

Chapter 1 “Quality Control and Engagement Standards”

SQC – 1 “Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements”

All firms to have system of quality control that provides reasonable assurance that: (a) Firm & personnel comply with professional standards, regulatory & legal requirements, and (b) Reports issued by firm or partners are appropriate in the circumstances.

Leadership Responsibilities for Q. C.	Ethical requirements	Independence	Client Acceptance/Continuance	Human Resources	Engagement Performance	Monitoring
<p>(a) Promote internal culture w.r.t.:</p> <ul style="list-style-type: none"> essential of quality in engagements. Compliance with professional standards, regulatory / legal requirements. Issue of reports appropriate in circumstances. <p>(b) Require CEO/ managing partner to assume ultimate responsibility for QC.</p> <p>(c) Recognise & reward high quality work.</p>	<p>Establish policies & procedures to reasonable assure that Firm & personnel comply with relevant ethical requirements of</p> <ol style="list-style-type: none"> Integrity. Objectivity. Professional competence & due care. Confidentiality. Professional behaviour. 	<p>Policies & procedures should enable:</p> <ul style="list-style-type: none"> Communication of independence requirements to personnel & others. Identification of circumstances threatening independence. Take appropriate action for elimination of threats / withdrawal from engagement. Resolution of breaches of independence. <p><u>Maintenance of independence of personnel</u></p> <ul style="list-style-type: none"> Engagement partners to provide firm with relevant information about client. Prompt notification of threats to independence. Accumulation & communication of relevant information to appropriate personnel. 	<p>Establish policies/ procedures to reasonable assure that clients are accepted/ continued only where:</p> <ul style="list-style-type: none"> Client integrity has been considered. Firm is competent to perform engagement w.r.t. capability, time & resources. Firm can comply with ethical requirements. 	<p>Establish policies / procedures to reasonable assure that:</p> <ul style="list-style-type: none"> Firm has sufficient personnel with capabilities, competence & commitment to ethical principles & Responsibility of engagement partner clearly defined & communicated to him/ her. 	<p>Establish policies / procedures to reasonable assure w.r.t.:</p> <ul style="list-style-type: none"> Compliance with professional standards. Compliance with laws/ regulations. Engagement partner issues reports that are appropriate in the circumstances. <p>Important aspects of engagement performance</p> <ul style="list-style-type: none"> Supervision. Review. Consultation. Differences of opinion. Engagement Q. C. review. Engagement documentation. 	<p>Establish Policies & procedures to reasonable assure that QC policies/ procedures are:</p> <ul style="list-style-type: none"> Relevant. Adequate. Operating effectively. Complied with in practice.

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SA 200 (Revised) “Overall Objectives of the Independent Auditor & Conduct of audit in accordance with SAs

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- (a) To obtain reasonable assurance about whether the F. S. as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the F.S. are prepared, in all material respects, in accordance with an applicable FRF.

(b) To report on the F.S. and communicate as required by the SAs, in accordance with the auditor’s findings.
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Aspects to be considered by Auditor while performing Audit					Other Explanation
Ethical Requirements	Professional Skepticism	Professional Judgment	Sufficient Appropriate audit Evidence	Conduct of Audit in accordance with SAs	
<ul style="list-style-type: none"> • Comprise Code of Ethics issued by ICAI including independence. • The fundamental principles are: <ol style="list-style-type: none"> 1. Integrity 2. Objectivity 3. Professional competence & due care 4. Confidentiality, & 5. Professional behaviour • Independence comprises both independence of mind and independence of appearance. 	Attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.	The application of relevant training, knowledge and experience, <ul style="list-style-type: none"> • within the context provided by auditing, accounting and ethical standards, • in making informed decisions about the courses of action • that are appropriate in the circumstances of the audit engagement. 	<ul style="list-style-type: none"> • Sufficiency refers to quantum and Appropriateness refers to quality. • Purpose: To reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. • Audit Risk: Risk that the auditor expresses an inappropriate audit opinion when the F.S. are materially misstated. • Audit Risk is a function of the RMM and detection risk. 	<ul style="list-style-type: none"> • The auditor shall comply with All SAs relevant to the audit. • Compliance with SA is to be specified in Audit report only in case of actual compliance. • To achieve overall objectives of audit, use the objective stated in Individual SAs. • In case Entire SA is not relevant due to non-existence of prescribed conditions, comply with relevant requirements. • In case of failure to achieve an objective determine the need of modified opinion or withdrawal. 	Scope of Audit
	Alertness is required w.r.t. <ol style="list-style-type: none"> 1. Contradictory audit evidence. 2. Reliability of documents. 3. Conditions indicating possible frauds. 4. Circumstances requiring audit procedures in addition to those suggested in SAs. 	It is required w.r.t.: <ul style="list-style-type: none"> • Materiality & audit risk. • NTE of audit procedures. • Evaluating sufficiency & appropriateness of audit procedures. • Evaluating management judgment in applying applicable FRF. • Drawing conclusions based on audit evidence. 			Preparation of F.S.
					(a) Nature of Financial reporting: involves judgment by Mngt. based on facts and circumstances. (b) Nature of audit Procedures: directed towards obtaining reasonable assurance. (c) Balance between benefit and cost: user expectation to get AR within a reasonable period and at reasonable cost.

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SA - 210 (Revised) - "Agreeing the Terms of Engagement"

Objective of Auditor: To accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed with the client.

Agreeing the terms of audit Engagement

At the Beginning of Audit

During the Course of Audit

Initial audit Engagement

Recurring Audit

Mngt. request for changes in terms

Limitations Imposed by mngt.

No Limitations Imposed by Mngt.

Determine requirements w.r.t.:

Determine its effect on Level of Assurance & reasonable Justification

Do not accept unless required by law

Ascertain existence of **Preconditions**

(a) Revision of terms of Engagement; &
(b) Remind the entity of existing terms

Preconditions for an audit

1. Determine whether the FRF is acceptable.
2. Obtain agreement of mngt that it understands its responsibilities for:
 - (a) Preparation of F.S.
 - (b) Exercising necessary Internal Controls to enable the preparation of F.S. that are free from material misstatements.
 - (c) To provide the auditor:
 - Access to all relevant info.
 - Additional info that auditor requests from mngt.
 - Unrestricted access to persons within the entity.

Exist

Not Exist

Required

Not Required

Auditor Satisfied

Not Satisfied

Accept Audit

Discuss matter with Mngt.

Send New Engagement Letter

No Further Duty

Record New Terms in Engagement Letter

Do not accept the changes

Do not accept audit in case of:

- (a) Unacceptable FRF
- or
- (b) Mngt. does not agree with responsibilities

CIRCUMSTANCES REQUIRING REVISION IN TERMS

- Indications that the entity misunderstands the objective and scope of the audit.
- Revised or special terms of engagement.
- Recent change of senior management.
- Significant change in ownership.
- Significant change in nature or size of the entity's business.
- Change in legal or regulatory requirements.
- Change in FRF adopted in the preparation of the F.S.
- A change in other reporting requirements.

Mngt. not permit the auditor to continue

Withdraw & Report to appropriate authority

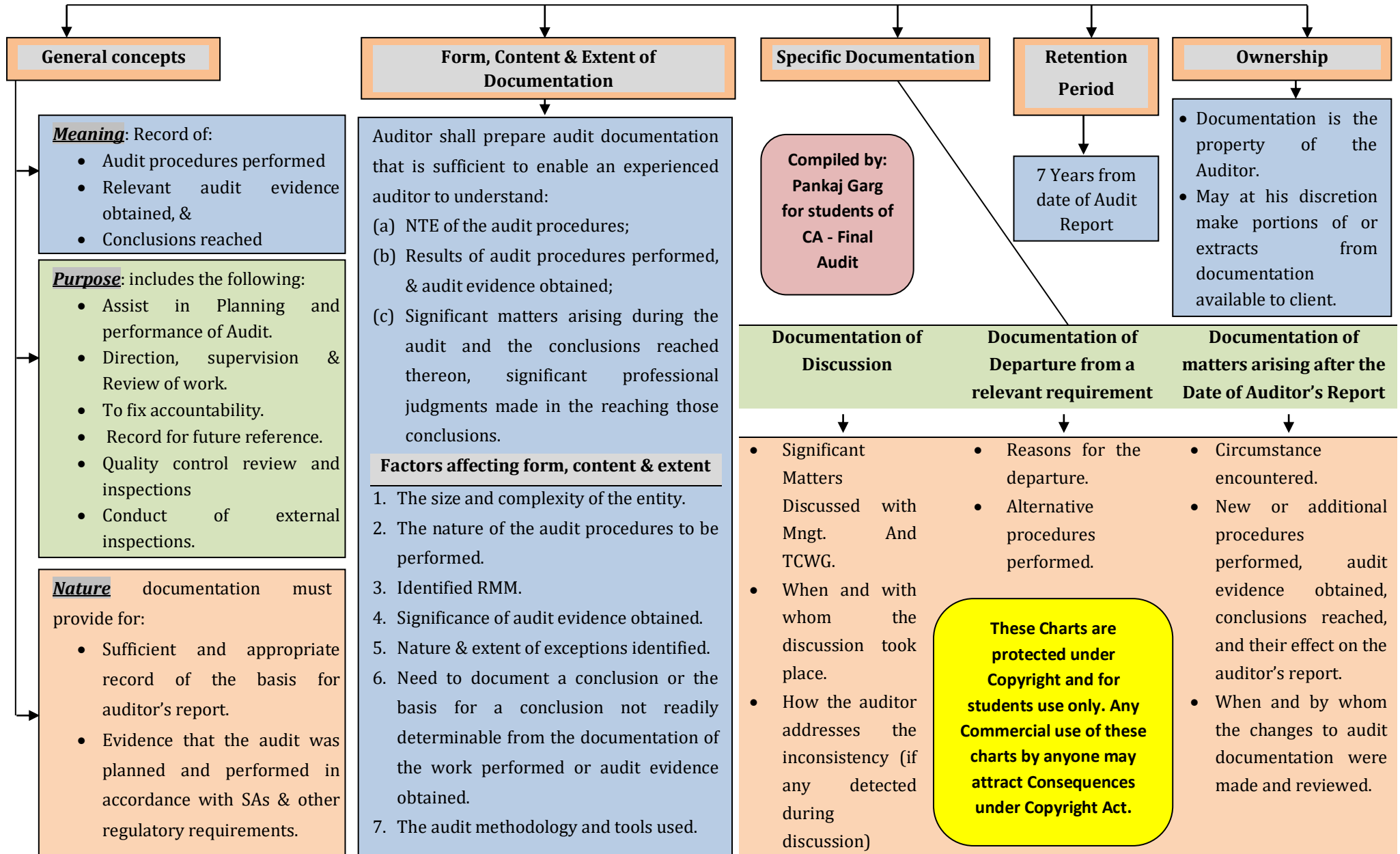
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SA - 220 (revised) "Quality Control for an audit of F.S."

Objective: Implement QC Policies that provide Reasonable Assurance that audit complies with professional standards and audit report issued is appropriate

Leadership Responsibilities	Ethical Requirements	Independence	Acceptance / Continuance of Client relationship	Assignment of Engagement Team	Engagement Performance	Monitoring
<p>EP should emphasize the following:</p> <ul style="list-style-type: none"> Compliance with professional Standards and legal requirements. Compliance with firm's Q.C. Policies. Issuance of appropriate audit report. Ability to raise concerns without fear. Quality is essential & indispensable in engagement performance. 	<p>EP to remain alert for evidence of non-compliance with relevant ethical requirements by ET through:</p> <ul style="list-style-type: none"> Inquiry. Observation. <p>If there is an indication of non-compliance with relevant ethical requirements, EP should:</p> <ul style="list-style-type: none"> Consult others in the firm. Determine appropriate action. <div style="border: 1px solid black; border-radius: 15px; padding: 5px; text-align: center; margin-top: 10px;"> <p>Compiled by: Pankaj Garg for students of CA - Final Audit</p> </div>	<div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Form a conclusion on compliance with applicable independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Obtain relevant information from Firm</div> <p>↓</p> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Identify & Evaluate circumstances & Relationship that threatens independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Evaluate information on identified breaches.</div> <p>↓</p> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Determine if these threaten independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Take appropriate action to eliminate such threats</div> <p style="text-align: center;">or</p> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Promptly report inability to take appropriate action to</div>	<ul style="list-style-type: none"> Be satisfied that appropriate procedures regarding client acceptance / continuance have been followed. Determine whether conclusions reached are appropriate. <p style="text-align: center;">↓</p> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">If EP obtains information that would have caused firm to withdraw the engagement, communicate information promptly to firm</div> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p style="text-align: center;">Examples of Information</p> <ol style="list-style-type: none"> Integrity of Principal Owners, Mngt & TCWG Competency of ET to perform engagement. Availability of necessary capabilities, including time & resources. Compliance with relevant ethical requirements. Significant matters that arises during the current or previous audit engagement. </div>	<p>EP to be satisfied that ET & Auditor's Expert not part of ET has appropriate competence & capabilities to:</p> <ul style="list-style-type: none"> Perform audit engagement in accordance with professional standards and regulatory or legal requirements, and Enable an AR that is appropriate in the circumstances. 	<p>1. Direction, Supervision and performance:</p> <ul style="list-style-type: none"> EP shall take the responsibility for directions, supervision & performance of audit engagement in compliance with standards & regulatory requirements, & to make an appropriate AR. <p>2. Reviews:</p> <p>EP shall take the following responsibilities:</p> <ol style="list-style-type: none"> Reviews are being performed in accordance with policies / procedures. Be Satisfied that SAAE has been obtained to support the conclusions reached and AR to be issued through <ul style="list-style-type: none"> Review of Audit Documentation. Discussion with ET <p>3. Consultation:</p> <p>EP shall undertake consultation</p> <ul style="list-style-type: none"> wherever required. Ensure its implementation <p>4. Engagement Quality Control Review: required in case of listed entities.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> <p style="text-align: center;">Matters to be evaluated by EQCR</p> <ul style="list-style-type: none"> Discussion of significant matters with ET. Review of FS & proposed audit report. Review of selected audit documentation Evaluation of conclusions reached. Considering whether proposed audit report is <u>appropriate</u>. </div> <p>5. Differences of Opinion: follow the firm's policies & procedures for dealing with and resolving differences of opinion.</p>	<p>Obtain reasonable assurance that firm's policies / procedures relating to QC are relevant, adequate, and operating effectively.</p> <p>Consider:</p> <ul style="list-style-type: none"> Results of firm's monitoring process. Whether deficiencies noted may affect the engagement.

