description of AFRF

SA 700 - Auditor to consider whether FS describe AFRF. If FS is as per contract, whether FS describe significant interpretations of contract.	SA 700 deals with form & content of audit report
<ul style="list-style-type: none"> <li>• In case of AR on SPFS,</li> </ul>	
Audit report describe ➤ <b>Purpose</b> of SPFS & <b>users</b> OR ➤ Refer to <b>note</b> that contains purpose & users	If mgt - <b>choice of FRF</b> - Mgt responsibility- makes reference - <b>AFRF is acceptable</b>
<ul style="list-style-type: none"> <li>• <b>KAM</b> in AR on SPFS - SA 701 applies.</li> <li>• <b>Report with SPFS</b> to provide owners (or similar stakeholders) with <b>info on matters presented in SPFS</b> - considered <b>annual report</b> for SA 720. "Similar stakeholders" = specific users whose FIN met by SPFW. SA 720 applies.</li> <li>• Refer in <b>OM para in AR on SPFS, to AR on GPFS</b>/to matter reported as per SA 706. Eg, refer in AR on SPFS to MURG section in AR on GPFS.</li> </ul>	

#### Q6) Alerting readers and restricting distribution.

Auditor <b>alerts</b> users of AR by <b>EOM Para (SA 706)</b> <ul style="list-style-type: none"> <li>• FS as per SP F/w</li> <li>• Not for other purpose (eg, if regulator to place SPFS on public record)</li> </ul>	Auditor indicates that <b>AR is for specific users</b> <ul style="list-style-type: none"> <li>• By restricting distribution or use of AR</li> <li>• Para alerting readers is expanded and heading modified</li> </ul>
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## SA 805 - Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of financial statement

### Q1) Basics

- GP F/w - SA 805
- SP F/w - SA 800 + SA 805
- Doesn't apply to report of component auditor, who works at request of principal auditor for audit of conso FS.

### Q2) Meaning

- Single FS - Cash flow statement
- Element, account, item - Trade receivable, cash and bank balance
- Includes notes + summary of significant accounting policies (SAP)

### Q3) Considerations when accepting engagement

#### Ans. (I) APPLICATION OF SAs

1. **SA 200** requires auditor to comply with

Relevant ethical reqt, including independence	All SAs relevant to audit
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2. Auditor to comply with each reqt of SA, unless it is not relevant because it is conditional/ depart from reqt in SA by performing alternative audit procedures.
3. **Compliance with SAs** for audit of single FS/specific element - **Not practicable** when auditor **not auditing complete FS**
4. **No same understanding** of

Entity	Environment	Internal control
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5. **No audit evidence** of quality of a/cing records. So further Audit evidence needed.
6. Some SAs require **audit work, disproportionate** to element being audited (SA 570)
7. If auditing as per SAs is **impractical**



#### (II) ACCEPTABILITY OF AFRF

Auditor determines

Acceptability of FRF as per SA 210	Whether adequate disclosures are there for users to understand information
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### Q4) Considerations when planning and performing audit.

1. Auditor shall **adapt all SAs**. Specific element-SA 240, SA 550, SA 570 are relevant as element could be misstated.



2. <b>SA 260</b> - Auditor to communicate with TCWG. When both complete FS + Single FS/element - <b>Person responsible</b> for oversight of preparation of <b>single FS/element may not be same as TCWG</b> Responsible for oversight of complete FS.	
3. Audit of single FS/specific element + complete FS, auditor while auditing single FS / specific element -	
Use <b>audit evidence of complete FS</b>	Plan and perform <b>audit as per SAs</b> to obtain SAAE
4. Auditor unable to consider FS or element in isolation - perform <b>procedures for interrelated items</b> .	
5. <b>Materiality</b> for single FS/specific element - <b>lower than materiality for complete FS</b> . This will affect NTE of audit procedures.	

**Q5) Factors affecting auditor's consideration as to whether to use "presents fairly in all material respects" OR "Gives T&F view"**

### Factors

Whether <b>AFRF restricted</b> to preparation of <b>complete FS</b>	whether <b>single FS/specific element</b> will - <ul style="list-style-type: none"> <li><b>Comply fully</b> with reqt of F/w relevant to             <ul style="list-style-type: none"> <li>single FS</li> <li>specific element</li> </ul> </li> <li>&amp; presentation includes disclosures</li> <li>If necessary to achieve fair presentation,             <ul style="list-style-type: none"> <li>Provide <b>extra disclosures</b> OR</li> <li><b>Depart</b> from reqt of <b>AFRF</b></li> </ul> </li> </ul>
Auditor's decision as to form of opinion - matter of professional judgement	

### Q6) Opinion

- Going Concern** (SA 570): Description in AR of mgt + auditor's responsibilities wrt GC to be adapted.
- Report with single FS/element** to provide owners (or similar stakeholders) **with info on matters presented in single FS/element** - considered **annual report** for SA 720. SA 720 applies.
- Sign of auditor**: By auditor in personal name & firm name. Mention membership no., registration no. of firm.
- Auditor to consider **implications of matters in AR on complete FS** for audit of single FS/element. Involves prof. judgment.

#### Factors relevant to consider implications-

• <b>Nature of matter</b> & extent to which it relates to what is included in single FS/element.
• <b>Pervasiveness</b> of matter.
• Nature and extent of <b>difference b/w AFRFs</b> .
• Extent of <b>diff. b/w period of complete FS &amp; single FS/element</b> .
• <b>Time elapsed since date of AR on complete FS</b> .

**Eg**, Qualification - Debtors in AR on complete FS & single FS/element - debtors. Implication chances - high. Qualification - long term debt in AR on complete FS & single FS/element - debtors. Implication chances - low.



If no implication, auditor refer in OM para in AR on single FS/element (SA 706) Eg, Refer in AR on single FS/element, MURG section in AR on complete FS.

5. If auditor audits **single FS/specific element + complete FS**, he will give **separate opinion**.

6.

Audited single FS/ specific element may be published with audited complete FS	<div style="text-align: center;"> </div>	Auditor will also differentiate opinion <ul style="list-style-type: none"> <li>• Single FS/ specific element</li> <li>• Complete FS</li> </ul>
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7. Auditor shall **not issue AR** containing opinion on single FS/specific element **until satisfied with differentiation**.

8. AR on Complete FS - modified opinion/EOM/OM Para/MURG section/statement describing uncorrected material MST of other info (SA 720), auditor **consider implications for audit of single FS/element**.

