

# Chapter: 7 Completion & Review

## Topics to cover

- i). SA 260
- ii). SA 265
- iii). SA 450
- iv). SA 560
- v). SA 570
- vi). SA 580

very easy & small

Req. Conceptual clarify + lengthy

↓  
If yes → SA Becomes v. easy

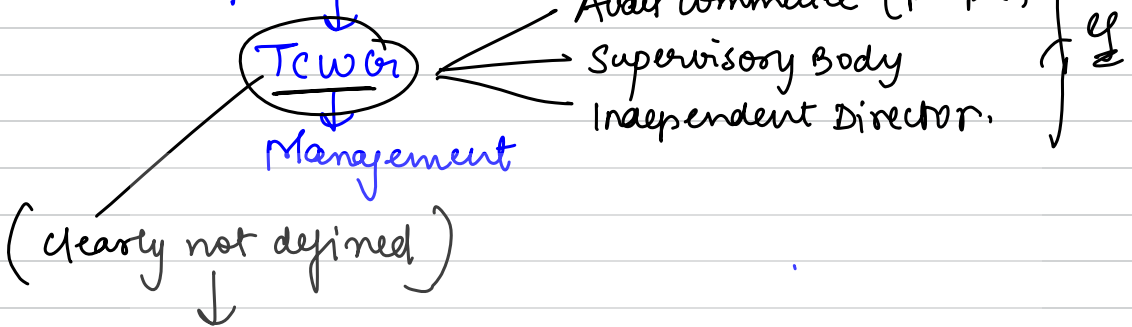
Saksham Jain

## SA 260 Communication with TCWG

\* Those Charged with Governance (Read).

concept

→ Big entities (listed)



Auditor - (SA 315) → Understand who are TCWG?

TCWG → Oversee financial reporting process.  
→ Takes strategic decisions of entity.  
→ Accountable for firm's action.

What about small entities?

↓  
Case where no such hierarchy, → TCWG = Mgmt

## \* Objective of Auditor as per SA 260



- To communicate clearly
  - Responsibility of Auditor (<sup>opinion</sup>)
  - Overview of planned Scope & Timing of audit
- To communicate significant matter & timely observation with TCWG.
- To obtain information from TCWG.
- To promote effective two way communication.

Note: Benefits of effective Two way communication



i). Auditor & TCWG → Helps in understanding matter relevant to audit.

→ Constructive working Relationship?  
(<sup>Independence</sup> Ko Mat Bhulana).

ii). Auditor → Helps in obtaining information relevant to audit.

iii). TCWG → Helps in oversee financial reporting process.

# \* Matters to be Communicated by Auditor

## i). Responsibility of Auditor



→ Communicate ∴ Auditor Responsibility → Opinion  
+ Audit Report

→ It does not relieve management from their responsibility of overseeing financial reporting process.

## ii). Planned Scope & Timing of Audit



→ Overview of Planned Scope & Timing of Audit  
+ Communicate Significant matters arise during audit.

## iii). <sup>v. Imp</sup> Significant findings from Audit

a). Auditor view about Qualitative aspect of entity accounting practices

- ATC Policy
- ATC estimate
- Disclosures

b). Significant difficulty, encountered during audit.

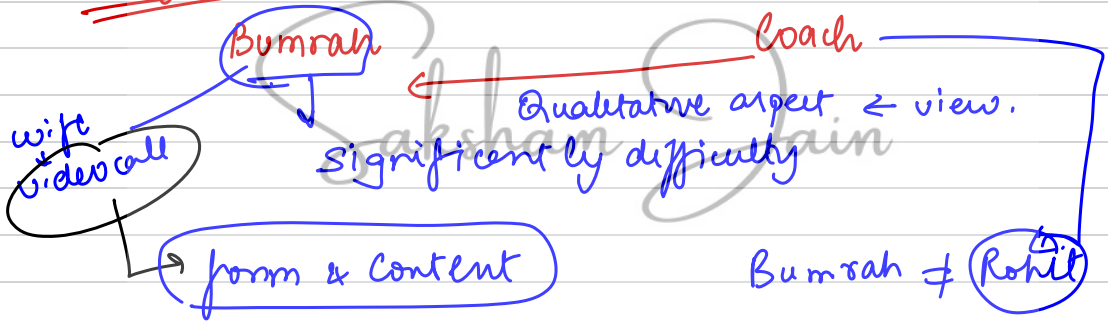
c). ~~Under~~ TCWG ≠ Mgmt, auditor communicates with TCWG

- Significant matters communicated with mgmt.
- Matters in which w/R is requested from mgmt.

