

# Chapter 1 "Quality Control and Engagement Standards"

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

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

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

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

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

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Aspects to be considered by Auditor while performing Audit					Other Explanation
Ethical Requirements	Professional Skepticism	Professional Judgement	Sufficient Appropriate audit Evidence	Conduct of Audit in accordance with SAs	
<ul style="list-style-type: none"> <li>• Comprise Code of Ethics issued by ICAI including independence.</li> <li>• The fundamental principles are:                             <ol style="list-style-type: none"> <li>1. Integrity</li> <li>2. Objectivity</li> <li>3. Professional competence &amp; due care</li> <li>4. Confidentiality, &amp;</li> <li>5. Professional behavior</li> </ol> </li> <li>• Independence comprises both independence of mind and independence of appearance.</li> </ul>	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.	<ul style="list-style-type: none"> <li>• The application of relevant training, knowledge and experience,</li> <li>• within the context provided by auditing, accounting and ethical standards,</li> <li>• in making informed decisions about the courses of action</li> <li>• that are appropriate in the circumstances of the audit engagement.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Sufficiency</b> refers to quantum and <b>Appropriateness</b> refers to quality.</li> <li>• <b>Purpose:</b> 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.</li> <li>• <b>Audit Risk:</b> Risk that the auditor expresses an inappropriate audit opinion when the F.S. are materially misstated.</li> <li>• Audit Risk is a function of the RMM and detection risk.</li> </ul>	<ul style="list-style-type: none"> <li>• The auditor shall <b>comply with All SAs</b> relevant to the audit.</li> <li>• Compliance with SA is to be specified in Audit report only in case of actual compliance.</li> <li>• To achieve overall objectives of audit, use the <b>objective stated in Individual SAs</b>.</li> <li>• In case <b>Entire SA is not relevant</b> due to non existence of prescribed conditions, comply with relevant requirements.</li> <li>• In case of failure to achieve an objective determine the need of modified opinion or withdrawal.</li> </ul>	<b>Scope of Audit</b>
	Alertness is required w.r.t.				<ul style="list-style-type: none"> <li>1. Contradictory audit evidence.</li> <li>2. Reliability of documents.</li> <li>3. Conditions indicating possible frauds.</li> <li>4. Circumstances requiring audit procedures in addition to those suggested in SAs.</li> </ul>
			It is required w.r.t.:		
					<ul style="list-style-type: none"> <li>• is the duty of Mngt./TCWG.</li> <li>• Duty of management also includes to make accounting estimates and selection and application of appropriate accounting policies.</li> </ul>
					<b>Inherent Limitations for an audit</b>
					<ul style="list-style-type: none"> <li>(a) <b>Nature of Financial reporting:</b> involves judgment by Mngt. based on facts and circumstances.</li> <li>(b) <b>Nature of audit Procedures:</b> directed towards obtaining reasonable assurance.</li> <li>(c) <b>Balance between benefit and cost:</b> user expectation to get AR within a reasonable period and at reasonable cost.</li> </ul>

# SA – 210 (Revised) – “Agreeing the Terms of Engagement”

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

## Agreeing the terms of audit Engagement

### At the Beginning of Audit

### During the Course of Audit

#### Initial audit Engagement

#### Recurring Audit

Mngt. request for changes in terms

Limitations Imposed by mngt.

No Limitations Imposed by Mngt.

Determine requirements w.r.t.:

Determine its effect on Level of Assurance & reasonable Justification

Do not accept unless required by law

Ascertain existence of **Preconditions\***

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

#### Preconditions for an audit

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

Exist

Not Exist

Required

Not Required

Auditor Satisfied

Not Satisfied

Accept Audit

Discuss matter with mngt.