9. Very important for exam

<b>Complete FS</b>	<b>Single FS / specific element</b>
<b>Adverse opinion/disclaimer of opinion</b>	<b>Unmodified opinion not allowed</b>

**Exception** - Specific element but if 3 conditions are met

Auditor <b>not prohibited by L/R</b>	Opinion expressed in <b>AR not published together with AR having adverse/DOO</b>	Element <b>doesn't constitute major portion</b> of complete FS
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Not allowed for single FS as it is major portion.

10. Complete FS

<b>Disclaimer on operations &amp; cash flows</b>	<b>Unmodified opinion - state of affairs</b>
<b>Permitted</b>	

**Generally** - Opinion on FS as a whole.

**SA 810 - Engagements to Report on Summary FS****Q1) Basics**

Less detailed. Ordinarily, auditor should be auditor of FS.

**Q2) Before accepting engagement to report on summary FS, auditor shall,**

Determine whether <b>applied criteria - acceptable</b>	Obtain agreement of <b>mgt</b> that it acknowledges & <b>understand its responsibility</b>	Agree with mgt on <b>form of opinion</b> on summary FS
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**(A) Determine whether applied criteria - acceptable**

1. Applied criteria - applied by mgt in preparation of SFS.
2. **Factors affecting auditor's determination of acceptability of applied criteria-**

<b>Nature of entity</b>	<b>Purpose of SFS</b>	<b>Info needs of intended users of SFS</b>	<b>Whether applied criteria result in SFS - not misleading</b>
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## 3. Criteria established by-

Authorised organisation	L/R	If no criteria, developed by mgt
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## 4. Auditor concludes applied criteria

Unacceptable	No agreement of mgt
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- Auditor not accept engagement to report on SFS unless required by L/R.
- If reqd by L/R -
  - SA 810 not complied
  - AR on SFS not indicate eng. as per SA 810 + Reference in terms of eng. + Effect on audit of FS

**(B) Obtain agreement of mgt that it acknowledge and understand its responsibility**

For <b>preparation of SFS as per applied criteria</b>	To make <b>audited FS available to users of SFS without undue difficulty</b>  (If L/R-Audited FS need not be made available + Establishes criteria for SFS to describe L/R in SFS )
To <b>include AR on SFS in document that contains SFS</b> & that indicates auditor has reported on them.	

**Factors affecting auditor's evaluation of whether audited FS are available to users of SFS without difficulty-**

SFS describe clearly <b>from whom/where audited FS available</b>	<b>Audited FS on public record</b>	<b>Mgt established process</b> by which users of SFS can get <b>ready access</b> to audited FS
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**(C) Agree with mgt on form of opinion on SFS****Q3) Nature of procedures by auditor.**

1. Evaluate SFS - <i>as per AC</i> (applied criteria).	
2. Evaluate SFS - <i>adequately disclose AC</i> .	
3. Evaluate SFS - adequately disclose summarised nature & <i>identify audited FS</i> .	
4. Evaluate <i>audited FS - available to users of SFS w/o difficulty</i> , unless L/R.	
5. Evaluate whether SFS	
a. Has <i>necessary info</i>	so as <i>not to be misleading</i>
b. Appropriate aggregation	
6. Compare SFS with audited FS to determine SFS	
a. <i>agree</i>	<i>from audited FS</i>
b. recalculated	
7. If SFS not accompanied by audited FS, evaluate whether they describe clearly-	
a. From <i>whom/where audited FS available</i> .	
b. L/R - Audited FS need not be made available + establish criteria for SFS.	

**Q4) Restriction on distribution / use / alerting readers.**

- Distribution / use of AR on audited FS-restricted
- AR on audited FS alert readers about SP F/w

*similar restriction/alert  
in AR on SFS*

**Q5) Comparatives**

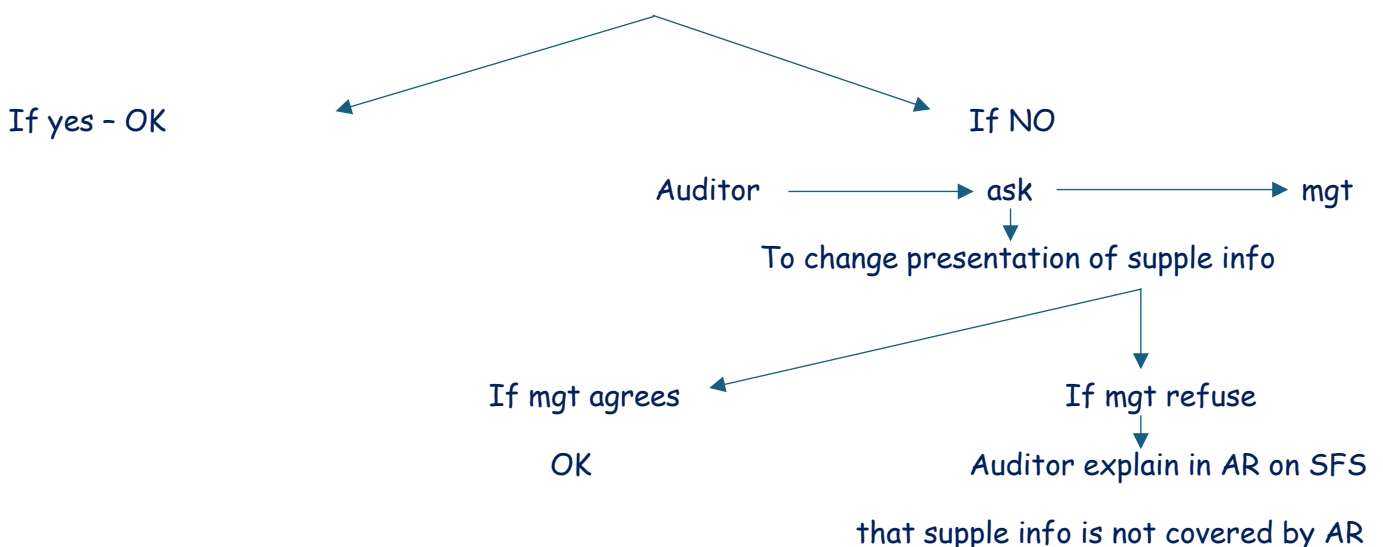
Audited FS has comparatives but SFS do not. Auditor determine-

Is omission reasonable	Effect of unreasonable omission on AR on SFS
------------------------	--

If SFS contain comparatives reported on by other auditor, AR on SFS contain matters that SA 710 requires auditor to include in AR on audited FS.