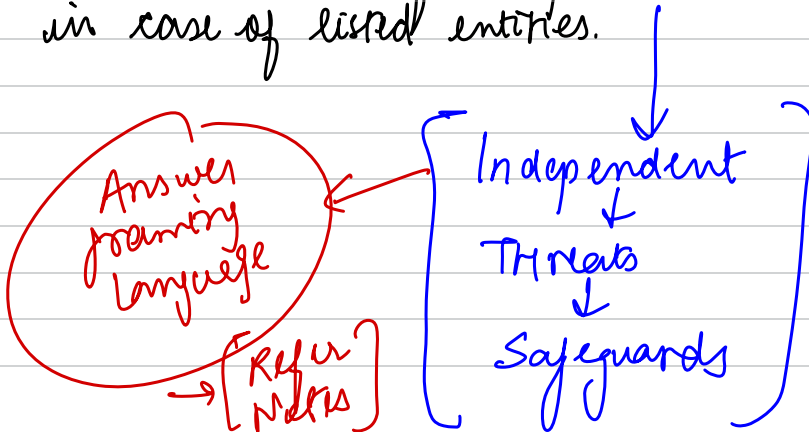
d). Circumstances that affect form & content of Audit Report ———— Hint  
(Modification)

e). Any other significant matter, in Auditor's professional judgement is imp for TCW in  
↓  
in Overse financial reporting process

Story Time



★ Communication of Independence requirement in case of listed entities.



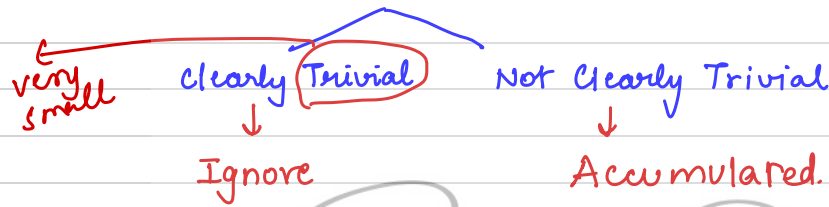
# SA-450 Evaluation of Misstatement Identified During Audit

\* Objective of Auditor as per SA 450

Evaluate → Effect of Identified Misstatements on Audit  
→ Effect of Uncorrected Misstatement, on F.S.

\* Accumulation of Misstatements

Misstatements



\* Consideration of misstatement identified as audit progresses.

Auditor → Determine whether   
 Audit plan → need to be revised if   
 Audit strategy

i). Nature of Identified + Circumstances of their Misstatements Occurrence

Indicates → other misstatement may exist &

when Aggregated with misstatement could be material.

ii). Aggregate of Misstatement accumulated → approach Materiality

Note Auditor ask mgmt — examine & rectify misstatements based on Identified or projected errors.  
→ after corrections → check no misstatement remain.

## ★ Communication & Correction of Misstatements

- Timely Communication
- Request for Correction
- If Mgmt Refuses to Correct → Understand Reasons.

## ★ Evaluating effect of Uncorrected Misstatements

- Prior to evaluating, Auditor Reassess Materiality  
↳ to confirm whether materiality is appropriate.

### • Evaluation of Uncorrected Misstatement

Auditor → Determine Misstatements → Material ?

Auditor Consideration

i). Size & Nature of Misstatement  
+  
Circumstance of Occurrence

ii). Effect of Uncorrected Misstatement related to prior period.

## ★ Communication with TCWb

- Mandatory Communication of  $\left\{ \begin{array}{l} \text{uncorrected misstatements} \\ + \\ \text{potential impact on Auditor opinion.} \end{array} \right.$
- Request for Correction
- Communicate effect of Uncorrected Misstatements of prior period.

\* W/R from Mgmt (T.C.W.G.)

[MCQ]

- W.R. whether believe effect of **Uncorrected Misstatements** are **Immaterial**
- Summary of Such items → include in or attached to W/R.

