

## Chapter 7 – Completion And Review

### SA 570 – Going Concern

SA 570 requires the auditor to evaluate and report on whether management's use of the going concern basis of accounting is appropriate and whether any material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

#### Basics of Going Concern

- Going concern is a fundamental accounting assumption
  - Entity is normally viewed as continuing in operation for the foreseeable future
  - It is assumed that the enterprise has neither the intention or necessity of liquidation or curtailing operation
  - It is Used unless management intends to liquidate or cease operations, or has no realistic alternative
- Impact on assets and liabilities
  - Assets and liabilities recorded assuming entity will realize assets and discharge liabilities in the normal course of business
- Liquidation basis
  - When an entity is not viewed as a going concern, FS prepared on liquidation basis
  - Inventories may be written down, assets recorded at likely prices they will fetch

#### Responsibility for assessment of the entity's ability to continue as a going concern

Management is required to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about future outcomes of events or conditions. Factors relevant for judgment about future outcomes of events or conditions are:

- Degree of Uncertainty increases as the timing of the event or outcome is further in the future.
- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors.
- Information available at the time at which the judgment is made.
- A startup forecasting cash flows for 6 months is more reliable than forecasting for 3 years due to higher future uncertainty.
- A large multinational in a volatile industry like oil & gas faces more uncertainty than a small local grocery store.
- Management may judge the company stable based on current orders, but a sudden government ban later may change the actual outcome.

#### Responsibilities of the auditor (These are also objectives of auditor)

The auditor's responsibility is to

- obtain SAAE
- about the appropriateness of management's use of the going concern assumption.

He shall consider

- whether there is a material uncertainty related to events and conditions
- that may cast significant doubt
- about the entity's ability to continue as a going concern.

Report in accordance with this SA

#### No Assurance of Future Viability (SA 200)

As per SA 200 The absence of any reference to going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

#### Risk assessment procedures and related activities Consider events and conditions

When performing risk assessment procedures as required by SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern

The auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern.

- If done – discuss it and check if doubt exists and what plans management has.
- If not – discuss the basis for using going concern and inquire about any such events or conditions.

Auditors must stay alert during the audit for evidence of such events or conditions.

#### Evaluating Management's Assessment

- Auditor shall evaluate management's assessment of going concern.
- It is not the auditor's responsibility to fix lack of analysis by management.
- Lack of detailed analysis may still allow auditor to conclude if going concern basis is appropriate.
- Example: If there is a history of profits and easy access to funds, detailed analysis may not be needed.
- In other cases, auditor evaluates management's process, assumptions, and feasibility of plans.
- Auditor shall evaluate for the same period as management or longer if required by law.
- If assessment covers less than 12 months from FS date, auditor shall ask to extend it to at least 12 months.

### Additional audit procedures when events or conditions are identified

When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall perform procedures as follows:

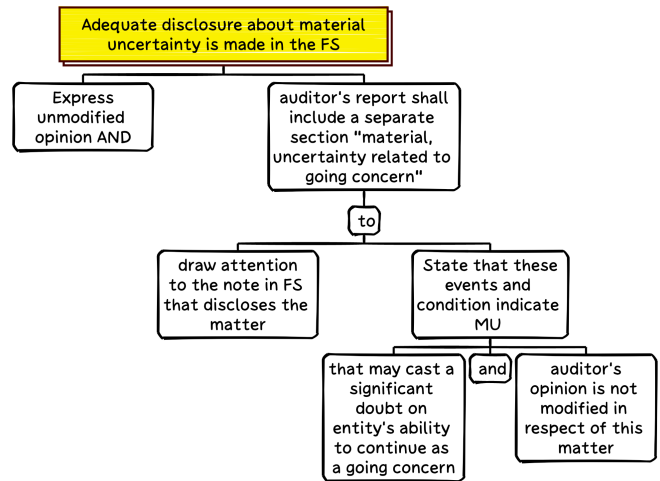
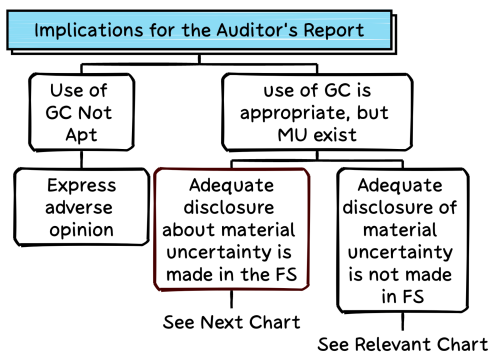
- If management hasn't assessed going concern, auditor shall request it.
- Evaluating **management's plans** for **future actions** in relation to its going concern assessment
- When the entity has prepared a **cash flow forecast**, then consider
  - its reliability and
  - also the underlying assumptions.
- Consider new facts or information after management's assessment.
- Requesting **written representations** from management or TCWG, regarding their plans for future action and the feasibility of these plans.

