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	Ethical	Independence	Client Acceptance/Continuance	Human Resources	Engagement Performance	Monitoring
Responsibilities for Q. C.	requirements		F		1 crrormance	
(a) Promote internal	Establish policies	Policies & procedures should	Establish policies/	Establish policies	Establish policies /	Establish
culture w.r.t.:	& procedures to	enable:Communication of	procedures to	/ procedures to	procedures to reasonable assure	Policies &
 essential of quality 	reasonable assure	independence requirements	reasonable assure that	reasonable assure	w.r.t.:	procedures to
in engagements.	that Firm &	to personnel & others. • Identification of	clients are accepted/	that:	 Compliance with professional 	reasonable
• Compliance with	personnel comply	circumstances threatening independence.	continued only where:	• Firm has	standards.	assure that QC
professional	with relevant	Take appropriate action for	• Client integrity has	sufficient	Compliance with laws / regulations	policies/
standards,	ethical	elimination of threats / withdrawal from	been considered.	personnel with	laws/ regulations. • Engagement	procedures are:
regulatory / legal	requirements of	engagement.		capabilities,	partner issues	• Relevant.
requirements.	1. Integrity.	• Resolution of breaches of	• Firm is competent	competence &	reports that are	• Adequate.
• Issue of reports	2. Objectivity.	independence. Maintenance of independence	to perform	commitment to	appropriate in the circumstances.	• Operating
appropriate in	3. Professional	<u>of personnel</u>	engagement w.r.t.	ethical	Important aspects	effectively.
circumstances.	competence &	• Engagement partners to provide firm with relevant	capability, time &	principles	of engagement	• Complied
(b) Require CEO/	due care.	information about client.	resources.	&	performanceSupervision.	with in
managing partner to	4. Confidentiality.	• Prompt notification of threats to independence.	• Firm can comply	Responsibility	• Review.	practice.
assume ultimate	5. Professional	Accumulation &	with ethical	of engagement	• Consultation.	
responsibility for QC.	behaviour.	communication of relevant		0 0	• Differences of	Compiled by:
(c) Recognise & reward		information to appropriate personnel.	requirements.	partner clearly	opinion.	Pankaj Garg
1,	defined &	 Engagement Q. C. review. 	for students of CA - Final			
ingii quairty work	communicated					Audit
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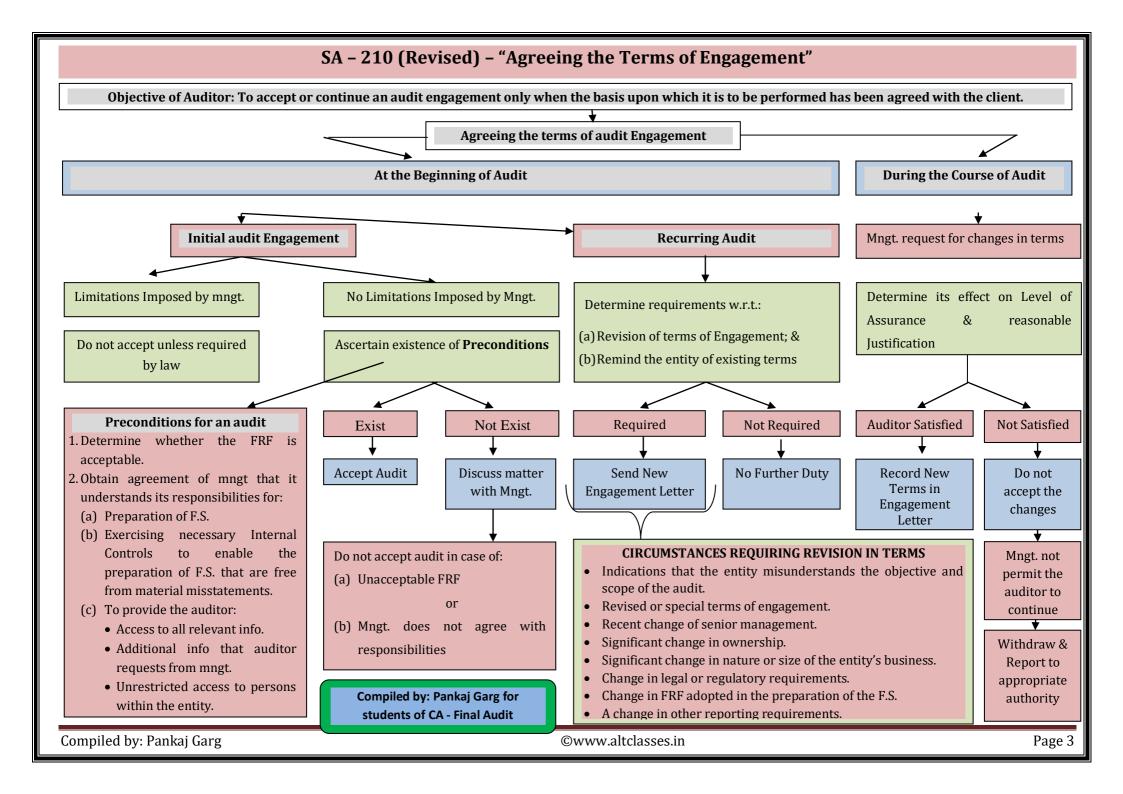
SA 200 (Revised) "Overall Objectives of the Independent Auditor & Conduct of audit in accordance with SAs



- (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.



	Aspects to be	considered by Auditor while p	performing Audit		
Ethical	Professional	Professional Judgment	Sufficient Appropriate	Conduct of Audit in	Other Explanation
Requirements	Skepticism		audit Evidence	accordance with SAs	
Comprise Code of Ethics issued by ICAI including independence. The fundamental principles are: Integrity Objectivity Professional competence & due care Confidentiality, & Independence comprises both independence of mind and independence of appearance. Compiled by: Pankaj Garg for students of CA - Final Audit	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. Alertness is required w.r.t. Contradictory audit evidence. Reliability of documents. Conditions indicating possible frauds. Circumstances requiring audit procedures in addition to those suggested in SAs.	The application of relevant training, knowledge and experience, • 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. It is required w.r.t.: • 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.	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.	 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 To examine whether the F.S. are prepared in accordance with FRF. The auditor's opinion does not assure, the future viability of the entity nor the efficiency or effectiveness with which mngt. has conducted the affairs. Preparation of F.S. is the duty of Mngt. /TCWG. Duty of management also includes to make accounting estimates and selection and application of appropriate accounting policies. Inherent Limitations for an audit (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.