Send New Engagement Letter

No Further Duty

Record New Terms in Engagement Letter

Do not accept the changes

Do not accept audit in case of:

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

#### CIRCUMSTANCES REQUIRING REVISION IN TERMS

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

Mngt. not permit the auditor to continue

Withdraw & Report to appropriate authority

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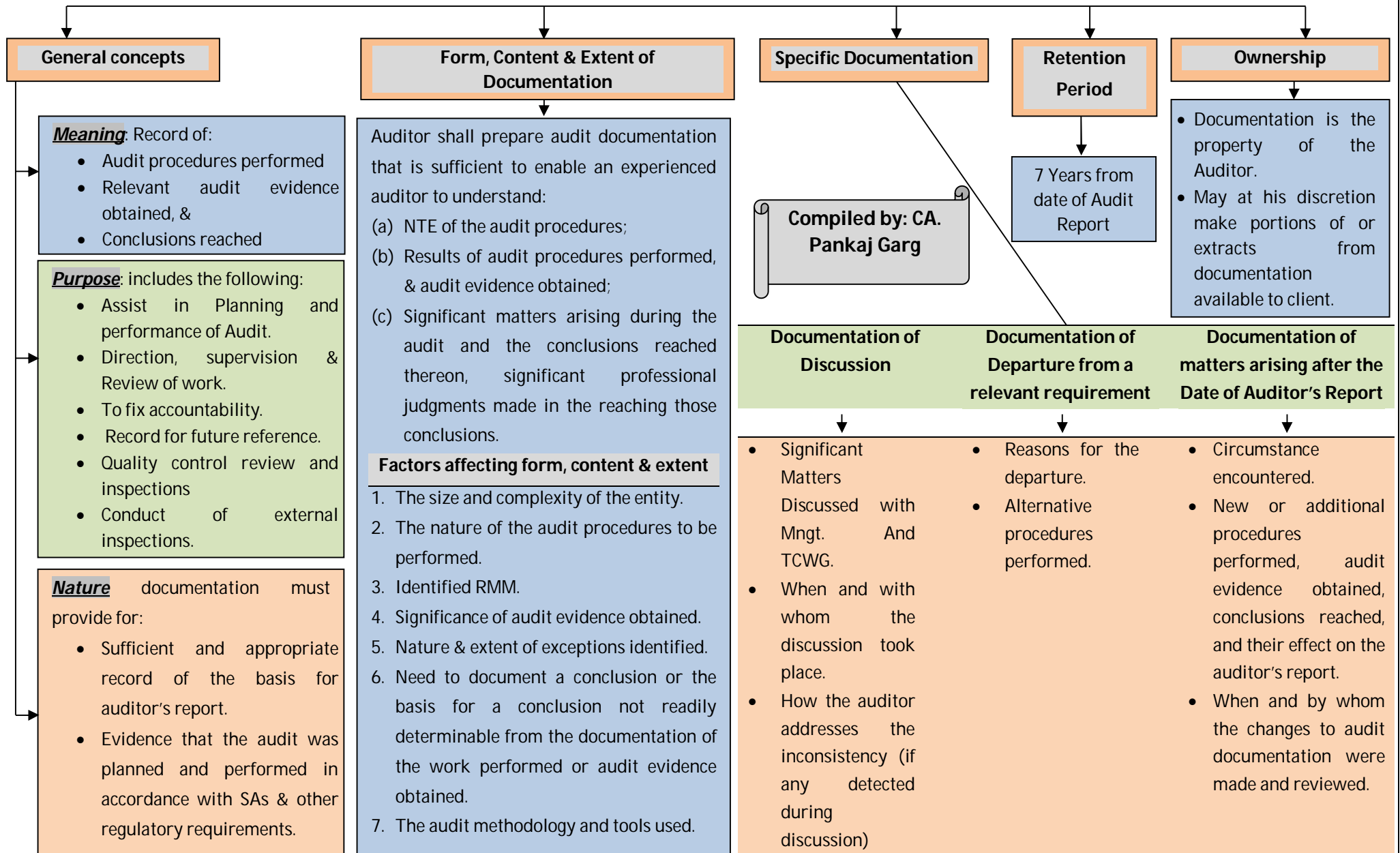
## SA – 220 (revised) “Quality Control for an audit of F.S.”