### Material Uncertainty

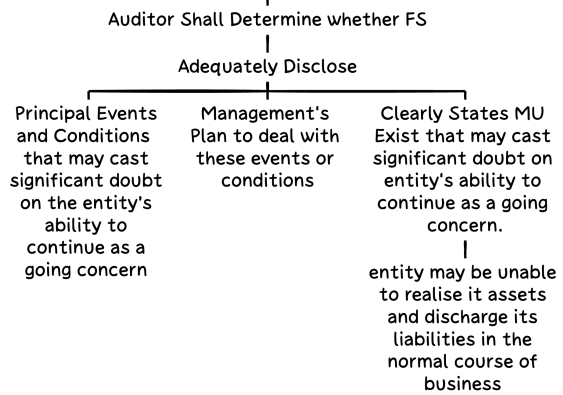
A material uncertainty exists when the

- **magnitude** of its potential impact and
- **likelihood** of occurrence
- is such that,
- in the auditor's **judgment**,
- **appropriate disclosure** of the **nature** and **implications** of the uncertainty is **necessary** as per the AFRF.

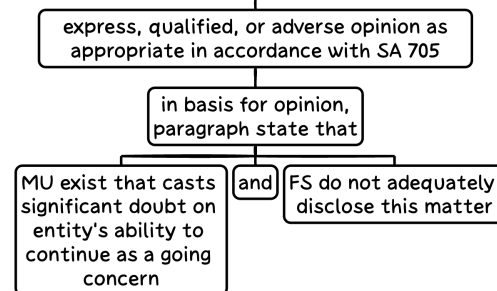
When the impact is big and the chance of happening is high Example:  
If a company is facing a major lawsuit that could lead to huge losses and has a high chance of losing, this creates material uncertainty and must be disclosed in the financial statements.



### Adequacy of Disclosures When Events or Conditions Have Been Identified and MU Exist



### Adequate disclosure of material uncertainty is not made in FS



### Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

The auditor shall **evaluate whether**, in view of the requirements of the applicable financial reporting framework, the FSs **provide adequate disclosures** about these events or conditions.

### Management Unwilling to Make or Extend Its Assessment

If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the **implications** for the auditor's **report**. A qualified opinion or a disclaimer of opinion may be appropriate, because the auditor is unable to obtain SAAE regarding management's use of the GC basis of accounting in the preparation of the F.S.

### Examples of audit procedures when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as going concern

- Analysing and discussing **cash flow**, profit and other relevant forecasts with management
- Analysing and discussing the **entity's latest available interim FSs**
- Reading the terms of **debentures** and **loan agreements** and determining whether any have been **breached**
- Reading **minutes** of the **meetings** of shareholders, TCWG and relevant committees for reference to financing difficulties
- **Inquiring** of the entity's **legal counsel** regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications
- **Confirming** the **existence, legality** and **enforceability** of **arrangements** to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds
- Evaluating the entity's **plans** to deal with **unfilled customer orders**
- **Performing** audit procedures regarding **subsequent events** to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern
- Confirming the **existence, terms** and **adequacy** of **borrowing facilities**
- Obtaining and reviewing **reports** of **regulatory actions**
- Determining the adequacy of support for any **planned disposals of assets**

### Examples of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

#### Financial events or conditions

- Net liability or net current liability position
- Adverse key financial ratios
- Negative operating cash flows indicated by historical or prospective FSs
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets
- Inability to comply with the terms of loan agreements
- Inability to obtain financing for essential new product development or other essential investments
- Indications of withdrawal of financial support by creditors
- Inability to pay creditors on due dates
- Change from credit to cash-on-delivery transactions with suppliers.
- Arrears or discontinuance of dividends.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.