\* Documentation (May 2024). - ICAISM

- i). Amt below which misstatement would be **clearly trivial**.
- ii). All Accumulated Misstatements & whether Corrected.
- iii). Auditor's Conclusion - whether uncorrected misstatements are **material**  
- basis for that Conclusion.



# SA-265 Communicating Significant Deficiency in Internal Control

to  $\begin{cases} \text{TCWG} \\ \text{Mgmt} \end{cases}$

## \* Deficiency in Internal Control

This exists when

- a). Control  $\rightarrow$  Design  
 $\rightarrow$  Implemented  
 $\rightarrow$  operated

in such way  $\rightarrow$  Unable to  $\begin{cases} \text{prevent} \\ \text{detect} \\ \text{Correct} \end{cases}$  ?  
Misstatement on timely Basis.

or

- b). Control  $\rightarrow$  necessary to  $\begin{cases} \text{Prevent} \\ \text{Detect} \\ \text{Correct} \end{cases}$  Misstatement  $\rightarrow$  is missing.

## \* Significant Deficiency in Internal Control

- Deficiency  $\rightarrow$  Significant Deficiency  
 $\downarrow$ 
  - in Auditor's professional judgement
  - is of sufficient to merit importance of TCWG.

[Simply  $\rightarrow$  As per Auditor, TCWG Ko Pata Hona Chahiye]

- Significant on deficiency depends on Both Cases

Misstatement Has Actually Occured or likelihood of Misstatement & Magnitude of Misstatement.

# \* Communicating Significant Deficiency in Internal Control



- Communicate to TCWb → writing, Timely Basis

- Communicate to Mgmt (Timely Basis)

(As) Significant Deficiency in I.C.  
that auditor communicated } [TCWb]  
[or intends to communicate]

unless inappropriate to communicate to Mgmt.

(B)

Other Deficiency in I.C.  
↓  
Identified in Audit

not Communicated to Mgmt by other party

eg Internal Auditor communicated Deficiency to Auditor & not mgmt.

- Auditor shall include following point in Description when Communicating Significant deficiency.

(DSP)

a). Description of Deficiency

b). Explanation of their potential effects.

c). Sufficient Info to enable TCWb to understand

↓  
Mgmt

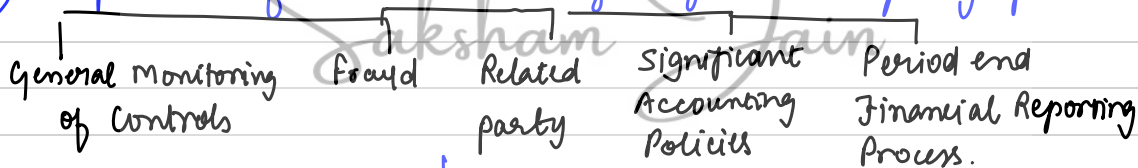
Context of Communication

Auditor shall explain

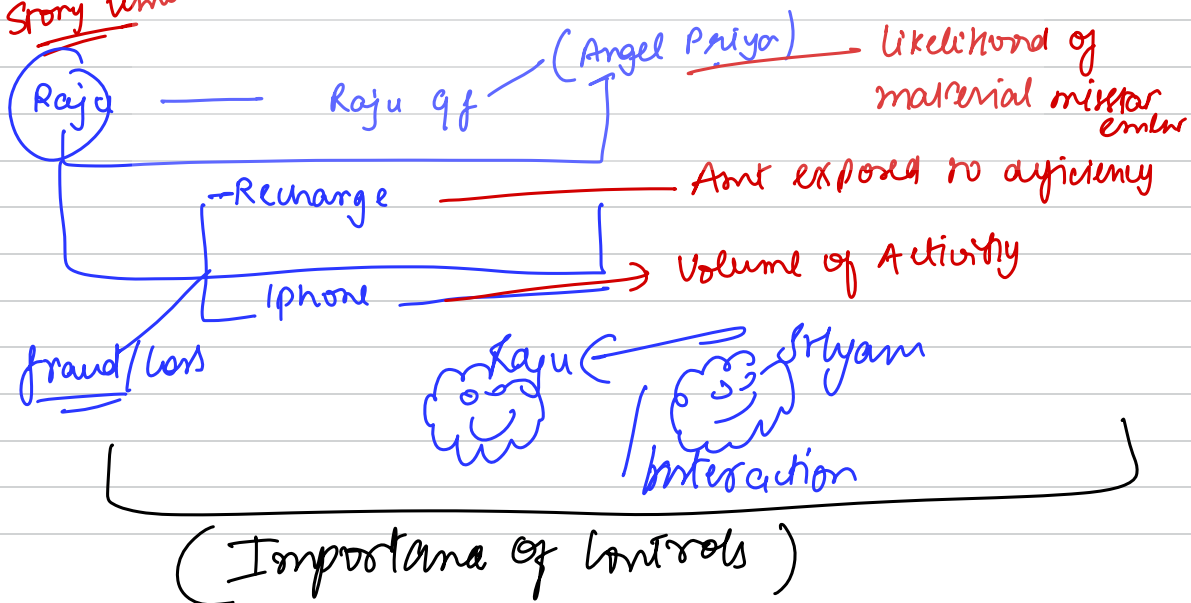
- purpose of Audit → opinion of F.S.
- Consideration of Internal Control → To Design Audit procedures & not for giving opinion on effectiveness of I.C.
- Matter Being Reported → limited to Deficiency Identified.