**Q6) Unaudited supplementary info with SFS.**

*Auditor evaluate whether unaudited supplementary info presented with SFS - clearly differentiated?*

**Q7) Other info in documents containing SFS.**

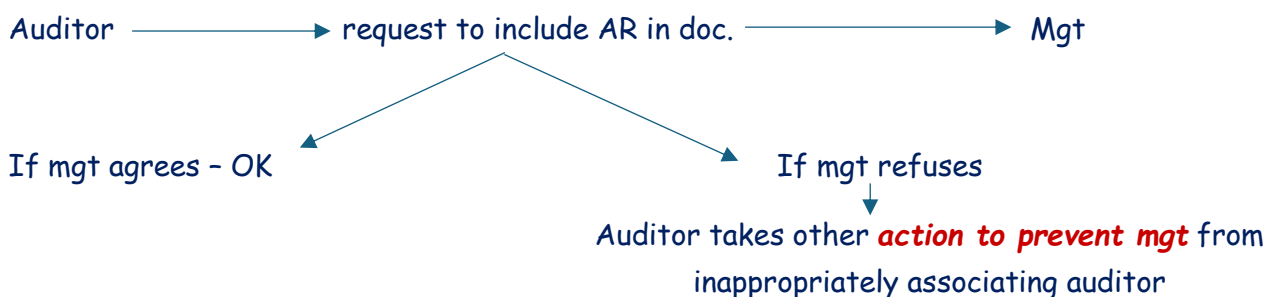
1. Auditor read info in doc. having
  - SFS
  - AR on SFS
 to check material inconsistency b/w
  - info
  - SFS
2. If material inconsistency - Auditor discuss with mgt & determine whether
  - SFS or info needs to be revised.
  - If info needs to be revised & mgt refuses to revise info- Take action including implications on AR on SFS.

**Q8) Timing of work and events subsequent to AR on audited FS.**

1. AR on SFS state that SFS & audited FS **don't reflect events subsequent to AR on audited FS.**
2. Auditor - aware of facts existed at date of AR on audited FS but was previously unaware. Not issue AR on SFS until consideration of facts wrt audited FS as per SA 560 completed.
3. Auditor reports on SFS after completion of audit of FS.
4. Since SFS derived from audited FS, auditor is **not required to-**
  - **Obtain additional audit evidence** on audited FS.
  - **Report on events subsequent** to AR on audited FS.

**Q9) Auditor association.**

1. Entity plans to state that **auditor reported on SFS** in doc. having SFS, but **doesn't plan to include AR.**



2. Auditor
  - **report on FS**
  - **not on SFS**

- Entity plans to make **statement** in doc. that **refers to auditor and fact that SFS derived from FS.**
- Auditor shall be satisfied that-

(a) **Reference** to auditor is in context of **AR on audited FS**

(b) Statement **doesn't give impression** that **auditor reported on SFS**

**3. If (a)/(b) not met**

- **Auditor request mgt to change statement** to meet them OR
- **Not to refer** to auditor in doc.

4. Alternative 2 - Entity **engage auditor** to report on SFS

5. If mgt

<b>Doesn't</b> change statement	Doesn't delete reference	Doesn't alternative 2
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Auditor → advise → Mgt  
 that **auditor disagrees** with reference & auditor - other **action to prevent mgt** from inappropriately referring to auditor

## Q10) AR on SFS

• Title
• Addressee
• Identification of SFS, including title of statement- If SFS in doc containing other info, auditor identifies page no. on which SFS presented
• Identification of audited FS
• Clear expression of opinion
• Statement-SFS don't contain all disclosures as per AFRF + reading SFS & its AR is not substitute of reading audited FS & its AR.
• Statement - SFS and audited FS don't reflect events subsequent to AR on audited FS.
• Reference to AR on audited FS + date of that report + fact of unmodified opinion in that report
• Description of management responsibility for SFS
• Statement - auditor responsible for opinion on SFS
• Auditor's signature
• Date of AR (No earlier than SAAE date & AR on audited FS)
• Place of signature

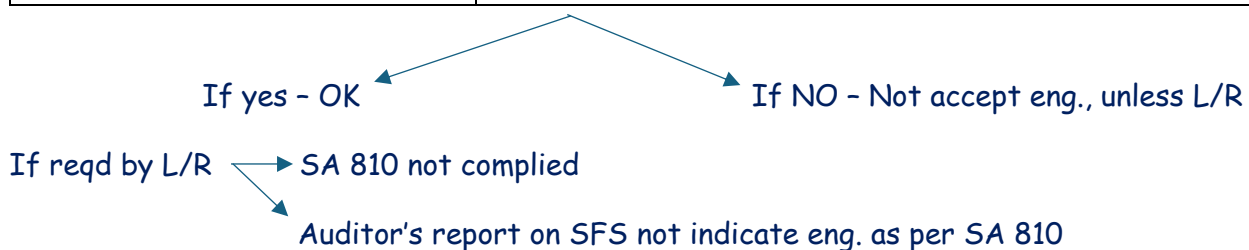
## Q11) Form of opinion.

1. If **unmodified opinion** on SFS, 1 of 2 phrases-

SFS <b>consistent, in all material respects</b> , with audited FS as per AC	SFS - <b>fair summary</b> of audited FS as per AC
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2. If **L/R** prescribe **different wording**, auditor shall-

Apply <b>procedures</b> to enable auditor to express prescribed opinion	Evaluate whether <b>users of SFS - misunderstand auditor's opinion on SFS</b>  If yes -whether additional <b>explanation can mitigate</b> misunderstanding
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## Q12) Modification/EOM &amp; OM Para

i.