#### Operating events or conditions

- Shortages of important supplies
- Management intentions to liquidate the entity or to cease operations
- Emergence of a highly successful competitor
- Loss of key management without replacement
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s)
- Labour difficulties

#### Other events or conditions

- **Uninsured** or **underinsured catastrophes** when they occur
- **Pending legal** or **regulatory proceedings** against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy
- **Statutory or regulatory requirements**
  - **Non-compliance** with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions
- **Changes** in **law** or **regulation** or **government policy** expected to adversely affect the entity.

## SA 450 – Evaluation of misstatements identified during the audit

### Objective

The **objective** of the auditor is to evaluate:

- The **effect** of **identified misstatements** on the audit; and
- The **effect** of **uncorrected misstatements**, if any, on the FSs.

### Definitions

#### Misstatement

A **difference** between the amounts, classification, presentation, or disclosure of a **reported** financial statement item and the amount, classification, presentation, or disclosure that is **required** for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from **error** or **fraud**.

An entity has wrongly capitalized machinery repair expenses amounting to Rs.5 lacs resulting in overstatement of profits. It is an example of misstatement.

#### Uncorrected misstatements

Misstatements that the auditor has **accumulated** during the audit and that have **not been corrected**.

### Requirements

#### Accumulation of Identified Misstatements

The auditor shall **accumulate misstatements** identified during the audit, other than those that are clearly trivial.

#### Consideration of Identified Misstatements as the Audit Progresses

The auditor shall revise the overall audit **strategy** and audit **plan** if:

- Nature and circumstances of identified misstatements indicate other possible misstatements that may be material when aggregated.; **or**
- Aggregate misstatements during audit approach materiality as per SA 320.

Nature and circumstances suggest other possible misstatements

- If the kind of error found may exist elsewhere, more errors might be present
- Example: Auditor finds ₹5 lakhs of repair expense wrongly capitalized in one instance. This suggests other similar capitalizations may also be wrong. Auditor expands testing in fixed assets.

Aggregate misstatements approach materiality (SA 320)

- Even if each misstatement is small, their total value may become material.
- Example: Auditor finds multiple small errors (₹1L, ₹2L, ₹1.5L). Total = ₹4.5L. If materiality is ₹5L → Close enough to revise plan and perform more checks.

#### Communication and Correction of Misstatements

- Communicate all accumulated misstatements on a timely basis.

- Timely communication of misstatements to the appropriate level of management is important as it enables management to evaluate whether the items are misstatements, inform the auditor if it disagrees and take action as necessary.
- The auditor shall **request** management to **correct** those misstatements.
- If, at the auditor's request, **management** has examined a class of transactions, account balance or disclosure and **corrected misstatements** that were detected, the auditor shall perform **additional audit procedures** to determine **whether misstatements remain**.
- The correction by management of all misstatements, including those communicated by the auditor, helps maintain accurate records and reduces future misstatement risk from prior period uncorrected items.
- If management refuses
  - Understand reasons for refusal.
  - shall take that understanding into account when evaluating whether the FS as a whole are free from material misstatement.

#### Evaluating the Effect of Uncorrected Misstatements

- Reassess materiality (SA 320) based on final results.
- Determine if uncorrected misstatements are material
  - Individually or in aggregate
  - Consider size, nature, circumstances, prior period effects.

In FY 20XX–YY, Alpha Ltd. had a ₹50,000 uncorrected misstatement (minor repair wrongly capitalized). In FY 20YY–ZZ, a similar ₹1.2 lakh error was found and left uncorrected. Auditors must now evaluate ₹1.7 lakh (₹1.2L + ₹50k) if the combined amount is material, it may affect audit opinion.

#### Communication with TCWG

The auditor shall communicate with TCWG

- All uncorrected misstatements (individually, if material)
- Their effect on opinion.
- Impact of prior period's uncorrected items.
- The auditor shall **request** that **uncorrected misstatements** be **corrected**.
- Auditor tells Audit Committee about ₹1.2 lakh wrongly capitalized expense not corrected by management.
- Auditor says if ₹1.2 lakh remains uncorrected, qualified opinion may be needed.
- ₹50,000 from last year + ₹1.2 lakh this year = ₹1.7 lakh total impact must be considered.
- Auditor requests Audit Committee to instruct CFO to pass journal entry for ₹1.2 lakh correction.