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

Leadership Responsibilities	Ethical Requirements	Independence	Acceptance / Continuance of Client relationship	Assignment of Engagement Team	Engagement Performance	Monitoring
<p>EP should emphasize the ET the following:</p> <ul style="list-style-type: none"> <li>• Compliance with professional Standards and legal requirements.</li> <li>• Compliance with firm's Q.C. Policies.</li> <li>• Issuance of appropriate audit report.</li> <li>• Ability to raise concerns without fear.</li> <li>• Quality is essential &amp; indispensable in engagement performance.</li> </ul>	<p>EP to remain alert for <b>evidence of non-compliance</b> with relevant ethical requirements by ET through:</p> <ul style="list-style-type: none"> <li>• Inquiry.</li> <li>• Observation.</li> </ul> <p>If there is an <b>indications</b> of noncompliance with relevant ethical requirements, EP should:</p> <ul style="list-style-type: none"> <li>• Consult others in the firm.</li> <li>• Determine appropriate action.</li> </ul>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Form a conclusion on compliance with applicable independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Obtain relevant information from Firm</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Identify &amp; Evaluate circumstances &amp; Relationship that threatens independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Evaluate information on identified breaches.</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Determine if these threaten independence</div> <p>↓</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Take appropriate action to eliminate such threats</div> <p style="text-align: center;"><b>or</b></p> <div style="border: 1px solid black; padding: 5px;">Promptly report inability to take appropriate action to</div>	<ul style="list-style-type: none"> <li>• Be satisfied that appropriate procedures regarding client acceptance / continuance have been followed.</li> <li>• Determine whether conclusions reached are appropriate.</li> </ul> <p style="text-align: center;">↓</p> <div style="border: 1px solid black; padding: 5px;">If EP obtains <b>information</b> that would have caused firm to withdraw the engagement, communicate information promptly to firm</div> <p style="text-align: center;">↓</p> <div style="background-color: #ffe4b5; padding: 5px;"> <p style="text-align: center;"><b>Examples of Information</b></p> <ol style="list-style-type: none"> <li>1. Integrity of Principal Owners, Mngt &amp; TCWG</li> <li>2. Competency of ET to perform engagement.</li> <li>3. Availability of necessary capabilities, including time &amp; resources.</li> <li>4. Compliance with relevant ethical requirements.</li> <li>5. Significant matters that arises during the current or previous audit engagement.</li> </ol> </div>	<p>EP to be satisfied that ET &amp; Auditor's Expert not part of ET have appropriate competence &amp; capabilities to:</p> <ul style="list-style-type: none"> <li>➢ Perform audit engagement in accordance with professional standards and regulatory or legal requirements, and</li> <li>➢ Enable an AR that is appropriate in the circumstances.</li> </ul>	<p><b>1. Direction, Supervision and performance:</b></p> <ul style="list-style-type: none"> <li>• EP shall take the responsibility for directions, supervision &amp; performance of audit engagement in compliance with standards &amp; regulatory requirements, &amp;</li> <li>• to make an appropriate AR.</li> </ul> <p><b>2. Reviews:</b></p> <p>EP shall take the following responsibilities:</p> <ol style="list-style-type: none"> <li>a. Reviews are being performed in accordance with policies / procedures.</li> <li>b. Be Satisfied that SAAE has been obtained to support the conclusions reached and AR to be issued through                             <ul style="list-style-type: none"> <li>• Review of Audit Documentation.</li> <li>• Discussion with ET</li> </ul> </li> </ol> <p><b>3. Consultation:</b></p> <p>EP shall undertake consultation</p> <ul style="list-style-type: none"> <li>• wherever required.</li> <li>• Ensure its implementation</li> </ul> <p><b>4. Engagement Quality Control Review:</b> required in case of listed entities.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> <p style="text-align: center;"><b>Matters to be evaluated by EQCR</b></p> <ul style="list-style-type: none"> <li>• Discussion of significant matters with ET.</li> <li>• Review of FS &amp; proposed audit report.</li> <li>• Review of selected audit documentation</li> <li>• Evaluation of conclusions reached.</li> <li>• Considering whether proposed audit report is <u>appropriate</u>.</li> </ul> </div> <p><b>5. Differences of Opinion:</b> follow the firm's policies &amp; procedures for dealing with and resolving differences of opinion.</p>	<p>Obtain reasonable assurance that firm's policies / procedures relating to QC are relevant, adequate, and operating effectively.</p> <p>Consider:</p> <ul style="list-style-type: none"> <li>• Results of firm's monitoring process.</li> <li>• Whether deficiencies noted may affect the audit engagement.</li> </ul>