<p style="text-align: center;"><b>AR on audited FS</b></p> <p><b>Qualified</b> opinion, <b>EOM/OM Para/MURG section, KAM</b> (SA 701), Statement describing <b>uncorrected material MST</b> of other info (SA 720)</p>	<p>SFS - <b>consistent</b>, in all material respects, with audited FS, as per AC</p> <p>OR</p> <p>SFS - <b>fair summary</b> of audited FS as per AC</p> <p>AR on SFS -</p> <p>a. State that AR on audited FS includes.....</p> <p>b. Describe :</p> <ul style="list-style-type: none"> <li>• <b>Basis</b> of qualified opinion on audited FS &amp; effect on SFS</li> <li>• <b>Matter in EOM/OM para/MURG section</b> in AR on audited FS &amp; effect on SFS</li> <li>• <b>Uncorrected material MST</b> of other info &amp; effect on info included in doc. containing SFS &amp; AR on SFS</li> </ul>
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ii. **AR on audited FS - Adverse opinion/disclaimer of opinion**

Then, AR on SFS

State that <b>AR on audited FS - adverse/DOO</b>	Describe <b>basis</b> of adverse/ DOO	<p>Since adverse/DOO on audited FS</p> <p>It is <b>inappropriate to express opinion on SFS</b></p>
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iii. **SFS**

<b>Not consistent</b> , in all material respects, with audited FS, as per AC	<b>Not fair summary</b> of audited FS as per AC
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&amp; mgt not agrees to make changes - Auditor - Adverse opinion on SFS

**SRS 4400 - Engagements to perform Agreed upon Procedures regarding Financial Information****Q1) Basics**

• Individual items of financial data - accounts payable
• Related services - auditor - <input checked="" type="checkbox"/> / <input checked="" type="checkbox"/>
• Objective-
○ Auditor-procedures of audit nature + auditor & entity & 3 <sup>rd</sup> parties - agree + Auditor - <b>report of FF</b>
○ <b>Non assurance engagement.</b> Users assess themselves factual findings of auditor and draw own conclusions.
○ <b>Restricted report</b>
• Eg-accounts payable
○ Compare names & amount - TB
○ SA 505
○ Variations-report of Factual findings

**Q2) General principles of AUP engagement.**

- Code of Ethics (ICAI) - integrity, objectivity, professional competence & due care, confidentiality, professional conduct & technical standards
- **No Independence**
  - Terms/objective of engagement
  - Statement in report of FF

**Q3) Matters to be agreed**

1. <b>Nature of engagement + fact - procedures -</b> <b>Audit, review, assurance- <input checked="" type="checkbox"/></b>
2. <b>Stated purpose of engagement</b>
3. <b>Identification of financial information</b>
4. <b>NTE of specific procedures</b>
5. <b>Limitation on distribution of report of FF. Limitation - conflict - legal reqt - auditor won't accept.</b>

**Q4) Matters included in engagement letter**

• Listing of <b>procedures</b> to be performed as agreed upon b/w parties.
• Statement that distribution of <b>report</b> of FF would be <b>restricted</b> to specified parties who have agreed to procedures to be performed.

**Q5) Procedures**

• <b>Inquiry &amp; analysis</b>
• <b>Recomputation, comparison &amp; clerical accuracy checks</b>
• <b>Observation</b>
• <b>Inspection</b>
• <b>Obtaining confirmations</b>



**Q6) Reporting (Report of FF)**

1. Title
2. Addressee (appointing Authority)
3. Identification - FI/NFI to which AUP applied.
4. Statement-procedures performed-AU with recipient.
5. Statement-engagement as per SRS.
6. Identification of purpose.
7. Listing of specific procedures.
8. Factual findings + details of Errors & exceptions
9. Statement - Audit, review, assurance- <b>X</b>
10. Statement-had auditor performed additional procedures/audit/review-other matters-light-reported.
11. Statement - report restricted.
12. Statement _ only to elements/accounts/items/FI/NFI specified FS as a whole <b>X</b>
13. Date of report
14. Place of signature
15. Auditor's signature

**Q7) Documentation**

Imp. matters, evidence-engagement as per SRS, terms of engagement.

**Q8) Audit vs AUP**

<b>Audit</b>	<b>AUP</b>
Opinion & assurance	No assurance.Report of FF-Users draw own conclusions

**SRS 4410 - Compilation Engagements****Q1) Basics**

- Applies to compilation engagement for historical financial information (HFI)
- FI other than HFI/NFI - after adaptation.

**MEANING-**

- Practitioner applies a/cing & FR expertise to **assist mgt in PPFS as per AFRF** & report.
- Assist in PPFS - professional accountant in public practice.
- **Non-assurance engagement.**
- Practitioner **not reqd. to verify accuracy/completeness of FI**/gather evidence to express audit opinion or review.
- FI - subject of compilation eng - **Purposes -**

Comply with mandatory periodic **FR requirement**  
(law)

**Other**

- For **mgt/TCWG** (particular purposes)
- For **external parties** (contract)
- **Transactional purpose** (change to ownership)

- Responsibility of management for PPFS.
- Practitioner - ethical requirement - Code of ethics (ICAI)
- No independence - But L/R may specify independence reqt.

**Q2) Engagement acceptance & continuance**

Agreeing terms of engagement between practitioner and management.

- Intended use & distribution of FI & restriction on use or distribution.
- Identification of AFRF.
- Objective and scope of compilation engagement.
- Responsibilities of practitioner, including ethical requirements-comply
- Responsibilities of management
  - PPFS as per AFRF.
  - DIM of IC - Preparation of FS - Free of MM - Fraud/error.
  - Accuracy & completeness of docs, other info provided by mgt.
  - Judgements in PPFS, incl. those practitioner-provide assistance.
- Expected form & content of practitioner's report.

**Q3) MCQ**

Ans. Practitioner \_\_\_\_\_ → mgt/TCWG

communicate all matters (prac. judgment)

↓  
sufficient importance

**Q4) Engagement level quality control.**

EP's responsibility-

- Overall quality of CE to which he is assigned.
- Engagement-performed-firm's QCPP.

**Q5) Documentation.**

Practitioner include in engagement documentation-

• <b>Significant matters</b> and how addressed by practitioner.
• Record - How compiled FI <b>reconciles with records</b> , docs, other info provided by mgt.
• Copy of <b>final version</b> of compiled FI for which mgt/TCWG - acknowledged responsibility & prac. report.
-May - copy of trial balance, summary of significant a/cing records/other info

**Q6) Performing engagement.**

1. Prac. obtain understanding-

Entity's <b>business &amp; operations</b> , a/cing system, a/cing records	<b>AFRF</b> , including application in entity's industry
---	--

- Prac. compile FI using records, docs, OI provided by mgt.
- Prac. discuss with mgt/TCWG significant judgements (SJ) - prac. provided assistance.
- Prac. read CFI in light of understanding of (1).
- Prac. - aware - records, docs, OI, SJ provided by mgt - incomplete/inaccurate/unsatisfactory - Prac. - attention of mgt & request additional/corrected info.
- Prac. - unable to complete engagement - mgt failed to provide records, docs, OI, SJ

Practitioner

Withdraw from eng.	Inform mgt & TCWG reasons of withdrawing
--------------------	--

7. Prac. - aware -

<b>CFI - AFRF</b> ✕	<b>Amendments to CFI required for financial information, not to be materially misstated</b>	<b>CFI- misleading</b>
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Prac. - propose - amendments to management

8. Mgt
- Declines
  - Doesn't permit practitioner

Amendments to CFI

Practitioner

Withdraw from eng.	Inform mgt & TCWG reasons of withdrawing
--------------------	--

- Withdrawal not possible. Prac. - Professional and legal responsibilities.
- Prac. obtain acknowledgement from mgt/TCWG-Responsibility for final version of CFI.

