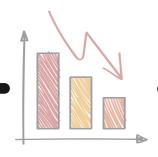


# **About the CA CS Amit Tated:**

- Cleared CA, CS, CISA, DISA, CISM, BCCP Exams
- Believes in conceptual teaching & giving in depth knowledge of the subject to students.
- Many of his students are Rankers & Highest Mark Scorers. (Including AIR 1 Multiple times)
- Worked with PWC Audit Dept. for 1 year.
- Held Strategic Position in IT Governance of HDFC Bank for 2 years.
- Founder of A. T. Academy



# INDEX-











NATURE, OBJECTIVE AND SCOPE OF AUDIT

AUDIT STRATEGY, AUDIT PLANNING & AUDIT PROGRAME

**RISK ASSESSMENT AND INTERNAL CONTROL** 3

**AUDIT EVIDENCE** 4

**AUDIT DOCUMENTATION** 6

**COMPLETION AND REVIEW** 

**STRATEGIC CHOICES** 

**ETHICS AND TERMS OF AUDIT** 

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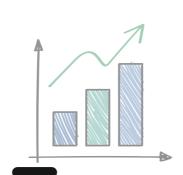
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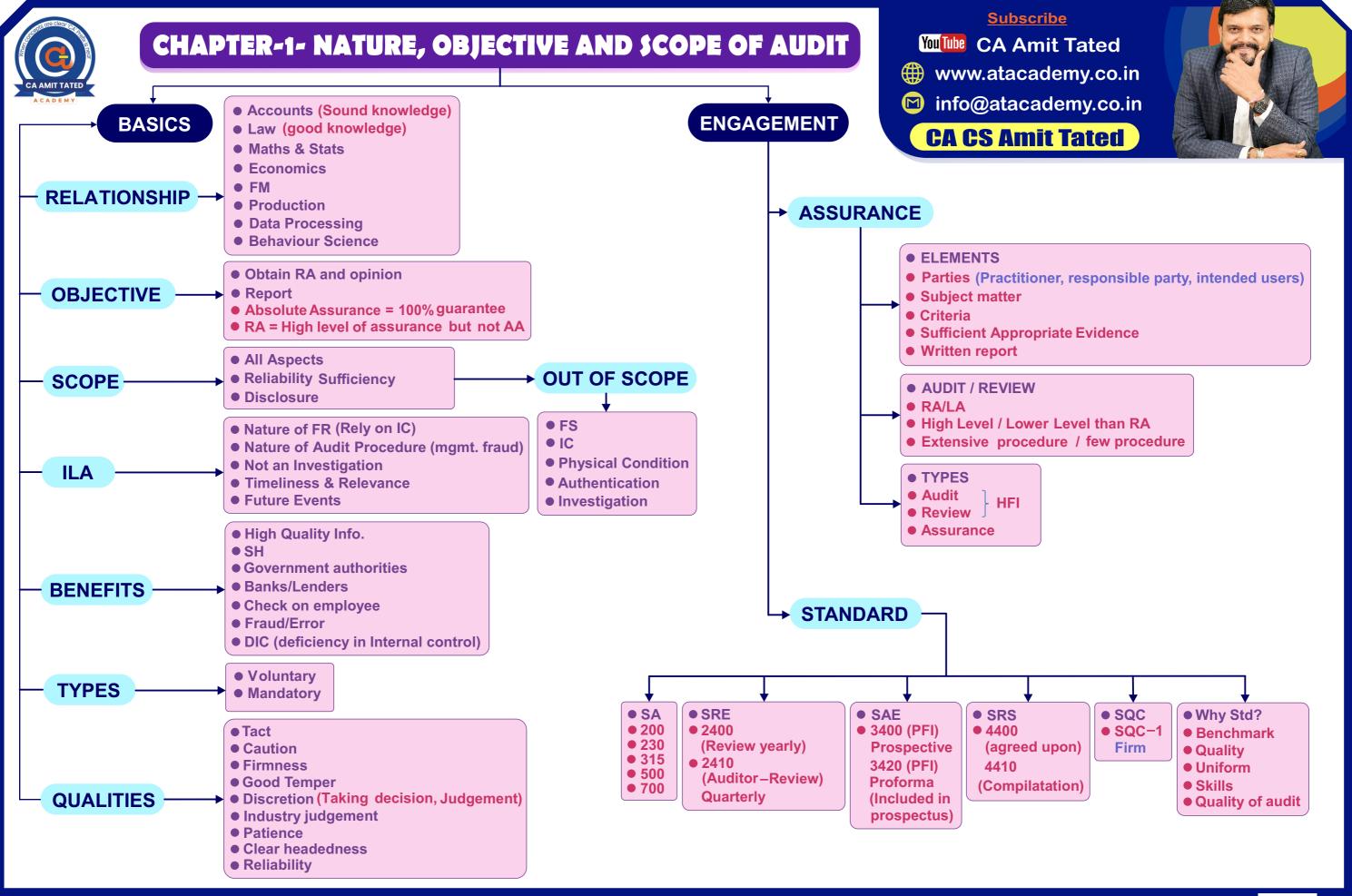






# CAINTER AUDIT

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# CHAPTER-2- AUDIT STRATEGY, AUDIT PLANNING & AUDIT PROGRAME

**SA 300 - PLANNING AN AUDIT OF FINANCIAL STATEMENT** 

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#### **OBJECTIVE**

To plan the audit in an effective manner.

Effective – reduction of risk to the acceptable level

#### **BENEFITS OF PLANNING**

- 1. Devote appropriate attention
- 2. Identify & resolve conflict or problems
- 3. Organize & manage audit (Effective & Efficient)
- 4. Selection of Eng. Team
- 5. Direction, Supervision, review
- 6. Coordination (Expert)

#### **FACTORS TO BE CONSIDERED FOR PLANNING BEFORE RAP/FAP**

- 1. Analytical Procedure → RAP
- 2. Understanding:

#### Legal & regulatory framework

- 3. Determination of materiality
- 4. Involvement of experts
- 5. Performance other RAP

# **Preliminary** engagement activities

- 1. Acceptance & continuance (SQC-1)
- 2. Ethical requirement (SA - 220)
- 3. Terms of **Engagement** (SA - 210)

# Planning activities

PLANNING PROCESS

(ELEMENTS)

Strategy) 1. Characteristics

(Factors for Audit

- 2. Reporting objective
- 3. Professional Judgement
- 4. Preliminary engagement activities
- 5. Nature, timing & extent of resources

Reporting Objective

#### Overall audit strategy

- 1. The resources to deploy
- 2. Amount of resources to allocate
- 3. When to deploy
- 4. How such resources are managed

#### **Development of Audit Plan**

- 1. Nature, time and extent of planned
- (i) RAP
- (ii) FAP
- 2. Other planned audit procedure

# Overall audit strategy

**DOCUMENTATION** 

- Record of key decision
- **Communicate significant** matters to engagement team

#### **Audit Plan**

- Planned NTE of RMM and
- Further audit procedure of assertion level

#### Significant changes

- Changes to overall audit strategy
- Changes to Audit Plan
- Reasons

# **Characteristics**

- AFRF
- Nature of business
- Industry Specific reporting requirement
- Expected use of **Audit Evidences**

- Timetable
- Type of reports
- Communication
- NTE of audit work
- Nature & Timing of Communication

#### Volume

- Industry Development
- AFRF (Changes)
- Law & regulations

**Prof. Judgement** 

# **NTE** of resources

Preliminary engagement activities

Results of previous

Questioning mind

Allocation of resources → RMM ↑

audit

→RMM√Resources ↓

Resources 1

# **FACTORS OF DSR**

- 1. Size and Complexity
- Area of audit
- Assessed RMM
- **Capabilities and Competence**







# **AUDIT PROGRAMME**

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# One audit programme Not practicable

- 1. Nature, Size and composition
- 2. Efficiency and operation of **Internal Controls**
- 3. Nature of the service to be rendered.

#### Assistant to keep on open mind

- **1. Standard Programme**
- 2. Programme may be altered
- 3. To note and report significant matters to seniors

#### Periodic review of the audit programme

- 1. To know changes in business policy of client
- 2. On the basis of obsolete programme audit may be held or negligently conducted.

## **Construction of Audit Programme**

- 1. Scope & limitation
- 2. Written audit programme
- 3. Determine evidence reasonably
- 4. Steps & procedure (Specific Situation)
- 5. Include the audit objectives
- 6. Consider all possibilities of error
- 7. Co-ordinate

#### **Advantages**

- 1. Clear set of Instructions
- 2. Total perspective of the work performed
- 3. Selection of assistants for the jobs
- 4. Danger is significantly less
- 5. Accept the responsibility
- 6. Can control the progress
- 7. Guide for auditors
- 8. Evidence for auditor

#### **Disadvantages**

- 1. Work may become mechanical and
- 2. Rigid and inflexible
- 3. Inefficient assistants
- 4. Hard & Fast audit programme may kill the initiative of efficiency

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# CHAPTER-3-RISK ASSESSMENT AND INTERNAL CONTROL

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**AUDIT RISK (SA 200)** 

**COMPONENTS** 

- 1. Overall Financial Statement level (Pervasive)
- 2. Assertion level

**LEVEL** 

- a. Class of Transactions
- b. Account balances
- c. disclosures

(Nature, timing and extent of further audit procedure)

Susceptibility of an assertion to a misstatement that could be material (Individually or aggregated)

**INHERENT RISK** 

#### **CONTROL RISK**

Misstatement that could occur in an assertion that could be material (individually or aggregated) will not be prevented or detected and corrected

**DETECTION RISK** 

The procedure performed by an auditor to reduce audit risk to an acceptably low will not detect a misstatement that exist & could be material (individually or aggregated)

- 1. Sampling risk auditor's conclusion based on sample may be different from the conclusion.
- 2. Non-Sampling risk auditor reaches an erroneous conclusion of any reason not related to sampling risk.