# \* Matters / Factors Auditor Considered in Deciding whether Deficiency $\rightarrow$ Significant Deficiency?

- likelihood of Deficiency  $\rightarrow$  Material Misstatement.
- F.S. Amount exposed to Deficiency.
- Susceptibility to loss or fraud of Related Assertion.
- Volume of Activity  $\rightarrow$  Occurred / could Occur in Assertion exposed to Deficiency.
- Cause & frequency of exceptions Detected as result of deficiency.
- Interaction of Deficiency — with other Deficiency.
- Subjectivity & Complexity  $\rightarrow$  to Determine AIC estimates.
- Importance of Control relating to financial reporting process.



Story Time



## \* Examples of Indicator of Significant Deficiency in I.C

[ Hint :: Components of I.C. → Control Environment  
→ Risk Assessment process ]

a). Evidence of Ineffective Aspects of Control Environment

- TCWb (X) scrutinize → Transactions in which Mgmt financially interested.
- Identification of Mgmt fraud.
- Failure to implement Remedial Action by Mgmt on previously communicated Significant deficiency.

b). Absence of Risk Assessment Process [ c). ineffective R.A.P. of entity.

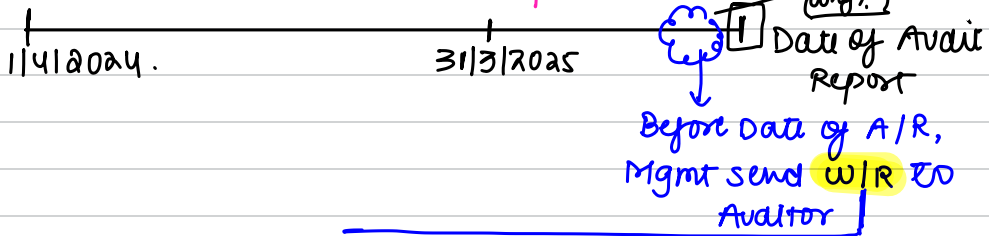
d). Ineffective Response to Identified Significant Risk.

e). Auditor Detected Misstatement that I.C. failed to detect.

f). Evidence → Mgmt Inability → Oversee preparation of F.S.

g). Disclosure of Material Misstatement → Prior Period Items.

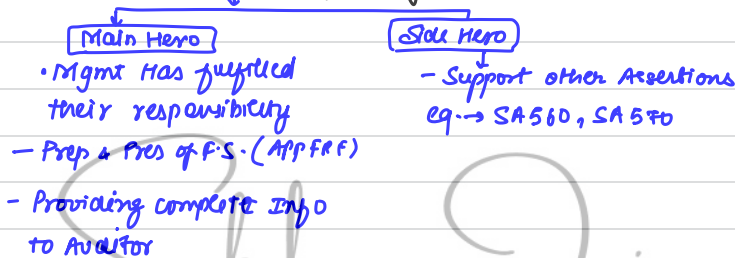
# SA 580 Written Representation (W/R)



\* Necessary Audit evidence

\* But alone not SAAE.