SA - 230 (Revised) - Audit Documentation



SA 240 (Revised) - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Meaning and Nature of Fraud

Meaning: Intentional Act involving use of deception to obtain an unjust or illegal advantage.

Auditor is concerned with Fraud that causes **Material Misstatement.**

Misstatement may result from:

- | | |
|----------|---|
| A | Fraudulent Financial Reporting <ol style="list-style-type: none"> 1. Recording fictitious journal entries to manipulate operating results. 2. Inappropriate assumptions. 3. Changing judgments to estimate account balances. 4. Omitting, advancing or delaying recognition of events and transactions occurred during the year. 5. Concealing facts that affect the amount recorded in F.S. 6. Engaging in Complex Transactions that are structured to misrepresent the financial position or financial performance. 7. Altering records relating to significant transactions. |
| B | Misappropriation of Assets <ol style="list-style-type: none"> 1. Embezzling receipts. 2. Stealing physical assets. 3. Causing an entity to pay for goods and services not received. 4. Using entity assets for personal use. |

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Fraud Risk Factors / Characteristics of Fraud

- **Incentive or pressure to Commit Fraud:**
Arises when mngt is under pressure to achieve an unrealistic target.
- **Perceived opportunity to do so:**
Arises when an individual believes that internal control can be overridden.
- **Rationalization to do so:**
Arises when an individual possesses an attitude or character that allows them knowingly and intentionally to commit a dishonest act.

Risk associated for non-detection of material misstatements

- Due to Inherent limitations there is always an unavoidable risk of material misstatement in F.S. due to Fraud.
- Risk of non-detecting a material misstatement resulting from fraud is higher than the risk of non-detecting one resulting from error.
- Risk of Material Misstatements due to Management Fraud is higher than due to Employee Fraud.

Conditions or events which increases risk of fraud or error

1. **Discrepancies in Accounting Records:** arises due to improper recording, unauthorised transactions, last minute adjustments.
2. **Conflicting or missing evidences:** missing documents, altered documents, non-availability of original documents, unexplained items etc.
3. **Unusual relationship between auditor & mngt:** undue time pressure, unusual delay in providing info, unwillingness to address weaknesses in IC.
4. **Others:** Mngt not allowing auditor to meet with TCWG, varied accounting policies, frequent changes in accounting estimates.

Management Duties

Primary responsibility for prevention & detection of fraud rests with Mngt and TCWG

To ensure prevention of fraud Mngt. must have a commitment to create a culture of honesty and Ethical behaviour.

Auditor's Responsibilities

To obtain reasonable assurance that F.S. as a whole are free from material Misstatements.

Maintain an attitude of Professional Skepticism

Circumstances indicate existence of material Misstatement

Consider whether such a misstatement is an indication of Fraud. If Fraud identified:

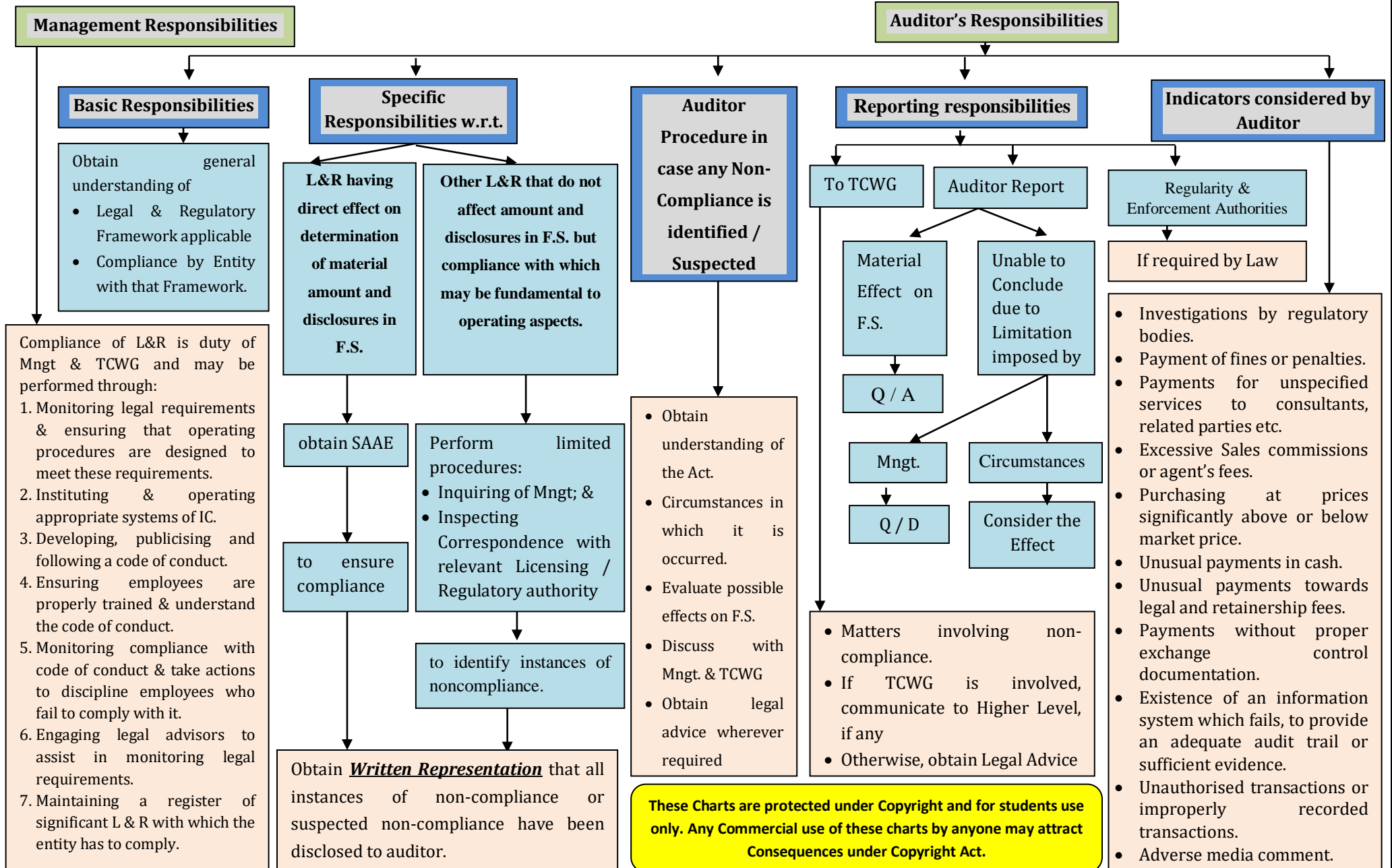
Communicate to Mngt. & TCWG (also to Regulatory & Enforcement authorities, if required by Law)

Auditor unable to complete the engagement.

Consider the Possibility of withdrawing.

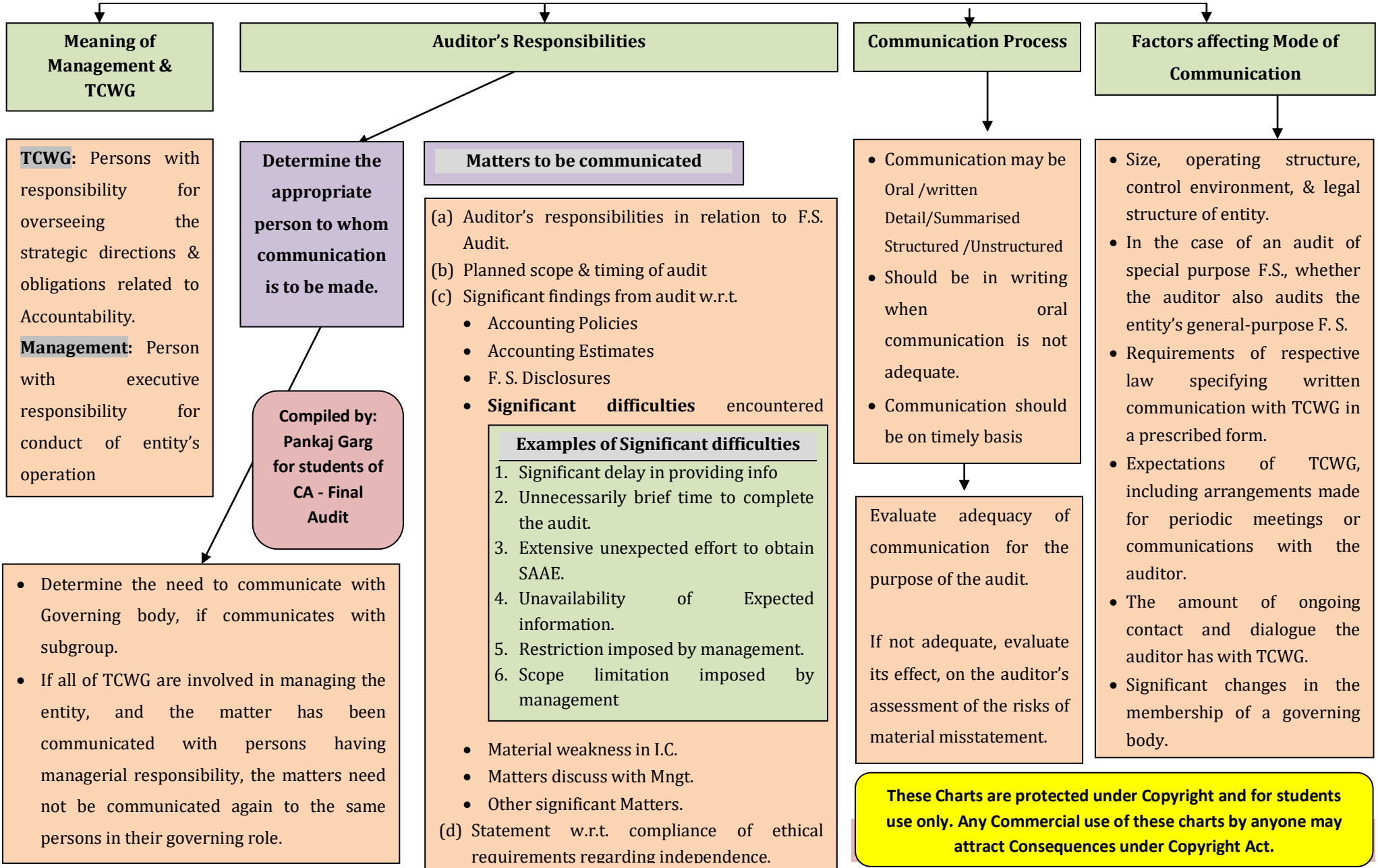
- If withdraw:
- Discuss with Mngt & TCWG, &
 - Report to appropriate persons

SA 250 (Revised) "Consideration of Laws and Regulations in an Audit of F.S."