**AUDIT RISK EXCLUDES** 

- 1. Auditor's **Business risk**
- 2. Insignificant risk

**ASSESSMENT OF RISKS** 

It is a matter professional Judgement rather than a matter of capable precise measurement

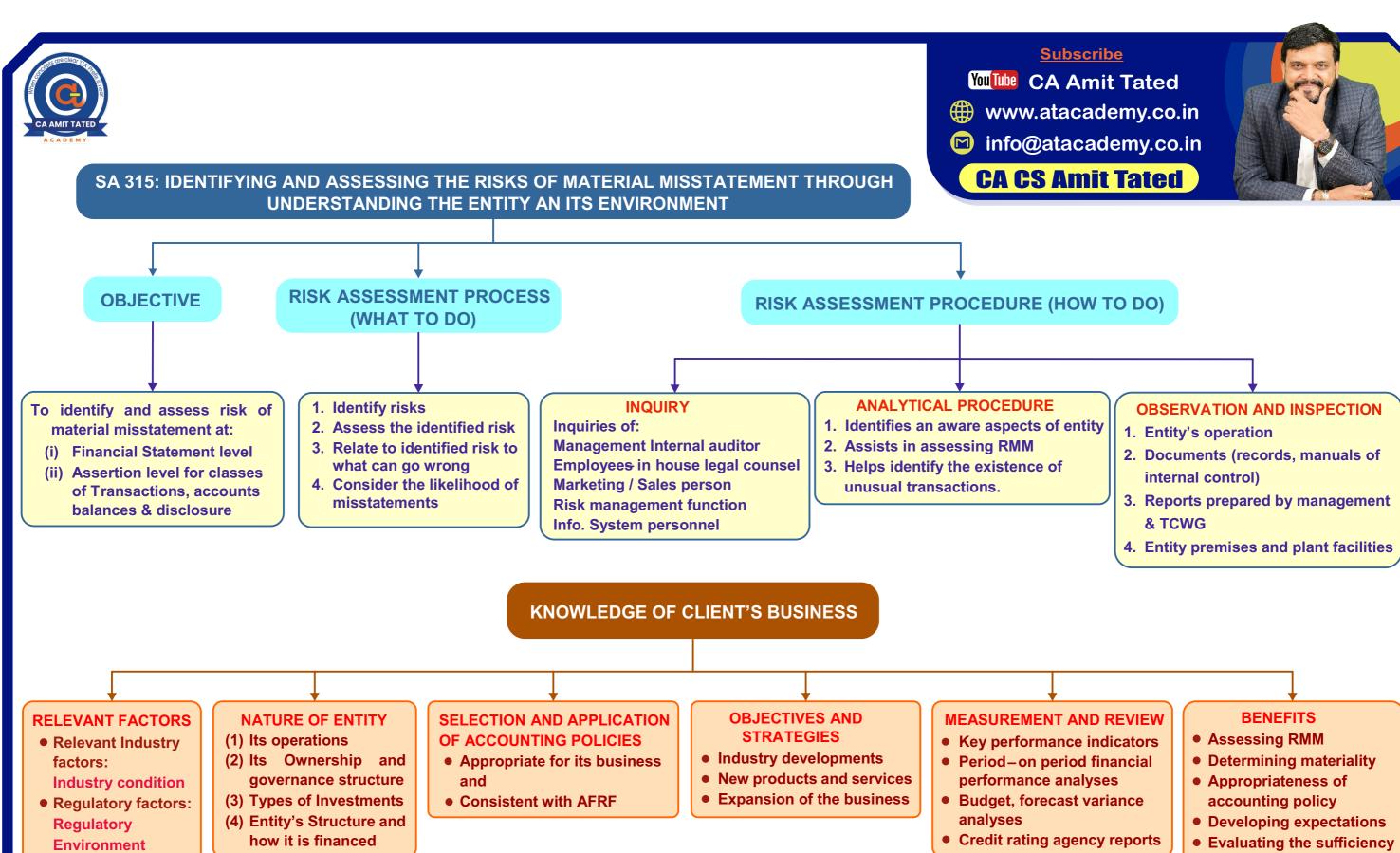
Combined assessment of risk of material misstatement

Audit risk = RMM X**Detection risk** 

Audit Risk = Inherent risk X Control risk X Defection risk







- Assessing RMM
- Determining materiality
- Appropriateness of accounting policy
- Developing expectations
- Evaluating the sufficiency and appropriateness of audit Evidences
- **Special Audit Considerations**





External factors

Condition

**General Economic** 



#### **INTERNAL CONTROL (SA 315)**

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Internal Control may be defined as the process designed, implemented and maintained by TCWG, management and other personnel provide reasonable assurance about the achievement of Entity's objective with regard to reliability of Financial reporting effectiveness and efficiency of operations, safeguarding of assets and compliance with applicable laws & regulations

#### **PURPOSE**

- 1. Reliability of financial reporting
- 2. Effectiveness and efficiency of its operations
- 3. Compliance with applicable laws & regulations
- 4. Safeguarding of assets

#### **BENEFITS**

- 1. Identifying types of potential misstatements
- 2. Identifying factors that affect RMM
- 3. Designing the nature, timing and extent of further audit procedure

#### **COMPONENTS**

- (a) The control environment
- (b) Entity's risk assessment process
- (c) Information system and communication
- (d) Control activities
- (e) Monitoring of Controls

#### CONTROL ENVIRONMET

#### **INCLUDES**

- 1. Governance and management functions
- 2. Attitudes, awareness and actions of TCWG and management
- 3. Control environment (Tone of an organisation, influencing the control consciousness of its people)

#### ENTITY'S RISK ASSESSMENT PROCEDURE

- 1. Identifying business risks
- 2. Estimating the significance of the risks
- 3. Assessing the likelihood of their occurrence
- 4. Deciding about actions to address those risks.

#### **INFORMATION SYSTEM**

- 1. Significant classes of transactions
- 2. Procedures by which those transactions are corrected
- 3. Related accounting record
- 4.Info. system captures events and conditions
- 5. Financial reporting process
- **6.Journal entries**

#### **CONTROL ENVIRONMET**

#### **ELEMENTS**

- 1. Communication & enforcement of integrity and ethical value
- 2.Commitment to competence
- 3. Participation by TCWG
- 4. Managements philosophy and operating style
- **5.Organisational Structure**
- 6.Assignment & responsibility
- 7. Human resource policies & practices

#### **CONTROL ACTIVITIES**

- 1. Performance Review
- 2. Info processing
- 3. Physical Control
- 4. SOD

#### **MONITORING OF CONTROLS**

Process to assess the effectiveness of Internal control performance over time (ongoing / separate)

1. Internal control can provide reasonable assurance only

**LIMITATIONS** 

- (no matter how effective) 2. Human judgement in decision making (human error)
- 3. Lack of understanding the purpose
- 4. Collusion among people
- 5. Judgements by management
- 6. Limitations in case of Small entity







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#### RISKS THAT REQUIRE SPECIAL AUDIT PROCEDURE

#### **FACTORS TO DETERMINE**

- 1. Risk of fraud
- 2. Related to recent significant economic accounting or law developments
- 3. Complexity of Transactions
- 4. Significant transactions with related parties
- 5. Wide range of measurement uncertainty
- 6. Outside normal course of business

#### **IDENTIFY SIGNIFICANT RISKS**

- 1. Risks of material misstatement due to fraud
- 2. Significant transaction with related parties that are outside the normal course of **business**

#### RISKS OF MATERIAL MISSTATEMENT

(Significant non-routine transactions)

- 1. Greater mgt. Intervention
- 2. Greater manual Intervention
- 3. Complex calculations
- 4. Nature of non-routine transactions

#### **RISK OF MATERIAL MISSTATEMENT**

(Significant Judgmental matters)

- 1.Accounting principles may be subject to different interpretation
- 2. Judgement may be subjective or complex

#### METHODS OF EVALUATION OF INTERNAL CONTROL

#### NARRATIVE RECORD

- 1. Complete and exhaustive description of the system
- 2. Recommended in cases where no formal control system is in operation
- 3. More suited to small business
- 4. Disadvantages
- (1) Quite difficult
- (2) Identify Weakness
- (3) Incorporate changes

#### **CHECK LIST**

- A series of Instructions and / or questions which a member of audit staff must follow and / or answer
- Answers are usually 'Yes', 'No' and Not applicable