**Q7) Practitioner's report.**

1. Report title
2. Addressee
3. Statement - prac. compiled FI based on info provided by mgt.
4. Responsibility of mgt/TCWG.
5. Identification of AFRF (If SPFRF - description)
6. Identification of FI-
a. Title of each element

b. Date of FI or period
7. Prac. responsibility in compiling FI - comply SRS & ethical reqt.
8. Description of what CE entails - SRS.
9. Explanation-
a. Non-assurance engagement. Prac. - not reqd to verify accuracy/completeness.
b. Opinion, review - <b>X</b> - AFRF
10. SPFRF, Explanatory para-
a. Purpose Intended users Refer to note that discloses both
b. <u>Draw attention of readers of report-</u> SPFRF Other purpose - not suitable
11. Date of practitioner's report
12. Practitioner's signature
13. Place of signature

**SRE 2400 - Engagements to Review Historical FS****Q1) Basics**

Practitioner is not auditor of entity's FS.

**Q2) Factors affecting acceptance & continuance of client relations & review eng.**

Practitioner - not accept RE if -

a) Practitioner <b>not satisfied</b> :		
i. That there is <b>rational purpose</b> for eng.		
<b>No rational purpose if</b>		
Significant <b>limitation on scope</b>	Association of <b>practitioner's name with FS inappropriately</b>	<b>L/R</b> requires FS to be audited
ii. <b>Review</b> eng. would be <b>appropriate</b> in circumstances. If not, he may recommend another type of eng.		
b) Practitioner - RTB - <b>ethical reqt</b> , including independence will <b>not satisfy</b> .		
c) Prac's preliminary understanding indicates that <b>info</b> to perform RE likely to be <b>unavailable</b> /unreliable.		
d) Prac has cause to <b>doubt mgt's integrity</b> .		
e) Mgt/TCWG - <b>limitation on scope</b> such that prac believes - result in <b>disclaiming</b> conclusion.		

**Q3) Preconditions for accepting RE.**

Practitioner -

(a) Determine whether FRF - prep. of FS - acceptable.
(b) Obtain agreement of mgt that it acknowledges & understand its responsibility
i. For prep. of FS - AFRF
ii. For IC - FS free of MM - Fraud/error
iii. To provide prac -
• Access to all info
• Additional info
• Unrestricted access to persons within entity

**Q4) Performing RE****1. Materiality in review of FS**

• Determine materiality for FS as a whole.
• Prac - revise materiality, if needed.

**2. Obtain understanding of entity and AFRF**

• To identify areas of possible material MST.
---

**3. Design & perform "Inquiry" and "Analytical Procedures"**

• Inquiry - seeking info from mgt & other persons within entity
• Analytical procedures
• <u>Why inquiry &amp; AP are important in review?/Benefits/importance/need</u>

a) Evidence through inquiry is <b>principal source of evidence</b> of mgt intent. <b>BUT</b> info to support mgt's intent is limited. So, understanding -		
Mgt's <b>history</b> of carrying out intentions	Mgt's <b>reasons for choosing particular action</b>	Mgt's <b>ability to pursue specific action</b>
provide relevant info to corroborate inquiry		
b) Benefits of inquiry-understanding entity & envt to identify areas of possible MM.		
c) Benefits of AP -		
Understanding entity & envt to identify areas of <b>possible MM</b>	Providing <b>corroborative evidence</b>	
<b>Identifying inconsistencies</b> from expected trends in FS	Serving as <b>additional procedures</b> when prac becomes aware that FS - MM	

#### 4. Perform procedures to address specific circumstances

- **Related Parties** - Prac remains alert for info indicating RP relations/trans. mgt hasn't previously disclosed to practitioner.
- **Fraud and non-compliance with L/R** - Indication - Fraud/NC or suspected fraud/NC - Prac communicate to senior mgt/TCWG & request mgt's assessment of effects on FS.
- **Going concern** - Review includes GC assessment of entity. Prac - event - significant doubt - GC, prac shall,
  - **Inquire**
    - ➔ Mgt plans for **future actions**
    - ➔ Whether above - improve situation
  - Evaluate **results of inquiries** of mgt.
  - Consider **mgt responses** in light of all relevant info of which prac aware.
- **Use of work performed by others** - It may be necessary to use work of other Prac/expert - check adequacy of work.

#### 5. Perform additional procedures on becoming aware that FS may be MM

- Perform additional procedures to enable prac. to-

Conclude that matter is <b>not likely to cause FS as a whole to be materially MM</b>	Determine that matter causes <b>FS as a whole to be MM</b>
--	--

- Procedures may be -

<b>Additional inquiry/AP</b> (eg, greater detail/focused on affected items)	<b>Other</b> types of procedures (eg, substantive TOD/external conf.)
---	---

#### Q5) Subsequent events.

Ans. If prac - aware - events b/w FS date & report that require adj/disclosure in FS,

Prac. ————— ➔ Request to adjust/disclose ————— ➔ mgt

#### Q6) Written representation.

1. Prac request mgt to provide WR that-

Mgt has fulfilled responsibility for - <ul style="list-style-type: none"> <li>• PPFS-AFRF</li> <li>• provided all info &amp; access</li> </ul>	All transactions recorded in FS
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2. Prac also request WR that mgt disclosed to prac-

• Identity of <b>RP &amp; RP relations</b> & trans. of which mgt aware.
• Significant facts - <b>fraud</b> /suspected frauds known to management.
• Known actual/possible <b>non-compliance with L/R</b> .
• All info wrt use of <b>GC assumption</b> in FS.
• <b>Events subsequent</b> to FS date requiring adj/disclosure have been adjusted/disclosed.