#### Written Representation

Request written confirmation from management/TCWG

- That they believe effect of uncorrected misstatements are immaterial

- Attach list/summary of such misstatements.

### Documentation

The audit documentation shall include

- The amount below which misstatements would be regarded as clearly trivial;
- All misstatements accumulated during the audit and whether they have been corrected and
- The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

*Mr. D an auditor, while auditing ACE Ltd., identified certain misstatements in relation to particular class of transactions and account balances. He had communicated same to those charged with governance and also taken written representation for the same. State the audit documentation required by the auditor regarding misstatements identified during the audit. (SA, May 2024, 3 Marks)*

*Up and High Private Limited has started its export business during the year 2023–24. The company was catering to the domestic market only in past years. CA H, statutory auditor of the company, is of the view that the company has understated its revenue by ₹50.00 lacs in the year 2023–24 by not complying with requirements of AS 9 relating to revenue recognition.*

*Discuss responsibilities of statutory auditor to communicate with management in the above situation in accordance with SA 450. Also explain the usefulness of such communication.*

*If management refuses to correct misstatement as communicated by the statutory auditor, how should he proceed?*

*(MTP1, May 2024, 4 Marks)*



## SA 560 Subsequent Events

### Basic

- SA 560, "Subsequent Events" deals with the auditor's responsibilities relating to subsequent events in an audit of FSs.
- SA 700 explains that the date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.

### Meaning of Subsequent Event

#### Subsequent Events

- Events occurring between the date of the FSs and the date of the auditor's report, and
- facts that become known to the auditor after the date of the auditor's report
  - had they been known to the auditor at that date,
  - may have caused the auditor to amend the auditor's report.

### Types of Subsequent Events

#### Type 1

Those events that provide additional evidence with respect to conditions that existed on the date of balance sheet and effect the estimation made in the preparation of the FSs. The FS should be adjusted for any change in estimates resulting from the use of evidence of subsequent events.

#### For example

- Debtors as on balance sheet date are declared insolvent after the balance sheet date but before auditor's report
- Settlement of legal disputes before audit report date, which arose before balance sheet date.

#### Type 2

Those events which provide evidence with respect to conditions that did not exist on the date of the balance sheet being reported on but arose subsequent to the date. These events should not result in adjustments of the FSs. Some of these events however may be of such a nature that disclosure of them is required to keep the FSs from not being misleading.

#### For example

Purchase of business, Sale of shares and debentures, Loss of plant or inventory as a result of fire.

### Objective of Auditor

- Obtain Sufficient and Appropriate Evidence about whether
  - events
    - occurring between the date of the FSs and the date of the auditor's report that require
      - adjustment of, or
      - disclosure in, the FSs

- are appropriately reflected in those FSs; and
- Respond appropriately
  - to facts that become known to the auditor after the date of the auditor's report;
    - that, had they been known to the auditor at that date,
    - may have caused the auditor to amend the auditor's report.

### Audit Procedure Regarding Events Occurring between the Date of the FSs and the Date of the Auditor's Report

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that

- all events occurring between the date of the FSs and the date of the auditor's report
- that require adjustment of, or disclosure in, the FSs
- have been identified and are appropriately reflected in those FSs.

### Risk assessment w.r.t Subsequent Event Shall Include

The auditor shall take into account the auditor's risk assessment which shall include the following:

- Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
- Inquiring of management and, where appropriate, TCWG as to whether any subsequent events have occurred which might affect the FSs.
- Read the minutes of meeting of board of directors, executive committee, meeting of shareholders held after balance sheet date
- Read latest interim FSs

### Written Representations

The auditor shall request management and, where appropriate, TCWG, to provide a written representation that

- all events occurring subsequent to the date of the FSs and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed

### Meaning of "Date the FSs are issued"

- It reflects the date that the auditor's report and audited FSs are made available to third parties. The date the FSs are issued generally depends on the regulatory environment of the entity.
- In some circumstances, the date the FSs are issued may be the date that they are filed with a regulatory authority.
- Since audited FSs cannot be issued without an auditor's report, the date that the audited FSs are issued must not only be at or later than the date of the auditor's report, but must also be at or later than the date the auditor's report is provided to the entity.

