



SA NOTES

*Auditing &
ethics*



-poojavishwakarma:)

Standards on Auditing. (SA)

Part I: Covering SA 200 (series)

ie. SA 200, 210, 230, 240, 260, 265,

✓ If auditor is not able to follow a SA

↓
Auditor to decide whether he is required to modify his opinion.

⇒ Reasonable assurance
High level assurance but not 100% guarantee

* SA 200 - Overall objective of audit

Scope - Overall objective + Responsibility to be fulfilled by auditor

- Nature, scope, objective of audit.

(N S O)

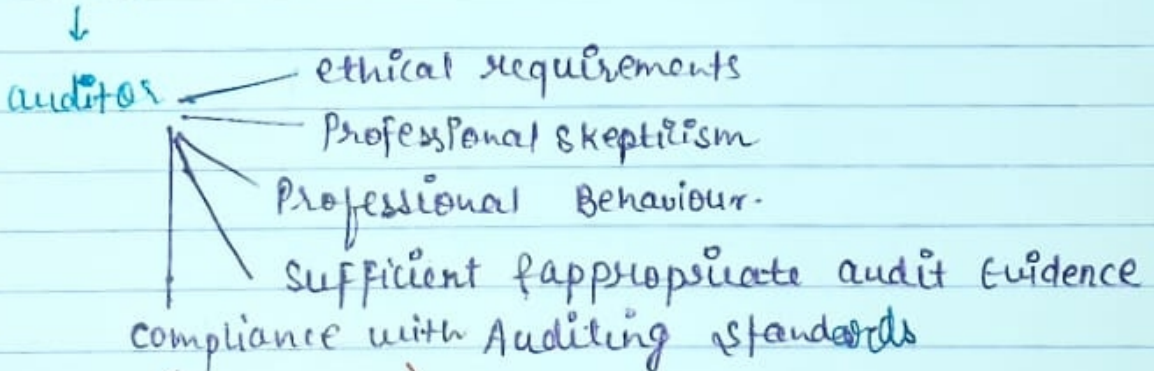
Objective → Primary - to express opinion on FS of any entity

Secondary - obtain RA

FS free from mm

↓
which is arising due to fraud and error.

Audit → course



Comply with relevant SA's

If any SA is not relevant

disclose in audit report

If auditor departs from any SA

Reasons For Departure → effect

Auditor aur client ke beech audit shuru karne se pahle, clearly likhit agreement hona chahiye - taki scope, responsibilities aur terms clear ho jayein.

* SA 210 Agreeing the Terms of Engagement

Scope of SA: It deals with resp conduct of audit being prior to engagement.

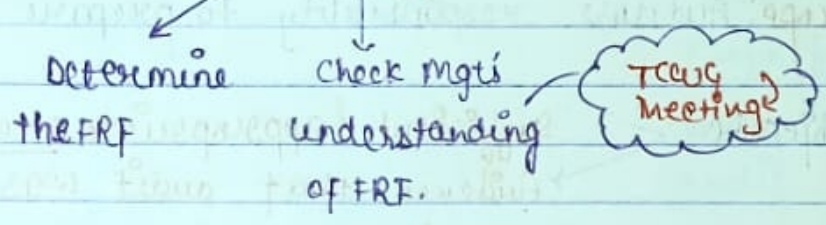
- Engagement letter
- ① Objective + scope of audit
 - ② Auditor's responsibility
 - ③ Mgt's responsibility
 - ④ FRF identified
 - ⑤ Content and form of audit report.

objectives: Mgt accepts responsibility about precondition. (inform)

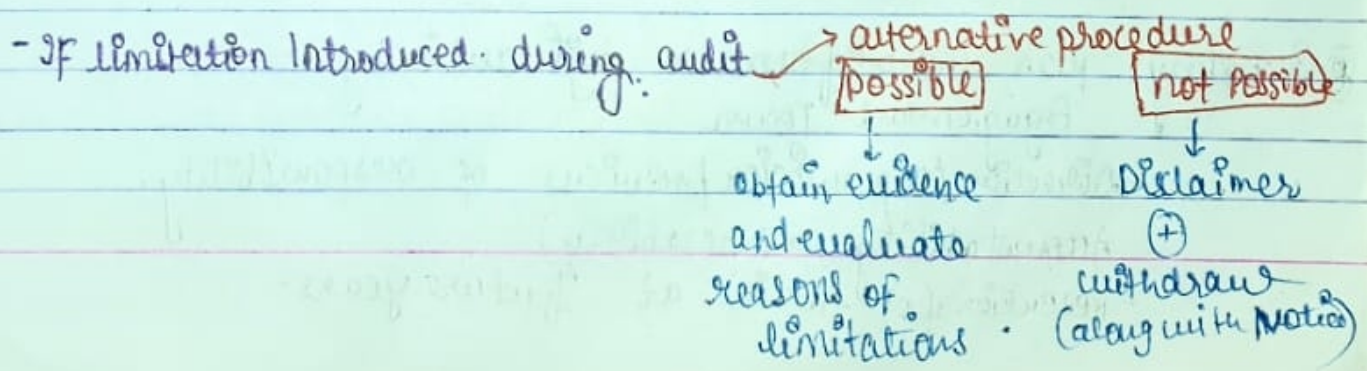
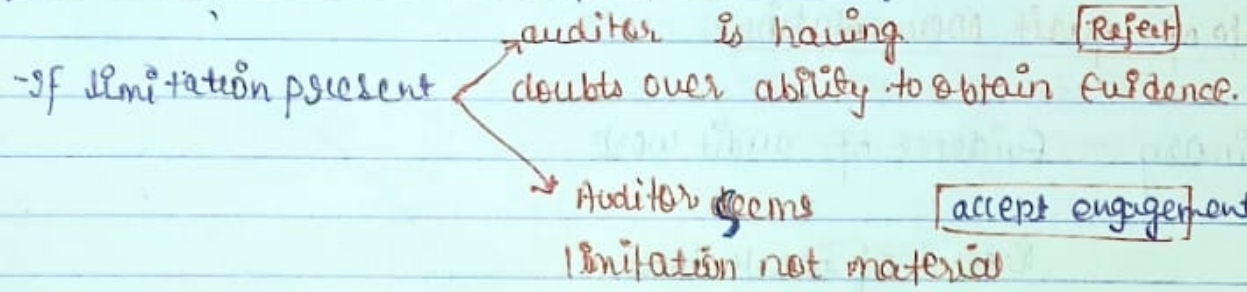
① Mgt is responsible to prepare FS as per applicable FRF.

② Access to all informations (+) unrestricted access.

(Auditor verify whether I & II exist)



If there is limitation on scope of audit?



→ Same client ka
audit jo Regular
Basis par hota hai
by same auditor

Recurring audit.

whether Engagement letter is required?

cases in which it can be required

- change in ownership / mgt
- change in scope.
- FRF change.
- Mgt might have misunderstood it earlier.
- Previous experience of auditor

SA 230.

Audit Documentation

Scope: Auditor's responsibility to prepare audit documentation

Objective → Sufficient & appropriate record of work done
→ Evidence that audit was performed as per standards.

Role of Audit Documentation

Primary - Evidence of audit work
+
Record of work done.