#### INTERNAL CONTROL QUESTIONNAIRE

- Comprehensive series of questions
- Most widely used form
- Yes answer denotes satisfactory position
- No answer suggests weakness

#### **FLOW CHART**

- Graphic presentation of each part of the company's system of Internal Control
- Most concise way of recording
- Gives bird's eye view of the system

# BENEFITS OF EVALUATION OF INTERNAL **CONTROL SYSTEM**

#### Review of Internal controls will enable the auditor to know:

- 1. Errors & frauds are likely to be located
- 2. Adequate Internal control system is in use
- 3. Effective internal auditing department is operating
- 4. Administrative controls have a bearing on his work
- 5. Controls adequately safeguard the assets
- 6. Adequately management is discharging its function
- 7. Reliability of reports
- 8. Extent & depth of the examination
- 9. Selection of appropriate audit technique
- 10. Areas where controls are weak or excessive
- 11. Suggestions to improve Internal Controls System







#### **AUTOMATED ENVIRONMENTS**

#### **KEY FEATURES**

- Faster business operations
- Accuracy in data processing
- Ability to process large volume of transaction
- Integration amongst business operations
- Better security, control
- Less prone to human errors
- Provides latest info
- Connectivity and networking capability

#### **UNDERSTANDING AND DOCUMENTING**

- Info. Systems
- Their purpose
- Location of IT System
- Architecture
- Version
- Interfaces within system
- In-house vs. packaged
- Outsourced
- Key persons

- Inaccurate processing of data
- Direct data change
- Excessive access
- Lack of adequate segregation of duties
- Unauthorised changes to system
- Failure to make necessary changes

#### **RISK ARISING**

- Unauthorised access to data

- Loss of data

**TYPES OF IT CONTROLS** 

#### **GENERAL IT CONTROLS**

- Controls over data centre and network operations
- Program change (modified system continue to meet financial reporting objectives)
- Access security

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 Application system acquisition, development and maintenance

#### **APPLICATION CONTROL**

- Includes both automated or manual controls that operate at a business process level
- Completeness, accuracy and integrity of data
- Edit checks, validation of input data, sequence number checks, user limit checks, reasonableness checks, mandatory data fields

#### IT DEPENDENT CONTROL

 Manual controls that make use of some form of data / info. / report produced from IT system and application

#### **IMPACTS**

- Impact on substantive checking
- Impact on controls
- Impact on reporting

#### **TESTING METHODS**

- Inquiry
- Observation
- Inspection
- Reperformance

# **MANUAL ELEMENTS**

- (A) MORE SUITABLE:
- (1) Large unusual or nonrecurring transactions
- (2) Errors are difficult to define
- (3) Changes in circumstances
- (4) Monitoring effectiveness
- (B) LESS SUITABLE:
- (1) High volume or recurring transactions
- (2) Specific to perform controls can be adequately designed and automated









#### SA 320: MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

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#### **MATERIALITY IN DIFFERENT TERMS**

- 1. Misstatement including omission are considered to material
- 2. Judgements about materiality are made in the light of surrounding circumstances
- 3. Judgements about matters that are material to users of FS

#### **DETERMINATION OF MATERIALITY**

#### A MATTER OF PROFESSIONAL **JUDGEMENT**

- 1. Have a reasonable knowledge of business and economics activities
- 2. Understand the financial statements
- 3. Recognize the uncertainties inherent in the measurement of amounts
- 4. Make reasonable economic decision

#### PERFORMANCE **MATERIALITY**

The amount set by the auditor at less than the materiality level for FS as a whole to reduce to an appropriately low level the probability that aggregate of uncorrected and undetected m's exceeds materiality. It is set at a value lower than overall materiality

#### **BENCHMARKS**

- 1. Elements of the financial statements
- 2. Items on which the attention of the users tends to be focused
- 3. Nature of the entity, its life cycle, ownership structure
- 4. Relative volatility of the benchmark

#### **MATERIALITY LEVEL**

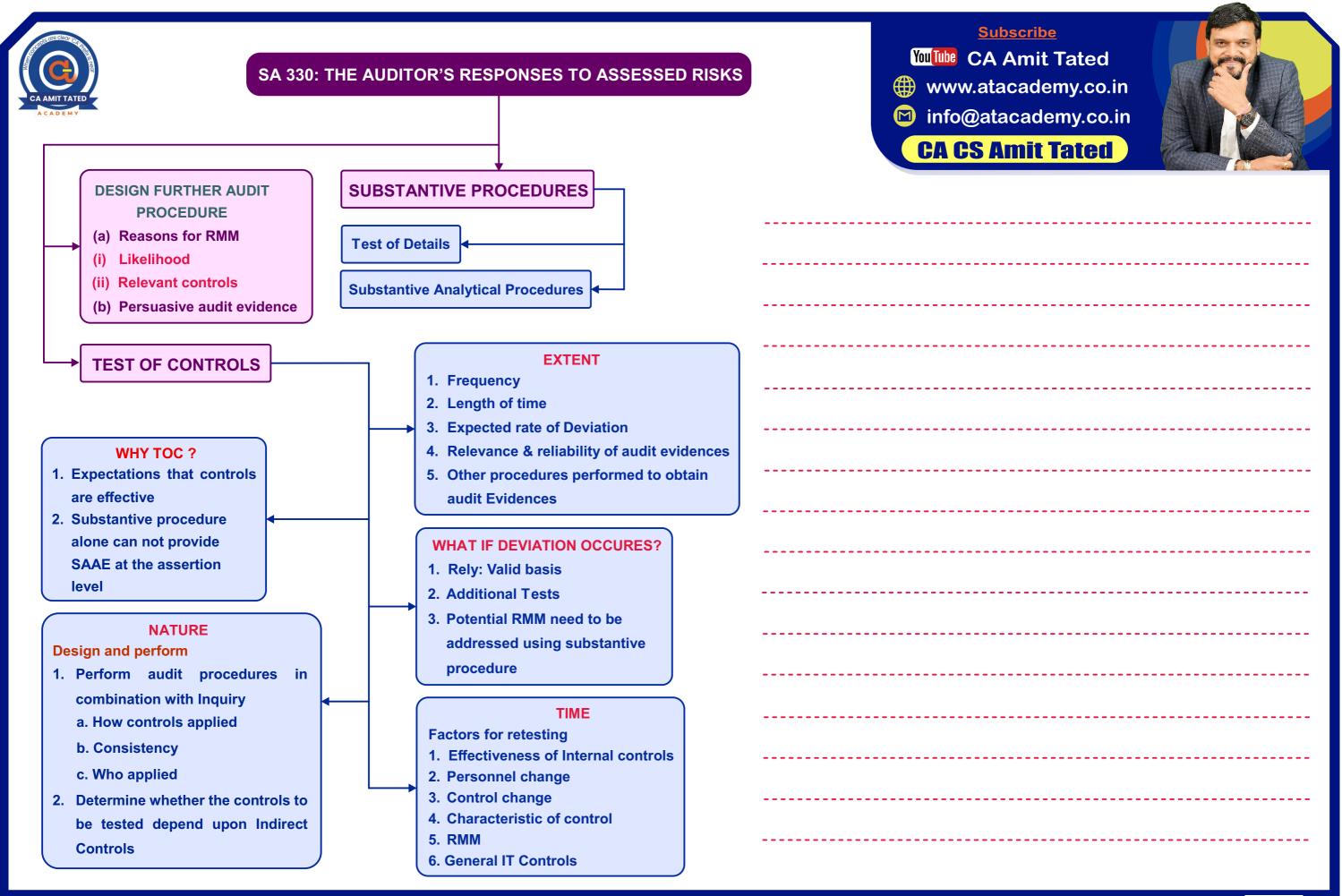
- 1. Whether law, regulations or the applicable financial reporting framework affect expectations
- 2. Key disclosures in relation to industry
- 3. Attention is focused on a particular aspects of **Entity's business**

#### **DOCUMENTATION**

- 1. Materiality for FS as a whole
- 2. Materiality Level
- 3. Performance materiality
- 4. Any revision of (1) - (3) as audit progressed

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# **CHAPTER-4- AUDIT EVIDENCE**

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#### **BASICS**

#### **Audit Evidence includes**

- 1. Accounting Records
- 2. Other information to authenticate the accounting records.

#### Types on the basis of Nature

- 1. Visual
- 2. Oral
- 3 Document

#### Types on the basis of Source

- 1. Internal originated within the organisation
- 2. External originated outside organisation

#### **Source of Audit Evidence**

- 1. Test Accounting Records
- 2. Check for consistency accounting records.

# **FACTORS**

#### Sufficiency

- 1. Material
- 2. Risk of material misstatement

**SA 500: AUDIT EVIDENCE** 

- Inherent Risk
- Control Risk
- 3. Population, Homogenous, Heterogeneous

#### Reliability

- 1. Independent Source
- 2. Directly obtained
- **Control effective**
- **Documentary**
- Original

#### Relevance **Logical Connection**

- Creditors overstated/Understated
- 2. Debtors receivables
- 3. Inventory existence and valuation
- External Confirmation is most, reliable audit evidence cause it considers 3 factors of Reliability

#### If information is inconsistent or evidence is not reliable then:

- 1. Modification & Addition in audit evidence
- 2. Effects on Audit

# **AUDIT PROCEDURE**

#### **Audit Procedure for** obtaining Audit Evidence

- 1. Risk assessment procedures
- 2. Further audit **Procedure**
- a. Test of Control
- b. Substantive **Procedure**

#### Methods for obtaining **Audit Evidence**

- 1. Inquiry
- 2. External Confirmation
- 3. Analytical **Procedure**
- 4. Inspection

6.