### Facts Which Become Known To The Auditor After The Date Of The Auditor's Report But Before The Date The FSs Are Issued

The auditor has **no obligation** to perform any audit procedures regarding the FSs after the date of the auditor's report.

- However, when, after the date of the auditor's report but before the date the FSs are issued, a fact becomes known to the auditor that,
  - had it been known to the auditor at the date of the auditor's report,
  - may have caused the auditor to amend the auditor's report, the auditor shall
    - **Discuss** the matter with **management** and, where appropriate, TCWG.
    - **Determine** whether the FSs need **amendment** and, if so,
    - **Inquire** how management intends to **address** the matter in the FSs.

### Management Amends

If management amends the FSs, the auditor shall

- a. **Carry** out the **audit procedures** necessary in the circumstances on the **amendment**.
- b. **Extend** the audit procedures to the date of the **new auditor's report**
- c. **Provide** a **new auditor's report** on the amended FSs.

The new auditor's report shall not be dated earlier than the date of approval of the amended FSs.

### No Amendment By Management

When management **does not amend** the FSs in circumstances where the auditor believes they need to be amended

- If the auditor's report has not yet been provided to the entity, the auditor shall **modify** the opinion as required by SA 705 and then **provide** the auditor's report or
- If the auditor's report has **already** been **provided** to the entity,
  - the auditor shall **notify** management and TCWG,
    - **not to issue** the FSs to third parties **before** the necessary **amendments** have been made.
    - If the FSs are nevertheless subsequently **issued** without the necessary amendments,
      - the auditor shall take **appropriate action** to **seek** to **prevent reliance** on the auditor's report.

### Facts Which Become Known to the Auditor After the FSs have been Issued.

After the FSs have been issued, the auditor has **no obligation** to perform any audit procedures regarding such FSs.

- However, when, after the FSs have been issued, a fact becomes known to the auditor that,
  - had it been known to the auditor at the date of the auditor's report,
  - may have caused the auditor to amend the auditor's report, the auditor shall
    - **Discuss** the matter with management and, where appropriate, TCWG.
    - **Determine** whether the FSs **need amendment** and, if so,
    - **Inquire** how management intends to **address** the matter in the FSs.

### Management Amends

If the management amends the FSs, the auditor shall

- a. **Carry** out the **audit procedures** necessary in the circumstances on the **amendment**.
- b. Review the **steps** taken by **management** to **ensure** that **anyone** in **receipt** of the previously issued FSs together with the auditor's report thereon is **informed** of the **situation**.
- c. **Extend** the **audit procedures** to the date of the new auditor's report, and
- d. Provide a **new auditor's report** on the amended FSs.

### Emphasis of Matter paragraph or Other Matter Paragraph

The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter(s) paragraph referring to a note to the FSs that more extensively discusses the **reason** for the **amendment** of the previously issued FSs and to the earlier report provided by the auditor.

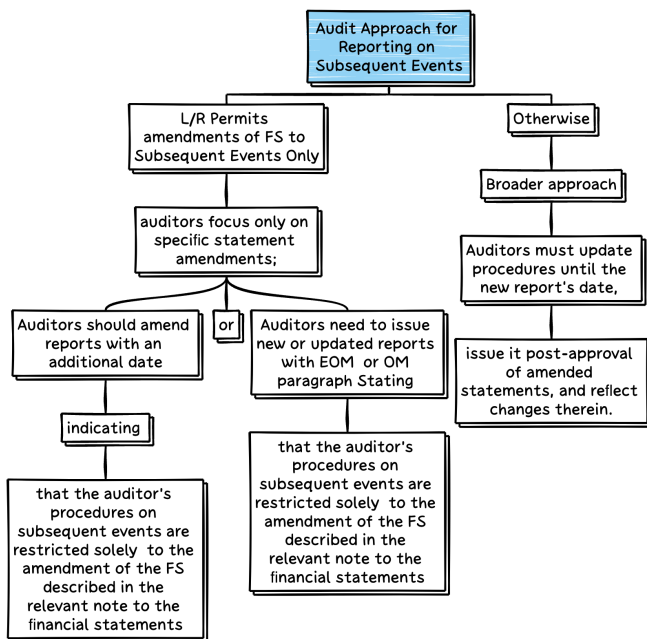
### No Steps by Management and No Amendments

If management

- does not take the necessary steps to ensure that anyone in receipt of the previously issued FSs is informed of the situation and
- does not amend the FSs in circumstances where the auditor believes they need to be amended,

the auditor shall

- **notify** management and TCWG,
- that the auditor will **seek** to **prevent** future reliance on the auditor's report.
- If, despite such notification, management or TCWG do not take these necessary steps,
- the auditor shall **take appropriate action** to seek to prevent reliance on the auditor's report.