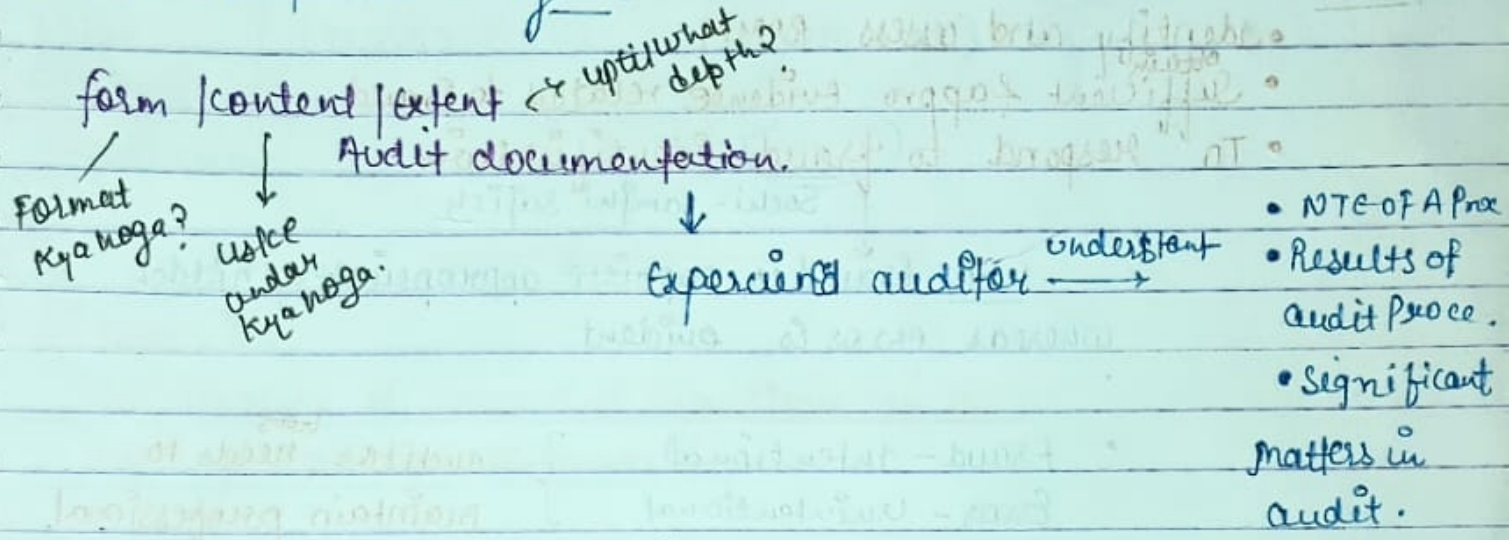
Secondary - Plan and performance of audit by Engagement Team
- Direction / supervision / review of responsibility, Accountability (answerability)
- Retention for Audit's at future years.

- Quality Control Review (SOC 1 / SA 290)
- Enable external investigation:

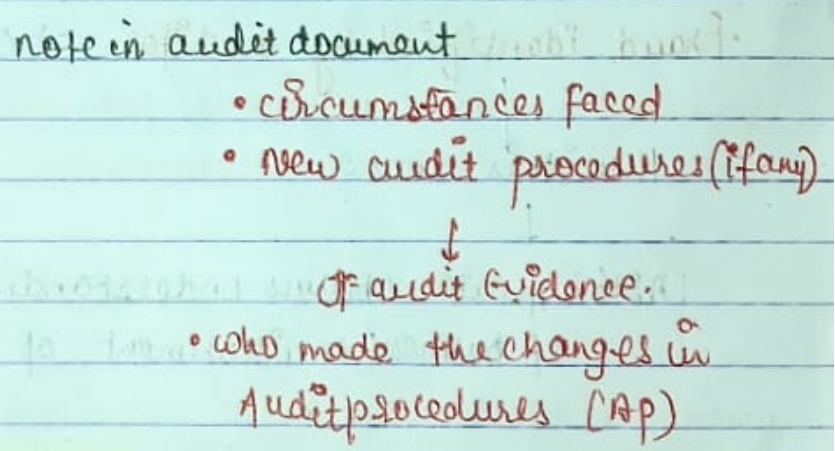
Time for Preparation & Retention:

• ^{mid*} within 60 days of audit report. - Audit documentation should be ready.

• Retention period - 7 years



After audit Report → Exceptional Event



Study SA 315, 330 before doing SA 240

SA 240

Auditor's Responsibility in case of fraud in Financial statements.

Scope:

Deals with auditor's responsibility relating to fraud in an audit of financial statements.

Objectives:

- Identify and assess ROMM
- Sufficient ^{obtain} & appro evidence related to fraud.
- To respond to fraud identification.

Sochi-samjhi sajish.

Note: fraud is sophisti- appropriately hidden whereas error is evident

- fraud - intentional
- Error - Unintentional

auditor ^{has} needs to maintain professional Skepticism.

• fraud identified by auditor → discussion with engagement team

How is this done?

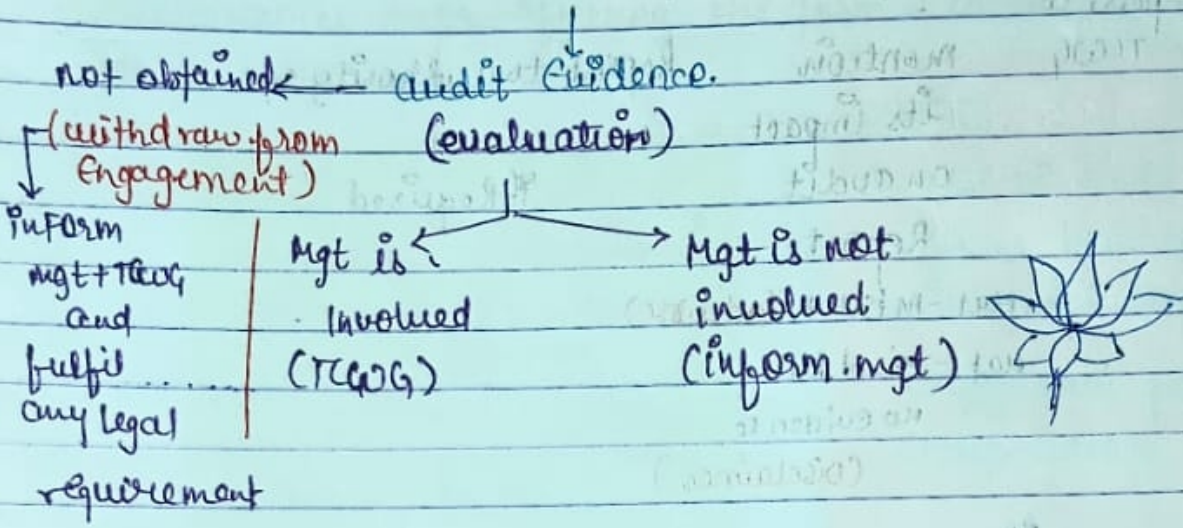
(To determine the materiality of the misst.)

SA 315: Auditor obtains understanding of business environment of client.

Identifies risk-factor.

Risk of MM.