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	Independence	Acceptance / Continuance	Assignment of	Engagement Performance	Monitoring
Responsibilities	Requirements		of Client relationship	Engagement Team		
EP should	EP to remain alert		• Be satisfied that	EP to be satisfied	1. Direction, Supervision and	Obtain
emphasize the	for evidence of	Form a conclusion on	appropriate procedures	that ET &	performance:	reasonable
ET the following:	non-compliance	compliance with	regarding client acceptance	Auditor's Expert	EP shall take the responsibility for directions, supervision & performance	assurance that
Compliance	with relevant ethical	applicable independence	/ continuance have been	not part of ET has	of audit engagement in compliance	firm's policies /
•		*	followed.	appropriate	with standards & regulatory	procedures
with	requirements by ET	Obtain relevant		competence &	requirements, &. • to make an appropriate AR.	relating to QC are relevant,
professional	through:	information from Firm	• Determine whether	capabilities to:	2. Reviews:	adequate, and
Standards and	• Inquiry.	■	conclusions reached are	> Perform audit	EP shall take the following	operating
legal	Observation.	Identify & Evaluate	appropriate.	engagement in	responsibilities: a. Reviews are being performed in	effectively.
requirements.	If there is an	circumstances &	 	accordance	accordance with policies / procedures.	Consider:
Compliance	If there is an	Relationship that threatens	If EP obtains information	with	b. Be Satisfied that SAAE has been	
with firm's	indication of non-	independence	that would have caused firm	professional	obtained to support the conclusions reached and AR to be issued through	• Results of
Q.C. Policies.	compliance with	*	to withdraw the engagement,	standards and	Review of Audit Documentation.	firm's
_	relevant ethical	Evaluate information on	communicate information	regulatory or	Discussion with ET	monitoring
• Issuance of	requirements, EP	identified breaches.	promptly to firm	legal 	3. Consultation: EP shall undertake consultation	process.
appropriate	should:	D : 10:1	To be set of	requirements,	wherever required.	Whether
audit report.	Consult others in	Determine if these threaten independence	Examples of Information 1. Integrity of Principal	and	Ensure its implementation	deficiencies
Ability to raise	the firm.	threaten independence ▼	1. Integrity of Principal Owners, Mngt & TCWG	Enable an AR	4. Engagement Quality Control Review : required in case of listed entities.	
concerns	Determine	Take appropriate action	2. Competency of ET to	that is appropriate in		noted may
without fear.		to eliminate such threats	perform engagement.	the	Matters to be evaluated by EQCR • Discussion of significant matters with	affect the
• Quality is	appropriate		3. Availability of necessary	circumstances.	ET.	audit
essential &	action.	or	capabilities, including time		Review of FS & proposed audit report. Review of selected audit	engagement.
indispensable		Promptly report	& resources.		documentation	
_	Compiled by:	inability to take	4. Compliance with relevant		Evaluation of conclusions reached.	
in engagement	Pankaj Garg	appropriate action to	ethical requirements.		Considering whether proposed audit report is appropriate.	
performance.	for students of		5. Significant matters that		5. Differences of Opinion : follow the	
	CA - Final		arises during the current or		firm's policies & procedures for dealing	
	Audit		previous audit engagement.		with and resolving differences of	
					opinion.	

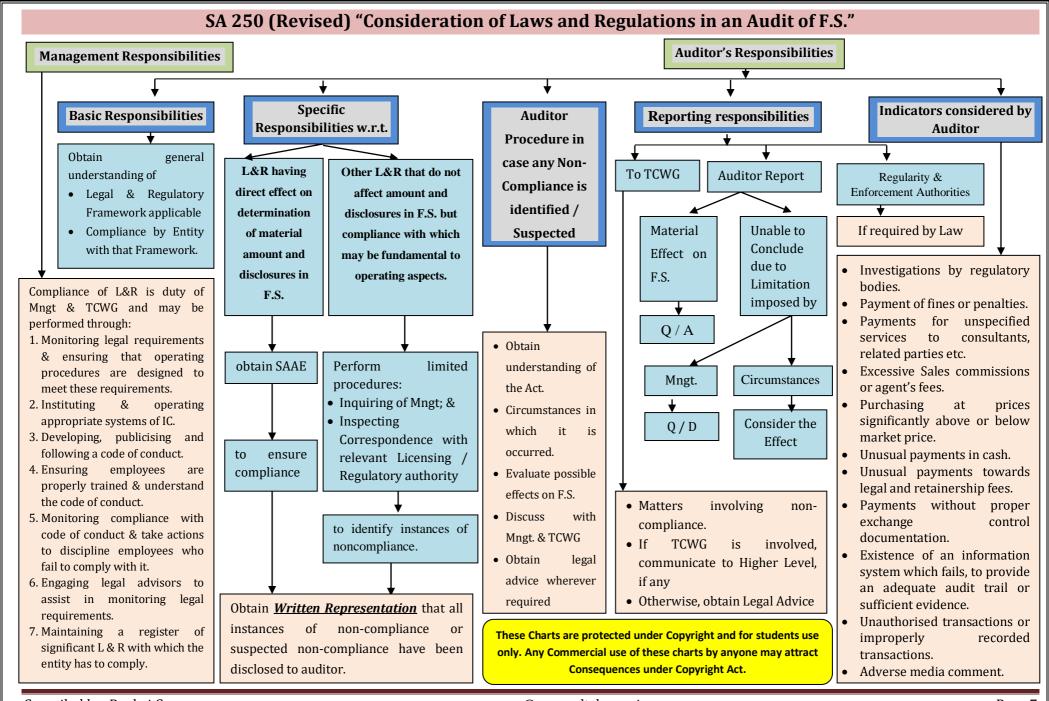
SA - 230 (Revised) - Audit Documentation **Specific Documentation General concepts Ownership** Form, Content & Extent of Retention **Documentation** Period Documentation is the **Meaning**: Record of: Auditor shall prepare audit documentation of the property Compiled by: • Audit procedures performed that is sufficient to enable an experienced Auditor. 7 Years from Relevant audit evidence Pankaj Garg auditor to understand: • May at his discretion date of Audit for students of obtained. & make portions of or (a) NTE of the audit procedures; Report Conclusions reached CA - Final extracts from (b) Results of audit procedures performed, Audit documentation **Purpose**: includes the following: & audit evidence obtained: available to client. Assist in Planning (c) Significant matters arising during the performance of Audit. **Documentation of Documentation of Documentation of** audit and the conclusions reached • Direction, supervision Discussion Departure from a matters arising after the thereon. significant professional Review of work. relevant requirement **Date of Auditor's Report** judgments made in the reaching those • To fix accountability. Record for future reference. conclusions. Significant Reasons for the Circumstance Quality control review and Factors affecting form, content & extent Matters departure. encountered. inspections 1. The size and complexity of the entity. Discussed with Alternative New or additional Conduct of external 2. The nature of the audit procedures to be Mngt. And procedures procedures inspections. performed. TCWG. audit performed. performed, 3. Identified RMM. documentation Nature When and with obtained, must evidence 4. Significance of audit evidence obtained. whom conclusions reached. provide for: **These Charts are** discussion took and their effect on the 5. Nature & extent of exceptions identified. • Sufficient and appropriate protected under place. auditor's report. 6. Need to document a conclusion or the record of the basis for Copyright and for • When and by whom How the auditor students use only. Any basis for a conclusion not readily auditor's report. addresses the Commercial use of these the changes to audit determinable from the documentation of Evidence that the audit was inconsistency (if charts by anyone may documentation were the work performed or audit evidence planned and performed in attract Consequences any detected made and reviewed. accordance with SAs & other obtained. under Copyright Act. during 7. The audit methodology and tools used. regulatory requirements.