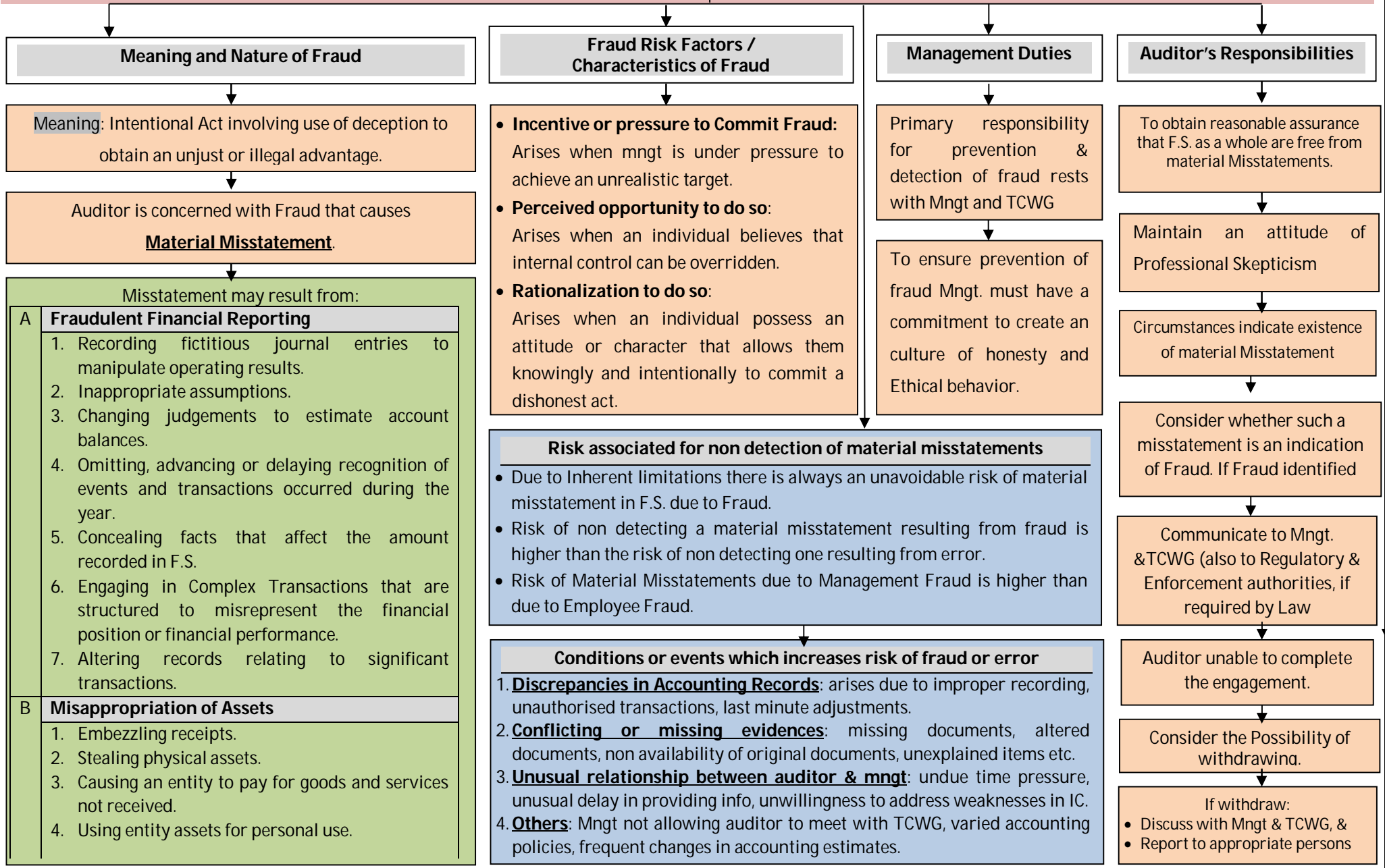
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# SA – 230 (Revised) – Audit Documentation