3. If no WR from mgt, Prac shall,

Discuss matter with mgt/TCWG	Re-evaluate integrity of mgt & evaluate effect on reliability of representation.	Take appropriate action, including effect on conclusion in report
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4. Prac - **disclaim** conclusion on FS/withdraw from eng, if-

Prac. has sufficient <b>doubt about integrity of mgt</b> , such that WR aren't reliable	Mgt <b>doesn't provide WR</b> wrt responsibilities - PPFS & recording all transactions
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**Q7) Types of conclusion.**

**Unmodified Conclusion** - If limited assurance to conclude that nothing came to attention that causes to believe that FS not prepared as per AFRF.

**Modified Conclusion** -

	Qualified conc.		Adverse conc.	Disclaimer of conc.
SAAE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Material	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Pervasive	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**Q8) Description of review of FS and limitations.**

Limitations para-

• <b>Limited assurance engagement.</b>
• <b>Procedures</b> -inquiry and analytical procedures.
• Procedures substantially <b>less than audit</b> . No opinion.

**Q9) Report.**

1. Title
2. Addressee
3. Introductory para-
• Identifies - FS, title of each statement, date and period.
• Refers to summary of SAP.
• States FS reviewed.
4. Description of mgt responsibility for PPFS-AFRF & IC.
5. Description of prac. Responsibility-reference to SRE & L/R.
6. Date of report (Not earlier than SAE)



7. Practitioner's signature

8. Place of signature

- Prac's report can include EOM/OM para.

**Q10) Documentation.**(A) Practitioner shall **document**-

<b>NTE of procedures</b> to comply with SRE & L/R	<b>Results</b> obtained from procedures + conclusion	<b>Significant matters</b> arising during eng, prac's conclusions & significant judgments made in reaching conclusions
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(B) While documenting **NTE of procedures**, prac shall record -

<b>Who performed work</b> and date when work completed	<b>Who reviewed work</b> and period and extent of review
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**Q11) Difference b/w Audit & Review.**

	<b>AUDIT</b>	<b>REVIEW</b>
1.	Reasonable assurance eng- Provides RA.	Limited assurance eng- Provides lower level of assurance than audit.
2.	Elaborate/extensive procedures - TOC & substantive procedures.	Fewer procedures - Inquiry & analytical procedures.
3.	Reasonable conclusion	Limited conclusion
4.	Assurance opinion. Language of assurance opinion is positively worded.	Assurance conclusion. Language of assurance conclusion is negatively worded.

## SRE 2410 - Review of Interim Financial Information Performed by Independent Auditor of Entity

### Q1) Basics.

- Interim FI - FI for period shorter than FY eg, quarter.
- Audit and review by same person.

### Q2) Procedures by auditor to update understanding of entity & envt including internal control.

1. **Reading** recent annual **prior period Interim FI**.
2. **Inquiring mgt** of effect of changes in business **activities**.
3. Considering results of **audit procedures** wrt **current year's FS**.
4. Considering results of **internal audit** & subsequent actions by mgt.
5. Considering **significant risks**, including risk of mgt override of controls identified in audit of prior year's FS.

### Q3) Inquiries, analytical & other review procedures.

Procedures performed by auditor-

1. **Reading minutes of meetings** of shareholders, TCWG to identify matters affecting interim FI & inquiring about matters for which minutes not available.
2. **Communicating with other auditors** performing review of interim FI of entity's significant components.
3. **Inquiring of mgt** responsible for financial and a/cing matters about following-
  - a. Compliance with **debt covenants**.
  - b. Significant **changes in commitments** & contractual obligations.
  - c. Significant **changes in contingent liabilities**, incl. litigation/claims.
  - d. Whether interim FI contains **uncorrected MST**.
  - e. Whether new trans. necessitated application of **new accounting principle**.
4. Applying **analytical procedures** to interim FI to identify unusual relations.
5. **Reading interim FI** & considering whether anything came to auditor's attention that causes him to believe that it is not as per AFRF.

### Q4) Management representations

Auditor obtains WR from mgt that-

1. It acknowledges responsibility for design/implementation of **IC**.
2. Interim FI - **prepared** and presented as per **AFRF**.
3. It disclosed to auditor significant facts - **fraud/suspected fraud**.
4. It disclosed to auditor actual/possible **non-compliance with L/R**.
5. It disclosed to auditor significant **events subsequent** to B/S date till date of review report requiring adjustment in interim FI.

### Q5) Communication.

- 1) When auditor believes it is **necessary to make material adjustment** to interim FI for it to be prepared as per AFRF.

Auditor → communicate → mgt.

If mgt doesn't respond within time, then to TCWG.

2) If TCWG doesn't respond within time, auditor consider-

- Whether to **modify** report or
- Whether to **withdraw** from engagement and
- Whether to **resign from** appointment to audit of **annual FS**.

#### Q6) Reporting.

1. Title
2. Addressee (Board of Directors)
3. Identification-
• Interim FI reviewed
• Title of each statement
• Date & period
4. Statement - mgt responsible for preparation & presentation of interim FI as per AFRF.
5. Statement auditor responsible - conclusion.
6. Date of report
7. Place of signature
8. Auditor's signature

(UDIN - SRE 2400/2410)

#### Q7) Departure from AFRF.

1) Material adjustment needed in interim FI for it to be prepared as per AFRF- **Qualified/Adverse**

2) If no adequate disclosure in interim FI-

<b>Qualified</b> (Explanatory para to review report)	<b>Adverse</b> Material <input checked="" type="checkbox"/> , Pervasive <input checked="" type="checkbox"/>
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#### Q8) Limitation on scope.

Limitation imposed by management - Auditor doesn't accept eng.

- If after accepting eng.- limitation - auditor requests removal of limitation.

<b>If mgt accepts</b> NO PROBLEM	<b>If mgt refuses</b> Review <b>X</b> , Conclusion <b>X</b> Auditor → written communication → mgt/TCWG Reason why review can't complete
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- L/R reqt to issue report

<b>If reqt</b> Disclaimer of conclusion with reason	<b>If no reqt</b> NO PROBLEM
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#### Q9) Going concern and significant uncertainties.

- **MU** - event - Significant doubt - Going concern + **disclosure** in interim FI = **EOM Para**.
- If auditor added EOM para in prior audit/review report &  
If MU still exist + disclosure in interim FI  
Adding para to highlight continued MU (modification)
- **MU** ✓ + **No disclosure** in interim FI = **Qualified/adverse conclusion**.

**SAE 3400 - The Examination of Prospective Financial Information****Q1) Basics**

- Examination of PFI - not necessarily by statutory auditor.