discussion)

SA 240 (Revised) - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements Fraud Risk Factors / **Management Duties Auditor's Responsibilities Meaning and Nature of Fraud Characteristics of Fraud** Meaning: Intentional Act involving use of deception to • Incentive or pressure to Commit Fraud: Primary responsibility To obtain reasonable assurance that F.S. as a whole are free from prevention Arises when mngt is under pressure to for obtain an unjust or illegal advantage. material Misstatements. detection of fraud rests achieve an unrealistic target. with Mngt and TCWG • Perceived opportunity to do so: Auditor is concerned with Fraud that causes Maintain an attitude of Arises when an individual believes that Material Misstatement. To ensure prevention of internal control can be overridden. **Professional Skepticism** fraud Mngt. must have a Rationalization to do so: Misstatement may result from: **Fraudulent Financial Reporting** Arises when an individual possesses an commitment to create a Circumstances indicate existence Recording fictitious journal entries attitude or character that allows them culture of honesty and of material Misstatement manipulate operating results. knowingly and intentionally to commit a 2. Inappropriate assumptions. Ethical behaviour. dishonest act. 3. Changing judgments to estimate account Consider whether such a balances. 4. Omitting, advancing or delaying recognition of misstatement is an indication Risk associated for non-detection of material misstatements events and transactions occurred during the of Fraud. If Fraud identified: • Due to Inherent limitations there is always an unavoidable risk of material vear. misstatement in F.S. due to Fraud. 5. Concealing facts that affect the amount Risk of non-detecting a material misstatement resulting from fraud is recorded in F.S. Communicate to Mngt. & 6. Engaging in Complex Transactions that are higher than the risk of non-detecting one resulting from error. TCWG (also to Regulatory & structured to misrepresent the financial • Risk of Material Misstatements due to Management Fraud is higher than Enforcement authorities, if position or financial performance. due to Employee Fraud. required by Law) 7. Altering records relating to significant transactions. **Misappropriation of Assets** Auditor unable to complete Conditions or events which increases risk of fraud or error 1. Embezzling receipts. the engagement. 1. Discrepancies in Accounting Records: arises due to improper recording, 2. Stealing physical assets. unauthorised transactions, last minute adjustments. 3. Causing an entity to pay for goods and services 2. Conflicting or missing evidences: missing documents, altered Consider the Possibility of not received. documents, non-availability of original documents, unexplained items etc. withdrawing. 4. Using entity assets for personal use. 3. Unusual relationship between auditor & mngt: undue time pressure, unusual delay in providing info, unwillingness to address weaknesses in IC. If withdraw: Compiled by: Pankaj Garg for students of 4. Others: Mngt not allowing auditor to meet with TCWG, varied accounting • Discuss with Mngt & TCWG, & **CA - Final Audit**

policies, frequent changes in accounting estimates.

• Report to appropriate persons



SA 260 (Revised) - "Communication with TCWG"

Meaning of Management & TCWG

Auditor's Responsibilities

Communication Process Factors affecting Mode of
Communication

TCWG: Persons with responsibility for overseeing the strategic directions & obligations related to Accountability.

Management: Person with executive responsibility for conduct of entity's operation

Determine the appropriate person to whom communication is to be made.

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- Determine the need to communicate with Governing body, if communicates with subgroup.
- If all of TCWG are involved in managing the entity, and the matter has been communicated with persons having managerial responsibility, the matters need not be communicated again to the same persons in their governing role.

Matters to be communicated

- (a) Auditor's responsibilities in relation to F.S. Audit.
- (b) Planned scope & timing of audit
- (c) Significant findings from audit w.r.t.
 - Accounting Policies
 - Accounting Estimates
 - F. S. Disclosures
 - Significant difficulties encountered

Examples of Significant difficulties

- 1. Significant delay in providing info
- 2. Unnecessarily brief time to complete the audit.
- 3. Extensive unexpected effort to obtain SAAE.
- 4. Unavailability of Expected information.
- 5. Restriction imposed by management.
- 6. Scope limitation imposed by management
- Material weakness in I.C.
- Matters discuss with Mngt.
- Other significant Matters.
- (d) Statement w.r.t. compliance of ethical requirements regarding independence.