SA 330 Auditor shall perform audit procedure whose NTE is in relation to risk identified



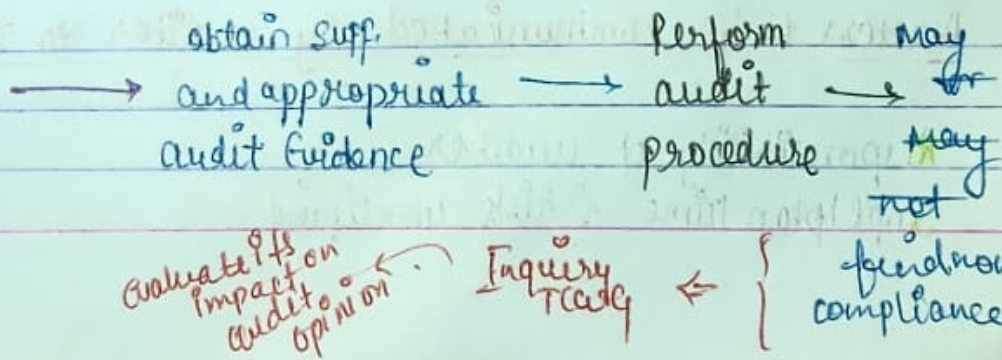
* SA 250

Consideration of Laws and Regulation in an audit of Financial Statements.

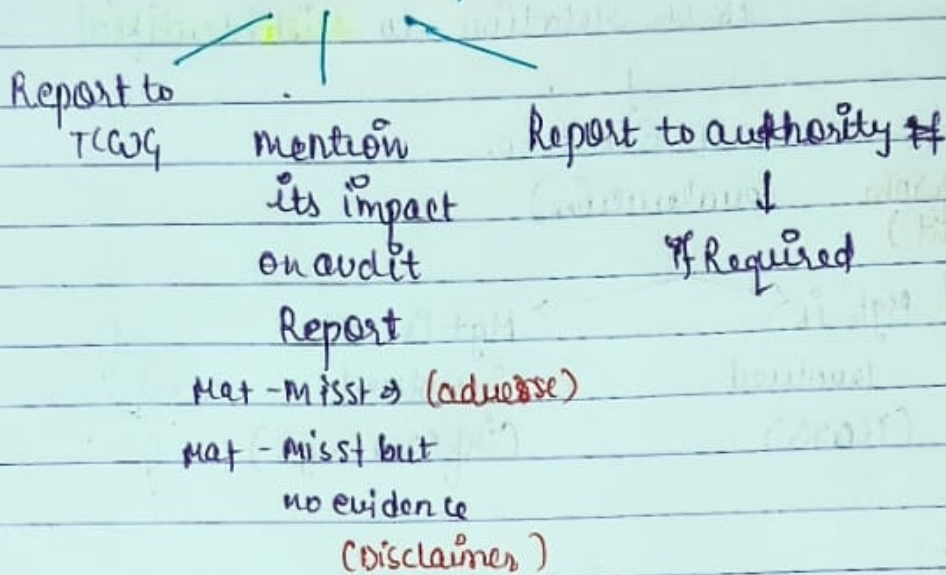
Scope - Auditor's responsibility to check for compliance of laws & regulations in an audit of financial statements.

Objective - To obtain sufficient and appropriate AE regarding compliance of laws and regulation and report on non-compliance.

Auditor to obtain understanding of laws & regulations applicable to entity



Evaluate its impact on audit report



SA260.

Communication with Those charged with governance.

Scope - It deals with auditor's responsibility with TCWG.

Objective - ① Responsibility, overall plan, timing of audit is communicated

② obtain information by inquiry of TCWG.

③ indicate any observation over financial reporting process.

④ To promote effective communication.

Matters to be communicated by auditor to TCWG.

Responsibility of auditor

Scope, plan, time & risk identified

also SAD row.

- Accounting practices
- Difficulties in audit
- Written Representation req
- Circumstances step-affecting the form & content of auditor's Report
- other matters

Note ②

- The auditor shall maintain documents of the communication with TCWG
 - also indicate in writing significant findings of audit.
 - On timely Basis
- It is a part of auditor's documentation as stated in 230.

Note ①

- In case of listed entities.
- firms have complied with ethical requirements
 - safeguards for audit independence.

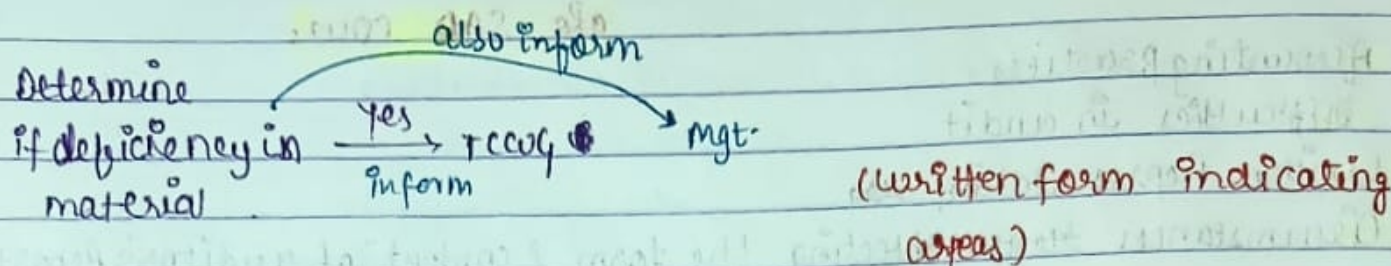
SA 265

Communicating deficiencies in Internal Control to TCWG.

Scope - Communicate deficiencies identified in the internal control operating over FS of entity.

Objective - The auditor's communication is to direct the attention of TCWG over IC operating in FS.

Significant deficiency - A single deficiency or combination of deficiencies in the company identified by auditor which are material in auditor's professional judgement.



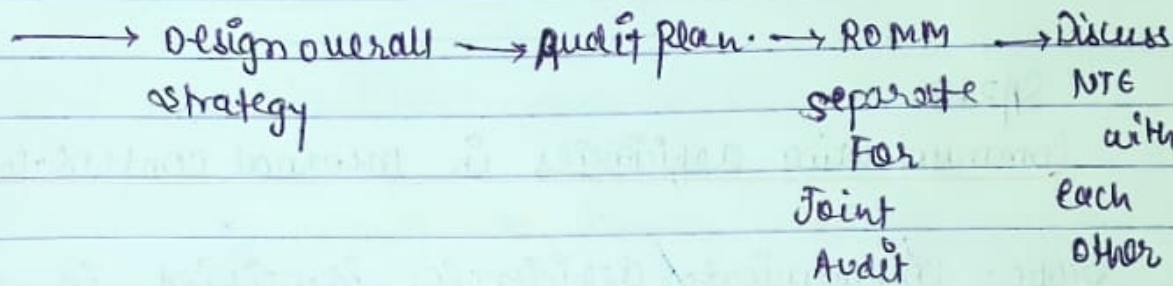
SA 299

Joint Audit of Financial statements.

Scope - working with another auditor, principles.

Objective - To lay down principles, provide a uniform approach, define areas & roles, identify roles and responsibilities.

Engagement Partners Participate in Planning



• For the work divided responsible on own basis.

Individual

Responsibility

work allocation

Engagement letter Common

Jointly and severally.

- work not divided
- common decisions
- compliance with SA's
- Presentation and disclosure as per FRF

Reporting

Note: Presumption that each of auditor exercised full caution in following SA & FRF.

- Issue common audit Report (agreement)
- Separate audit Report (disagreement)

on Reason for difference

other matter

• Before the final report => JA should discuss. (mandatory)

Prior to this on para auditors shall discuss the matter with TCWG.

{ SABOO-Series }

Part II ie.

- SA 300
- SA 315
- SA 320
- SA 330

SABOO

Planning of an Audit of FS.

Scope - Auditor's Responsibility to plan the audit of FS.

Objective - So that, audit can be carried out in efficient way.