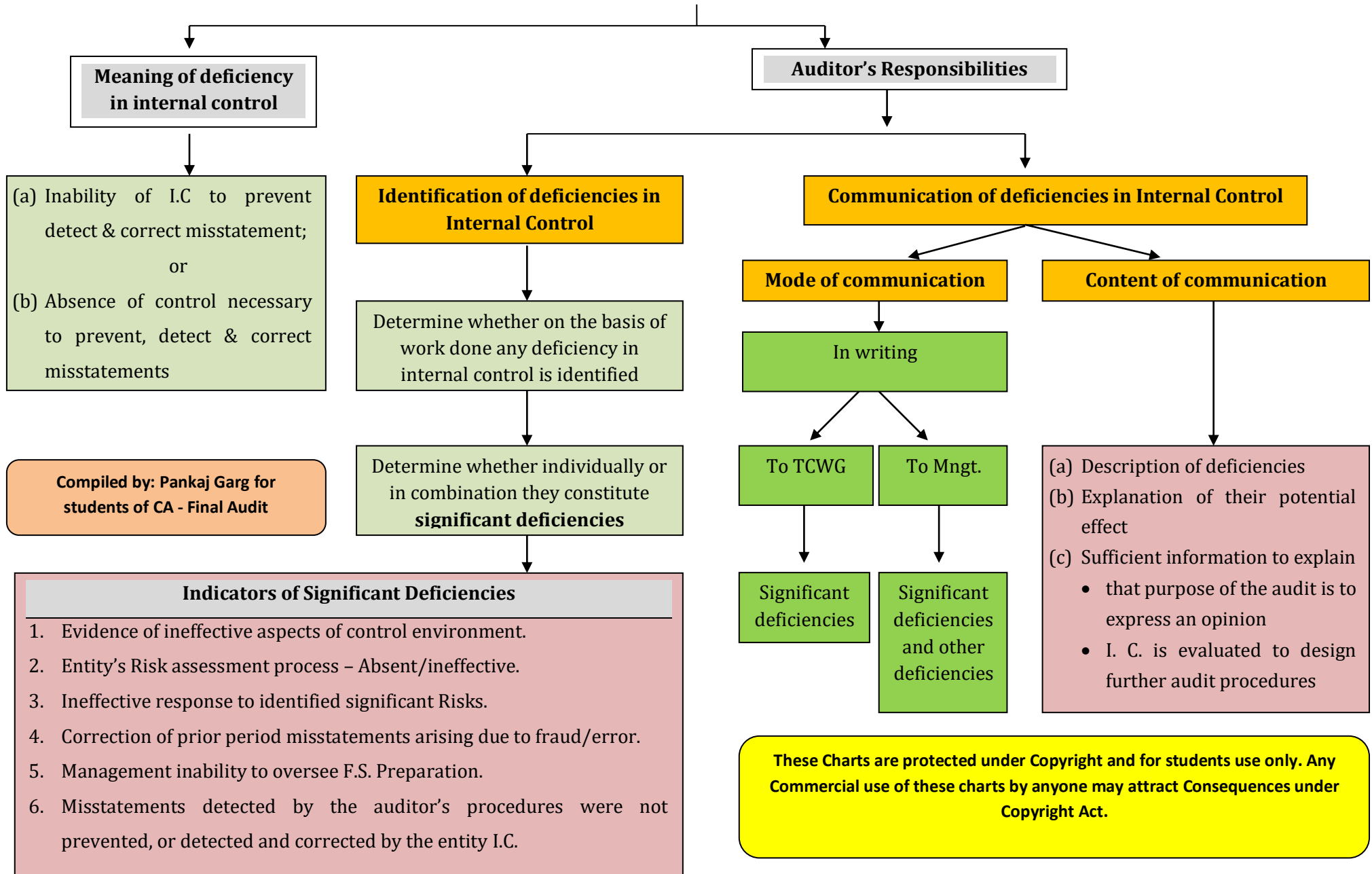
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SA 260 (Revised) - "Communication with TCWG"



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



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- Indicators of Significant Deficiencies**
1. Evidence of ineffective aspects of control environment.
 2. Entity’s Risk assessment process – Absent/ineffective.
 3. Ineffective response to identified significant Risks.
 4. Correction of prior period misstatements arising due to fraud/error.
 5. Management inability to oversee F.S. Preparation.
 6. Misstatements detected by the auditor’s procedures were not prevented, or detected and corrected by the entity I.C.

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SA 299 (Revised) "Joint Audit of Financial Statements"

A joint audit is an audit of F.S. of an entity by two or more auditors appointed with the objective of issuing the audit report. Such auditors are described as joint auditors.

Audit Planning and Allocation of Work

1	<p>Development of Audit Plan</p> <p>In developing the joint audit plan, joint auditors shall:</p> <ol style="list-style-type: none"> a. Identify division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor; b. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required; c. Consider & communicate among all joint auditors the factors that, in their professional judgment, are significant in directing engagement team's efforts; d. Consider the results of preliminary engagement activities. e. Ascertain the NTE of resources necessary to perform the engagement.
2	<p>Allocation of Work</p> <ul style="list-style-type: none"> • Joint auditors should, by mutual discussion, divide the audit work among themselves. • The division of work would usually be in terms of audit of identifiable units or specified areas. • In some cases, due to the nature of the business of the entity under audit, such a division of work may not be possible. In such situations, the division of work may be with reference to items of assets or liabilities or income or expenditure. • Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors. <p style="text-align: center;">Documentation of Work Allocated</p> <ul style="list-style-type: none"> • The work allocation document shall be signed by all the joint auditors & same shall be communicated to TCWG. • Documentation of allocation of work helps in avoiding any dispute or confusion which may arise among the joint auditors regarding the scope of work to be carried out by them. • Communication of allocation of work to the entity helps in avoiding any dispute or confusion which may arise between the entity and the joint auditors.

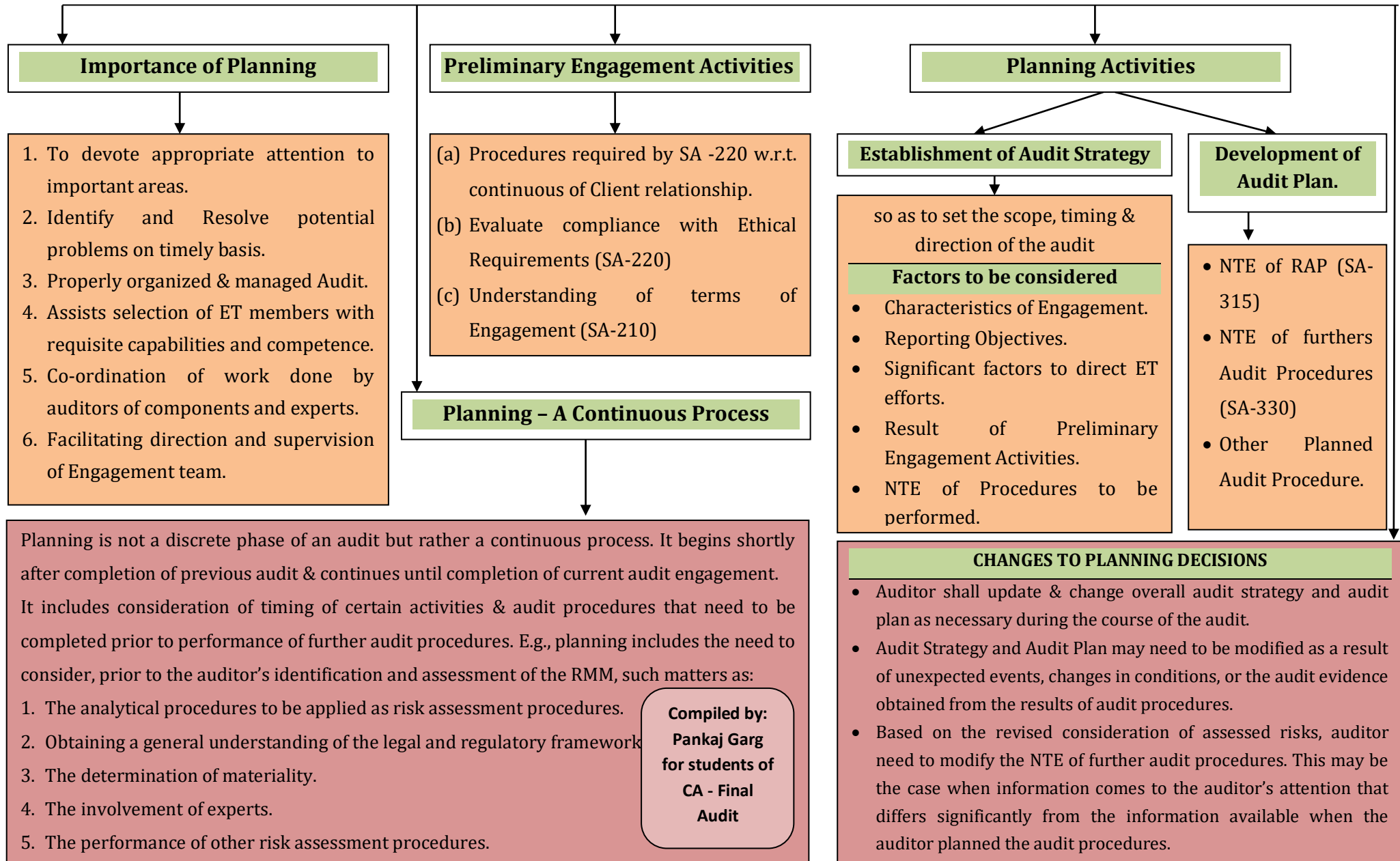
Responsibility of Joint Auditors

- In respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures.
- All joint auditors shall be jointly & severally responsible for:
 - a. audit work which is not divided among the joint auditors and is carried out by all joint auditors;
 - b. decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the NTE of the audit procedures to be performed by each of the joint auditors.
 - c. matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
 - d. examining that the F.S. of the entity comply with the requirements of the relevant statutes;
 - e. presentation and disclosure of the F.S. as required by the applicable FRF;
 - f. ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI.
- It shall be the responsibility of each joint auditor to determine the NTE of audit procedures to be applied in relation to the areas of work allocated to said joint auditor.
- It is the individual responsibility of each joint auditor to study and evaluate the prevailing system of internal control and assessment of risk relating to the areas of work allocated to said joint auditor.

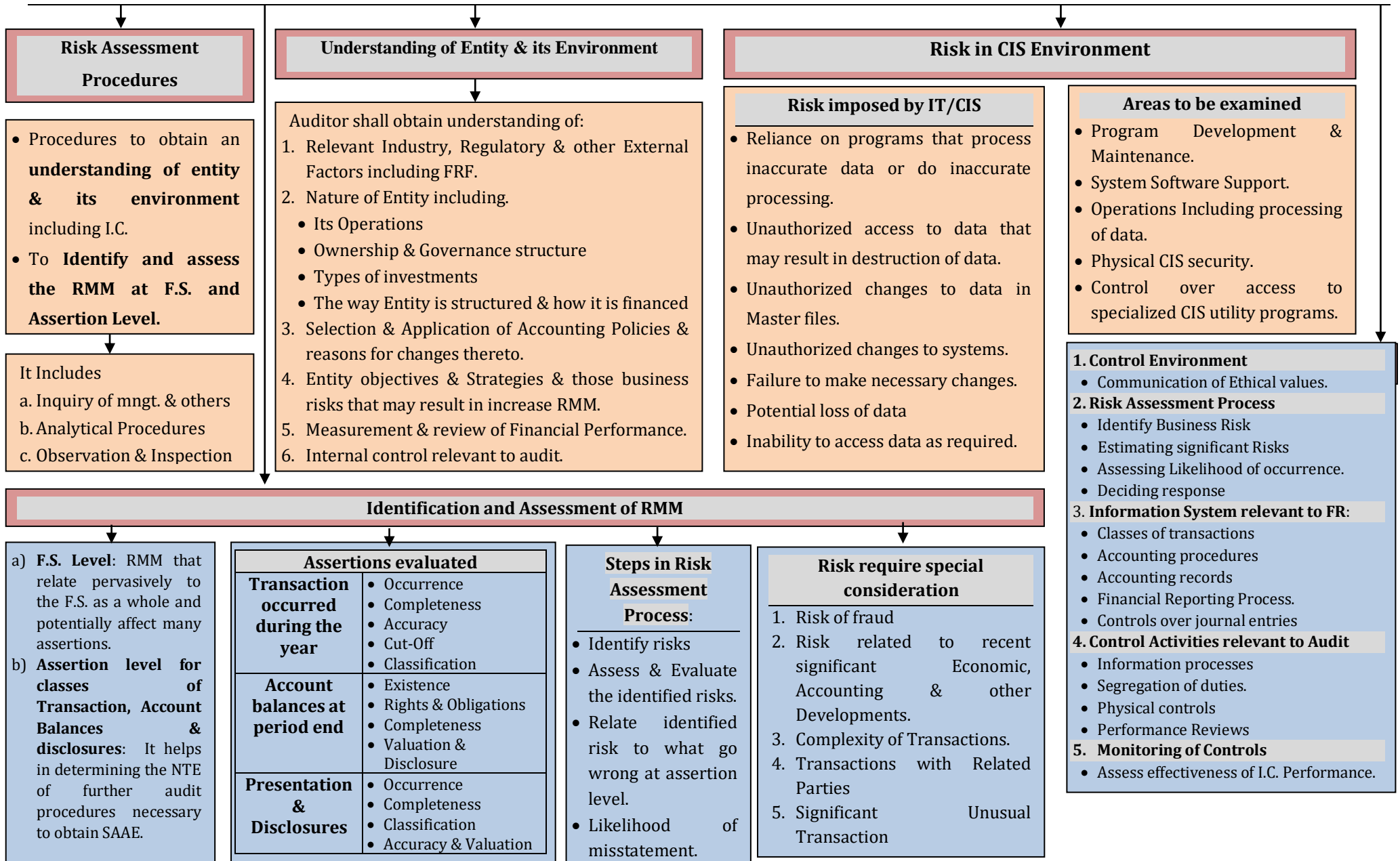
Audit Conclusion and Reporting

1	<p>Reporting Requirements</p> <ul style="list-style-type: none"> • Joint auditors are required to issue common audit report. • However, in case of any disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report. • A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report. • In case of separate reports, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s). Such reference shall be made under the heading "Other Matter Paragraph" as per SA 706.
2	<p>Review of work by other joint auditor</p> <ul style="list-style-type: none"> • Each joint auditor is entitled to assume that the other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the SAs. • It is not necessary for a joint auditor to review the work performed by other joint auditors. • Each joint auditor is entitled to assume that the other joint auditors have brought to said joint auditor's notice any departure from applicable FRF or significant observations that are relevant to their responsibilities noticed in the course of the audit.