 Communication may be Oral /written
 Detail/Summarised
 Structured /Unstructured

- Should be in writing when oral communication is not adequate.
- Communication should be on timely basis

Evaluate adequacy of communication for the purpose of the audit.

If not adequate, evaluate its effect, on the auditor's assessment of the risks of material misstatement.

- Size, operating structure, control environment, & legal structure of entity.
- In the case of an audit of special purpose F.S., whether the auditor also audits the entity's general-purpose F.S.
- Requirements of respective law specifying written communication with TCWG in a prescribed form.
- Expectations of TCWG, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with TCWG.
- Significant changes in the membership of a governing body.

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SA-265 "Communicating Deficiencies in Internal Control to TCWG & Management **Auditor's Responsibilities Meaning of deficiency** in internal control (a) Inability of I.C to prevent **Communication of deficiencies in Internal Control** Identification of deficiencies in **Internal Control** detect & correct misstatement: **Mode of communication Content of communication** (b) Absence of control necessary Determine whether on the basis of to prevent, detect & correct work done any deficiency in In writing misstatements internal control is identified Determine whether individually or To Mngt. (a) Description of deficiencies To TCWG Compiled by: Pankaj Garg for in combination they constitute (b) Explanation of their potential students of CA - Final Audit significant deficiencies effect (c) Sufficient information to explain • that purpose of the audit is to **Indicators of Significant Deficiencies** Significant Significant deficiencies express an opinion deficiencies 1. Evidence of ineffective aspects of control environment. and other • I. C. is evaluated to design 2. Entity's Risk assessment process – Absent/ineffective. deficiencies further audit procedures 3. Ineffective response to identified significant Risks. 4. Correction of prior period misstatements arising due to fraud/error. These Charts are protected under Copyright and for students use only. Any 5. Management inability to oversee F.S. Preparation. Commercial use of these charts by anyone may attract Consequences under 6. Misstatements detected by the auditor's procedures were not Copyright Act. prevented, or detected and corrected by the entity I.C. Compiled by: Pankaj Garg ©www.altclasses.in Page 9

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 Development of Audit Plan

In developing the joint audit plan, joint auditors shall:

- 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;
- 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 Allocation of Work

- 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.

Documentation of Work Allocated

- 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 Reporting Requirements

- 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 Review of work by other joint auditor

- 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

Importance of Planning

- 1. To devote appropriate attention to important areas.
- 2. Identify and Resolve potential problems on timely basis.
- 3. Properly organized & managed Audit.
- 4. Assists selection of ET members with requisite capabilities and competence.
- 5. Co-ordination of work done by auditors of components and experts.
- 6. Facilitating direction and supervision of Engagement team.

Preliminary Engagement Activities

- (a) Procedures required by SA -220 w.r.t. continuous of Client relationship.
- (b) Evaluate compliance with Ethical Requirements (SA-220)
- (c) Understanding of terms o
 Engagement (SA-210)

Planning - A Continuous Process

Planning is not a discrete phase of an audit but rather a continuous process. It begins shortly after completion of previous audit & continues until completion of current audit engagement. It includes consideration of timing of certain activities & audit procedures that need to be completed prior to performance of further audit procedures. E.g., planning includes the need to consider, prior to the auditor's identification and assessment of the RMM, such matters as:

- 1. The analytical procedures to be applied as risk assessment procedures.
- 2. Obtaining a general understanding of the legal and regulatory framework
- 3. The determination of materiality.
- 4. The involvement of experts.
- 5. The performance of other risk assessment procedures.

Planning Activities

Establishment of Audit Strategy

so as to set the scope, timing & direction of the audit

Factors to be considered

- Characteristics of Engagement.
- Reporting Objectives.
- Significant factors to direct ET efforts.
- Result of Preliminary Engagement Activities.
- NTE of Procedures to be performed.

Development of Audit Plan.

- NTE of RAP (SA-315)
- NTE of furthers Audit Procedures (SA-330)
- Other Planned
 Audit Procedure.

CHANGES TO PLANNING DECISIONS

- Auditor shall update & change overall audit strategy and audit plan as necessary during the course of the audit.
- Audit Strategy and Audit Plan may need to be modified as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures.
- Based on the revised consideration of assessed risks, auditor need to modify the NTE of further audit procedures. This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures.

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

Risk Assessment Procedures

- Procedures to obtain an understanding of entity its environment including I.C.
- To Identify and assess the RMM at F.S. and **Assertion Level.**

It Includes

- a. Inquiry of mngt. & others
- b. Analytical Procedures
- c. Observation & Inspection

Understanding of Entity & its Environment

Auditor shall obtain understanding of:

- 1. Relevant Industry, Regulatory & other External Factors including FRF.
- 2. Nature of Entity including.
 - Its Operations
 - Ownership & Governance structure
 - Types of investments
 - The way Entity is structured & how it is financed
- 3. Selection & Application of Accounting Policies & reasons for changes thereto.
- 4. Entity objectives & Strategies & those business risks that may result in increase RMM.
- 5. Measurement & review of Financial Performance.
- 6. Internal control relevant to audit.

Risk in CIS Environment

Risk imposed by IT/CIS

- Reliance on programs that process inaccurate data or do inaccurate processing.
- Unauthorized access to data that may result in destruction of data.
- Unauthorized changes to data in Master files.
- Unauthorized changes to systems.
- Failure to make necessary changes.
- Potential loss of data
- Inability to access data as required.

Areas to be examined

- Program Development Maintenance.
- System Software Support.
- Operations Including processing of data.
- Physical CIS security.
- Control over access specialized CIS utility programs.

1. Control Environment

- Communication of Ethical values.
- 2. Risk Assessment Process
- Identify Business Risk
- Estimating significant Risks
- Assessing Likelihood of occurrence.
- Deciding response

3. Information System relevant to FR:

- Classes of transactions
- Accounting procedures
- Accounting records
- Financial Reporting Process.
- Controls over journal entries

4. Control Activities relevant to Audit

- Information processes
- Segregation of duties.
- Physical controls
- Performance Reviews

5. Monitoring of Controls

• Assess effectiveness of I.C. Performance.

Identification and Assessment of RMM

a) F.S. Level: RMM that relate pervasively to the F.S. as a whole and potentially affect many assertions.

b) Assertion level for classes Transaction, Account **Balances** disclosures: It helps in determining the NTE further audit procedures necessary to obtain SAAE.