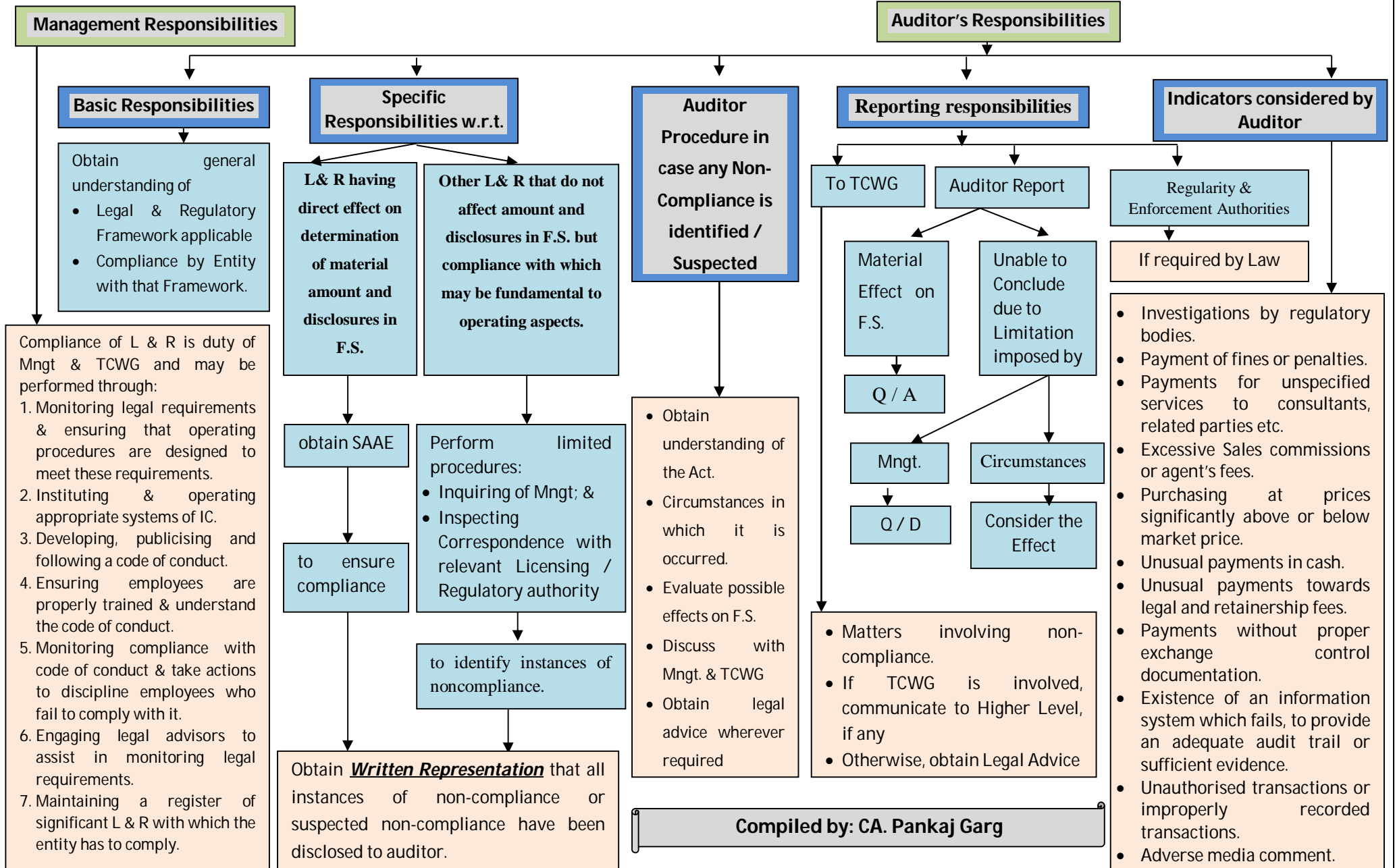




# SA 240 (Revised) – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