- 5. Observation
- 7. Recalculation

Reperformance

#### Selecting Item for Testing

- 1. 100% examination
  - Test of details
  - Significant risk
  - Population low (High Value)
  - Repetitive **Calculation** (Information System cost effective)
- 2. Specific Item
  - High Value
  - Certain amount
- 3. Sampling (SA 530)

# **ASSERTIONS**

- **Transactions**
- Occurrence

Class of

- Completeness Accuracy
- Classification
- Cut off

# **Disclosures**

- Occurrence Rights & obligation
- Completeness
- Valuation/accuracy
- Classification & Understandability

#### **Types**

- 1. Explicit (AFRF)
- 2. Negative
  - a. Express
  - b. Implied







**Account Balance** 

Rights & Obligation

Completeness

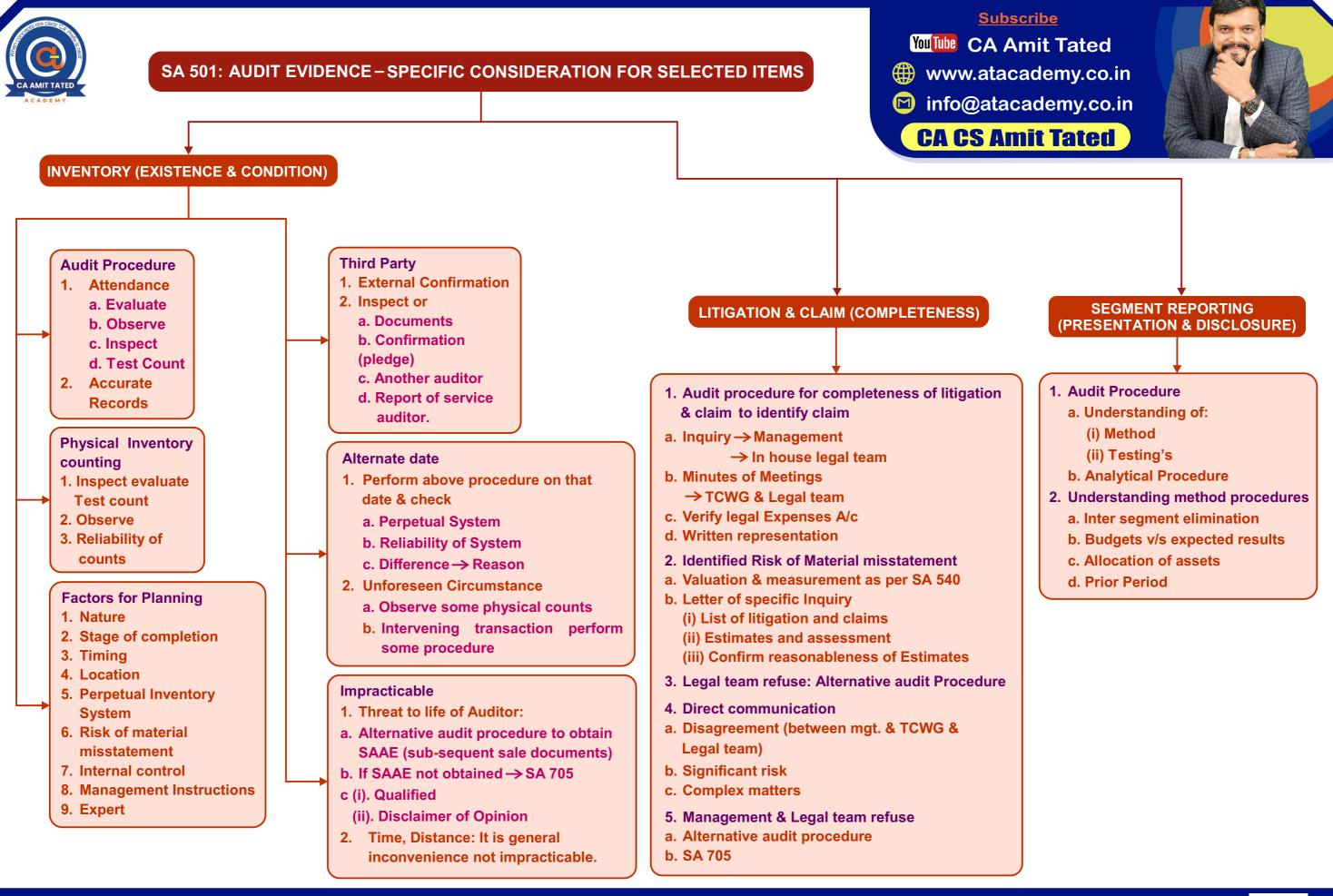
Existence

Valuation





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# **DEFINITION**

- 1. Positive Confirmation Party responds
  - Agree or disagree
- 2. Negative confirmation Party responds
  - Only disagree
- 3. Non-response Failure to response
- 4. Exception response that indicates difference in information

# **EXTERNAL** CONFIRMATION **PROCEDURE**

- 1. Information
- 2. Appropriate Party
- 3. Design
- 4. Send & Follow up

#### **FACTORS**

**SA 505: EXTERNAL CONFIRMATIONS** 

For sending confirmation request

- 1. Assertion
- 2. Risk of Material misstatement
- 3. Communication
- 4. Presentation
- 5. Prior experience
- 6. Management authorisation
- 7. Intended party ability

#### **NEGATIVE CONFIRMATION**

- 1. Population ↑ **Amount ↓**
- 2. Risk of material misstatement ↓
- 3. Exception ↓
- 4. No other reason (all 4 conditions shall be considered)

#### **EVALUATION**

- 1. Response without exceptions
- 2. Response with exception (AAP)
- 3. Response
- →unreliable (AAP)
- 4. Non-response (Alternative audit procedure)

#### **★** Alternative audit procedure

- (i) A/c payable Cash Disburse, correspondence
- (ii) A/c receivable Cash receipt, shipping

#### **MANAGEMENT REFUSAL**

- 1. Inquiry
- 2. Implication
- 3. Alternative audit procedure
  - Unreasonable Fraud SA 260 → SA 705
  - Reasonableness of management refusal
- 1. Legal disputes 2. Negotiation
- 3. Out of court settlement

Validity & Reasonable

13







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# **DEFINITION**

- **¥** Initial Audit Engagement
- (i) Prior period FS unaudited
- (ii) Prior period FS are audited by predecessor or auditor
- **¥** Opening balance is A/c balance that exist at the beginning of period
- **★** Predecessor auditor

# **OBJECTIVE**

- 1. Opening balance Misstatement affecting FS of current Year
- 2. Accounting policy consistent

#### **PROCEDURE**

**SA 510: INITIAL AUDIT ENGAGEMENT** 

- 1. Opening ≈ closing
- 2. Accounting policies
- 3. Perform one or more of:
  - a. Copy of prior period audited F. S.
  - b. Audit procedure in current period (current assets & liabilities)
  - c. Perform specific audit procedure (non-current assets & liabilities)
- 4. Misstatements → TCWG Management

#### **FACTORS**

#### (Nature & extent of audit procedure)

- 1. Accounting policy
- 2. Nature of account balances. class of transactions, disclosure
- → Risk of material misstatement
- 3. Significance of opening balances
- 4. Prior period FS are audited

#### **EVIDENCE**

- 1. Prior period FS are audited
- → Audit report consider
- → Current year's material misstatements about previous year → update to management
- 2. For current assets and liabilities
- → Current year collect evidences
- 3. For non-current assets and liabilities
- → Specific Procedure

**REPORT** 

- 1. Unable to obtain SAAE **SA 705**
- Qualified
- Disclaimer
- 2. Opening balance contains material misstatements SA 705
- Qualified
- Adverse
- 3. A/c policy of prior period not consistent or change not properly Accounted.
- Qualified
- Adverse







#### **OBJECTIVES**

- 1. Relevant and reliable audit evidence
- 2. Understanding of entity with financial statement

#### WHEN TO PERFORM

- 1. Planning
- 2. Testing
- 3. Completion

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#### FACTORS FOR DESIGN AND PERFORMING SUBSTANTIVE ANALYTICAL PROCEDURE

- 1. Suitability (large volume , relationship, RMM, unsophisticated)
- 2. Reliability of Data (Comparable, source, relevant, controls)
- 3. Expectations (Availability of data precise, disaggregation, Accuracy)
- 4. Difference  $\longrightarrow$  Material Investigate, other procedures
- **★** Techniques
  - 1. Trend
    - 3. Reasonableness
  - 2. Ratio 4. Structure

# **SA 520: ANALYTICAL PROCEDURE**

#### **CONSIDERATION FOR COMPARISON**

- 1. Prior period (Trend)
- **Expected Budgets**
- **Similar Industry**
- Financial Information & Non Financial Information
- 5. Predictable pattern

#### **FACTORS FOR SUBSTANTIVE AUDIT PROCEDURE**

- 1. Availability of Data
- 3. Source
- 5. Account Type
- 7. Risk of Material Misstatements
- 2. Disaggregation
- 4. Predictability
- 6. Nature of Assertion
- **★** Purpose
  - A\C Data is reasonable
  - P & L compare
  - Expense ratio
  - Difference → material Identify reasons

#### **SA 550: RELATED PARTY**

#### VERIFICATION OF EXISTENCE OF RP **RELATIONSHIP AND TRANSACTIONS**

- 1. Income tax return
- 2. Regulatory authorities
- 3. Shareholders registers
- 4. Conflict of Interest between management & TCWG
- 5. Contract & agreements
- 6. Significant contract & agreement out side normal course of business
- 7. Life Insurance Policy
- 8. Internal auditor's report.