\* W/R is obtained from Mgmt [TCWB]



\* What if mgmt Refuses to give W/R? → Modification  
 { Detailed Discussion }

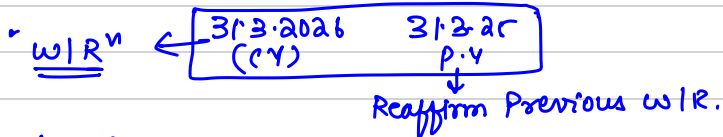
\* Date of WIR → as near as practicable before Date of A.R.  
 ↓ why?

→ Necessary Audit evidence

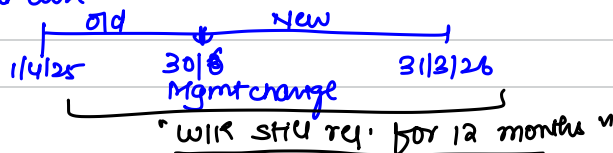
→ It cover Subsequent transaction B/w Date of FS & Date of AIR.

\* Period of WIR

↳ All periods mentioned in F.S.



(\*) special case



## \* Overview of W/R

Written Statement - By Mgmt  
- To Auditor

→ Confirm Certain Matters  
or  
Supporting other Audit Evidence.

- Or provide necessary audit evidence  
But not SAAE.
- Mgmt Refuses W/R → Signal Significant matters.

## \* Objective as per SA 580

- Obtain W/R from mgmt & T&Cs
  - Confirm their responsibility for preparing F.S.
  - Providing complete information
- Support other Audit Evidence relevant to F.S. or assertions.
- Respond appropriately if W/R  $\begin{cases} \text{provided} \\ \text{or} \\ \text{Refused.} \end{cases}$

## \* W/R about mgmt responsibilities

### a). Preparation of Financial Statements

- Auditor ask mgmt to provide W/R abt preparation of F.S., as agreed in engagement letter.
- Mgmt may Consult specialists involved in F.S. preparation. Example - Actuaries
  - Staff Engineers
  - Internal Counsel

b). Info provided & completeness of Transaction

W/R → Mgmt Has Provided Relevant Info

→ All Transactions Have Been Recorded & Reflected in F.S.

(Refer notes for detailing)

\* W/R about mgmt responsibilities are necessary when

- Those who signed audit engagement of entity no longer have relevant responsibilities.
- Change in Circumstances.
- Misunderstanding of Responsibilities.
- Terms of engagement letter prepared in P.Y.

\* Date of W/R

- As near as Date of Audit Report.
- Before Date of Audit Report.

Explanation

- W/R → Necessary Audit evidence.
- Auditor Concerns about Subsequent Events.

\* Period of W/R

- W/R shall be for all financial statements & periods referred to in auditor's report.
- Req. because Mgmt need to reaffirm that W/R it previously made with prior period remain appropriate.

F.S.

31.3.2025

C.Y.

31.3.2024

P.Y.

31.3.24  
W/R

(Refer notes for Question)

## \* Other Written Representation



- Addition to W/R about Mgmt responsibility of F.S.
- Other W/R → Supplement to Main W/R.
- They may include Representations about following
  - A). Whether selection & application of A/c Policies APPROPRIATE
  - (B). Whether matters have been
    - Recognized
    - Presented
    - Disclosed

eg.

- Plans or Intentions that may affect Carrying Value or Classification of Asset / Liabilities. (Note 1)
- Liability - Both Actual & Contingent.
- Title to, Control Over, Assets & assets pledged as collateral, charges against assets.
- Aspects of law, regulations → that may affect F.S. including Non-compliance.

## \* Auditor will consider factors to evaluate Judgements & Intentions (Note 1).

- Entity Past History.
- Entity Reasons for choosing particular course of action.
- Entity ability to pursue specific course of action.
- Existence or lack of any other Info obtained during audit may be inconsistent with mgmt Judgements or Intent.



## \* Doubt as Reliability of Written Representation

- Auditor has concern about - Competence

- Integrity

- ethical values



Determine effect of such concerns on

Reliability  
of WIR  
&  
Audit Evidence.

- WIR Inconsistent with Other Audit Evidence



Audit procedures to resolve matter

- If Unresolved → "Disclaim an Opinion"

## \* Requested WIR not provided

Auditor shall



- Discuss matter with mgmt
- Re-evaluate Integrity of Mgmt & Evaluate effect on [ Reliability of WIR  
Audit Evidence
- Take appropriate actions, including possible effect on opinion → SA 705 Disclaimer of opinion.