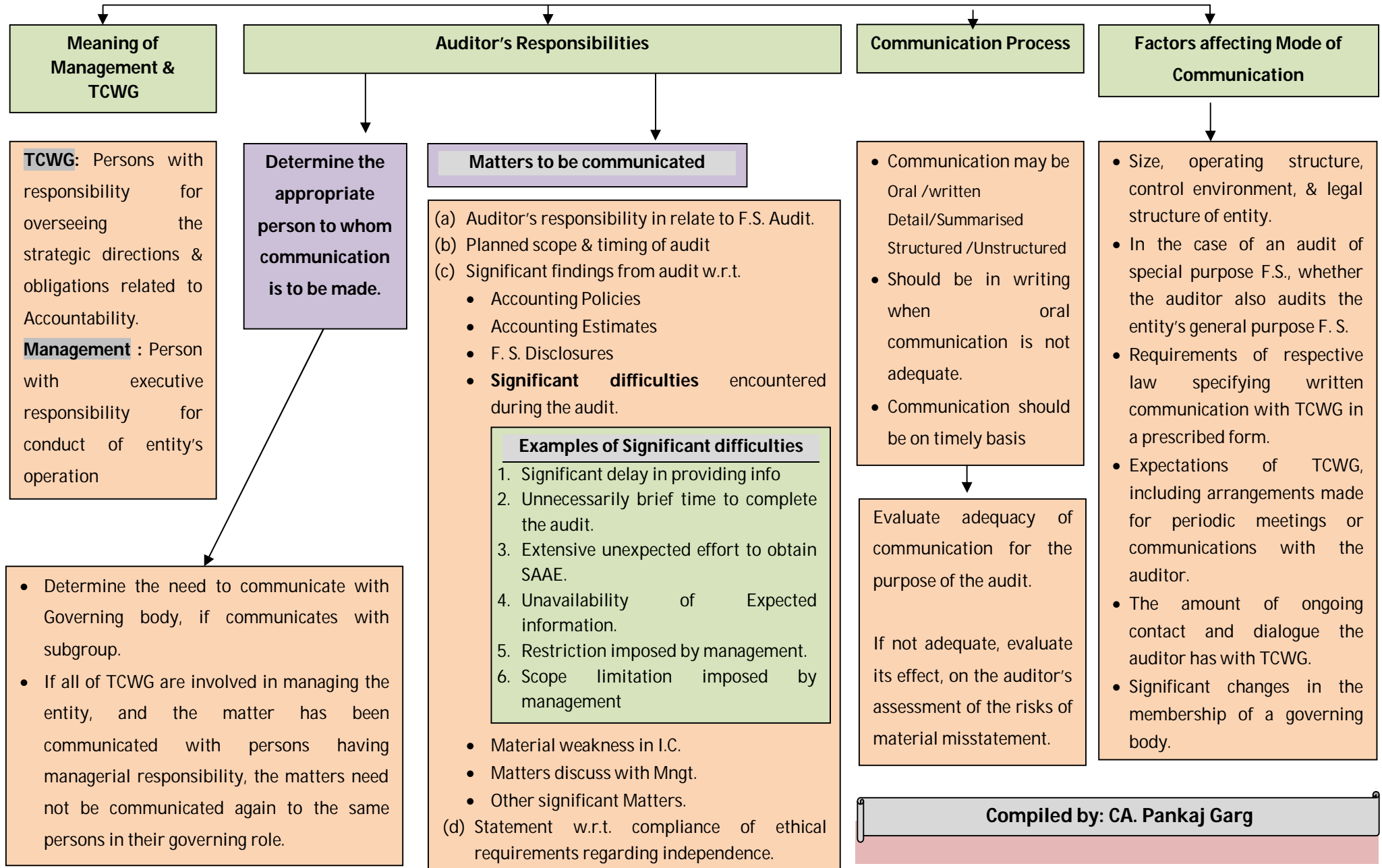


# SA 250 (Revised) "Consideration of Laws and Regulations in an Audit of F.S."