#### **DEFINITION**

- 1. AFRF
- 2. If AFRF do not provide RP definition or provide minimal RP definition
- 3. As per SA 550:
- a. Person / Entity → Control / Influence
  - → Reporting entity
- b. Reporting entity → control / Influence
- → other person / entity
- c. Common Control / ownership in entity
  - → Ownership, family, KMP

#### NATURE OF RELATED PARTY **TRANSACTIONS & RELATIONSHIP**

- 1. RMM ↓ Arm length transactions
- 2. RMM ↑ not an arm length transaction or
  - a. Extensive & complex relationship
  - b. Info. System → cannot find relationship
  - c. RP Transaction not conducted under Normal market terms & Conditions.

#### **UNDERSTANDING RELATED PARTY RELATIONSHIP & TRANSACTIONS**

- Inquiry: 1. Identify RP & Change
- Nat ure of relationship
- Entity → RP → Transaction

#### **Understanding Controls**

- 1. In accordance with AFRF
- 2. Significant Transactions (approval)
- 3. Significant Transactions (outside the normal course of business)







#### **SA 530: AUDIT SAMPLING**

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#### **POPULATION**

- **■** Appropriate (Relevant)
- **■** Completeness
  - (All relevant Items)
- Reliability (Complete & accurate)

#### **STATISTICAL**

- 1. Characteristic
  - a. Random
  - b. Probability for evaluation
  - c. Probability for sampling risk
- **★** Objectives
- 2. Advantages Sample size do not increase, objective minimum sample size, better description of large population, risk of sampling reduced, more scientific.

#### **NON - STATISTICAL**

- 1. Personal experience
- 2. Knowledge
- 3. Commonly used
- **★** Subjective factors for extent of checking.

Size, Internal control, reliability of books, **Tolerable, degree of Confidence required** 

#### **METHODS**

- 1. Random
- a. Simple random
- b. Stratified
- 2. Interval / Systematic sampling (check for pattern)
- 3. Monetary, Unit (Value weighted)
- 4. Haphazard (Not appropriate for statistical)
- 5. Block (High risk of sampling risk)

#### **PERFORM AUDIT** PROCEDRE ON SAMPLE

- 1. Shall perform audit procedure on sample
- 2. Replacement item
- 3. Treat deviation or misstatement
- 4. Cancelled cheque example
- 5. Sale Invoice lost
- 6. Alternative procedure

#### **SAMPLE DESIGN**

- 1. Purpose and Audit procedure
- 2. Consideration of Evidence
- 3. SA 500 requirements

#### **NATURE & CAUSES OF DEVIATION**

- 1. Common features
- 2. Test all Items of common features
- 3. Investigate the cause of deviation
- 4. Anomaly
- 5. Sufficient appropriate audit evidence obtained.

#### **SAMPLING PROCESS**

- 1. Sample Design
- 2. Sample Size
- 3. Sample Selection
- 4. Audit Procedure
- 5. Nature & cause of deviation
- 6. Projection
- 7. Evaluation

#### PROJECTED MISSTATEMENT

- 1. Sample is representative of population
- 2. Anomaly → Exclude but if uncorrected → consider
- 3. Test of details
- → Project Test of Detail
- → No projection.

#### **STRATIFICATION**

- 1. Divide Population into subpopulation
- 2. Efficiency improved
- 3. Monetary Values
- 4. Sub-population = Stratum Unit = Strata
- 5. To Consider Population
- → Consider all stratum outcome

#### **SAMPLE SIZE**

- 1. Risk of material misstatement
- 2. Tolerable
- 3. Expectations
- 4. Tolerable Deviation does not exceed by actual
- 5. Sampling size (Sampling unit)
- 6. For test of Details→ Stratification.

#### **EVALUATING**

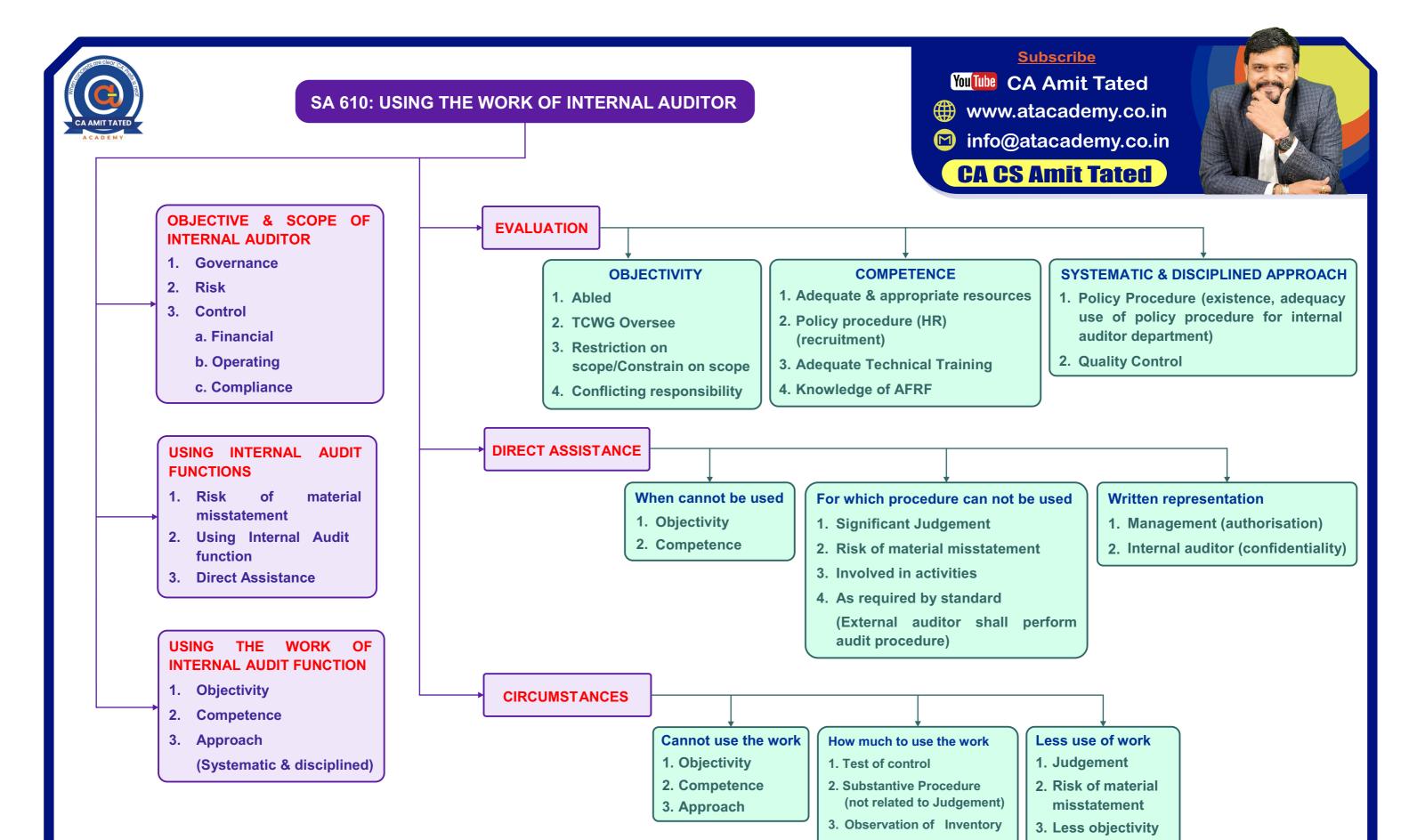
- 1. Result of sample
- 2. Whether Sampling:
  - (i) Reasonable basis
  - (ii) Not a basis

















4. Less competence

5. Compliance

4. Training transactions

though Information System



# CHAPTER-6- AUDIT DOCUMENTATION

**SA 230 – AUDIT DOCUMENTATION** 

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#### (a) Nature:

1. Basis for Conclusion

**NATURE & PURPOSE** 

2. Plan & Performing accordance with Standards on auditing

#### (b) Purpose:

- 1. Plan & Perform
- 2. Direction, Supervision, review
- 3. Future audits
- 4. Accountable
- 5. Quality Review
- 6. External Inspection

# 6. Individual SA Objective met or not FORM, CONTENT, EXTENT

5. Large and Complex Audit

**AUDIT COMPLETION** 

**MEMORANDUM** 

2. May prepare i.e. Optional

4. Effective and efficient review

1. Summary

# **OF AUDIT DOCUMENTATION**

3. Significant matters and how they were addressed

# **EXAMPLES**

- **Audit program**
- Issue memorandum
- **Confirmations**
- 7. Correspondence

- **Analysis** 2.
- **Summary**
- Checklist
- **Copies of contracts**

It is not a Substitute for accounting records.