SA 300 (Revised) – Planning in an audit of Financial Statements



SA 315 (Revised) - Identifying and Assessing the Risk of Material Misstatements through understanding the Entity and Its Environment.



SA 320 (Revised) "Materiality in Planning and Performing an Audit"

Concept of Materiality

Materiality is a subject of professional judgment and discussion presented in FRF provides a reference to the auditor in determining materiality.

If FRF does not include a discussion, following can be referred:

- (a) Misstatements including omissions expected to influence the economic decision of users.
- (b) Size or nature of misstatement & the surrounding circumstances.
- (c) Common financial information needs of the users as a group.

Judgment of materiality provides a basis for:

- (a) Determination of NTE of RAP
- (b) Identifying and assessing RMM.
- (c) NTE of further audit procedures.

Performance Materiality

- The amount set by auditor at
- less than materiality for F.S as a whole
- to reduce to an appropriately low level
- the probability that the aggregate of the uncorrected & undetected misstatement
- exceeds materiality for F. S. as a whole

Revision of Materiality

- In event of becoming aware of information that would have caused auditor to have determined a different amount initially, auditor shall revise materiality for the F.S. as a whole & if required, for particular classes of transactions, account balances or disclosures.
- If the auditor concludes that a lower materiality than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the NTE of the further audit procedures remain appropriate.

Auditor's Duties

- (a) Upon establishing the overall audit strategy, the auditor shall determine the materiality for the F. S. as a whole.
- (b) Determine the materiality level for specific transactions for which misstatements of lower amount be expected to influence the economic decisions of users.
- (c) Determine performance materiality for purpose of assessing the RMM and determining the NTE of further audit procedures.

Use of benchmark in determining Materiality

A %age is often applied to a chosen benchmark as a starting point in determining materiality for the F.S. as a whole.

Factors affecting identification of appropriate benchmark

1. The elements of the financial statements;
2. Items on which the attention of the users of the particular entity's financial statements tends to be focused;
3. The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
4. The entity's ownership structure and the way it is financed; and
5. The relative volatility of the benchmark.

SA - 330 "Responses to Assessed Risks"

Objective: To obtain Sufficient and Appropriate Audit Evidence about Assessed Risk of Material Misstatement through design and implementing Appropriate Responses

Tests of Controls

Procedures designed to evaluate the operating effectiveness of controls in preventing, detecting or correcting material misstatements at assertion level.

Obtain audit evidences w.r.t. (a) Application of controls (b) Consistency of application
(c) By whom & by what means they applied

Evaluate the audit evidences

Material weaknesses identified

Communicate to Mngt. & TCWG - on timely basis

Substantive Procedures

Procedures designed to detect material misstatements at assertion level.
It comprises of:

- a) Test of details (of classes of transactions, Account Balances and Disclosures); &
- b) Substantive Analytical Procedures

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External Confirmation (EC) procedures as substantive procedures	Auditor shall consider whether EC procedures are to be performed as substantive audit procedures. Factors that may assist the auditor are: 1. Confirming party knowledge of Subject Matter. 2. Ability or Willingness of intended confirming part to respond. 3. Objectivity of Intending Party.
Closing Process	<ul style="list-style-type: none"> • Reconciling F.S. with underlying accounting records. • Examine Material Journal Entries & other adjustments made during the course of preparing the F.S.
Significant Risks	Procedures that are specifically responsive to that risk needs to be applied

Timing: When Substantive procedures are applied for interim period, the auditor shall cover remaining period by appropriate procedures

Special Considerations

Using Audit Evidence obtained in Interim Period:

- Obtain audit Evidence for significant changes subsequent to Interim Period.
- Determine the additional Evidence to be obtain for remaining period.

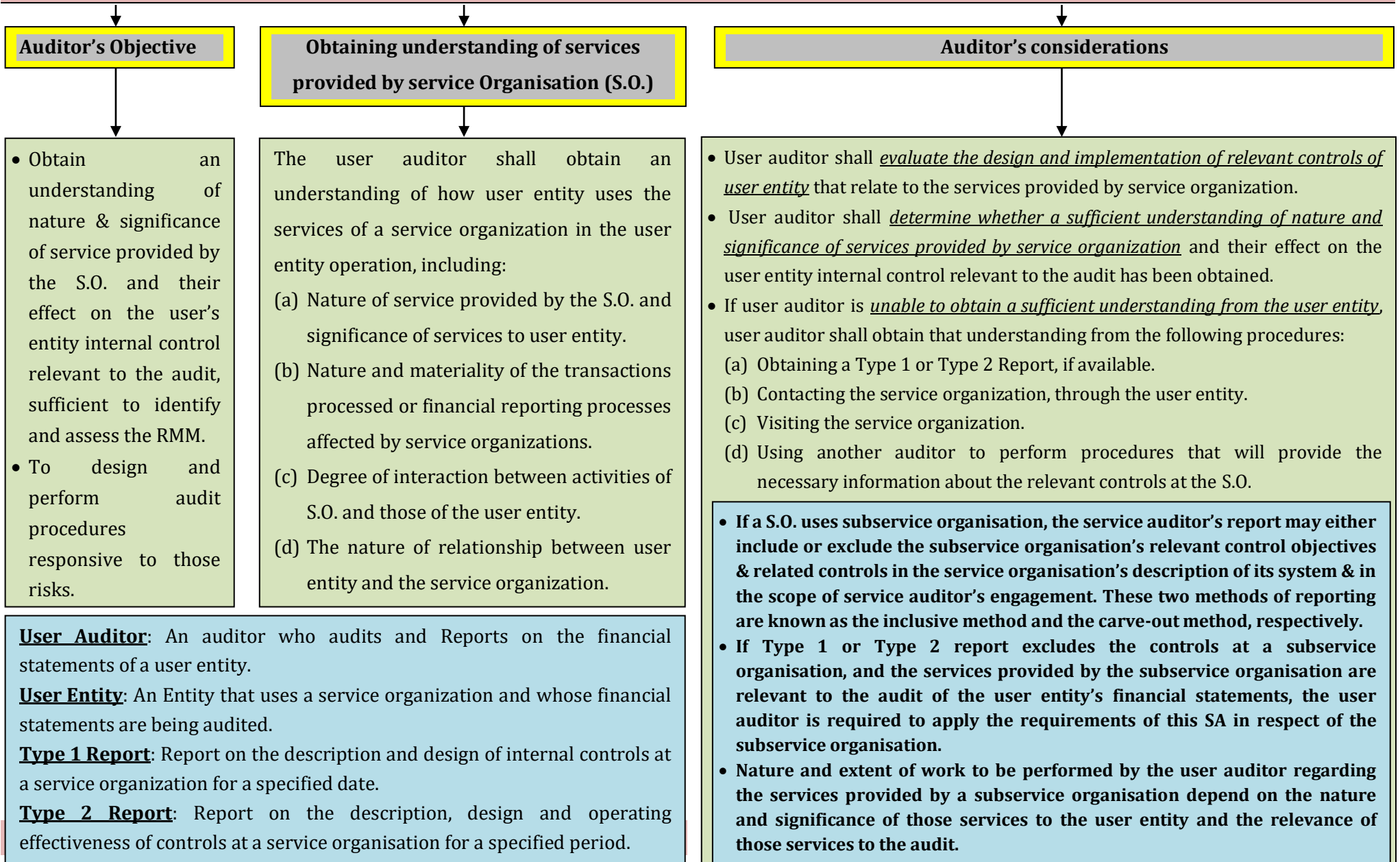
Using Audit Evidence obtained during previous audits: Establish Continuing relevance of that evidence by determining significant changes subsequent to previous audit

- Changes occurs: Test the controls in current audit
- No Change Occurs: Test the controls once in three audits

Factors warranting re-test of controls

1. Deficient control environment.
2. Deficient monitoring of controls.
3. Significant manual element to relevant controls.
4. Personnel changes that significantly affect the application of control.
5. Changing circumstances that indicate the need for changes in the control.
6. Deficient general IT-controls.

SA 402 (Revised) – Audit Considerations relating to an Entity Using a Service Organisation



SA 450 "Evaluation of Misstatements Identified during the Audit"

Meaning and Causes of Misstatements

Difference between amounts, classification, presentation or disclosure of a reported financial statement item, **and** amount, classification, presentation or disclosure that is required for the item to be in accordance of FRF.

Causes of Misstatement

- (a) Inaccuracy in gathering or processing data from which the F.S. are prepared;
- (b) Omission of an amount or disclosure;
- (c) Incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and
- (d) Unreasonable judgments of management concerning accounting estimates.
- (e) Inappropriate selection & application of accounting policies

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Auditor's Procedures if Misstatements identified

Accumulate the misstatements other than those that clearly trivial

Communicate to management & request them to correct.

Management corrects

Perform Additional Procedures to determine whether misstatements remain.

Management refuses

Understand the reason for not making corrections

Re-assess the materiality

If material, communicate uncorrected misstatement and their effect on his opinion to TCWG with a request that uncorrected misstatements be corrected.

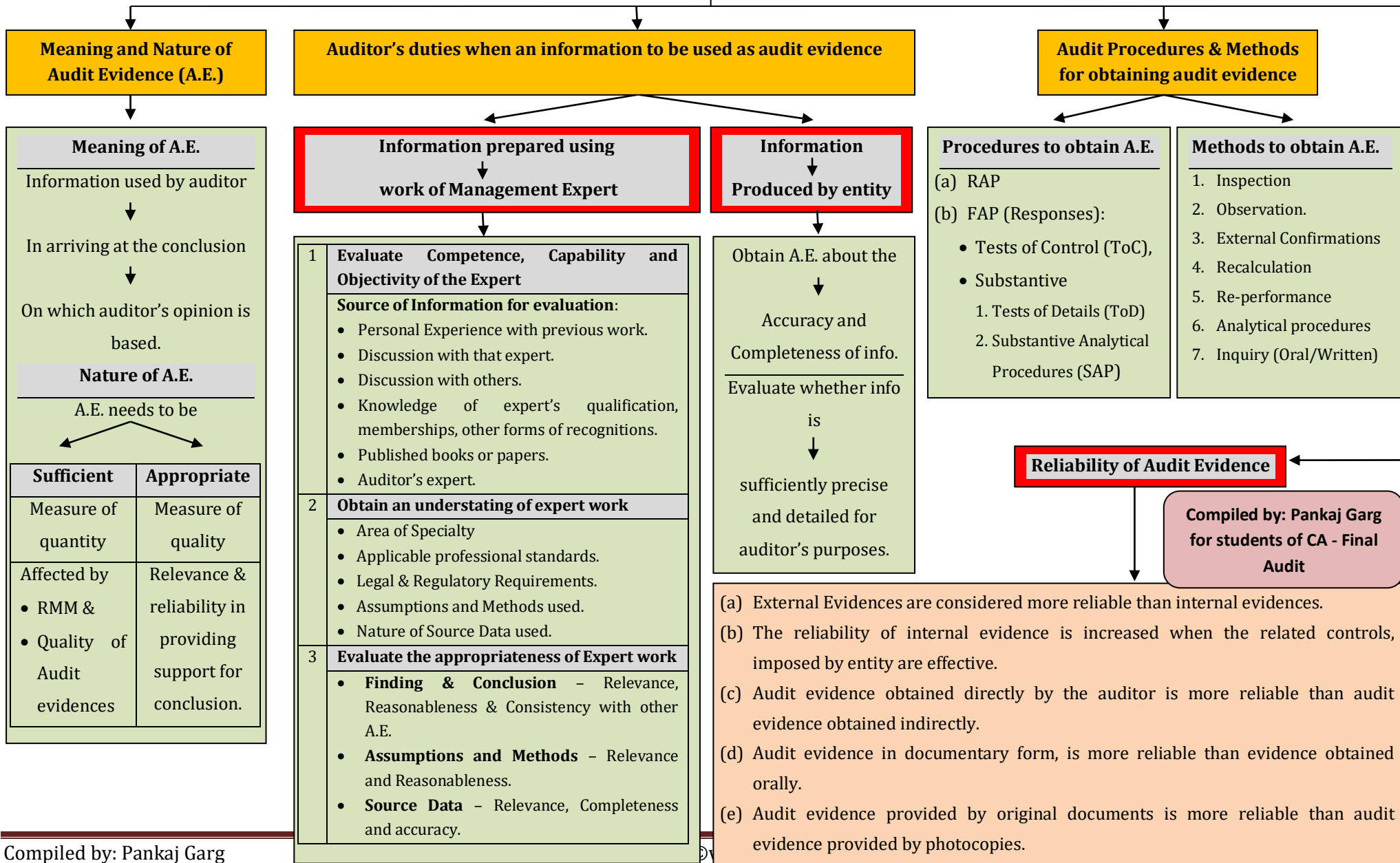
Not corrected

Obtain a written representation from management/TCWG w.r.t their believing that effect of uncorrected misstatements is immaterial.