Note:

Engagement Team members shall be included in the planning process.

I Pre-Engagement activities (before interaction)

- SA 220 procedure perform
- compliance with ethical requirements SA 220
- agreeing on engagement terms SA 210

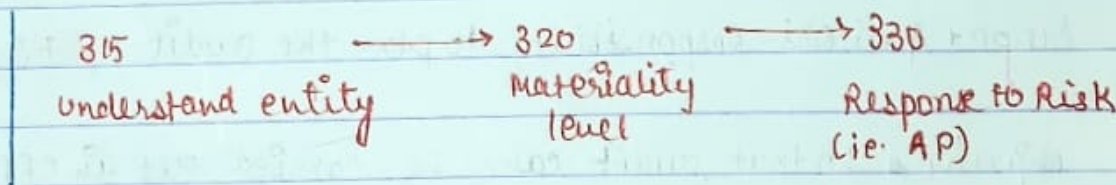
II Planning Activities

- Establish overall audit strategy.
 - identify characteristics of engagement
 - ascertain reporting objectives.
 - consider significant directing directions
 - consider results of pre-engagement activity.
- Resources needed for engagement

IACCR

SA 315

Identifying and assessing the Risks of MM through understanding the entity and its environment.



scope - SA covers auditors responsibility to identify ROMM.

objective - To identify and assess Risks of MM due to fraud or error. and understand entity's FRF →

- objectives of entity
- Relevant industry
- Nature of entity
- Accounting policies & changes of any
- Review of Fin. performance

* understand the Internal control system.

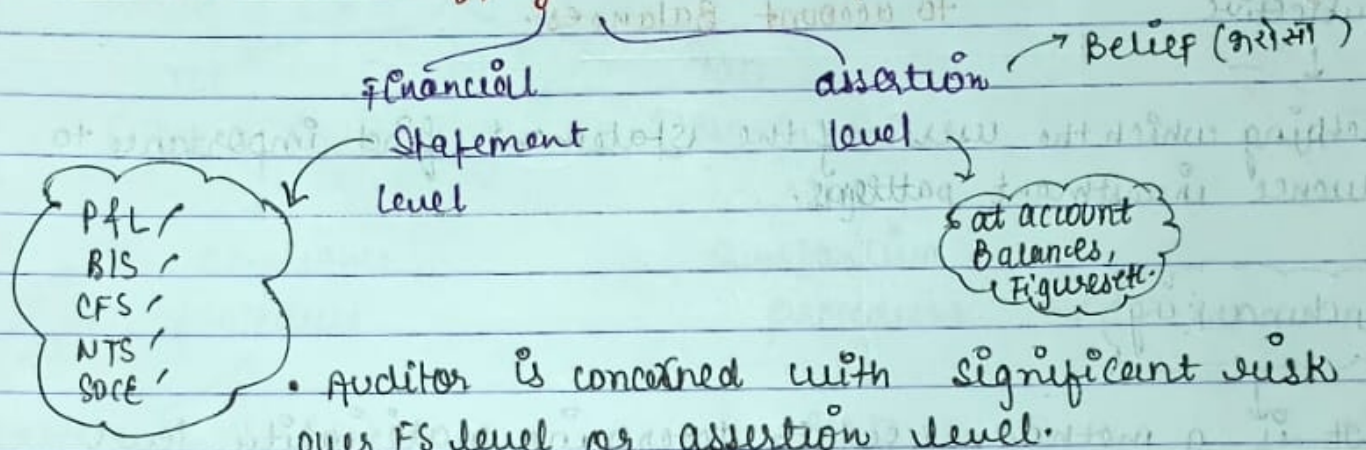
Risk assessment procedure - set of all procedures to ensure Identification of ROMM

- (A) Inquiries
- Analytical procedure
- Observation
- Inspection
- (B) Previous Experiences
- (C) Discussion with Audit Team

How prone Entity is to ROMM

- * Existence of internal control
- Operating effectiveness
- Continuity of its application

Level on which identifying and assessing of risk will be done.



On performing Substantive procedures, the auditor, due to findings encountered can be in a state of to revise the NTE of auditor's procedure.

SA 320

Materiality in planning and performing an audit.

Scope → SA deals with auditor's responsibility to apply the concept of materiality in
 ← planning
 ← performing

Objective → To apply concept of Materiality in Audit.

Materiality → Overall FS level
→ ^{Assertion.} At performance level in relation to account balances.

Subjective

↓
Something which the users of the statement find importance to influence investment patterns.

Benchmarking

- It is a method used to determine materiality level
- A percentage is applied on the variable balances to determine materiality in FS.

Note: • During course of audit

↓
Based on findings MTL may be revised which creates revision in materiality level.

- The audit documentation shall contain → the amts of Materiality
→ Revisions with reasons
→ Performance materiality
→ Account/Balance wise materiality level.

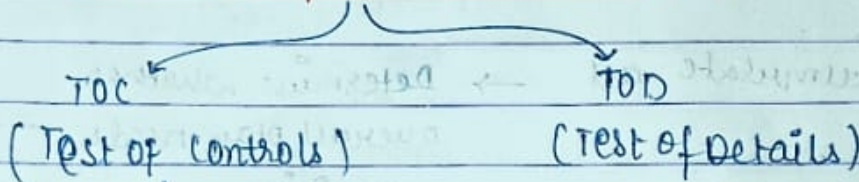
SA 330

Response to assessed risks

Scope • this SA deals with **responsibility of auditor** to design and implement **Response to risk**.

Objective • To obtain **sufficient & appropriate audit evidence** about assessed **Romm** through designing & implementing **proper responses**.

Further Audit Procedure (FAP)



TOC
(Test of Controls)
↓
Compliance Procedure
↓
Expectation (belief)
↓ effectiveness
operating efficiency

TOD
(Test of Details)
↓
Substantive procedure
↓
• Books
Balances
accounts } → verification of Books of accounts

• ICA observe external
↓
Inquiry Analytical Procedure
 Reperformance

Precondition
SA 315

- check IC over a period of time.
- Previous audit experience, if any
- Test to find significant risk.

• If **deviations** found
↓
Impact throughout FS.

Documentation

- SAAE obtained.
- Results of audit procedure
- Overall responses → NIT/e.