#### **Factors**

- 1. Size of entity
- 2. Audit Procedure
- **RMM** 3.
- 4. Exceptions
- 5. Audit Evidence
- 6. Basis for conclusion
- 7. Audit Methodology

#### **Experience Auditor**

- 1. Nature, Timing & extent of Audit Procedure
  - a) Characteristics b) Who performed c) Who reviewed
- **Audit Evidences**
- Significant matter & conclusion
- **Communication with TCGWG**
- **Inconsistency**

# **DOCUMETATION OF** SIGNIFICANT MATTER

#### It is matter of Professional Judgement

- 1. Significant Risk
- 2. Need to revise Risk of material misstatements
- 3. Circumstances Significant difficulty
- **Modifications**

#### **Document Significant Professional Judgement**

- 1. Rationale
- 2. Reasonable
- 3. Document Authentication

#### **Important Note:**

Only Changes of Operational Administrative Nature can take place during assembly of Audit documentation





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# CHAPTER-7- COMPLETION AND REVIEW

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What are the matters to be communicated with those who are charged with Governance.

**SA 260: COMMUNICATION WITH TCWG** 

- 1. Auditor's responsibility opinion on financial statement and management is not relived from preparation of financial statements.
- 2. Planned scope and Timing of Audit (overview)
- 3. Significant findings:
  - a. Significant qualitative aspects (accounting policy, estimates, disclosures)
  - b. Significant difficulties
  - c. Unless TCWG is involved in Management (Significant matters & written representation)
  - d. Circumstances affecting form & content of audit report
  - e. any other significant matters as per Judgement.
- 4. Listed Entity: Ethical Requirement & Independence

When to Communicate: On a timely Basis

How to communicate: Writer / Oral with documentation

(Independence only written)

Whom to communicate: Those who are charged with Governance

TCWG can be:

- **Board of directors**
- Management (in some entities)
- (c) Legal background
- **Organisation structure (i.e., Trustee)**
- **Person who appointed Auditor**

# SA 450: EVALUATION OF MISSTATMENTS IDENTIFIED DURING AUDIT

# **OBJECTIVES**

#### To evaluate

- i) effect of identified misstatement
- ii) Effect of uncorrected misstatement

#### **ACCUMULATION OF** MISSTATEMENTS IDENTIFIED

Auditor shall accumulate identified misstatements other than those that are clearly trivial

#### **CONSIDERATION OF IDENTIFIED MISSTATEMENT**

Determine whether audit plan and strategy need to be revised if:

- (1) Misstatements may exceed when aggregated
- (2) Aggregate of misstatement accumulated approaches materiality

#### COMMUNICATE **MANAGEMENT TO CORRECT**

- (1) Communicate misstatements on timely basis
- (2) Request management to correct misstatements
- (a) If corrected, verify
- (b) If Not corrected Reason

#### **REASSESS MATERIALITY**

#### Consider prior period misstatements

**Determine whether uncorrected** misstatements are material individually or in aggregate consider:

- (a) Size and nature of misstatement
- (b) Effect of uncorrected misstatement related to prior period

#### COMMUNICATION WITH TCWG

- (1) Communication with TCWG regarding
- (i) Uncorrected misstatements
- (ii) The effects on opinion individually or in aggregate











#### WRITTEN REPRESENTATION

- 1) Auditor shall request a written representation from management & TCWG.
- 2) Summary of effects of uncorrected misstatement are immaterial that they believe either individually or in aggregate, to the Financial Statement as whole shall be attached

#### **DOCUMENT ATION**

- 1) Amount below which misstatement is regarded as clearly trivial
- 2) Misstatements accumulated have been corrected or not
- 3) Auditor's conclusion & basis for conclusion

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#### **SA 560: SUBSEQUENT EVENTS**

#### FACTS AFTER AUDIT REPORT BUT BEFORE FINANCIAL STATEMENT ARE ISSUED

- 1. Discuss with management & TCWG
- 2. Determine → FS need to be amended
- 3. Inquire → How management will address
- 4. (A) If complete FS are revised and management approved → New audit report after management approval date with EOM
  - (B) If FS are amended → Auditor amend audit report with new procedure & issue dual date audit report with EOM
- 5. If Management do not revise FS, Either modify as per 705 or Notify management, not to issue report to third parties.

#### **FACTS AFTER FINANCIAL STATEMENTS ARE ISSUED**

**Facts after Financial Statements are issued** 

- 1. Discuss with management & TCWG
- 2. Determine →FS need to be amended
- 3. Inquire → How management will address
  - A) Carry out Audit Procedure
  - B) Revise steps taken by management
- 4. A) If complete FS are revised and management approved → New audit report after management approval date.
- 4. B) New audit report or amend the original audit report with EOM
- 5. If Management do not revise the FS, take legal support

#### AUDIT PROCEDURE FOR SUBSEQUENT EVENTS

#### **TYPE**

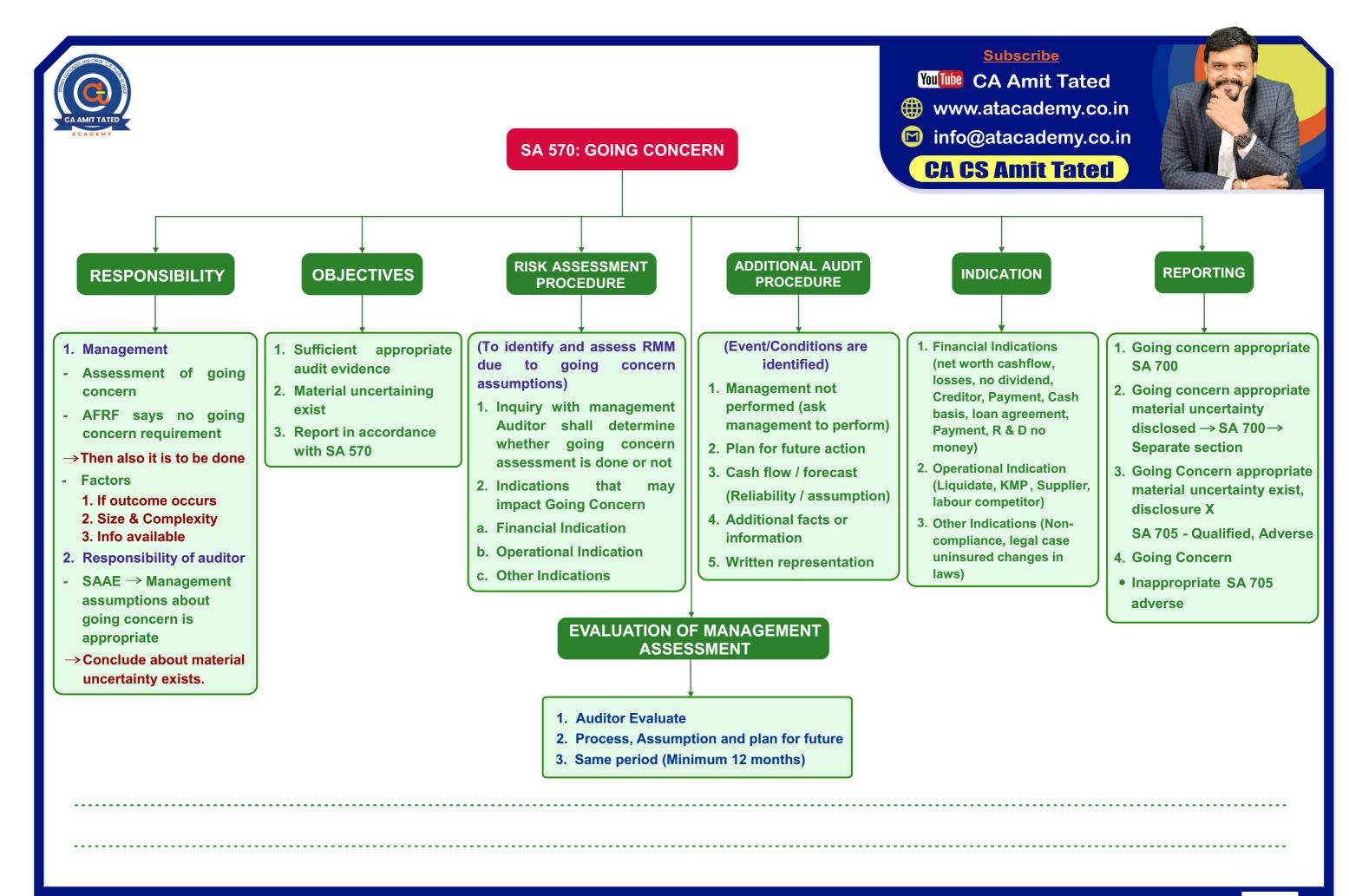
- 1. Type I adjusting events
- 2. Type II non-adjusting events

#### **PROCEDURE**

- 1. Understanding Procedures
- 2. Inquire with management
- 3. Read minutes of meetings
- 4. Read Interim FS, Cash flows and Budgets
- 5. Written representation.