Determine whether any revision required in Audit Strategy/Plan.

Audit Strategy and Audit Plan require revision if Nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, could be material; or Aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320 (Revised).

SA 500 "Audit Evidence"



SA 501 “Audit Evidence – Specific Considerations for Selected Items”

Inventory – Existence & Condition

General Procedures

When inventory is material to the F.S.

↓
the auditor shall obtain SAAE

↓
regarding **existence & condition** by

↓
(a) Attendance at physical inventory counting, unless impracticable, to:

- Evaluate mngt. instructions & procedures for recording & controlling the results of the entity’s physical inventory counting;
- Observe the performance of management’s count procedures;
- Inspect the inventory;
- Perform test counts;

(b) Performing audit procedures over the entity’s final inventory records to determine whether they accurately reflect actual inventory count results.

Special Procedures

1 **Inventory counting conducted at date other than B/S date**
Perform audit procedures to obtain audit evidence

↓
about whether changes in inventory between the count date and the date of the F.S. are properly recorded.

2 **Auditor unable to attend Inventory Count**
Make or observe some physical counts on an alternative

date,

↓
and perform audit procedures on intervening transactions

3 **Attendance at inventory count is impracticable**
Perform alternative audit procedures to obtain S.A.A.E. regarding existence and condition of inventory.

↓
If it is not possible to do so, modify the opinion in the auditor’s report in accordance with SA 705.

4 **Inventory under custody and control of Third Party**
Obtain S.A.A.E by performing the following:
(a) Request confirmation from third party.
(b) Perform Inspection/other audit procedure.

Litigation & Claims – Completeness

Auditor is required to identify litigation and claims by following procedures:

- **Inquiry:** of Mngt. & others within entity, including in house legal counsel.
- **Review** – minutes of meetings of TCWG, communication between entity & external legal counsel.
- **Review** – legal expenses account.

If management refuses to permit auditor to communicate with legal counsel / external legal counsel refuses / auditor unable to collect SAAE by performing alternate procedures

↓
Modifv Opinion in accordance with SA 705

Segment Reporting – Presentation & Disclosures

Obtain SAAE regarding presentation & disclosure of segment information in accordance with the applicable FRF by:

- (a) Obtaining an understanding of the methods used by management in determining segment information, and
- Evaluate whether such methods are likely to result in disclosure in accordance with the applicable FRF; and
 - Where appropriate, testing the application of such methods; and
- (b) Performing analytical procedures or other audit procedures appropriate in the circumstances.

SA - 505 "External Confirmation"

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit

Meaning & Type of E.C.

Audit Evidence obtained as a direct written response to auditor from 3rd Party in Paper/Electronic/Other form.

2 Types

+ ve Request	- ve request
Request that 3 rd Party respond directly to auditor	Request that 3 rd Party respond directly to auditor
indicating whether it agrees or disagrees	only if it disagrees
With the info in request or providing requested info.	with the information in the request

Areas where External Confirmation may be obtained:

- (a) Bank balance & Other confirmation from bankers
- (b) Account Receivable/Account Payable Balances
- (c) Stock Lying with Third Parties
- (d) Property Title Deed held by third parties
- (e) Investments Purchased but delivery not taken.
- (f) Loan from Lenders
- (g) Terms of agreement or Transaction with Third Parties

External Confirmation Procedures

Determining the information to be confirmed.
↓
Selecting the Appropriate Third Party.
↓
Designing the confirmation request.
↓
Sending the request including follow up.

Factors to be considered while designing E.C. request:

- Assertions being addressed.
- Specific identified RMM.
- Layout and presentation of request.
- Prior Experience of audit.
- Method of Communication.
- Management Authorization.
- Ability of confirming party to provide the requested information

Audit Procedures in Special Circumstances

Mngt. refuses to allow the auditor to send request

- Inquire the reasons
 - Evaluate the implications on RMM
 - Perform Alternative Audit procedure.
- | | | |
|--|---|---|
| <ul style="list-style-type: none"> • Refusal appears to be unreasonable • Unable to collect audit evidence | } | <ul style="list-style-type: none"> • Communicate to TCWG. • Determine its effect on Opinion |
|--|---|---|

Responses to E.C. request

• Creates Doubt	Obtain Further Evidences
• Not Reliable	Consider its effect on NTE of other procedures
• No Response	Perform Alternative procedure
• Unable to collect evidence	Determine its effect on Opinion
• Exception occurs	Investigate to determine misstatement

Limited use of -ve Request

As it provides less persuasive evidence than the positive Confirmation request.

Circumstances in which negative request may be used as sole substantive procedure:

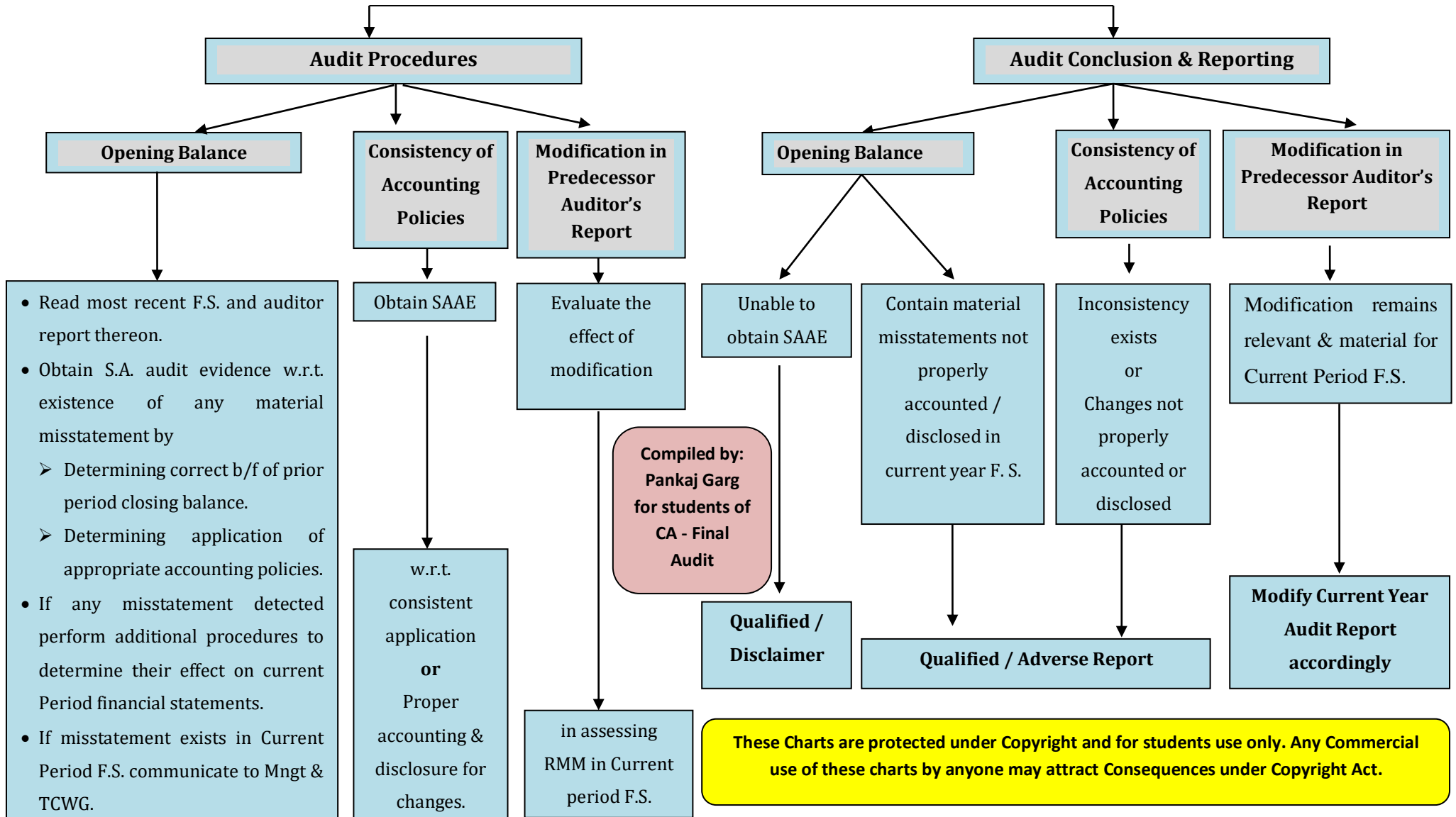
- Low RMM.
- Population consists of large number of small, homogeneous account balances.
- Expectation of low exception rate.
- Auditor not aware of circumstances that 3rd party disregard request.

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SA - 510 "Initial Audit Engagements - Opening Balances"

Meaning of Initial Audit Engagement: An Engagement in which financial statements for prior period are not audited or were audited by predecessor auditor.

Meaning of Opening balance - A/c balance that exist at beginning of period & also includes disclosures exists at beginning of period.



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SA 520 “Analytical Procedures”

Meaning and Nature of Analytical Procedures

Evaluation of financial information
↓
through analysis of relationships
↓
among both financial and non-financial data.
AND
also encompass such investigation as is necessary of
identified fluctuations or relationships that are
inconsistent with other relevant information or that
differ from expected values by a significant amount.

Analytical Procedures

Consideration of Comparisons of Financial Information	Consideration of relationships among
with comparable information for prior periods. or with anticipated results of the entity or Auditor’s expectations or Similar industry information.	Elements of financial information or Financial information and relevant non-financial information.

Auditor’s Procedures

- 1 Determine the suitability of particular substantive analytical procedures (SAPs)**
 Following factors requires consideration:
 1. SAPs more suitable to large volumes of transactions tending to be predictable over time.
 2. But suitability of AP influenced by:
 - Nature of assertion.
 - Auditor’s assessment of APs effectiveness to identify material misstatement.
 3. In some cases, unsophisticated predictive models may be useful.
 4. Different types of APs provide different levels of assurance.
 5. Particular SAP may be considered suitable when Tests of Details are performed on same assertion.
- 2 Evaluate the reliability of data**
 Following factors affects the reliability:
 - Source of the information available.
 - Comparability of the information available.
 - Nature and relevance of the information available, and
 - Controls over the preparation of the information
- 3 Develop an expectation of recorded amounts or ratios** and evaluate whether the expectation is sufficiently precise to identify material misstatement.
- 4 Determine the amount of any difference of recorded amounts from expected values** that is acceptable without further investigation.
- 5 Investigating Results of Analytical Procedures**
 If auditor identified fluctuations or relationships that are inconsistent with other relevant information or differ from expected values by a significant amount, the auditor shall investigate such differences by:
 - (a) Inquiring of management; and
 - (b) Performing other audit procedures as necessary in the circumstances.

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SA – 530 (Revised) “AUDIT SAMPLING”

Meaning & Types of Audit Sampling

Application of audit procedures to < 100 % of items within a population.

Types of Sampling

- (a) **Statistical Sampling:** An approach to sampling that has the following characteristics:
- Random selection of the sample items; and
 - The use of probability theory to evaluate sample results, including measurement of sampling risk.
- (b) **Non-Statistical Sampling:** A sampling approach that does not have characteristics of random selection and use of probability theory is considered non-statistical sampling.

Sampling Risk

Risk that auditor’s conclusion based on a sample may be different from the conclusion if the entire population were subjected to same audit procedure.

Test of controls

Controls are more effective than they actually are

Controls are less effective than they actually are

Tests of details

Material misstatements does not exist when in fact it does.

Material misstatement exists when in fact it does not

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Affects **audit effectiveness** and is more likely to lead to an inappropriate audit opinion.

Affects **audit efficiency** as it would lead to additional work to establish that initial conclusions were incorrect.

Auditor’s Duties

- | | |
|----------|--|
| 1 | <p>Sample design, size and selection of items</p> <p>(i) While designing, consider the purpose of the audit procedure and the characteristics of the population.</p> <p>(ii) Sample size should be sufficient to reduce sampling risk to an acceptably low level.</p> <p>(iii) Selection should be in such a way that each sampling unit in the population has a chance of selection.</p> |
| 2 | <p>Perform audit procedures</p> <p>(i) Perform audit procedures, appropriate to the purpose, on each item selected.</p> <p>(ii) If the audit procedure is not applicable to selected item, perform the procedure on a replacement item.</p> <p>(iii) If the auditor is unable to apply designed audit procedures/alternative procedure to a selected item, consider that item as a deviation.</p> |
| 3 | <p>Evaluation of results of audit sampling</p> <p>To determine whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.</p> |

SA - 540 (Revised) "Auditing Accounting Estimates (AE), including Fair Value Accounting Estimates and Related Disclosures"

Objective of Auditor: To obtain SAAE whether (a) AE including Fair Value AE are reasonable; and (b) related disclosures in the F.S. are adequate.