Part 3 : SA 900 series

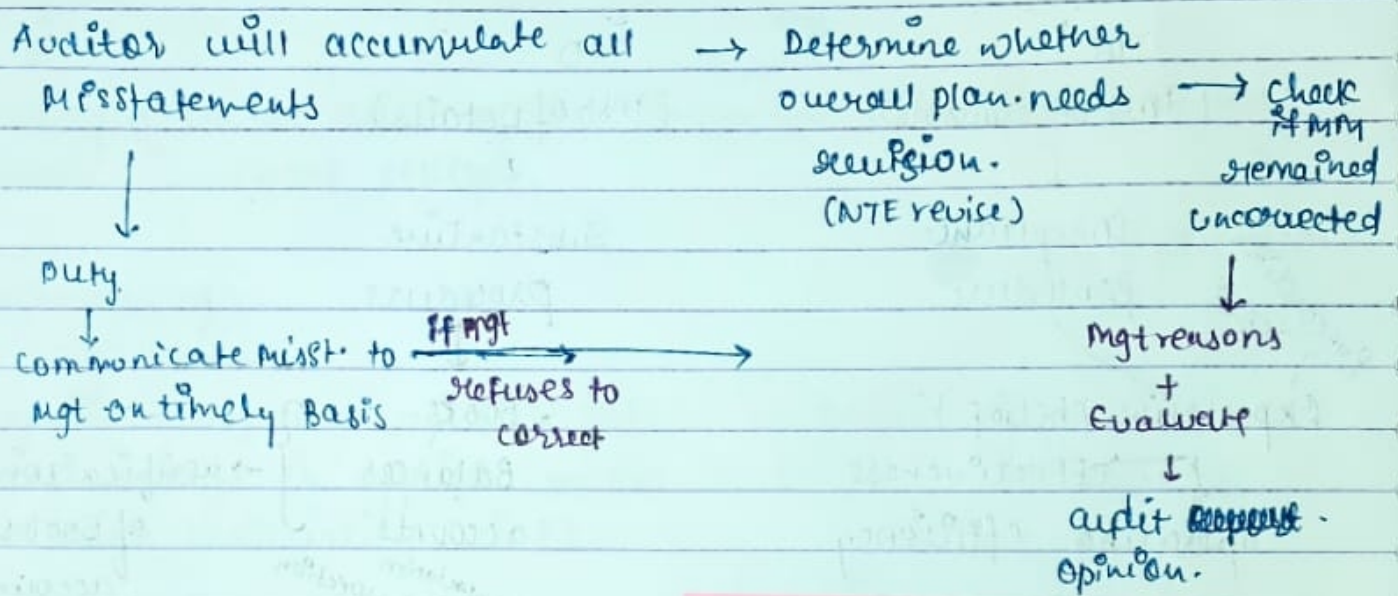
SA 450

Evaluation of Misstatements Identified during the audit.

Scope - This SA deals with auditor's responsibility to evaluate the effects of identified Misstatement.

- Objective -
- The effect of identified MM on audit and
 - The effect of uncorrected MM on FS (misstatements)

Flow:



SA 260 & SA 265 → Responsibility to inform TCWG
 ↓ Request written
 Representation SA 500

• Documentation

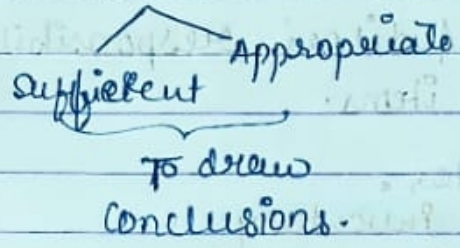
- ~ materiality level (mist. too small)
- ~ All have been correct or not
- ~ Effect of uncorrected misstatements

Part W: SA 500 series (ie. SA 500, 501, 505, 510, 520, 530, 540, 550, 560, 570, 580)

SA 500
Audit Evidence

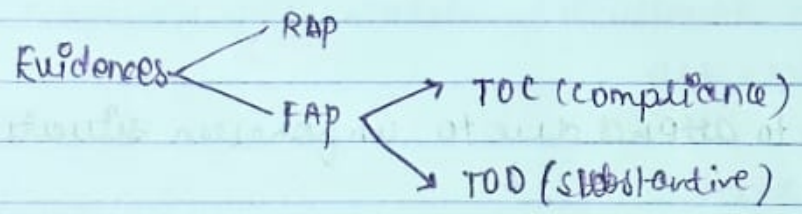
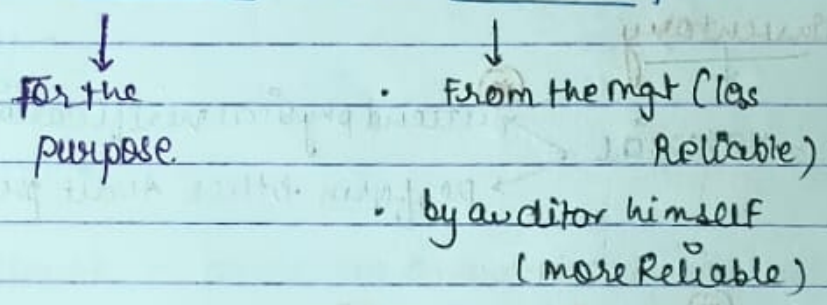
Scope: SA responsibility is to obtain ^{quantity} sufficient and ^{quality} appropriate audit evidence on which to draw conclusion about for ~~audit~~ opinion.

Objective: to design and perform Audit procedure to obtain audit evidence.



Information

The auditor shall consider the relevance and reliability of Audit Evidence.



Alternate AP

Additional Audit procedure

Inconsistency in A.K. from different sources

No inconsistency in A procedure.

if use of Same AE Mil Raha hai

Mgt Expert hire → Auditor can use the work of the Expert.

But first

Competence
Capability
Objectivity } → analyse

SA501

Audit Evidence specific consideration about selected items.

Scope - This SA deals with Auditor's responsibility to obtain suff + appro. AE. for selected items.

Objective - The SA requires the auditor to
Existence of condition of Inventory

Completeness of litigation and claims.

Presentation and disclosure of segment info as per FRF.

Inventory

↓
Material

* attend physical verification → happen on a day other than FS. date.
perform other Audit procedures on Inventory records

31/3 ← additional procedure. 30/6.

* Physical counting

Case 1: Unable to attend due to unforeseen situation

↓
other procedures

Case 2: If impracticable to attend

↓
alternate procedure

↓
possible

OK

NO (modify report)

Litigation and claims



Auditor to perform Audit procedures to identify litigation & claims

- ✓ Inquiry of mgt.
- ✓ Review the Minutes of meetings
- ✓ Review legal Expenses

If auditor is of the opinion that ROM is high → external confirmation with legal counsel of mgt.

Unable to communicate (mgt denied) ← (modify) SA 705

Obtain a written Representation of all possible litigation and claims according to company.

Segment Information

- Evidence presentation & disclosure → understand method of segment determination and assessment
- Perform ARP (Analytical review procedure)

SA 505

External confirmation
(EC)

AG HO CROSS verify karna

Koi detail hai or name uspar confirmation chahiye to use External confirmation.

Scope: This SA deals with the external auditor's confirmation procedure to obtain AE.

Objective: To obtain EC in order to establish relevancy of AE.

Procedure (4 steps)

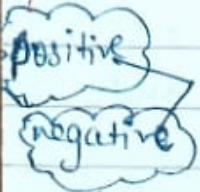
Determine information to be confirmed

Selecting the appropriate confirming party

Designing the request

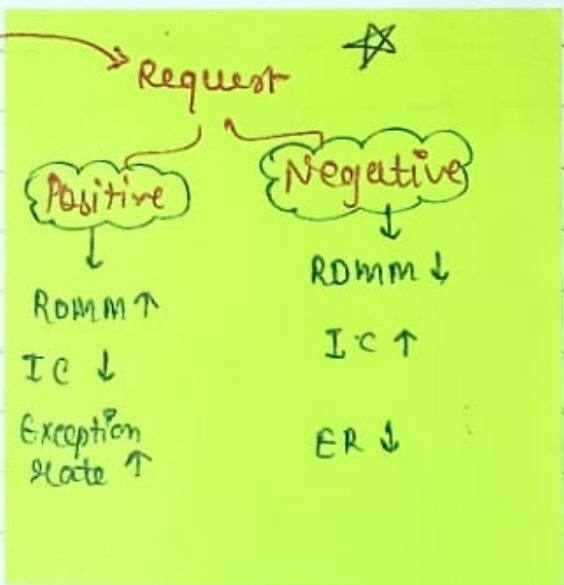
Sending the request

Reply Report



RRMMT
IC
ER

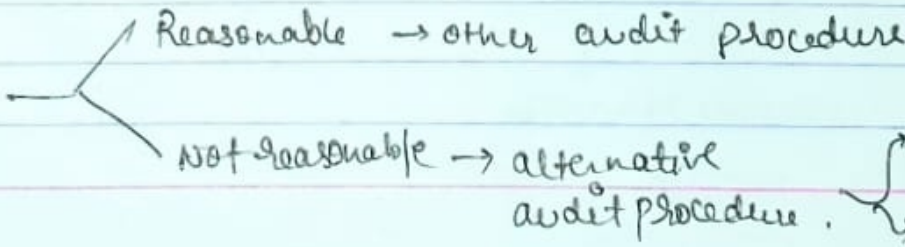
Management refused to send External confirmation



Auditor request but mgt

(Refused)

Auditor will Evaluate Reasons



evidence obtained -> ok
not obtained modify report

• Mgt Approved → Auditor's?