Assertions evaluated Transaction Occurrence

occurred during the year

- - Completeness Accuracy
 - Cut-Off
 - Classification
- Account balances at period end

Disclosures

- Existence • Rights & Obligations
- Completeness
- Valuation & Disclosure
- Presentation Occurrence &
 - Completeness Classification

Accuracy & Valuation

risk to what go wrong at assertion level.

Steps in Risk

Assessment

Process:

• Assess & Evaluate

Relate identified

the identified risks.

• Identify risks

 Likelihood of misstatement.

Risk require special consideration

- 1. Risk of fraud
- 2. Risk related to recent significant Economic. Accounting other Developments.
- 3. Complexity of Transactions.
- 4. Transactions with Related **Parties**
- 5. Significant Unusual Transaction

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

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.

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.

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

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.

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

- Changes occurs: Test the controls in current audit
- <u>No Change Occurs</u>: 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.

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	Auditor shall consider whether EC procedures are to be	
Confirmation	performed as substantive audit procedures.	
(EC)	Factors that may assist the auditor are:	
procedures	1. Confirming party knowledge of Subject Matter.	
as	2. Ability or Willingness of intended confirming part to	
substantive	respond.	
procedures	3. Objectivity of Intending Party.	
Closing	Reconciling F.S. with underlying accounting records.	
Process	• Examine Material Journal Entries & other adjustments	
	made during the course of preparing the F.S.	
Significant	Procedures that are specifically responsive to that risk	
Risks	needs to be applied	

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

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

Auditor's Objective

- Obtain an understanding of nature & significance of service provided by the S.O. and their effect on the user's entity internal control relevant to the audit, sufficient to identify and assess the RMM.
- To design and perform audit procedures responsive to those risks.

Obtaining understanding of services provided by service Organisation (S.O.)

The user auditor shall obtain an understanding of how user entity uses the services of a service organization in the user entity operation, including:

- (a) Nature of service provided by the S.O. and significance of services to user entity.
- (b) Nature and materiality of the transactions processed or financial reporting processes affected by service organizations.
- (c) Degree of interaction between activities of S.O. and those of the user entity.
- (d) The nature of relationship between user entity and the service organization.

<u>User Auditor</u>: An auditor who audits and Reports on the financial statements of a user entity.

<u>User Entity</u>: An Entity that uses a service organization and whose financial statements are being audited.

Type 1 Report: Report on the description and design of internal controls at a service organization for a specified date.

Type 2 Report: Report on the description, design and operating effectiveness of controls at a service organisation for a specified period.

Auditor's considerations

- User auditor shall *evaluate the design and implementation of relevant controls of user entity* that relate to the services provided by service organization.
- User auditor shall <u>determine whether a sufficient understanding of nature and</u> <u>significance of services provided by service organization</u> and their effect on the user entity internal control relevant to the audit has been obtained.
- If user auditor is *unable to obtain a sufficient understanding from the user entity*, user auditor shall obtain that understanding from the following procedures:
 - (a) Obtaining a Type 1 or Type 2 Report, if available.
 - (b) Contacting the service organization, through the user entity.
 - (c) Visiting the service organization.
 - (d) Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the S.O.
- If a S.O. uses subservice organisation, the service auditor's report may either
 include or exclude the subservice organisation's relevant control objectives
 & related controls in the service organisation's description of its system & in
 the scope of service auditor's engagement. These two methods of reporting
 are known as the inclusive method and the carve-out method, respectively.
- If Type 1 or Type 2 report excludes the controls at a subservice organisation, and the services provided by the subservice organisation are relevant to the audit of the user entity's financial statements, the user auditor is required to apply the requirements of this SA in respect of the subservice organisation.
- Nature and extent of work to be performed by the user auditor regarding the services provided by a subservice organisation depend on the nature and significance of those services to the user entity and the relevance of those services to the audit.

SA 450 "Evaluation of Misstatements Identified during the Audit Meaning and Causes of Auditor's Procedures if Misstatements identified Misstatements Accumulate the misstatements other than those that clearly trivial Difference between amounts, classification, presentation or disclosure of a reported financial **Determine whether any** Communicate to management & request them to correct. statement item. revision required in Audit and Strategy/Plan. **Management corrects Management refuses** amount, classification, presentation or disclosure that is required for the item Understand the reason for not making Perform Additional to be in accordance of FRF. **Audit Strategy and Audit** corrections Procedures to **Causes of Misstatement** Plan require revision if determine whether (a) Inaccuracy in gathering Re-assess the materiality misstatements processing data from which the Nature identified F.S. are prepared; remain. misstatements and the (b) Omission of an amount or circumstances of their If material, communicate uncorrected disclosure: occurrence indicate that misstatement and their effect on his opinion to (c) Incorrect accounting estimate other misstatements may TCWG with a request that uncorrected arising from overlooking, or clear exist that, could be material; These Charts are misstatements be corrected. misinterpretation of, facts; and protected under (d) Unreasonable judgments Copyright and for Aggregate of misstatements Not corrected management concerning students use only. Any accumulated during the Commercial use of these accounting estimates. Obtain a written representation from audit approaches materiality charts by anyone may (e) Inappropriate selection attract Consequences management/TCWG w.r.t their believing that determined in accordance application of accounting policies under Copyright Act. effect of uncorrected misstatements is with SA 320 (Revised). immaterial. Compiled by: Pankaj Garg Page 16 ©www.altclasses.in

SA 500 "Audit Evidence"

Meaning and Nature of Audit Evidence (A.E.)

Meaning of A.E.

Information used by auditor

In arriving at the conclusion

On which auditor's opinion is based.

Nature of A.E.

A.E. needs to be

Sufficient	Appropriate
Measure of	Measure of
quantity	quality
Affected by	Relevance &
• RMM &	reliability in
• Quality of	providing
Audit	support for

conclusion.

Auditor's duties when an information to be used as audit evidence

Evaluate Competence, Capability and Objectivity of the Expert

Source of Information for evaluation:

- Personal Experience with previous work.
- Discussion with that expert.
- · Discussion with others.
- Knowledge of expert's qualification, memberships, other forms of recognitions.
- Published books or papers.
- Auditor's expert.