**Q2) What is PFI?**

1. PFI is financial info based on-

- Assumptions about future events.
- Entity's possible actions.

2. PFI can be in form of forecast, projection, combo.

**3. Forecast-**

- Assumptions as to future events
  - Actions
- } mgt expects to take place
- These are **best estimate assumptions** i.e. no provision for risk of adverse deviation.

**4. Projection-**

- Assumptions as to future events
  - Actions
- } not expected to take place
- Hypothetical assumptions** - Entity in startup phase/major change in nature of operations.
  - Mixture of best estimate and hypothetical assumptions.

**Q3) MCQ**

1) This SAE doesn't apply to examination of PFI expressed in general/narrative terms, found in mgt's discussion & analysis in annual report.

2) **Opinion** as to whether results in PFI will be achieved **can't be expressed**.

3) Mgt is responsible for preparation & presentation of PFI, including assumptions.

**Q4) Can professional accountants be associated with PFI?****Clause 3 - Second Schedule - CA Act, 1949**

- Practicing CA-**professional misconduct** if permits his name to be used wrt estimate of earnings contingent on future transactions in manner which may lead to belief that he vouches for accuracy of forecast. But it doesn't preclude CA from associating name with PFI.
- CA can participate** in preparation of financial forecasts & can review them, provided he indicate in his report-

**Source** of info

**Basis** of forecast

**Assumptions** in arriving at forecast

& doesn't vouch for accuracy of forecast. Same applies to projections.

**Q5) Duties of member examining PFI.**

Auditor should obtain SAE as to whether-

- Mgt's **best estimate assumptions** are **not unreasonable & hypothetical assumptions are consistent** with purpose of info.

2. PFI - properly prepared on basis of **assumptions**.
3. PFI - properly **presented** & all material assumptions adequately **disclosed** (indicating best estimate & hypothetical)
4. PFI - **consistent** basis with **historical FS**.

**Q6) Precautions to be taken by auditor before accepting engagement.**

(I) **Before accepting eng.** to examine PFI, auditor considers-

Intended <b>use of info</b>	<b>Nature of assumptions</b> - Best estimate/hypothetical	<b>Period</b> covered
Whether info for <b>general/ltd distribution</b>	<b>Elements</b> in PFI	

(II) Auditor - **not accept**/withdraw from eng. when

- Assumptions - **unrealistic** OR
- PFI **inappropriate** for intended use

**Q7) When determining NTE of examination procedures, consider these matters-**

<b>Knowledge</b> of previous engagements	<b>Mgt's competence</b> as to preparation of PF	Likelihood of <b>MM</b>
Extent to which PFI affected by <b>mgt's judgment</b>	<b>Stability</b> of entity's business	<b>Eng. Team's experience</b> with industry & reporting

**Q8) Presentation and disclosure - P&D**

While assessing P&D of PFI & assumptions, it is to be considered whether-

1. Presentation of PFI	<div style="display: inline-block; vertical-align: middle;"> <div style="display: inline-block; width: 0; height: 0; border-left: 5px solid transparent; border-right: 5px solid transparent; border-bottom: 8px solid black; margin-right: 5px;"></div> <div style="display: inline-block; vertical-align: middle;"> <div style="color: red; font-weight: bold;">Informative</div>  <div>Not misleading</div> </div> </div>
2. <b>A/cing policies</b> clearly disclosed in notes to PFI.	
3. <b>Assumptions</b> adequately disclosed in notes to PFI-Best estimate & hypothetical.	
4. <b>Date</b> as of which PFI prepared is disclosed.	
5. <b>Basis of</b> establishing points in <b>range</b> - indicated & range not selected in biased manner.	
6. If <b>change in a/cing policy</b> from recent historical FS, whether-	
• Reason of change	disclosed
• Effect on PFI	

**Q9) Report on examination of PFI.**

1. Title
2. Addressee
3. Identification of PFI
4. Reference to SAs
5. Statement - mgt responsible for PFI.
6. Reference to purpose/restricted distribution of PFI.
7. Statement - examination procedures - test basis.
8. Statement of -ve assurance as to whether assumptions provide reasonable basis for PFI.

9. Opinion - whether PFI as per - assumptions & FRF.
10. Caveats as to achievability of result.
11. Date of report (date procedures have been completed)
12. Place of signature
13. Signature

**Q10) Reporting**

1) P&D - <b>Not adequate - qualified or adverse opinion</b> /withdrawal from eng Eg, when financial info doesn't disclose consequences of highly sensitive assumptions.
2) Assumptions <b>don't provide reasonable basis</b> for PFI - <b>adverse opinion</b> /withdrawal from eng.
3) Examination affected by conditions that prelude procedures ( <b>scope limitation</b> ) - <b>disclaimer of opinion</b> /withdrawal from eng.

**SAE 3402 - Assurance Reports on Controls at Service Organisation****Q1) Objectives of service auditor**

1) To obtain reasonable assurance about whether-
• Service org's description of system presents system as designed & implemented throughout specified period/as at specified date.
• Controls wrt control objectives stated in service org's description of system were suitably designed throughout specified period/as at specified date.
• Controls operated effectively to provide reasonable assurance that control objectives achieved throughout specified period.
2) To report on above matters as per service auditor's findings.

**Q2) Type 1 & 2 report**

<b>Type 1 Report</b> - Report on <b>description &amp; design</b> of controls at service organisation on specified date.
<b>Type 2 report</b> - Report on <b>description, design &amp; operating effectiveness</b> of controls at service organisation throughout specified period.

**Q3) How such engagement is proceeded with?**

1. Compliance with <b>ethical requirements</b> , including independence.
2. Determination of mgt & TCWG & communication with them.
3. Acceptance and changes in <b>terms of engagement</b> .
4. Assessing of suitability of criteria.
5. Determination of <b>materiality</b> .
6. Obtaining understanding of service organisation's system.
7. Obtaining evidence regarding <b>description</b> .
8. Obtaining evidence regarding <b>design</b> of controls.
9. Obtaining evidence regarding <b>operating effectiveness</b> of controls (if type 2 report)
10. Understanding internal audit function.
11. Asking for <b>written representation</b> .
• Service auditor requests service organisation to provide WR-
○ That reaffirm <b>assertion</b> accompanying <b>description</b> of system.
○ That it has provided service auditor with <b>all info</b> & access.
○ That it has <b>disclosed</b> to service auditor-
▪ <b>NC with L/R</b> , fraud attributable to service organisation affecting user entities.
▪ Design <b>deficiencies</b> in controls.
▪ Instances where <b>controls not operated</b> as described.
▪ <b>Subsequent events</b> .
12. Subsequent events.