Evaluate responses

No exception.

Exception Received

"Alternative Audit Procedures"

SA 510

Audit of opening balances.

Scope: This SA deals with verification of opening balances in conducting → Initial Engagement
→ New External Auditor.

Objective: Auditor to assess → whether opening balances contain any misst
whether appropriate accounting policies have been consistently applied and if any change occurs it has been properly accounted and presented for.

Audit procedure

opening balances

Policies

Information in previous Auditor Report

• Refer most recent FS. (ie of previous year)

• Calculate opening Bal. determination

• whether op. Balances - p70 -

• Acc. Policies

Should be consistently applied.

• Obtain (SAAE) that the same has been done

Report

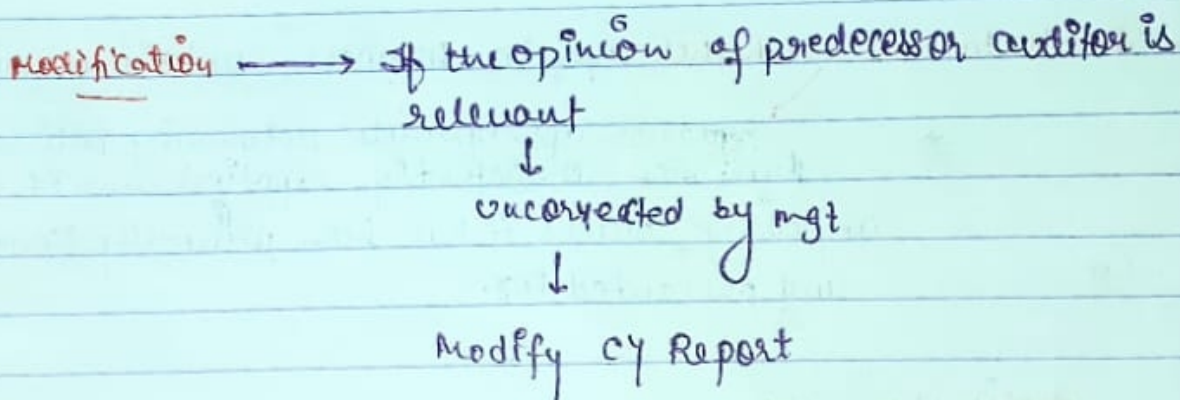
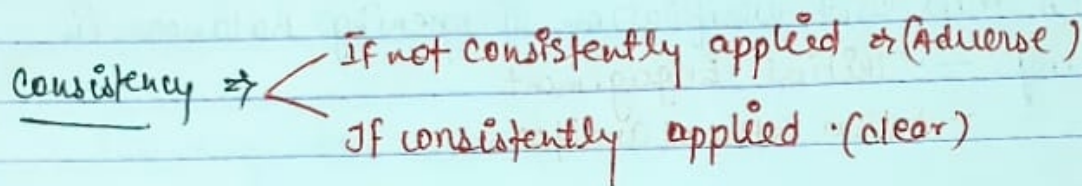
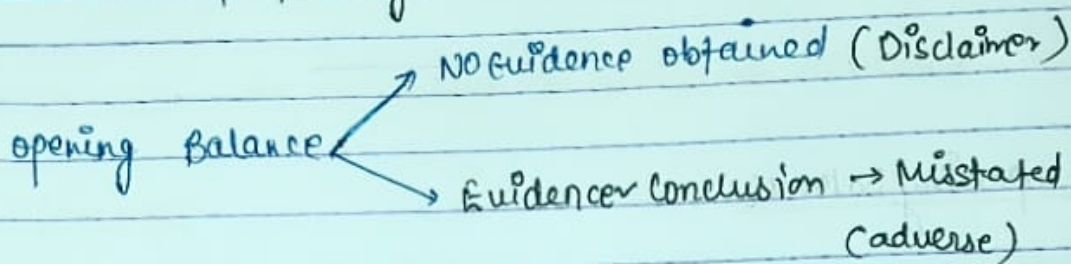
- If modification in preced

- exam auditor's Report check for modification in cy Audit

Balances have appropriate procedures

• Due to Mist in opening Balances there is Mist in current year books.

Audit Conclusion & Reporting.



SA 520

Analytical Procedures.

comparison of Ratio & Trend Analysis and (relationship b/w financial & non-financial Data)

Scope: This SA deals with auditor's use of Analytical Procedures as substantive procedures for obtaining Audit Evidence.

Objective - To obtain suff + Appxo. AE. (AP)
To design and perform analytical procedure near.
(End of audit) why?

To understand that whether the FS are consistent with the auditors understanding entity of FS.

Procedure

- Determine suitability of AP.
- Evaluate Reliability of Data
- Develop an expectation of Recorded Amounts
- Determine the Amt of acceptable difference

↓
Results

- Inquire the mgt
- Perform other A procedures

SA 530

Audit Sampling

Scope - This SA applies when Auditor has decided to use audit sampling in performing Audit procedure.

Objective - To provide reasonable basis for the Auditor to draw conclusions about the population.

Procedure

- Design the sample (depends on characteristics of population)
- Determine sample size in order to reduce sampling size (sample size ↑ Risk ↓)

(sampling ek method hai jisse ham items select karte hai aur us item par procedure lagate hai)
not AP, *

- **Select** items for the sample
- Every item has for the sample (every item has equal chance of selection)

(D-S-S)

Performing the audit procedure.

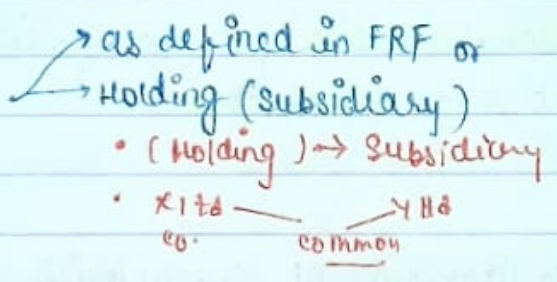
- Implement on each selected item
- If a particular Audit procedure is not suitable for sample change the ~~same~~ audit procedure (not sample)

↓
suppose if the sample selected does not apply on AP while others do
↓

- Indication of misst.
- Investigate reasons for deviation. → AIM is to identify that whether or not it is an **anomaly**

↓
(single variation which is not pervasive throughout the ft.)