Obtain an understating of expert work

- Area of Specialty
- Applicable professional standards.
- Legal & Regulatory Requirements.
- Assumptions and Methods used.
- Nature of Source Data used.

3 Evaluate the appropriateness of Expert work

- Finding & Conclusion Relevance, Reasonableness & Consistency with other A.E.
- Assumptions and Methods Relevance and Reasonableness.
- **Source Data** Relevance, Completeness and accuracy.

Obtain A.E. about the

Accuracy and

 $Completeness\ of\ info.$

Evaluate whether info

is

sufficiently precise and detailed for

auditor's purposes.

Audit Procedures & Methods for obtaining audit evidence

Procedures to obtain A.E.

- (a) RAP
- (b) FAP (Responses):
 - Tests of Control (ToC),
 - Substantive
 - 1. Tests of Details (ToD)
 - 2. Substantive Analytical Procedures (SAP)

Methods to obtain A.E.

- 1. Inspection
- 2. Observation.
- 3. External Confirmations
- 4. Recalculation
- 5. Re-performance
- 6. Analytical procedures
- 7. Inquiry (Oral/Written)

Reliability of Audit Evidence

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- (a) External Evidences are considered more reliable than internal evidences.
- (b) The reliability of internal evidence is increased when the related controls, imposed by entity are effective.
- (c) Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly.
- (d) Audit evidence in documentary form, is more reliable than evidence obtained orally.
- (e) Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies.

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evidences

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;
 - <u>Observe</u> the performance management's count procedures;
 - <u>Inspect</u> 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

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.

Auditor unable to attend Inventory Count

Make or observe some physical counts on an alternative date.

and perform audit procedures on intervening transactions

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.

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

Modify 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.

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

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.
- Refusal appears to be unreasonable
 Communicate
 TCWG.
 - rable TCWG.

 collect Determine i
- Unable to collect audit evidence
- Determine its effect
 on Opinion

to

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	Determine its effect on
evidence	Opinion
Exception occurs	Investigate to determine
	misstatement

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Limited use of -ve Request

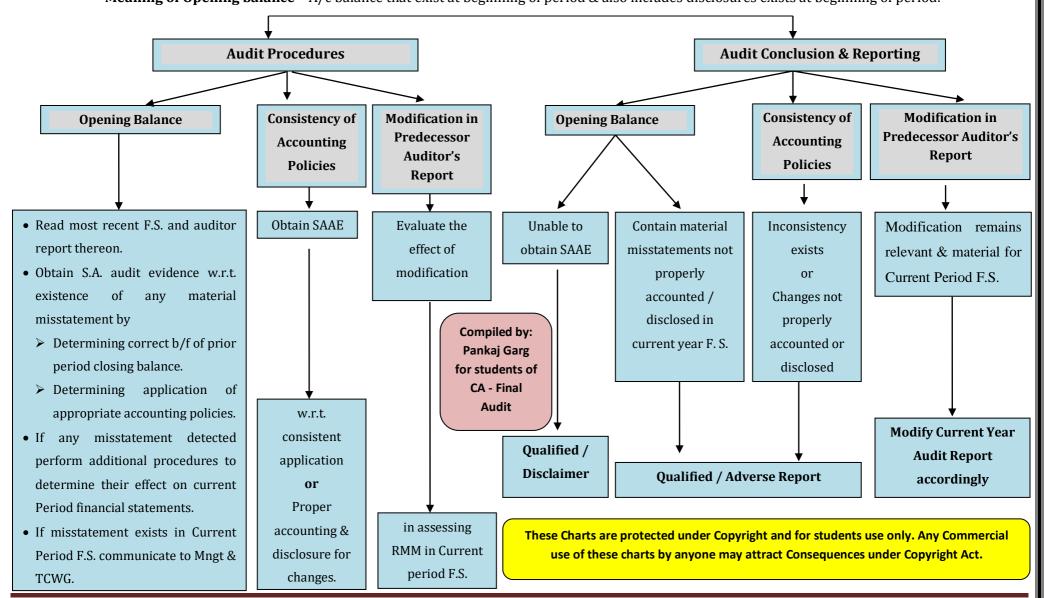
As it provides less persuasive evidence than the positive Confirmation request.

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.

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.

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

Auditor's Procedures

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.

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

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 **Sampling Risk Auditor's Duties** Application of audit procedures to < Risk that auditor's conclusion based on a sample may be different from Sample design, size and selection of items (i) While designing, consider the purpose of 100 % of items within a population. the conclusion if the entire population were subjected to same audit audit procedure the and procedure. **Types of Sampling** characteristics of the population. (a) Statistical Sampling: An (ii) Sample size should be sufficient to Compiled by: approach to sampling that has the reduce sampling risk to an acceptably Pankaj Garg **Tests of details** Test of following characteristics: low level. for students of controls (iii) Selection should be in such a way that • Random selection of the CA - Final each sampling unit in the population has Audit sample items; and a chance of selection. The use of probability Perform audit procedures Material Affects *audit* Controls are theory to evaluate sample (i) Perform audit procedures, appropriate misstatements does *effectiveness* and is more effective results. including to the purpose, on each item selected. not exist when in than they more likely to lead to measurement of sampling (ii) If the audit procedure is not applicable fact it does. an inappropriate actually are to selected item, perform the procedure risk. audit opinion. on a replacement item. (b) Non-Statistical Sampling: A (iii) If the auditor is unable to apply designed sampling approach that does not audit procedures/alternative procedure have characteristics of random Controls are Affects audit Material to a selected item, consider that item as selection and use of probability efficiency as it would a deviation. less effective misstatement exists theory is considered nonlead to additional **Evaluation of results of audit sampling** when in fact it does than they work to establish statistical sampling. To determine whether the use of audit actually are not

that initial

conclusions were

incorrect.

sampling has provided a reasonable basis

for conclusions about the population that

has been tested.

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.

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

- \rightarrow 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,
- \rightarrow Assets held for disposal,
- → Financial Instruments,
- → Assets acquired in business combinations

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.