## SA 580 Written Representation

### Meaning

- A written representation is a
  - written statement by management provided to the auditor
  - to confirm certain matters or to support other audit evidence.
- Written representations in this context do not include FSs, the assertions therein, or supporting books and records.

### Written representations as audit evidence

- Similar to responses to inquiries, written representations are audit evidence.
- Although written representations provide necessary audit evidence they do not provide sufficient appropriate audit evidence on their own.
- The fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains.

### Objective of Auditor

The objectives of the auditor are:

- To obtain
  - written representations from management and, where appropriate, TCWG
  - that they believe that they have fulfilled their responsibility for the preparation of the FSs and for the completeness of the information provided to the auditor;
- To support
  - other audit evidence relevant to the FSs or specific assertions in the FSs by means of written representations, and
- To respond appropriately
  - to written representations provided or
  - Written representations requested by the auditor but not provided.

### From Whom

- Auditors shall request written representations from management with appropriate responsibilities for the FSs and knowledge of the matters concerned.

### Form of Written Representations

- The written representations shall be in the form of a representation letter addressed to the auditor.
- If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide representations as required by this SA regarding management responsibilities, the relevant matters covered by such statements need not be included in the representation letter.

### Written representations about management's responsibilities

Written representation about management's responsibilities involves confirmation of fulfilment of management's responsibilities in following areas: -

### Preparation of the FSs

- Auditors must seek WR from management on their duty in responsibility for the preparation of the FSs in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.
- In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief.
  - It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.
- Auditors can ask management to confirm in written representations that appropriate inquiries were made for informed decision-making.

### Information provided and completeness of transactions

The auditor shall request management to provide a written representation that: -

- It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement and
- All transactions have been recorded and are reflected in the FSs.

### Why Written representations about management responsibilities necessary?

- Obtaining audit evidence on management's role in financial statement preparation and transaction completeness requires management's confirmation of fulfilling these responsibilities.
- The reason is that Auditors can't rely only on other audit evidence to judge if management prepared FSs and provided the information as per their agreed and acknowledged responsibilities.
- For example, the auditor could not conclude that management has provided the auditor with all relevant information agreed in the terms of the audit engagement without asking it whether, and receiving confirmation that, such information has been provided.
- The auditor may also ask management to reconfirm its acknowledgement and understanding of those responsibilities in written representations.

This is particularly appropriate when: -

- Those who signed the terms of the audit engagement on behalf of the entity no longer have the relevant responsibilities.

- The terms of the audit engagement were prepared in a previous year.
- There is any indication that management misunderstands those responsibilities, or
- Changes in circumstances make it appropriate to do so.

### Additional WR for deficiencies in IC

In addition to WR provided to auditor regarding management responsibility, auditor may consider it necessary to request management to provide a WR that it has communicated to the auditor all deficiencies in IC of which management is aware.

### Written representations about specific assertions

In addition, the auditor may consider it necessary to request management to provide written representations about specific assertions in the FSs to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to a specific assertion.