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Meaning & Nature of Accounting Estimates

- **Accounting estimate:**
"An approximation of a monetary amount in the absence of a precise means of measurement". This term is used for an amount measured at fair value where there is estimation uncertainty.
- **Estimation Uncertainty:**
The susceptibility of an accounting estimate & related disclosures to an inherent risk of precision in its measurement.
- **Examples of Accounting Estimates**
 - Provision for Bad Debt,
 - Inventory loss,
 - Warranty Obligations,
 - Depreciation,
 - Provision against carrying amount of investments, etc.
- **Examples of Fair Value A.E.**
 - Share Based Payments,
 - Assets held for disposal,
 - Financial Instruments,
 - Assets acquired in business combinations

Auditor's Duties

Risk Assessment Procedures & Related Activities

1. Obtain an understating of:
 - Requirements of applicable FRF
 - How management identifies transactions, events and conditions that give rise to need for accounting estimates.
 - Estimation making process adopted by mngt. and data on which they are based.

Estimation making process

 - Methods/Model used in making Accounting estimates.
 - Relevant Controls
 - Use of Management Expert.
 - Changes in the methods from the prior period along with reasons.
 - Assessment of effect of estimation uncertainties.
2. Review of outcome of accounting estimates of prior period.

Responses to Assessed Risks

Based on assessed RMM, auditor shall determine:

- Whether management has appropriately applied the applicable FRF.
- Whether the methods are appropriate and have been applied consistently.

General Responses to Assessed RMM

1. Determine whether events occurring up to date of auditor's report provide audit evidence regarding AE.
2. Test how management made the accounting estimate and the data on which it is based.
3. Test the operating effectiveness of the controls.
4. Develop a point estimate or a range to evaluate management's point estimate.

Specific Responses to Significant Estimation Uncertainties

1. Evaluate the following:
 - How management has considered alternative assumptions or outcomes,
 - How management has addressed estimation uncertainty in making the accounting estimate.
 - Whether the significant assumptions used by management are reasonable.
 - Management's intent to carry out specific courses of action and its ability to do so.
2. If in auditor's judgment, management has not adequately addressed the effects of estimation uncertainty, the auditor shall develop a range with which to evaluate the reasonableness of the accounting estimates.

SA 550 “Related Parties”

Meaning of Related Party

EITHER

Related party as defined in applicable FRF (AS 18).

OR

Where applicable FRF establishes minimal or no RP requirements:

- a. A person/entity having control/ significant influence, over reporting entity;
- b. Entity over which reporting entity has control / significant influence, and
- c. Entity under common control with reporting entity, through:
 - Common controlling ownership
 - Owners who are close family members
 - Common key management

Auditor’s responsibilities in relation to RP

General	Obtain an understanding of RP Relation and Transactions: <ol style="list-style-type: none"> a. To recognize Fraud Risk factors b. To conclude whether F.S. in so far as they are affected by those relations and transactions achieve <ul style="list-style-type: none"> • true and fair presentation and • not misleading.
Specific (FRF established accounting & Disclosure requirements)	<ul style="list-style-type: none"> • Perform audit procedures to Identify, Assess & Respond to RMM. • Evaluate whether Identified RP relationships & Transactions have been appropriately accounted for & disclosed as per FRF. • Obtain WR from management/ TCWG w.r.t. <ul style="list-style-type: none"> → Disclosure to auditor the identity of RP of which they are aware; and → Appropriate accounting & disclosure as per FRF.

Auditor’s Duties

Risk Assessment procedures

- 1 **Understanding the Entity’s RP relationship and Transactions**
 - a. Auditor to inquire management regarding:
 - Identity of entity’s RP, changes from prior period.
 - Nature of relationships between entity and RP.
 - Type & purpose of transactions with RP.
 - b. Obtain understanding whether management has established controls to:
 - Identify, account for & disclose RP relationships & transactions.
 - Authorise & approve significant transactions with RP.
 - Authorise & approve significant transactions outside normal course of business.
- 2 **Maintaining Alertness for RP Information when Reviewing Records/Documents**
 - Auditor to remain alert when inspecting records w.r.t. info indicating existence of RP relationships or transactions not previously identified or disclosed.
 - If auditor identifies significant transactions outside entity’s normal course of business, inquire of management about (a) Nature of these transactions, and (b) Whether RP could be involved.

Possible Sources for identification of RP Information:

1	Income Tax Returns	7	Shareholder’s Register
2	Internal Audit Report	8	Life insurance Policies
3	Contracts with Management	9	Statement of conflict of interest
4	Contracts outside normal course of business	10	Information supplied to regulatory authorities
5	Contracts re-negotiated	11	Specific Invoices from advisors
6	Register of Investments		
- 3 **Identifying Fraud risk factors**

Domination of management by a single person or small group without compensating controls is a fraud risk factor.

Indicators of dominant influence:

 - RP has vetoed significant business decisions taken by management or TCWG.
 - Significant transactions are referred to RP for final approval.
 - No/ little debate among mgmt. or TCWG regarding business proposal initiated by RP.
 - Transactions involving RP are rarely independently reviewed / approved.

Responses to Assessed Risks

- 1 **Identification of unidentified / undisclosed RP or RP transaction.**
 - Communicate to other members of ET.
 - Request management to identify the transactions with the newly identified RP.
 - Inquire reasons for management failure to identify RP or disclose RP relationship and transactions.
 - Reconsider the risk that other unidentified RP or undisclosed RP transactions may exist.
 - If non-disclosure appears intentional, evaluate implications for audit.
- 2 **Identified significant RP Transactions outside Entity’s Normal course of Business.**
 - Inspect underlying contracts to evaluate business rationale.
 - Examine the terms on which transactions takes place.
 - Collect evidences w.r.t. approval and authorisation of transaction.
 - Collect evidences for appropriate accounting & disclosure in compliance of FRF.
- 3 **Assertions that RP Transactions were conducted on arm Length price.**
 - Collect SAAE w.r.t. management assertion of Arm’s length transaction.
 - Compare transaction prices with the prices for identical transactions prevailing in ordinary course of business.
 - Engage expert to determine market value.

SA 560 "Subsequent Events"

Meaning – Events occurring between the date of F.S. and the date of Auditor's Report AND Facts that become known to auditor after the date of Auditor's report.

Auditor's Duties

Events occurring between the date of F.S. and the date of Auditor's report

- (i) Perform procedures to obtain SAAE that all events which require adjustment / disclosure have been identified.
- (ii) For the purpose of determining nature and timing of procedures, auditor may:
 - (a) Obtain the **understanding of procedures** applied by management for identification of significant events.
 - (b) **Inquire the Management** as to Occurrence of subsequent events which may affect the F.S.
 - (c) Read the **Minutes of Meetings** that held after the B/S date.
 - (d) Study the **Interim Financial Statements**, if any.
- (iii) If auditor identifies any event which require any adjustment/disclosure, he should **ensure its appropriate treatment** in F.S.
- (iv) Obtain a **WR from the Management** that all known events have been appropriately adjusted/disclosed, as the case may be.

Specific Inquiries to be made from management

1. Whether new commitments, borrowings or guarantees have been entered into.
2. Whether sales or acquisitions of assets have occurred or are planned.
3. Whether there have been increases in capital or issuance of debt instruments.
4. Whether any assets have been appropriated by government or destroyed.
5. Whether there have been any developments regarding contingencies.
6. Whether any unusual accounting adjustments have been made.
7. Whether any events have occurred that will bring into question the appropriateness of accounting policies used in the F.S.
8. Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the F.S.
9. Whether any events have occurred that are relevant to the recoverability of assets.

Facts that become known to Auditor after date of Auditor's report

Before issue of F.S.

1. In general Auditor has no obligation.
2. However, in case of significant matter
 - Discuss with Management
 - Determine need to amend F.S.
 - Inquire how mngt intends to address the matter in F.S.
3. If Mngt. amend the F.S. auditor shall
 - extend procedures to date of new report, and
 - provide a new auditor report on amended F.S.

or

 - amend the audit report to include an additional date restricted to that amendment and include an EOM/OMP.
4. If mngt refuses to amend the F.S.
 - Modify the report if not yet provided to entity.
 - If report already issued, notify to mngt and TCWG not to issue F.S. to third parties.
 - If mngt still issues F.S., take appropriate action to prevent reliance on auditor's report.

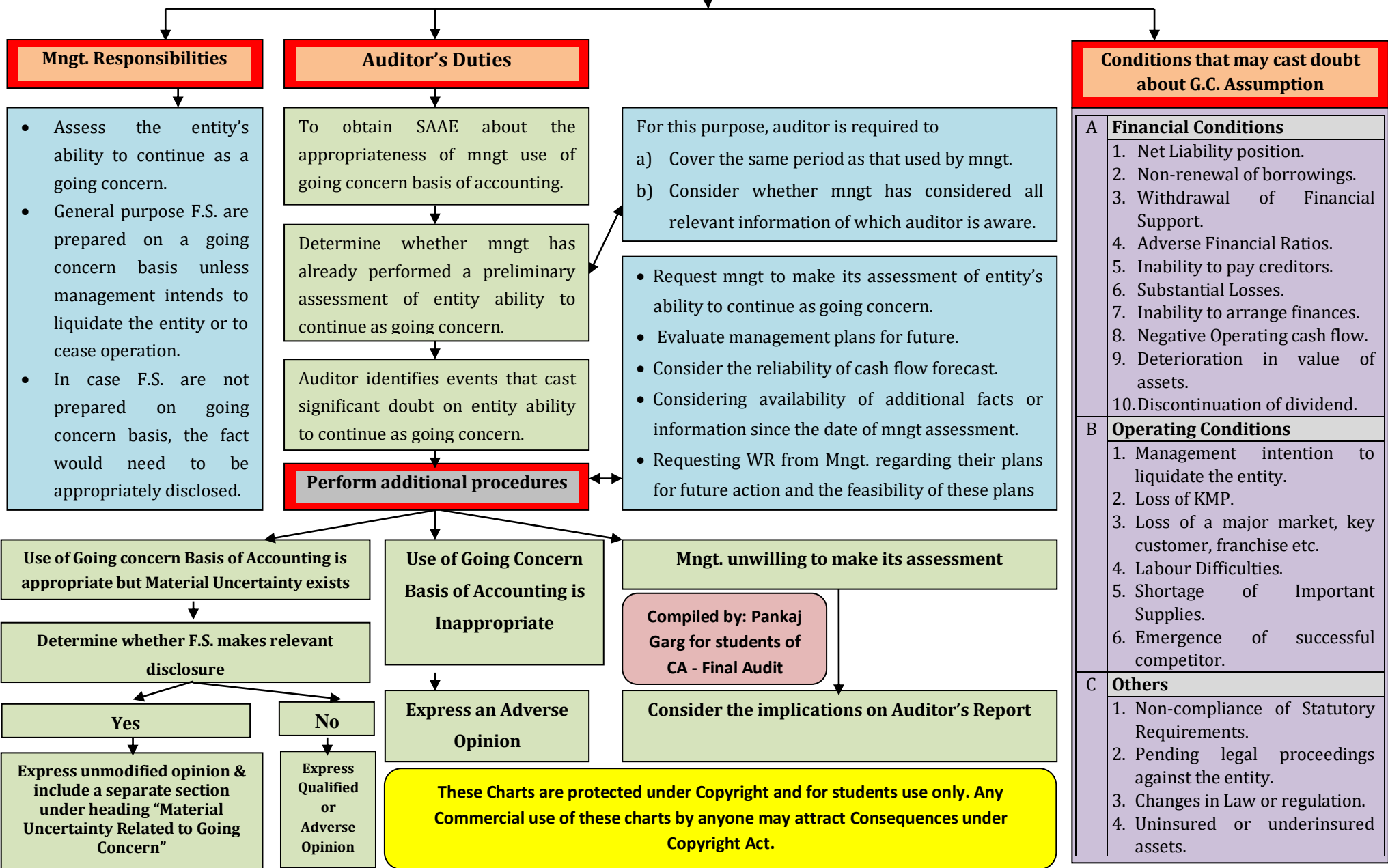
After issue of F.S.

1. In general Auditor has no obligation.
2. However, in case of significant matter
 - Discuss with Management
 - Determine need to amend F.S.
 - Inquire how mngt intends to address the matter in F.S.
3. If Mngt. amend F.S. auditor shall
 - Carry out procedures on amended F.S.
 - Review the steps taken by mngt to ensure that recipient of F.S. are informed of the situation.
 - provide a new auditor report on amended F.S.

or

 - Amend the audit report to include an additional date restricted to that amendment and include an EOM/OMP.
4. If mngt refuses to amend the F.S.
 - Notify to mngt and TCWG, that the auditor will seek to prevent reliance on Auditor's Report.
 - If mngt/TCWG does not take necessary steps, take appropriate action to prevent reliance on auditor's report.