#### **SA 580: WRITTEN REPRESENTATION**

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# **BASIC**

#### 1. It not SAAE alone

- 2. Corroborative
- 3. Reliable written representation will not substitute nature, extent of audit procedure

#### **OBJECTIVE**

- 1. Obtain written representation for management responsibility
- 2. To support other audit evidence
- 3. Respond

# DATE / PERIOD / FORM

- 1. Can be any date but before audit report
  - 2. For the period covered by audit
  - 3. In written form

# **OTHERS**

- 1. Financial statement
- a. A/c Policy ≈ AFRF
- b. Relevant Recognised, measured, presented, disclosed
- Asset & liability Valuation
- Liability Contingent liabilities
- Asset title / contract
- Law / Regulations
- 2. Deficiency in internal control (Management aware)
- 3. Other / Specific assertions
- 1. Past of entity ≈ Intension
- 2. Particular course of action
- 3. Ability to pursue course
- 4. Lack of other Info.

#### **MANAGEMENT RESPONSIBILITY**

#### 1. Preparation of FS

- **¥** Qualifying language can be accepted
- 2. Completeness of information
  - a. Relevant to FS
  - b. Access
  - c. Transactions -**Record Reflect**
- **★** WR necessary for management responsibility
- 1. Change in signing authority
- 2. No new terms
- 3. Miss -understanding
- 4. Changes in circumstances

#### **UNRELIABLE** / **UNAVAILABLE**

- 1. Discuss -**Management TCWG**
- 2. Re-evaluate integrity
- 3. Take appropriate actions
- ¥ If WR is not provided or WR is not reliable (Related to Responsibility of FS or Complete ness of Info)

Disclaimer of opinion

# **SA 205: Deficiency in Internal Control**

# **Matters / Factors**

- 1. Likelihood of DIC
- 2. Susceptibility of fraud / Error
- 3. Subjectivity and Complexity of A/C Estimates (Fair Value)
- 4. FS Exposed to DIC
- 5. Volume of Activity⇒occured / **Could occur in ABCD cause DIC**
- 6. Related→FR process (RP, Monitoring x, Application of A/C Policy, outside the normal course of Business)

# **Indicators**

- 1. Ineffective Control Environment
- a. Management Financially Interested
- b. Fraud
- c. Mgt  $\rightarrow$  Communicate  $\rightarrow$  DIC

**No Remedial Active** 

- 2. Risk Assessment x
- 3. RAvIneffective
- 4. RA∨Effective Response x
- 5. Mgt inability to oversee
- 6. Auditor identify DIC, why not mgt
- 7. Prior period are affected CY

★ If Law or regulations requires management responsibility to be public in such a case WR is not required.



# **CHAPTER-8- AUDIT REPORT**

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SA 700: FORMING AN OPINION AND REPORT ON FINANCIAL STATEMENTS

#### **OBJECTIVE**

- To form an opinion
- To express opinion through written report

#### **EVALUATION**

#### LACK OF NEUTRALITY:

- Selective correction of misstatements
- Management bias

#### SPECIFIC EVALUATION:

- 1. Disclosure of Accounting Policies
- 2. AFRF is appropriate
- 3. Accounting estimates are reasonable
- 4. Information is relevant, reliable, comparable, and understandable
- 5. Material Transactions
- 6. Appropriate title of each financial statement

#### **FACTORS FOR CONCLUSION**

- Sufficient appropriate audit evidence
- Uncorrected material misstatements
- Evaluations

#### **FORM OF OPINION**

- Unmodified
- Modified

#### **AUDIT REPORT**

- 1. Title
- 2. Addressee
- 3. Opinion (Entity, Audited Financial Statements, Title, summary, Date, Opinion)
- 4. Basis for opinion (Standards on Auditing, Responsibility, Ethical Requirement, SAAE)
- 5. Going Concern
- 6. Key Audit Matters
- 7. Management responsibility (Financial Statement Internal Control, Going Concern)
- 8. Auditor's Responsibility
- Section I (Reasonable assurance, Opinion, Guarantee, **Definition of Materiality)**
- Section II ● Prof Skepticism, Prof Judgement RMM,
  - Internal Control ●Policy estimates, disclosures,
  - structure, presentation, content,
  - going concern ◆SA 600

Section III - TCWG Objective & Scope → Independence, **Key audit matters** 

- 9. Location (Within body, appendix, annexure)
- 10. Other reporting
- 11. Signature
- 12. Place
- 13. Date

UDIN No.

#### Circumstances

- Financial Statements are materially misstated
- Unable to obtain sufficient appropriate audit evidence

#### **Types of Modified Opinion**

- 1. Qualified
- 2. Adverse
- 3. Disclaimer of Opinion

#### Unable to obtain SAAE due to LOS

- 1. LOS → Restriction
- 2. Communicate with:
- Management
- TCWG
- 3. Material but not Pervasive ← **Qualified Opinion**
- 4. Material & Pervasive
- Withdraw
- Disclaimer of Opinion
- 5. If withdrawn-check professional obligations

#### **Pervasive**

- 1. Not confined
- 2. Substantial
- 3. Non-disclosure

#### **Disclaimer of Opinion**

**SA 705: MODIFICATIONS TO THE OPINION IN** 

1. Key Audit Matter will be excluded

THE INDEPENDENT AUDITOR'S REPO

- 2. Auditor's responsibility para will not be in accordance with SA 700: Independence, Opinion, report, unable to obtain sufficient appropriate Audit evidence
- 3. Basis for disclaimer of opinion (para 4)
- 4. Opinion: We have been appointed

#### Basis for opinion (Para – 4)

**Description for Basis Paragraph** 

- 1. Financial Statements are materially misstated
- (a) Qualificable: **Description & Qualification**
- (b) Non-Qualificable: **Description & Mention**
- (c) Non-disclosure:-TCWG, Nature of information, **SAAE**, Disclosure
- (d) Narrative disclosures explanation
- 2. Unable to obtain sufficient appropriate Audit evidence Reason













#### SA 706: EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS

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#### **EMPHASIS OF MATTERS**

#### (a) Features

- 1. Separate Section
- 2. Reference to Financial statements
- 3. Opinion is not modified

#### (b) Restrictions:

- 1. SA 701
- 2. SA 705

#### (c) Examples

- 1. Contingent Liabilities
- 2. Early application of AFRI
- 3. Subsequent Events
- 4. Major Catastrophe

#### (d) Not a Substitute for

- 1. Disclosures
- 2. Going Concern
- 3. Modified Opinion

# **OTHER MATTERS**

#### (a) Features

- 1. Separate heading or other reporting responsibility
- 2. Laws or regulations are not prohibited

#### (b) Restrictions:

- 1. SA 701
- 2. Laws & Regulations

#### **Examples:**

- 1. Auditor want to resign
- 2. Laws and regulation (Sec. 143)
- 3. GPF, SPF Auditor is same

SA 710: COMPARATIVE INCORMATION CORPESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

#### **DEFINITION**

- (a) Corresponding **Figures** Opinion is on current year only
- (b) Comparative **Financial** Statement Opinion is on all the years.

#### **OBJECTIVE**

- (a) Obtain SAAE about comparative information
- (b) To report as per auditor's reporting responsibility

#### **SA 701: KEY AUDIT MATTERS**

#### Factors to Determine Key Audit **Matters**

- 1. Risk of material misstatements
- 2. Uncertainty
- 3. Significant Transactions

#### **Key audit Matters: Not a substitute for:**

- 1. Disclosures in financial statement
- 2. Going Concern (SA 570)
- 3. Modified Opinion (SA 705)
- 4. Not a separate opinion for individual matters.

#### **Corresponding Figures**

- (a) Previous Year -> Qualified, Adverse or disclaimer of Opinion (matter not resolved) **Current Year** → **Modified Opinion**
- (b) Previous Year → Unmodified Current Year → If material misstatement
- identified about previous Year then modified opinion for current year
- (c) Previous Year → Unaudited or audited by Predecessor auditor
  - Current Year → In other matter Para:
- 1. Previous Year Unaudited or predecessor auditor
- 2. Opinion Type, Reason
- 3. Date of Report

#### **Comparative Financial Statements**

(a) Previous Year → Modified Current Year → about previous year opinion may change → other matters para as per SA 706

#### Reason for change in opinion

- (b) Previous Year Unaudited or audited by predecessor auditor current year - In other matter para:
- 1. Previous year Unaudited audited by predecessor auditor
- 2. Opinion Type, Reason
- 3. Date of Report

#### **AUDIT PROCEDURE**

- (a) Opening Balance = Closing **Balance**
- (b) Accounting policies (consistency)
- (c) Previous Year's misstatements in current year.
- (d) Obtain written representation