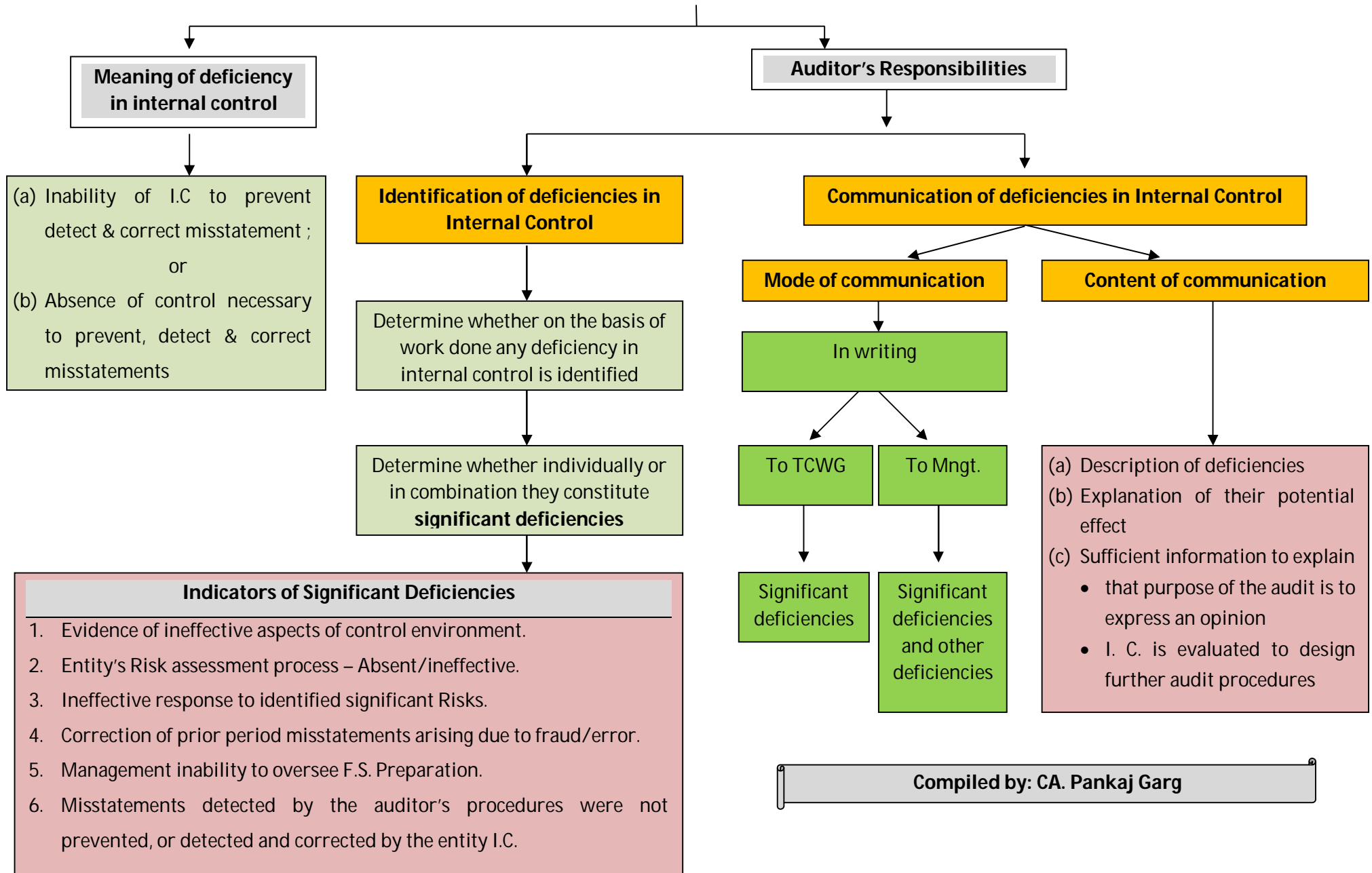
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## SA 260 (Revised) – “Communication with TCWG”