SA - 570 (Revised) "Going Concern"



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SA 580 "Written Representation"

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Meaning and Nature of WR

A written statement by Management
↓
provided to auditor
↓
to confirm certain matters
or
to support other audit evidence.

- WR recognized as audit evidence as a response to inquiries.
- WR do not provide SAAE
- WR should be in the form of a representation letter addressed to Auditor.
- WR shall be obtained for all financial statements and period(s) referred in Auditor's Report.
- Date of WR shall be as near as practicable to the date of the Auditor's report.

Requirements of SA 580

Matters for which WR may be obtained

1	Management responsibilities	(a) Preparation and presentation of Financial Statements: In accordance with applicable FRF.
		(b) Information provided to Auditor: As agreed in terms of engagement
		(c) Description of management Responsibilities: In the manner as described in terms of engagement
2	Others	As required by other SA Or Where auditor determines that it is necessary to obtain one or more WR.

Auditor Responses in different Situations

Management refuses to provide WR

- Discuss the matter with management
- Re-evaluate the reliability and integrity of management.
- Determine possible effect on the opinion.
- Issue disclaimer of opinion.

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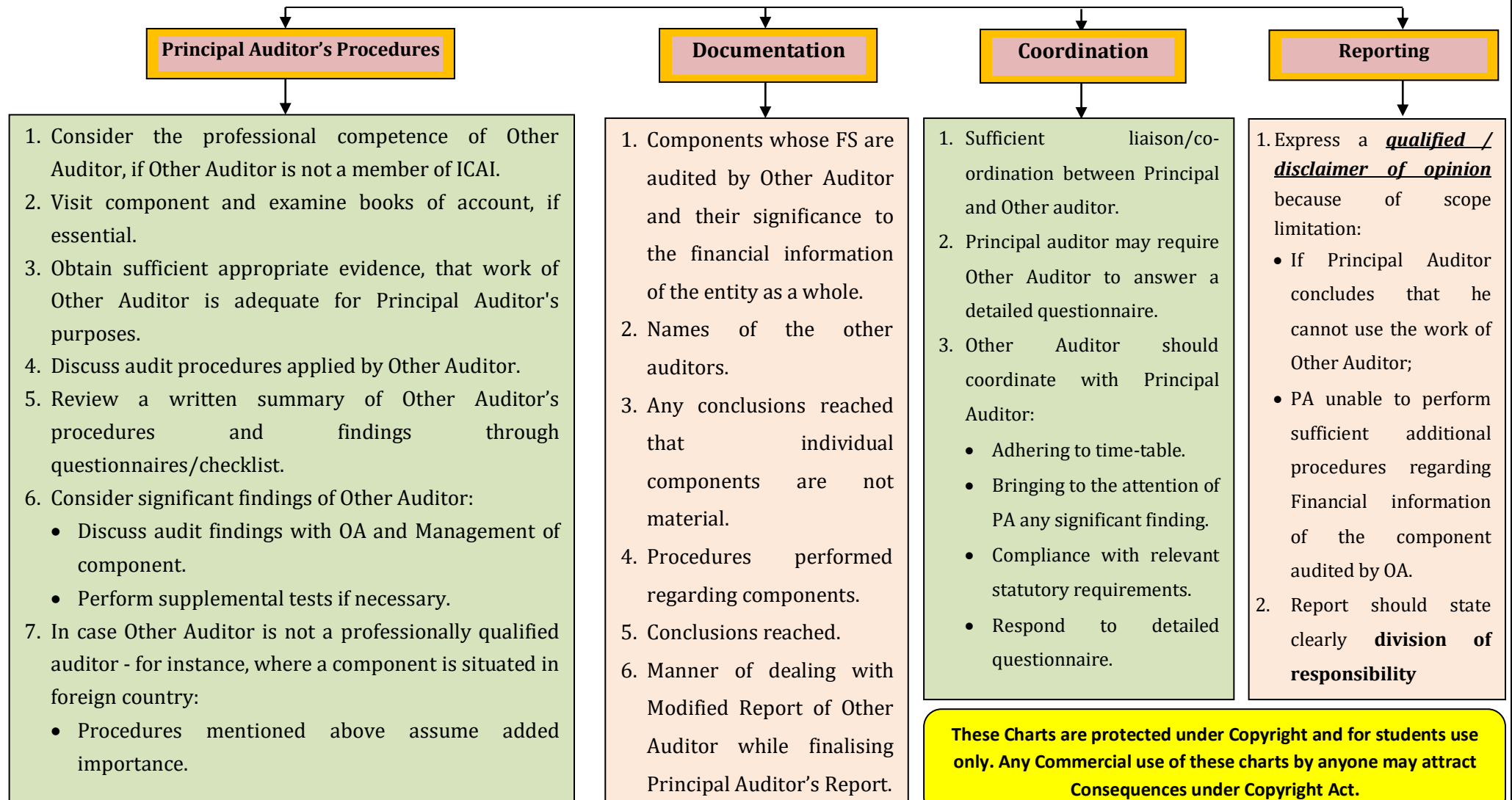
Reliability of WR is doubtful

- In case of having concerns about competence and integrity of mngt, determine their effect in reliability of WR and other audit evidence in general.
- IF WR inconsistent with other evidences, perform additional procedures.
- If conclude that WR is not reliable, determine possible effect on audit opinion.
- In case of sufficient doubt over integrity of management, issue a disclaimer of opinion.

SA - 600 "Using the Work of Another Auditor"

Applicability: In situation where an auditor (principal auditor - PA), reporting on the financial information of an entity, uses the work of another auditor (other auditor - OA) w.r.t. to the financial information of one/more components (Division, Branch subsidiary, J. V. etc.), included in the financial information of the entity.

Non-applicability: (a) Joint auditors (b) Auditor's relationship with a predecessor auditor.



SA 610 (Revised) "Using the Work of Internal Auditors"

Meaning & scope of Internal Audit Function

Meaning

A function of an entity that performs assurance & consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

Scope of Internal Audit

1	Activities relating to governance.
2	Activities relating to Risk Management
3	Activities relating to Internal Control <ul style="list-style-type: none"> • Evaluation of Internal Control • Examination of Financial and operating information • Review of Operating Activities • Review of Compliance with Laws and Regulations

External Auditor's Procedures w.r.t. Evaluation of Internal Audit Function

Determine Adequacy of Internal Audit Work for External Auditor's Purpose

↓ by evaluating the following

- Objectivity of the internal auditors;
- Level of competency;
- Application of Systematic & disciplined approach

If Not Satisfactory

Do not use the work of internal Audit function.

If Satisfactory

Determine the Nature and extent of work of internal audit function that can be used.

Use the work of internal Audit Function

1. Discuss the planned use of work of internal Auditor.
2. Read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.
3. Perform sufficient audit procedures on work of internal audit function as a whole that external auditor plans to use to determine its adequacy for purposes of the audit.
4. Evaluate whether external auditor's conclusions regarding internal audit function and the determination of the nature and extent of use of the work of the function for purposes of the audit remain appropriate.

Using Direct Assistance (DA) of Internal Auditors (IA)

1 Determining whether IA can be used to provide DA

If not prohibited by law or regulation, external auditor may use an internal auditor to provide direct assistance if:

- (a) There are no significant threats to objectivity of internal auditor; and
- (b) Internal auditor is sufficiently competent to perform proposed work.

2 Determining Nature & Extent of Work that can be assigned to IA

IA shall not be used to provide DA to perform procedures that:

- (a) Involve making **significant judgments** in the audit;

Significant judgments include the following:

 - Assessing the risks of material misstatement;
 - Evaluating the sufficiency of tests performed;
 - Evaluating appropriateness of management's use of going concern assumption;
 - Evaluating significant accounting estimates; and
 - Evaluating the adequacy of disclosures in the F.S., and other matters affecting the auditor's report
- (b) Relate to higher assessed risks of material misstatement;
- (c) Relate to work with which internal auditors have been involved; or
- (d) Relate to decisions, external auditor makes in accordance with this SA w.r.t. internal audit function & use of its work or direct assistance.

3 Using Direct Assistance of Internal Auditor

1. Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:
 - (a) Obtain written agreement from entity that the IA will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the IA performs; and
 - (b) Obtain written agreement from the IA that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.
2. The external auditor shall direct, supervise and review the work performed by IA on the engagement in accordance with SA 220.
3. The direction, supervision and review by the external auditor of the work performed by the IA shall be sufficient in order for the external auditor to be satisfied that the IA have obtained sufficient appropriate audit evidence to support the conclusions based on that work.

SA 620 "Using the Work of Auditor's Expert"

Meaning of Auditor's Expert

- An individual or organisation
- possessing expertise in field other than accounting/auditing,
- whose work is used by the auditor
- to assist the auditor in obtaining SAAE.

Areas where work of AE can be used

- Valuation of complex financial instruments, L & B, P & M, jewellery, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
- Actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
- Estimation of oil and gas reserves.
- Valuation of environmental liabilities, and site clean-up costs.
- Interpretation of contracts, laws and regulations.
- Analysis of complex or unusual tax compliance issues.

Procedures to be followed while using the work of auditor's expert

<p>1 Determining need for an Auditor's Expert</p> <p>An auditor's expert may be needed to assist the auditor for the followings:</p> <ul style="list-style-type: none"> • Obtaining an understanding of entity & its environment, including IC. • Identifying and assessing the risks of material misstatement. • Determining & implementing overall responses to assessed risks. • Designing and performing further audit procedures to respond to assessed risks. • Evaluating the sufficiency and appropriateness of audit evidence obtained. 	<p>4 Agreement with Auditor's Expert</p> <p>Need to be in writing and cover the followings:</p> <ul style="list-style-type: none"> • Nature, scope and Objectives of Auditor's Expert work. • Respective Role and Responsibilities of Auditor and auditor's Expert. • NTE of Communication including form of report. • Confidentiality requirements to be observed by Auditor's Expert.
<p>2 Evaluate Competence, Capability and Objectivity of the Expert</p> <p>Source of Information for evaluation:</p> <ul style="list-style-type: none"> • Personal Experience with previous work. • Discussion with that expert. • Discussion with other Auditors. • Knowledge of expert's qualification, memberships, other forms of recognitions. • Published books or papers. • Auditor's firm Q. C. Policies and Procedures. 	<p>5 Evaluate appropriateness of Expert work</p> <ul style="list-style-type: none"> • Finding & Conclusion – Relevance, Reasonableness & Consistency with other A.E. • Assumptions and Methods – Relevance and Reasonableness. • Source Data – Relevance, Completeness and accuracy.
<p>3 Obtain an understating of expert work</p> <ul style="list-style-type: none"> • To enable the auditor to determine the nature, scope and objectives of that expert's work for auditor's purposes. • Evaluate the adequacy of that work for the auditor's purposes. 	<p>6 Expert work not adequate for audit purposes</p> <ul style="list-style-type: none"> • If Auditor concludes that work of auditor's expert is not adequate for the auditor's purposes and • auditor cannot resolve the matter through the additional audit procedures, • it may be necessary to express a modified opinion.

Reference to the Auditor's Expert in the Auditor's Report

- No reference required in case of unmodified Audit Report unless required by L & R.
- In case of modified reports, it may be appropriate to refer to the auditor's expert, to explain the nature of the modification. In such case, auditor may need the permission of the auditor's expert before making such a reference.

SA 700 (Revised) – Forming an Opinion and reporting on Financial Statements (w.e.f. 01.04.2018)

Meaning & Types of Audit Reports

Meaning	<p>Reports in which auditor expresses his opinion on financial statements.</p> <ul style="list-style-type: none"> For General purpose F.S. – SA 700, 701, 705 & 706 will apply. For Special Purpose F.S. – SA 800 along with 700, 701, 705 & 706 will apply.
Types	A. Unmodified reports
	Reports issued when auditor concludes that F.S. are prepared in all material respects in accordance with applicable FRF.
	B. Modified Reports
	B.1 – Matters that affect Audit Opinion.
	B.1.1 – Qualified Opinion
	B.1.2 – Adverse Opinion
	B.1.3 – Disclaimer of Opinion
	Details of B.1 is dealt by SA 705.
	B.2 – Matters that do not affect Audit opinion
	B.2.1 – With EOM Para
B.2.1 – With OM Para	
Details of B.2 is dealt by SA 706.	