SA 550 Related party

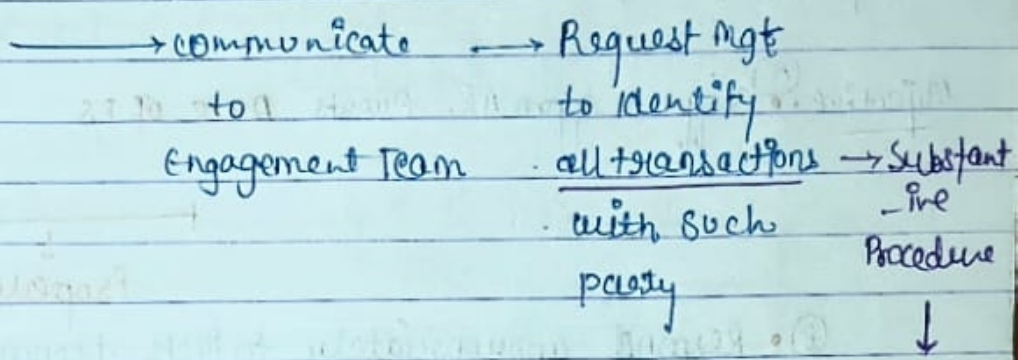


Scope - This SA deals with Auditor's Responsibilities regarding related party transactions.

- Objective** -
- To obtain an understanding of related party transaction.
 - To obtain AE that all RPT. are appropriately presented & disclosed.

Procedure

(i) Auditor identified Related party which was **not disclosed**



Effects of non disclosure audit opinion. ← of non disclosure is intentional

(ii) Auditor to obtain WRL from Mgt

- ← All Related party are disclosed
- ← all such transactions have been properly accounted for and disclosed.

Auditor to communicate significant matters to TCWG.

Documentation as

- names of all related party identified
- Effect of unidentified RP transactions.

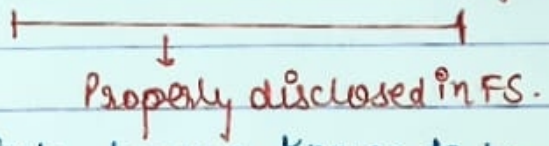
SA 560

Subsequent Events.

with practice
now

Scope: This SA deals with Auditor's Responsibility related to Subsequent events

Objective: (A) Suff. + Appro AR. Events Date of FS Date of Auditor's Report



(B) Respond appropriately to facts become known to be auditor only after submission of Audit Report.

(A) • Ap. to ensure all events are identified



• Ap → Nature | Extent will depend on Auditor.
↓ Event found

• whether such event is disclosed in FS.



• Security reasons only: obtain WRL
(all events disclosed)

(B) Discussion with TCWG



Decide whether FS need amendment



Enquire how will mgt show this in FS

Enquire how mgt show this in FS

Mgt agrees for disclosure &

Mgt does not agree for disclosure

adjustment

adjustment

• adjust & ammend the audit Report

• if audit Report not Submit

• EOM/OM introduce

(modify it)

• if submitted

→ KMG inform not to third party

→ Auditor shall take

proper steps to ensure no Reliance.

• Auditor is not responsible for proper steps of mgt

SA 570
Going concern

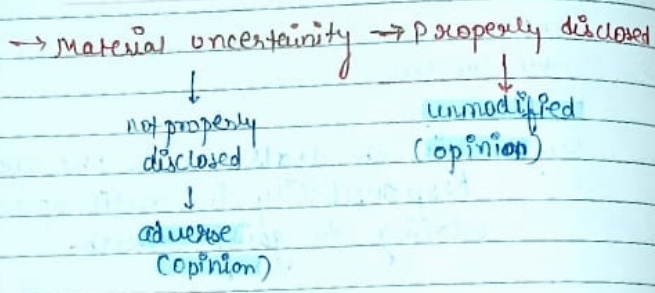
Scope - this SA deals with the auditor's Responsibility in audit of FS relating to going concern.

Objective - obtain suff + app. info. to ensure going concern basis is followed or report on material uncertainties identified.

Responsibilities → Auditor to ensure same about GC + material uncertainties if any management

- To make specific assessment of entity's ability to continue as a going concern.
- Appropriate disclosures of going concern.

* Auditor finds → going concern assumption is invalid.
 • Auditor to express adverse opinion.



SA500 AP. 2010s behavior ten ← 1900
Written Representations

Scope - This SA deals with Auditor's responsibility to obtain written representation from the mgt. and TCmg.

Objectives - To obtain written representation letter (WRL) that mgt has fulfilled its responsibility.

- To support obtaining evidence from other audit procedure.
- To respond appropriately to WRL provided by mgt.

Note: Since coming from mgt
 ① It does not provide suff. app. AG.

② WRL shall be as close as to the audit report as possible.

Doubts over reliability of WRL

Auditor to perform procedures

to assess + determine + understand

↓
To resolve the matter

WOL → not provided → modify SA 705

Part V

SA 600 Series (ie. 600, 610)

SA 600 using the work of another auditor

Scope: principal auditor (PA) + other auditor
(when principal auditor uses the work of other auditor)

Consideration by PA before accepting the engagement

- Materiality of other component audited by OA
- Knowledge of business
- ROMM of OC audited by OA
- Additional procedures in such case

KRAM

KARM

accepted → PA advises the OA regarding use of his work.

inform OA + areas of special attention + time table for completion

(8PL)

opinion - ~~'Adverse'~~
↳ (disclaimer)

SAG 10
Using the work of Internal Auditor.

Scope • This SA covers the external auditor's responsibility with respect to using work of internal auditor.

Objective ① To determine that whether use of IAF or direct assistance from

Internal Audit function - IAF can be used

② If yes; use of work or use internal audit assistance. Function for direct assistance.

Note: Ultimate responsibility of Auditor opinion lies on the external auditor's shoulders.