**Q4) Elements of service auditor's assurance report.**

1. Title - Independent service auditor's assurance report
2. Addressee



3. Identification of service organisation's description of system.		
4. Statement - report only for user entities and their auditors.		
5. Statement - SO responsible for -		
Preparing description of system	Stating control objectives	Providing services covered by SO's description of system
Designing & implementing controls to achieve control objectives		
6. Statement - service auditor's responsibility - opinion on service org's description, design & operating effectiveness of controls (Type 2 report)		
7. Statement-engagement as per SAE 3402.		
8. Statement-No procedures on OE of controls-Type 1 report- So no opinion		
9. Statement of limitations of controls.		
10. Service auditor's opinion - positive form.		
11. Date of service auditor's assurance report (Not earlier than SAE date)		
12. Signature		
13. Place of signature		

**Q5) Modified opinion.**

If service auditor concludes that-

SO's description <b>doesn't present system as designed</b> & implemented	<b>Controls</b> wrt control objectives - <b>not suitably designed</b>	Type 2 report - controls tested <b>didn't operate effectively</b>	Service auditor <b>unable to obtain SAE</b>
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**Modify** + Description of reasons of mod. in service auditor's assurance report

**Q6) Additional reporting in case of Type 2 Report**

1. Type 2 report - service auditor's assurance report - separate **section describing TOC** & its results.
2. TOC - service auditor clearly state

<b>Which controls</b> tested	Whether items tested represent <b>all/selected items</b>	Nature of <b>test</b>
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3. **Deviations**- If deviations identified, service auditor include-

<b>Extent of testing</b> (including sample size)	<b>No. &amp; nature of deviations</b>
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4. Service auditor report deviations even if control objective achieved.

**Q7) Documentation by service auditor.**

NTE of procedures	Results of procedures	Significant matters
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**SAE 3420-Assurance Engagements to Report on Compilation of Pro Forma Financial Information Included in a Prospectus**

**Q1) Basics**

1. Reasonable assurance engagement.
2. Reporting required by securities law.
3. Pro forma FI - FI shown with <b>adjustments</b> to illustrate impact of trans., <b>on unadjusted FI as if transaction had been undertaken earlier.</b>
4. Pro forma FI doesn't show actual financial position.
5. Compilation of pro forma FI - Responsibility of responsible party (RP).
6. Report on whether pro forma FI - compiled as per applicable criteria (AC) - Responsibility of practitioner.
7. Steps in process -
a. Identifying source of unadjusted FI (UFI) & extracting it.
b. Making pro forma adjustments to UFI.
c. Presenting pro forma FI with disclosures.

**Q2) Factors to consider before accepting engagement/engagement acceptance**

1. Determine prac. has **capabilities & competence** to perform eng.
2. Determine that **applicable criteria - suitable** & unlikely that pro forma FI is misleading.
3. Evaluate **wording of opinion** prescribed by L/R to determine that prac will be able to express opinion.

4. Entity's historical FI never audited/reviewed	5. If acquisition - acquiree's historical FI never audited/reviewed
Consider whether prac can obtain sufficient <b>understanding of -</b> <ul style="list-style-type: none"> <li>• <b>Entity</b></li> <li>• <b>A/cing</b> &amp; FR practice</li> </ul>	Same

6. Obtain agreement of **RP** that it acknowledge & understand its **responsibility** for-
  - i. Adequately **disclosing AC** to intended users.
  - ii. **Compiling** pro forma FI on basis of AC.
  - iii. **Providing** practitioner with-

<b>Access to all info</b> to evaluate whether pro forma FI compiled as per AC	<b>Additional info</b>	<b>Access to those</b> within entity	<b>Access to individuals</b> within acquiree in <b>business combination</b>
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**Q3) Factors to consider in planning and performing engagement**

1. Prac assess whether applicable criteria ( <b>AC</b> ) <b>suitable</b> .
2. Consider <b>materiality</b> to evaluate whether proforma FI compiled as per AC.
3. Understanding <b>how RP compiled</b> pro forma FI.
4. Obtain evidence of <b>appropriateness of source</b> of UFI.
5. If no audit/review report on source, perform procedures to be satisfied that <b>source is appropriate</b> .
6. Determine whether <b>RP</b> appropriately <b>extracted UFI</b> from source.

7. Obtain evidence about **appropriateness of pro forma adjustments**. Pro forma adjustments include-

Adj. to UFI illustrating **impact of significant trans. as if occurred earlier**

Adj. to UFI necessary for **pro forma FI** to be **compiled as per AFRF**

8. Evaluate **presentation** of pro forma FI

9. Read **other info** in prospectus to identify material inconsistencies with pro forma FI.

#### Q4) Written representation

Practitioner request WR from RP that-

RP identified all pro forma adjustments to illustrate impact of transaction

Pro forma FI compiled as per AC

#### Q5) Opinion

1) **Unmodified opinion**: Pro forma FI compiled as per AC.

2) **Modified opinion**

**CASE "A"** - **L/R precludes publication of prospectus** containing modified opinion wrt pro forma FI & prac concludes modified opinion - appropriate.

Prac discuss with RP

If RP agrees to make changes

If RP doesn't agree to make changes

OK

Withdraw from eng. OR Legal advice

**CASE "B"** - **L/R doesn't prelude publication of prospectus** containing modified opinion wrt pro forma FI & prac concludes - modified opinion - appropriate.

3) **EOM Para** - Refers to info presented/disclosed in pro forma FI/notes. Included when as per prac, matter is of such importance that it is fundamental to users' understanding of whether pro forma FI compiled as per AC.

#### Q6) Report

1. Title - Indicates: Independent assurance report

2. Addressee

3. Introductory para-

Pro forma FI

Source from which UFI extracted

Period/date of pro forma FI

Reference to AC

4. Statement - RP is responsible for compiling pro forma FI as per AC.

5. Practitioner's responsibilities-

**Opinion** - whether pro forma FI compiled as per AC

Prac **not responsible for updating/reissuing report** or opinion on HFI + **Prac not performed audit/review** of FI used in compiling proforma FI

**Purpose**-Illustrate impact of significant trans on UFI as if occurred earlier. So no assurance that actual outcome = as presented

6. Statement - engagement as per SAE 3420.

7. Practitioner's opinion

8. Practitioner's signature

9. Date of report

10. Place of signature