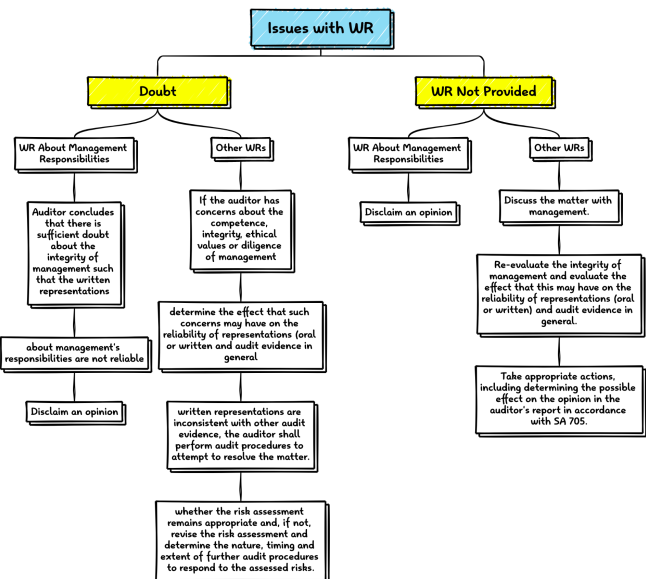
For example, Let us say The auditor needs to understand management's intentions to accurately value investments. When it comes to investments, their value can be significantly affected by the intentions of management regarding the holding period of the investment, plans to sell it, or to use it for some business operations. If an auditor cannot independently verify the intent of management through other means, they may require management to provide a written statement of their intentions regarding the investments. This representation serves as audit evidence and is part of the auditor's documentation.

### Considerations while obtaining evidence about, or evaluating, judgments and intentions

- The entity's past history in carrying out its stated intentions.
- The entity's reasons for choosing a particular course of action.
- The entity's ability to pursue a specific course of action.
- The existence or lack of any other information that might have been obtained during the course of the audit that may be inconsistent with management's judgment or intent.

### Date of and Period(s) Covered by Written Representations

- The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the FSs.
- The written representations shall be for all FSs and period(s) referred to in the auditor's report.
- Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the FSs as a whole.
- Accordingly, the requirement for the auditor to request from them WRs that cover the whole of the relevant period (s) still applies.



### Other Written representations

- Other SAs require the auditor to request written representations. If, in addition to such required representations, auditor determines that it is necessary to obtain one or more written representations, he shall request such other written representations.
- They may include representations about the following: –
  - Whether the selection and application of accounting policies are appropriate; and
  - Whether following matters have been recognized, measured, presented or disclosed in accordance with the FRF:
    - Plans or intentions that may affect the carrying value or classification of assets and liabilities;
    - Liabilities, both actual and contingent;
    - Title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral; and
    - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance

## SA 260 Communication With TCWG

### Scope

This SA deals with Auditor's Responsibility to communicate with TCWG in an audit of FSs

### Objectives of auditor as per SA 260

- To communicate clearly with TCWG responsibilities of auditor and planned scope and timing of the audit;
- To obtain from TCWG information relevant to the audit;
- To provide TCWG with timely observations that are significant and relevant to their responsibility to oversee the financial reporting process and
- To promote effective two-way communication between auditor and TCWG.

### Role of Communication

There must be two way communication. This two-way communication is important in assisting ( basically now we are going to discuss importance of two way communication)

- Constructive working relationship** and understanding the matters related to audit. This relationship is developed while maintaining auditor's Independence and objectivity.
- The auditor in **obtaining** from TCWG **information** relevant to the audit. For example TCWG may assist the auditor in understanding the entity and its environment in identifying appropriate sources of audit evidence and in providing information about specific transactions or events.
- TCWG in fulfilling their **responsibility** to **oversee** the **financial reporting** process thereby reducing the risk of material misstatement of the FSs.

### Communication

#### With whom? IDENTIFY

- The auditor shall **determine** the appropriate person(s) within the entity's governance structure with whom to communicate.

### Matters to Be Communicated

#### The Auditor's Responsibilities in Relation to the Financial Statement Audit

- The auditor shall communicate with TCWG the responsibilities of the auditor in relation to the financial statement audit, including that:
  - The auditor is responsible for **forming** and **expressing** an opinion on the FSs that have been **prepared** by **management with** the **oversight** of TCWG; and
  - The audit of the FSs **does not relieve management** or TCWG of their responsibilities.

### Planned Scope and Timing of the Audit

- The auditor shall communicate with TCWG an overview of the **planned scope** and **timing** of the audit, which includes

communicating about the **significant risks** identified by the auditor.