Request authority of IAF to TAO

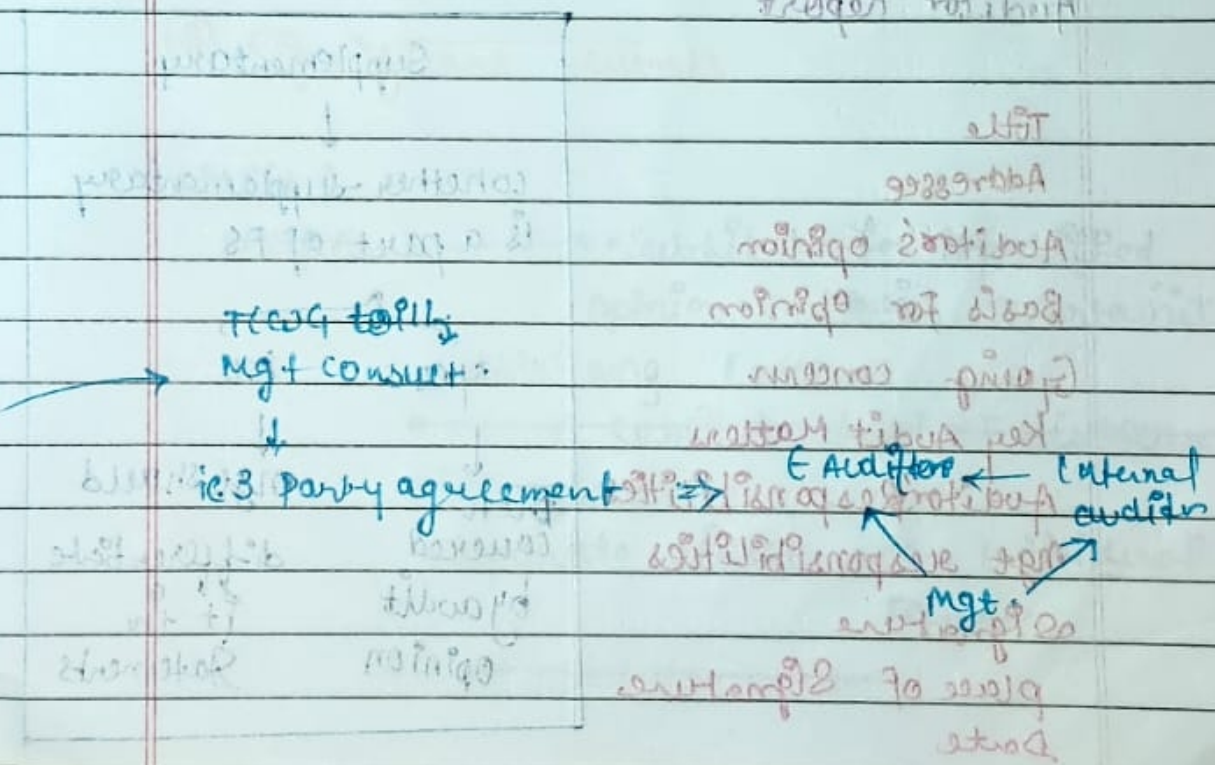
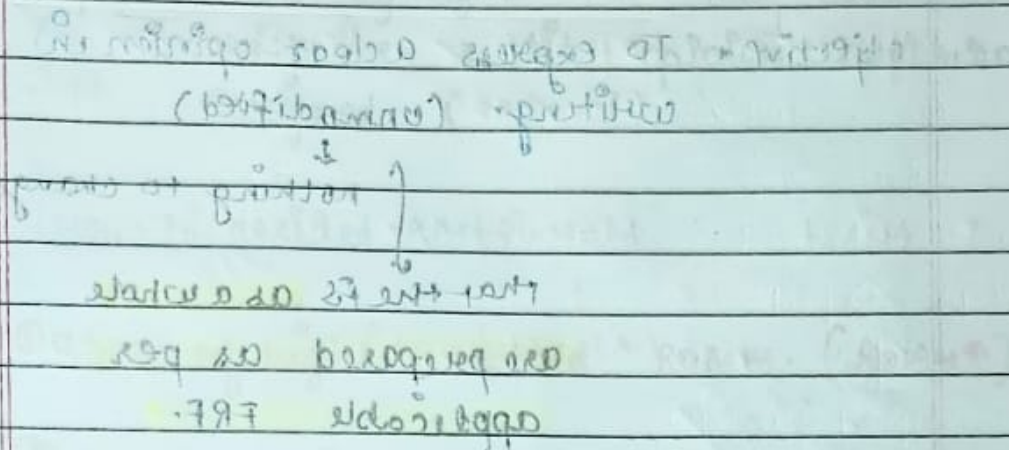
External auditor shall plan the way in which they shall use IAF.

Process to selecting IAF are use auditors to evaluate
C - competence
O - objectivity
Q - quality of work.

(+)

External auditor procedure implement
to understand the influence
of the Mgt on IAF.

(Influence ↑ independence ↓ use of work EA ↓)



Part VI: SA 700 series.

ie. 700, 701, 705

SA 700 Forming an opinion on financial statements

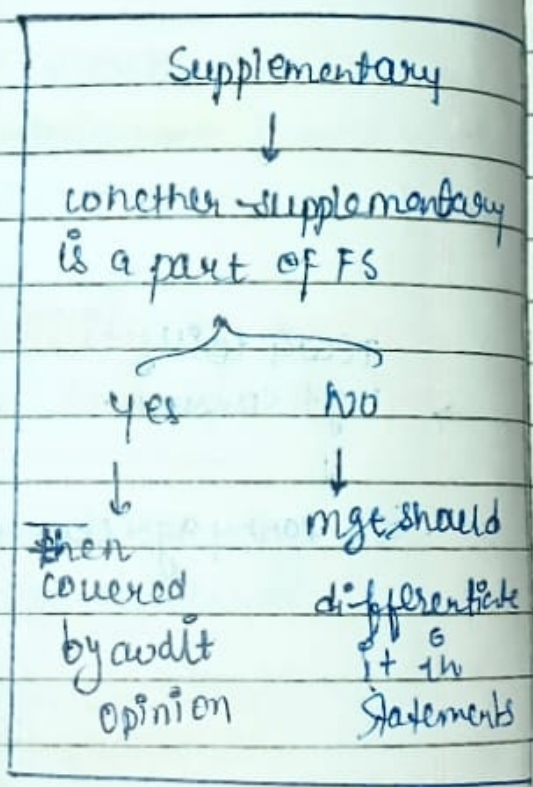
Scope: Deals with Auditor's Responsibility to form an opinion on the FS of an entity.

Objective: To express a clear opinion in writing. (unmodified)

↓
nothing to change
that the FS as a whole
are prepared as per
applicable FRF.

Auditor Report

- Title
- Addressee
- Auditor's opinion
- Basis for opinion
- Going concern
- Key Audit Matters
- Auditor's responsibilities
- Mgt responsibilities
- Signature
- place of Signature
- Date



SA 701

Key Audit Matters (KAM)

Scope - Deals with the Auditor's responsibility to communicate key audit matters in the auditor's report.

Objective - To highlight the key areas on which the audit opinion has been designed. (Found in SA 701)

How to decide KAM?

- ① Areas of higher assessed ROMM. (ROMM ↑)
- ② Matter significant in Auditor's judgement
- ③ Significant events

Note :

- Not KAM →
- Substitute for Modified opinion
 - material uncertainty as to going concern.
 - not a substitute for FRF disclosure
 - FRF disclosure
 - separate disclosure on individual factors.

PP1

PA $\xrightarrow{\text{consider}}$ other auditor findings



he shall conduct a few test on work of other auditor.

Co-ordination b/w auditors

Sufficient communication b/w PA & OA \rightarrow Advice on matters of importance in Report of PA.

PA may require the other auditor to answer a question - also on timely basis.

Reporting Considerations

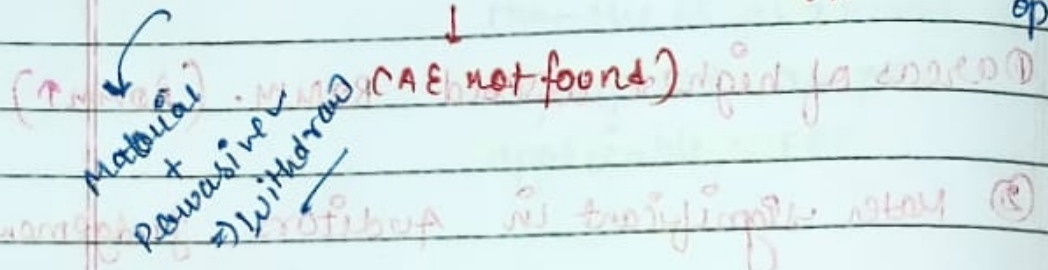
↓
PA (scope limitation to verify and check the other component which the OA is handling)

PA is of the opinion (work of OA cannot be used)

SATOS Modification in the Auditors Report

Types of Modification

- **Misstatement material** ✓ **Pervasive** ✗ **Qualified opinion**
- **Misst. material** ✓ **Pervasive** ✓ **Adverse opinion**
(Found AE)
- **Misst. material** ✓/✗ **Pervasive** ✓/✗ **Disclaimer opinion**





thankyou



-poojavishwakarma:)