Elements of an Unmodified Audit Report

Compiled by: Pankaj Garg for students of CA - Final Audit	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">1</td> <td>Title</td> <td>“Independent Auditor’s Report” – so as to distinguish from reports issued by others.</td> </tr> <tr> <td style="text-align: center;">2</td> <td>Addressee</td> <td>Auditor’s Report shall be addressed as appropriate. 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- State the objective of auditor to obtain reasonable assurance that F.S. as a whole are free from material misstatements & issue the auditor’s report that includes an auditor’s opinion.
- Explanation w.r.t. reasonable assurance and application of concept of materiality.
- Statement that auditor exercises professional judgment and maintain professional skepticism throughout audit.
- State auditor’s responsibilities w.r.t.:
 - Identifying & assessing the RMM.
 - Design & perform audit procedures responsive to assessed risks.
 - Obtain SAAE.
 - Understanding of Internal Control.
 - Expressing opinion on adequacy and operating effectiveness of Internal Financial Control.
 - Evaluation of appropriateness of Accounting policies & reasonableness of accounting estimates.
 - Conclude on appropriateness of management use of Going Concern basis of accounting.
 - Evaluate overall presentation, structure & content of F.S.
- State Auditor’s responsibilities w.r.t.:
 - Matters communicated to TCWG.
 - Providing statement to TCWG on compliance of Ethical requirements.
 - Determining Key Audit matters out of matters communicated to TCWG.

SA 701 “Communicating Key Audit Matters in the Independent Auditor’s Report” (w.e.f. 01.04.2018)

Applicability

- SA 701 applies to audit of complete set of general-purpose financial statements of listed entities and circumstances when auditor decides to communicate key audit matter in the auditor’s report.
- SA 705 prohibits the auditor from communicating key audit matters when the auditor disclaims the opinion on the financial statements.

Meaning and Purpose of Key Audit Matters

Meaning: Those matters that in the auditor’s judgment were of most significance in audit of financial statement of current period. These are selected from matters communicated with TCWG.

Purpose:

- (a) To enhance the communicative value of the auditor’s report by providing greater transparency.
- (b) To provide additional information to intended users of F.S. to assist them in understating those matters that in auditor’s judgment were of most significance.
- (c) To assist intended users in understanding the entity & areas of significant management judgment.
- (d) To provide a basis to further engage with management and TCWG about certain matters relating to the entity.

Considerations for determining Key Audit Matters

Key audit Matters are to be determined from the matters communicated to TCWG, Considering the following:

- (a) Areas of higher assessed RMM.
- (b) Significant auditor judgment relating to financial statement that involved management judgment for Ex. Accounting estimates having high estimation uncertainty.
- (c) Effect of significant event or transactions occurred during the year.

Manner of Reporting

- Use separate section titled as “Key audit Matter’s.”
- Use introductory language in this section as – “Key audit Matters are those matters that in the auditor’s judgment, were of most significance in the audit of financial statements of current period and these matters were addressed in the context of audit of financial statements as a whole and auditor does not provide a separate opinion on these matters”.
- Description of each key audit matter shall follow the introduction.
- Description of key audit matter shall address the reason why the matter was considered as key audit matter.

Circumstances in which a matter determined to be key audit matter is not communicated

- Law or regulation precludes public disclosure about the matter; or.
- Audit determines that the matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit of such communication.
- It will not be applied if entity has publicly disclosed information about the matter.

Modified opinion Vs. Going concern Vs. Key Audit Matters

- Key audit matter is not a substitute for modified opinion under SA 705 or reporting required under SA 570 w.r.t. existence of material uncertainty as to events that cast significant doubt on an entity ability to continue as Going Concern.
- Auditor shall report modification / Going concern in accordance with applicable SA, and include a reference to basis for Qualified (Adverse) opinion or the material ascertaining related to going concern section in the Key Audit Matters Section.

SA 705 – Modifications to the Opinion in the Independent Auditor’s Report

Types of modified Opinion

Qualified	<p>Issued when: F.S. are misstated having material but not pervasive effect.</p> <p style="text-align: center;">Or</p> <p>Auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material but not pervasive effect.</p>
Adverse	Issued when F.S. are misstated having material and pervasive effect.
Disclaimer	Issued when auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material and pervasive effect.

	Pervasive	Not Pervasive
Material Misstatement	ADVERSE	QUALIFIED
SAAE not obtained for material Transactions	DISCLAIMER	QUALIFIED

Considerations while issuing modified Opinion

Opinion Section

Use the heading –

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion.

Wordings of Opinion:

Qualified

Except for the effects of matters prescribed in “Basis of Qualified Opinion” section, the F.S. have been prescribed fairly in all material respects in accordance with [applicable FRF]

Adverse

In auditor’s opinion, because of significance of the matters described in “Basis of Adverse Opinion” section, the F.S. does not give a true and fair view of _____ in accordance with [applicable FRF].

Disclaimer

Because of significance of matters described in the “Basis for Disclaimer of Opinion” section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinion on F.S.

Basis for Opinion Section

Amend the heading – Basis for Qualified Opinion
Basis for Adverse Opinion
Basis for Disclaimer of Opinion.

- Include a description of matter giving rise to modification.

Cause of Modification	Description
Material Misstatement in Amount	<ul style="list-style-type: none"> Description of Misstatement. Quantification of financial effect, if determinable. If not determinable, state the fact.
Material Misstatement in Disclosure	Explanation how the disclosures are misstated.
Material Misstatement due to non-disclosure of required information	Describe nature of omitted information. And Include the omitted disclosure provided it is practicable.
Inability to obtain SAAE	State the reason for inability.

- Amend the statement w.r.t. auditor believing that audit evidences are sufficient and appropriate to provide a basis for “Qualified Opinion” or “Adverse Opinion”.
- In case of disclaimer, auditor’s report shall not include the reference to section of auditor’s report that describes the auditor’s responsibilities and statement w.r.t. auditor’s believing that sufficient appropriate audit evidence obtained.

Auditor’s Responsibility Section

When an auditor disclaims the opinion, the auditor shall amend the description of auditor’s responsibilities to include only the following:

- Statement that the auditor’s responsibility is to conduct an audit in accordance with Standard on Auditing and to issue Auditor’s Report.
- Statement that because of significance of matters described in basis for disclaimer of opinion section, auditor was not able to obtain SAAE to provide a basis for an audit opinion.
- Statement about auditor’s independence and other ethical requirements.

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SA 706 “Emphasis of Matter Paragraph & Other Matter Paragraph in the Independent Auditor’s Report” (w.e.f. 01.04.2018)

Emphasis of Matter Para

1	Meaning
	A Para included in the Auditor’s report that refers to a matter appropriately reflected/ disclosed in the financial statement that in the auditor’s judgment is of such significance that it is fundamental to the user’s understanding of financial statement.
2	Requirements
	<ul style="list-style-type: none"> • EOM Para is not a substitute of Key Audit Matter or Modified Opinion. • EOM should be included within a separate section titled as “Emphasis of Matter”. • EOM should refer only to information presented/disclosed in the financial statements. • It must be indicated that auditor’s opinion is not modified in respect of this matter.
3	Circumstance when EOM Para can be issued
	(a) Uncertain situation as to future outcome of an exceptional litigation. (b) Significant subsequent events. (c) Early application of new AS in advance of its effective date. (d) Occurrence of major catastrophe that may have a significant effect on entity financial position.
4	Location in Audit Reports
	Immediately following the “Basis of Opinion Section”.

Other Matter Para

1	Meaning
	A Para included in Auditors Report that refers to a matter other than presented/ disclosed in financial statement that in the auditor’s judgment is relevant for users understanding of audit auditor’s responsibilities or auditor’s report.
2	Requirements
	<ul style="list-style-type: none"> • OM Para is not a substitute of Key Audit Matter. • OM Para should be included in the audit report in a separate section termed as “Other Matter”. • Differentiate “Other Matter” with Key Audit Matter”.
3	Location in Audit Reports
	<ul style="list-style-type: none"> • Immediately after the “Key Audit Matter” section. • If other matter is related with other legal and regulatory requirements, it needs to be placed in “Reporting on other legal and Regulatory requirements” Section.

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SA 710 "Comparative Information - Corresponding Figures and Comparative Financial Statements"

Meaning & Types of Comparative Information

1	Comparative Information	The amounts and disclosures included in the F.S. in respect of one or more prior periods in accordance with applicable FRF.
2	Corresponding Figures	Comparative information where amounts and other disclosures for the prior period, are included as an integral part of current period F.S. , and are intended to be read only in relation to the amounts and other disclosures relating to the current period.
3	Comparative F.S.	Comparative information where amounts and other disclosures for the prior period, are included for comparison with the F.S. of the current period but, if audited, are referred to in the auditor's opinion.

Audit Procedures

1	Determine	(a) Whether F.S. include Comparative information required by FRF, & (b) Whether such information is classified appropriately.
2	Evaluate	(a) Whether the comparative information agrees with the amounts and other disclosures presented in the prior period; and (b) Whether the accounting policies reflected in the comparative information are consistent with those applied in the current period. (c) Whether, changes in accounting policies, if any, have been properly accounted for and adequately presented and disclosed.
3	Doubt over existence of misstatement	Perform additional audit procedures to obtain sufficient appropriate audit evidence to determine existence of material misstatement. Note: SA 560 "Subsequent Event" also applies if auditor had audited the prior period F.S.
4	Obtain WR	From management to re-affirm that the WR it previously made with respect to the prior period remain appropriate.

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Audit Reporting

Comparative F.S.

1. Audit opinion to refer to each period for which F.S. are presented and on which opinion is expressed.
2. If opinion on prior period FS expressed in current period differs from opinion expressed in the relevant prior period, give substantive reason for difference in Other Matter Para.

Corresponding Figures

- Audit opinion not to refer to corresponding figures, EXCEPT:
- **Auditor's report in prior period FS was modified and the subject matter is still unresolved:** Modify current audit report also.
 - **Auditor obtains audit evidence w.r.t. existence of material misstatement in prior period F.S. on which unmodified opinion was issued:** Express qualified/ adverse opinion on current F.S. w.r.t. Corresponding figures if misstatement has not been dealt as required by applicable FRF.

1	Prior Period F.S. Audited by Another Auditor	Audit report to also contain Other Matter para, stating that: <ul style="list-style-type: none"> • FS of prior period were audited by predecessor auditor. • Type of opinion expressed by him (reasons for modifications, if any). • Date of that report.
2	Prior Period F.S. are Unaudited	Include Other Matters para: <ul style="list-style-type: none"> • That corresponding FS are unaudited. • But this does not relieve the auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current FS

SA 720 (Revised) - The Auditor's Responsibilities relating to Other Information

Scope: SA 720 deals with auditor's responsibilities relating to other information, whether financial or non-financial information included in an entity's annual report. Auditor's opinion on the F.S. does not cover the other information, nor does this SA require the auditor to obtain audit evidence beyond that required to form an opinion on the F.S.

Auditor's Procedures	Auditor's Responses	Reporting
<p>1 Obtaining the Other Information</p> <p>The auditor shall:</p> <ol style="list-style-type: none"> (a) Determine, through discussion with mnngt, which documents comprises the annual report, and the entity's planned manner and timing of the issuance of such documents; (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the documents comprising the annual report; & (c) When some or all of the documents determined above will not be available until after the date of the auditor's report, request management to provide a WR that the final version of the documents will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this SA. <p>2 Reading & Considering the Other information</p> <p>The auditor shall read the other information & consider</p> <ol style="list-style-type: none"> (a) whether there is a material inconsistency between the other information & the F.S., & (b) whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. <p>While reading the other information, the auditor shall remain alert for indications that the other information not related to the F.S. or the auditor's knowledge obtained in the audit appears to be materially misstated.</p>	<p>1 When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated</p> <p>If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:</p> <ol style="list-style-type: none"> (a) A material misstatement of the other information exists; (b) A material misstatement of the F.S. exists; or (c) The auditor's understanding of the entity and its environment needs to be updated. <p>2 When the Auditor Concludes That a Material Misstatement of the Other Information Exists</p> <ul style="list-style-type: none"> • If auditor concludes that a material misstatement of the other information exists, he shall request mnngt to correct other information. If management: <ol style="list-style-type: none"> (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or (b) Refuses to make the correction, the auditor shall communicate the matter with TCWG and request that the correction be made. • If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with TCWG, the auditor shall take appropriate action, including: <ol style="list-style-type: none"> (a) Considering the implications for the auditor's report and communicating with TCWG about how the auditor plans to address the material misstatement in the auditor's report, (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. • If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall: <ol style="list-style-type: none"> (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (b) If the other information is not corrected after communicating with TCWG, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. <p>3 When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated</p> <p>If, as a result of performing the procedures, the auditor concludes that a material misstatement in the F.S. exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other SAs.</p>	<ul style="list-style-type: none"> • The auditor's report shall include a separate section with a heading "Other Information", when, at the date of the auditor's report: <ol style="list-style-type: none"> (a) For an audit of F.S. of a listed entity, the auditor has obtained, or expects to obtain, other information; or (b) For an audit of F.S. of an unlisted corporate entity, the auditor has obtained some or all of the other information. • When the auditor's report is required to include an Other Information section, it shall include: <ol style="list-style-type: none"> (a) A statement that mnngt. is responsible for the other information; (b) An identification of: <ol style="list-style-type: none"> (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and (ii) For an audit of F.S. of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report; (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express an audit opinion; (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this SA; and (e) When other information has been obtained prior to the date of the auditor's report, either: <ol style="list-style-type: none"> (i) A statement that the auditor has nothing to report; or (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information. • When the auditor expresses a qualified or adverse opinion in accordance with SA 705, the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in above para.