### Significant Findings from the Audit

The auditor shall communicate with TCWG

- The auditor's views about significant **qualitative aspects** of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Significant difficulties** if any, encountered during the audit;
- Significant matters** arising during the audit that were discussed, or subject to correspondence, with management; and
- Written representations** the auditor is requesting;
- Circumstances** that affect the form and **content** of the auditor's report, if any; and
- Any other **significant matters** arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

### Communication of auditor's independence in case of listed entities

A statement that the **engagement team** and **others** in the **firm** as appropriate, the firm and, **when applicable, network firms** have **complied** with **relevant ethical requirements** regarding **independence**, and

- We have **identified** and **considered** all **relationships** that may have an impact on Independence including the impact of non audit services.
- The **related safeguards** that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

### The Communication Process

#### Establishing the Communication Process

The auditor shall communicate with TCWG the **form, timing** and **expected general** content of communications.

### Forms of Communication

The auditor shall communicate in **writing** with TCWG regarding significant findings from the audit if, in the auditor's professional judgment, **oral communication** would **not** be **adequate**. Written communications need not include all matters that arose during the course of the audit.

### Independence

The auditor shall communicate in **writing** with TCWG regarding auditor **independence** when required

### Timing of Communications

The auditor shall communicate with TCWG on a **timely basis**.

**Adequacy of the Communication Process (Adequate, Effect)**

The auditor shall evaluate whether the two-way communication between the auditor and TCWG has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action.

**Documentation**

Where matters required by SA 260 to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.



## SA 265 Communicating Deficiencies in IC To TCWG and Management

### Auditor's Responsibility

SA 265 deals with the auditor's responsibility to communicate appropriately to TCWG and management deficiencies in IC that the auditor has identified in an audit of FSs.

### Objective of auditor as per SA 265

To communicate appropriately to TCWG and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions

### Deficiency in IC

### Deficiency in IC

This exists when:

- A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the FSs on a timely basis; or
- A control necessary to prevent, or detect and correct, misstatements in the FSs on a timely basis is missing.

### Significant deficiency in IC

- A deficiency or combination of deficiencies in IC that, in the auditor's professional judgement, is of sufficient importance to merit the attention of TCWG
- The significance of a deficiency or a combination of deficiencies in IC depends not only on whether a misstatement has actually occurred, but also on the likelihood that a misstatement could occur and the potential magnitude of the misstatement. Significant deficiencies may, therefore, exist even though the auditor has not identified misstatements during the audit.

### Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in IC constitutes a significant deficiency

- The likelihood of the deficiencies leading to material misstatements in the FSs in the future.
- The susceptibility to loss or fraud of the related asset or liability.
- The subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates.
- The financial statement amounts exposed to the deficiencies.
- The volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.
- The importance of the controls to the financial reporting process, for example:
  - General monitoring controls (such as oversight of management).
  - Controls over the prevention and detection of fraud.

- Controls over the selection and application of significant accounting policies.
- Controls over significant transactions with related parties.
- Controls over significant transactions outside the entity's normal course of business.
- Controls over the period-end financial reporting process (such as controls over non-recurring journal entries).
- The cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
- The interaction of the deficiency with other deficiencies in IC.

### Examples of indicators of significant deficiencies in IC

Indicators of significant deficiencies in IC include

- Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
- Evidence of an ineffective entity risk assessment process, such as management's failure to identify a RMM that the auditor would expect the entity's risk assessment process to have identified.
- Evidence of ineffective aspects of the control environment.
- Evidence of an ineffective response to identified significant risks
- Evidence of management's inability to oversee the preparation of the FSs.
- Misstatements detected by the auditor's procedures that were not prevented or detected & corrected by the entity's IC.

### Identification of deficiencies in IC

- The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in IC
- If the auditor has identified one or more deficiencies in IC, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.

### Communication of significant deficiencies in IC to TCWG

The auditor shall communicate in writing significant deficiencies in IC identified during the audit to TCWG on a timely basis

The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis

- In writing, significant deficiencies in IC that the auditor has communicated or intends to communicate to TCWG, unless it would be inappropriate to communicate directly to management in the circumstances; and
- Other deficiencies in IC identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.



The auditor shall include in the written communication of significant deficiencies in IC

- a. A description of the deficiencies and an explanation of their potential effects; and
- b. Sufficient information to enable TCWG and management to understand the context of the communication. In particular, the auditor shall explain that
  - The purpose of the audit was for the auditor to express an opinion on the FSs;
  - The audit included consideration of IC relevant to the preparation of the FSs in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IC; and
  - The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to TCWG.