Auditor's Duties

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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.
- 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.
- 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

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

Obtain an understanding of RP Relation and Transactions: 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 • true and fair presentation and · not misleading. • Perform audit procedures to • Evaluate whether Identified RP Specific (FRF established accounting & Disclosure

- Identify, Assess & Respond to RMM.
- relationships & Transactions have been appropriately accounted for & disclosed as per FRF.
- Obtain WR from management/ TCWG w.r.t.
 - \rightarrow 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

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.

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		Shareholder's Register
2	Internal Audit Report		Life insurance Policies
3	Contracts with Management		Statement of conflict of interest
4	Contracts outside normal	10	Information supplied to
	course of business		regulatory authorities
5	Contracts re-negotiated	11	Specific Invoices from advisors
6	Register of Investments		

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
- 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

Identification of unidentified undisclosed RP or RP transaction.

- Communicate to other members of ET.
- Request management to identify the transactions with the newly identified
- 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.

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

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) <u>Inquire the Management</u> 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" Mngt. Responsibilities **Auditor's Duties** Conditions that may cast doubt about G.C. Assumption For this purpose, auditor is required to the entity's obtain SAAE about the A Financial Conditions Assess 1. Net Liability position. appropriateness of mngt use of ability to continue as a a) Cover the same period as that used by mngt. 2. Non-renewal of borrowings. going concern. going concern basis of accounting. b) Consider whether mngt has considered all 3. Withdrawal of Financial General purpose F.S. are relevant information of which auditor is aware. Support. prepared on a going Determine whether mngt has 4. Adverse Financial Ratios. 5. Inability to pay creditors. concern basis unless already performed a preliminary • Request mngt to make its assessment of entity's 6. Substantial Losses. management intends to assessment of entity ability to ability to continue as going concern. 7. Inability to arrange finances. liquidate the entity or to continue as going concern. 8. Negative Operating cash flow. • Evaluate management plans for future. cease operation. 9. Deterioration in value of • Consider the reliability of cash flow forecast. Auditor identifies events that cast In case F.S. are not assets. • Considering availability of additional facts or significant doubt on entity ability 10. Discontinuation of dividend. prepared on going **B** Operating Conditions information since the date of mngt assessment. to continue as going concern. concern basis, the fact 1. Management intention to • Requesting WR from Mngt. regarding their plans would need to liquidate the entity. Perform additional procedures appropriately disclosed. for future action and the feasibility of these plans 2. Loss of KMP. 3. Loss of a major market, key customer, franchise etc. Use of Going concern Basis of Accounting is **Use of Going Concern** Mngt. unwilling to make its assessment 4. Labour Difficulties. appropriate but Material Uncertainty exists **Basis of Accounting is** 5. Shortage of **Important** Supplies. Compiled by: Pankaj **Inappropriate** 6. Emergence Determine whether F.S. makes relevant successful Garg for students of competitor. CA - Final Audit disclosure C Others **Express an Adverse** 1. Non-compliance of Statutory Consider the implications on Auditor's Report No Yes Requirements. **Opinion** 2. Pending legal proceedings Express unmodified opinion & **Express** against the entity. **Oualified** include a separate section These Charts are protected under Copyright and for students use only. Any 3. Changes in Law or regulation. under heading "Material or Commercial use of these charts by anyone may attract Consequences under 4. Uninsured or underinsured **Uncertainty Related to Going** Adverse Copyright Act. Concern" **Opinion** assets. Compiled by: Pankaj Garg ©www.altclasses.in Page 26

SA 580 "Written Representation" Compiled by: Pankaj Garg for students of Meaning and Nature of WR Requirements of SA 580 CA - Final Audit Matters for which WR may be obtained **Auditor Responses in different Situations** A written statement by Management Management refuses to Reliability of WR is doubtful provided to auditor provide WR (a) Preparation and presentation of Financial to confirm certain matters **Statements:** • In case of having concerns • Discuss the matter with Management responsibilities or In accordance with applicable about competence management to support other audit evidence. FRF. integrity of mngt, determine • Re-evaluate the reliability • WR recognized as audit evidence (b) Information provided to and integrity of management. their effect in reliability of as a response to inquiries. Auditor: • Determine possible effect on and other audit • WR do not provide SAAE As agreed in terms of evidence in general. the opinion. engagement • WR should be in the form of a • IF WR inconsistent with • Issue disclaimer of opinion. **Description of management** representation letter addressed other evidences, perform **Responsibilities:** to Auditor. additional procedures. These Charts are protected In the manner as described in • WR shall be obtained for all • If conclude that WR is not under Copyright and for terms of engagement students use only. Any financial statements reliable, determine possible and Commercial use of these charts As required by other SA period(s) referred in Auditor's effect on audit opinion. by anyone may attract OrReport. • In case of sufficient doubt **Consequences under Copyright** Where auditor determines that it • Date of WR shall be as near as Act. over integrity is necessary to obtain one or more practicable to the date of the management, issue WR. Auditor's report. 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.

Principal Auditor's Procedures

- 1. Consider the professional competence of Other Auditor, if Other Auditor is not a member of ICAI.
- 2. Visit component and examine books of account, if essential.
- 3. Obtain sufficient appropriate evidence, that work of Other Auditor is adequate for Principal Auditor's purposes.
- 4. Discuss audit procedures applied by Other Auditor.
- 5. Review a written summary of Other Auditor's procedures and findings through questionnaires/checklist.
- 6. Consider significant findings of Other Auditor:
 - Discuss audit findings with OA and Management of component.
 - Perform supplemental tests if necessary.
- 7. In case Other Auditor is not a professionally qualified auditor for instance, where a component is situated in foreign country:
 - Procedures mentioned above assume added importance.

Documentation

- 1. Components whose FS are audited by Other Auditor and their significance to the financial information of the entity as a whole.
- 2. Names of the other auditors.
- 3. Any conclusions reached that individual components are not material.
- 4. Procedures performed regarding components.
- 5. Conclusions reached.
- Manner of dealing with Modified Report of Other Auditor while finalising Principal Auditor's Report.