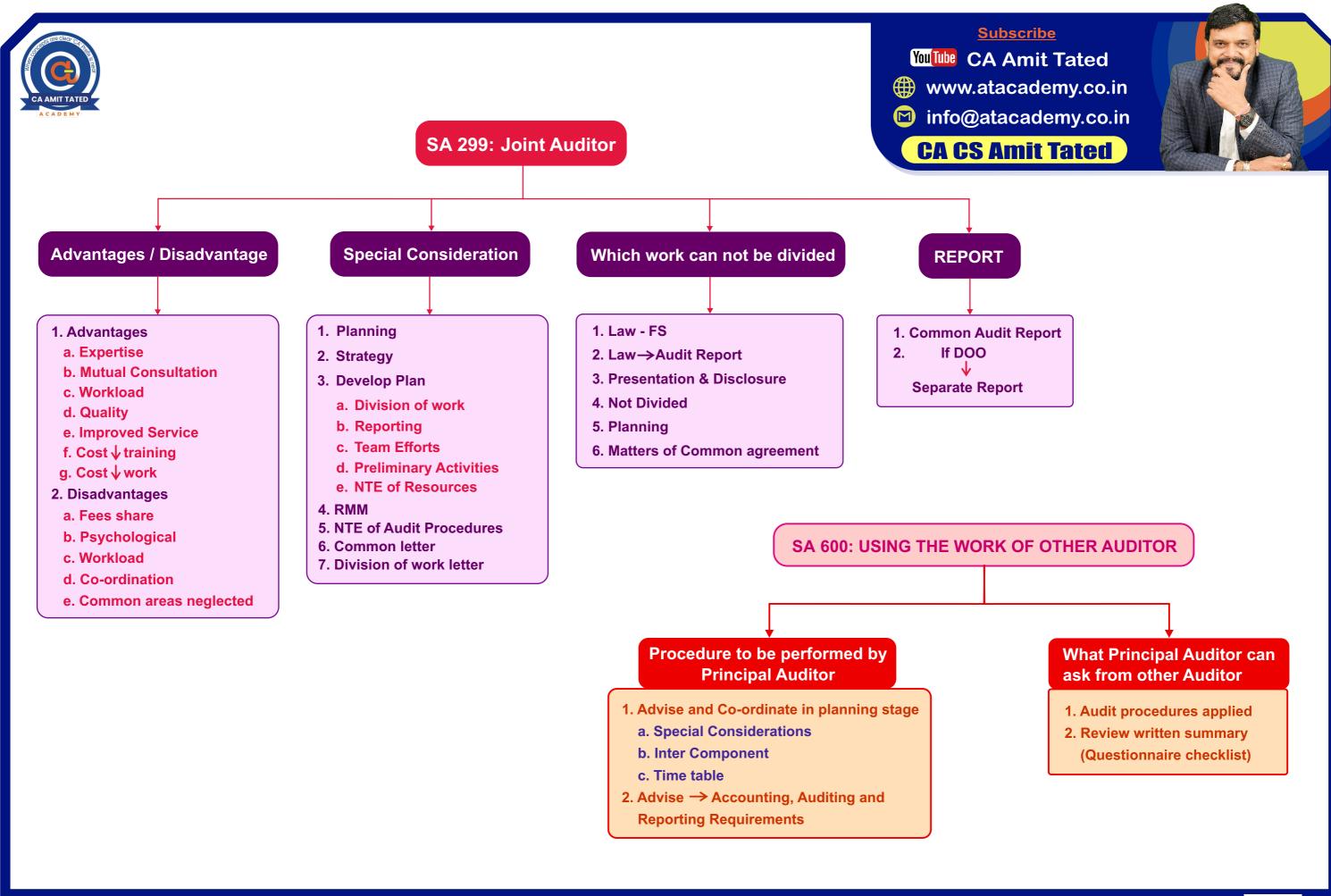




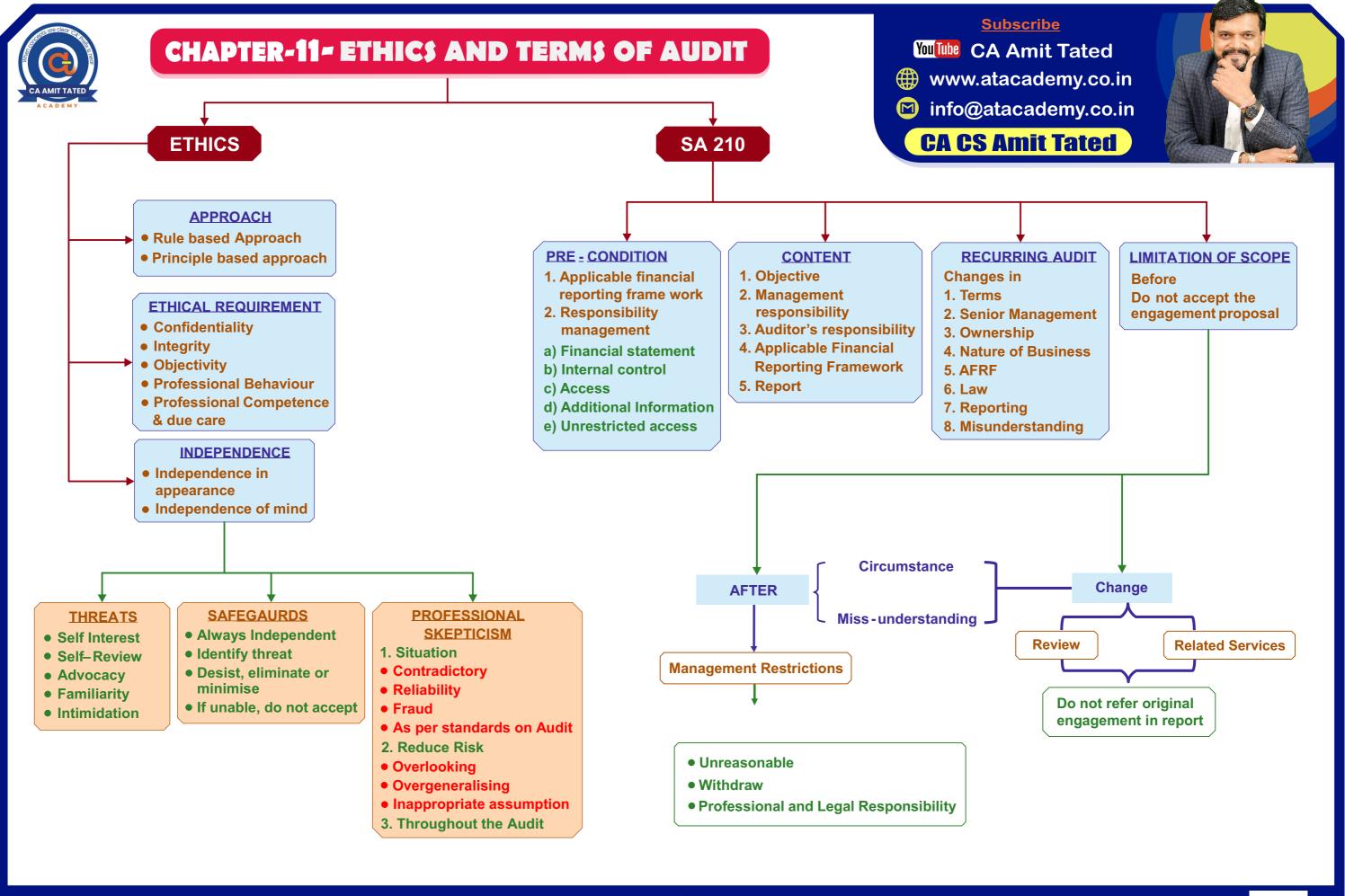


REPORTING RESPONSIBILITY













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# **SQC1 / SA 220**

# **ACCEPTANCE**

- 1. Capabilities, Competency resource, Time (CCRT)
- 2. Ethical requirement
- 3. Integrity
- a. Reputation
- b. Attitude
- c. Nature of business
- d. Money Laundering
- e. Change in Auditor
- f. Reduction in fees
- g. Limitation of Scope

# **LEADERSHIP**

#### SQC<sub>1</sub>

**Managing Partner or CEO** 

#### **SA 220**

- 1. Professional Standards Complying
- 2. Firm policy procedure comply
- 3. Appropriate report
- 4. Concerns
- 5. Essentials (Quality control)

# ETHICAL REQUIREMENT

#### SQC1

- 1. Communicate
- 2. Identify threats
- 3. Mechanism
- **4. Annually Written Confirmation**

#### SA-220

- 1. Safeguard
- 2. Discuss with relevant person

# **DOCUMENTATION**

#### **SA 220**

- 1. Ethical requirement
- 2. Independence
- 3. Acceptance & Continuance
- 4. Consultation

#### SA-220-EQCR

- 1. EQCR Appoint
- 2. Significant Matters
- 3. Date of Audit report after Review

# **HUMAN RESOURCE**

#### SQC-1

1. HR-Policy Procedure for recruitment training, compensation, carrier development

#### **SA-220**

**Engagement partner shall select** competent and have capable team members

# **ENGAGEMENT PERFORMANCE**

#### SQC-1

**Engagement Performance – Briefing, Supervision complying review, documentation** 

Consultation: Within or outside the firm or both

**EQCR** – Mandatory for audit of listed company.

DOO – Policy procedure should resolve this and before resolution, no issue of report.

Compilation – Assembly within 60 days from date of Audit report

Retention – 7 years from the date of Audit Report.