Coordination

- Sufficient liaison/coordination between Principal and Other auditor.
- 2. Principal auditor may require
 Other Auditor to answer a
 detailed questionnaire.
- 3. Other Auditor should coordinate with Principal Auditor:
 - Adhering to time-table.
 - Bringing to the attention of PA any significant finding.
 - Compliance with relevant statutory requirements.
 - Respond to detailed questionnaire.

Reporting

- 1. Express a *qualified / disclaimer of opinion*because of scope

 limitation:
 - If Principal Auditor concludes that he cannot use the work of Other Auditor;
 - PA unable to perform sufficient additional procedures regarding
 Financial information of the component audited by OA.
- 2. Report should state clearly division of responsibility

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

Meaning & scope of Internal Audit Function

External Auditor's Procedures w.r.t. Evaluation 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
- Activities relating to Internal Control
 - Evaluation of Internal Control
 - Examination of Financial and operating information
 - Review of Operating Activities
 - Review of Compliance with Laws and Regulations

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

If Satisfactory

Do not use the work of internal Audit function.

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)

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.

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

Determining need for an Auditor's Expert

An auditor's expert may be needed to assist the auditor for the followings:

- 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.

Evaluate Competence, Capability and Objectivity of the Expert

Source of Information for evaluation:

- 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.

Obtain an understating of expert work

- 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.

Agreement with Auditor's Expert

Need to be in writing and cover the followings:

- 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.

Evaluate appropriateness of Expert work

- Finding & Conclusion Relevance,
 Reasonableness & Consistency with other A.E.
- **Assumptions and Methods** Relevance and Reasonableness.
- **Source Data** Relevance, Completeness and accuracy.

6 Expert work not adequate for audit purposes

- 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

Elements of an Unmodified Audit Report

	Reports in which auditor
	expresses his opinion on financial
	statements.
Jg	• For General purpose F.S. – SA
ani	700, 701, 705 & 706 will
Meaning	apply.
	• For Special Purpose F.S. – SA
	800 along with 700, 701, 705
	& 706 will apply.
	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
s	Opinion.
Types	B.1.1 – Qualified Opinion
Ţ	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.

4	mid	((x 1 1 1 A 1				
1	Title	issued by others.				
2	Addressee		Auditor's Report shall be addressed as appropriate. Generally, it is			
		addressed to those	for whom it is prepared.			
3	Opinion Section	Fair	Fair In our opinion, the F.S. present fairly in all material			
		Presentation	respects in accordance with [applicable FRF]; Or			
		Framework	In our opinion, the F.S. gives a true and fair view of			
(Compiled by:		in accordance with [applicable FRF]			
	Pankaj Garg	Compliance	In our opinion, the F.S. present, in all material			
		Framework	respect in accordance with [applicable FRF]			
1	for students of		also cover the following:			
	CA - Final	Identify the En				
	Audit		e of each financial statement.			
)		iod/date covered by each F.S.			
			ave been audited.			
4	Basis for		States that audit was conducted in accordance with SAs.			
	Opinion		on of Auditor's report that describes the auditor's			
		•	responsibilities.			
			Ethical requirements including independence.			
			Traditor 5 beneving that they had obtained sufficient and appropriate			
			to provide a basis for the opinion.			
5	Going Concern	Where applicable, auditor shall report in accordance with SA 570.				
6	Key Audit	In case of Listed Entity, auditor shall communicate Key Audit Matters in				
	Matter	Auditor's Report in accordance with SA 701.				
7	Management		in accordance with applicable FRF.			
	Responsibilities		of adequate records for safeguarding of assets and			
	for the F.S.	*	l detection of fraud.			
			able and prudent judgments and estimates.			
			nentation and maintenance of Internal Control.			
			appropriateness of Going Concern basis of accounting.			
	A 11.		financial reporting process.			
8		sponsibilities for the Audit of F.S.				
9	Other		orting on Other Legal and Regulatory Requirements".			
	Reporting		reporting of CARO, 2016, reporting u/s 143(3) of			
10	responsibilities	Companies Act, 2013, Rule 11 of CAAR, 2014.				
10	Signature		and name of firm, along with the membership number			
11	Dlace	and firm registration The city where aud				
11 12	Place Date		rlier than date on which audit evidences are collected.			
12	Date	it should not be ear	Their than date on which addit evidences are confected.			

- 2. 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.
- 4. 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.
- 5. 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.

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SA 705 - Modifications to the Opinion in the Independent Auditor's Report

Types of modified Opinion

Considerations while issuing modified Opinion

	Issued when:
	F.S. are misstated having material
	but not pervasive effect.
p	Or
Qualified	Auditor not been able to collect
Qua	sufficient appropriate audit
	evidence for transactions that are
	having material but not pervasive
	effect.
(I)	Issued when F.S. are misstated
Adverse	having material and pervasive
Adv	effect.
	Issued when auditor not been able
r	to collect sufficient appropriate
ime	audit evidence for transactions
Disclaimer	that are having material and
D	that are having material and

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

pervasive effect.

Opinion Section

Basis for Opinion Section

Auditor's Responsibility Section

Use the heading -

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion.

Wordings of Opinion:

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]

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

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.

with [applicable FRF].

in accordance

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	 Description of Misstatement. Quantification of financial
in Amount	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.

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**

- 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

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

- 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

- 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

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.

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.

Corresponding Figures

- 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.

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:

- FS of prior period were audited by predecessor auditor.
- Type of opinion expressed by him (reasons for modifications, if any).
- Date of that report.

Prior Period F.S. are Unaudited

Include Other Matters para:

- 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

Obtaining the Other Information

The auditor shall:

- (a) Determine, through discussion with mngt, 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.

2 Reading & Considering the Other information

The auditor shall read the other information & consider

- (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.

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.

Auditor's Responses

1 When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

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:

- (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.
- 2 When the Auditor Concludes That a Material Misstatement of the Other Information Exists
 - If auditor concludes that a material misstatement of the other information exists, he shall request mngt to correct other information. If management:
 - (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:
 - (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:
 - (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.
- When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated

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.

Reporting

- The auditor's report shall include a separate section with a heading "Other Information", when, at the date of the auditor's report:
 - (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:
 - (a) A statement that mngt. is responsible for the other information:
 - (b) An identification of:
 - (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;
 - (e) When other information has been obtained prior to the date of the auditor's report, either:
 - (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.