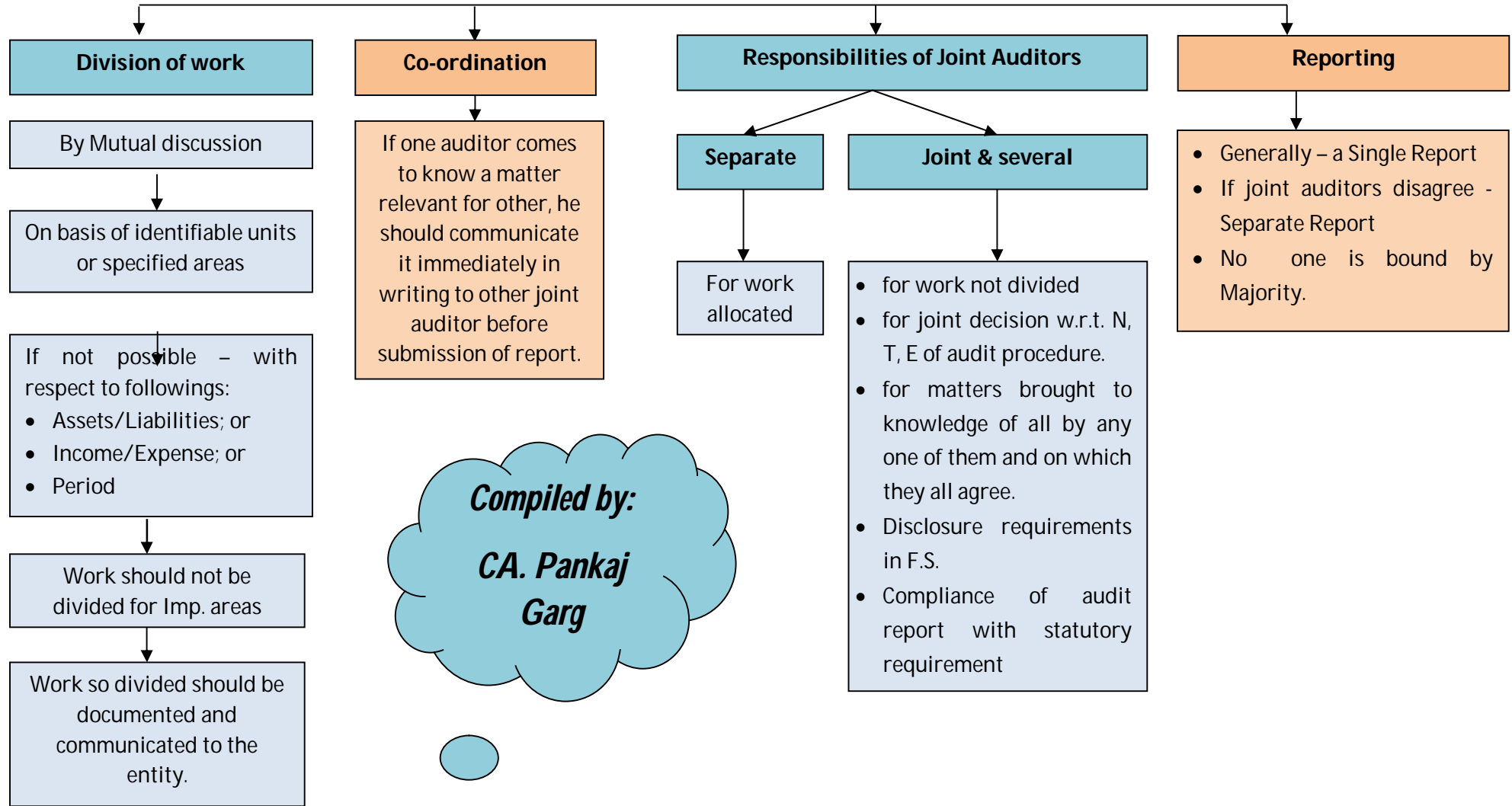


## SA-265 "Communicating Deficiencies in Internal Control to TCWG & Management"



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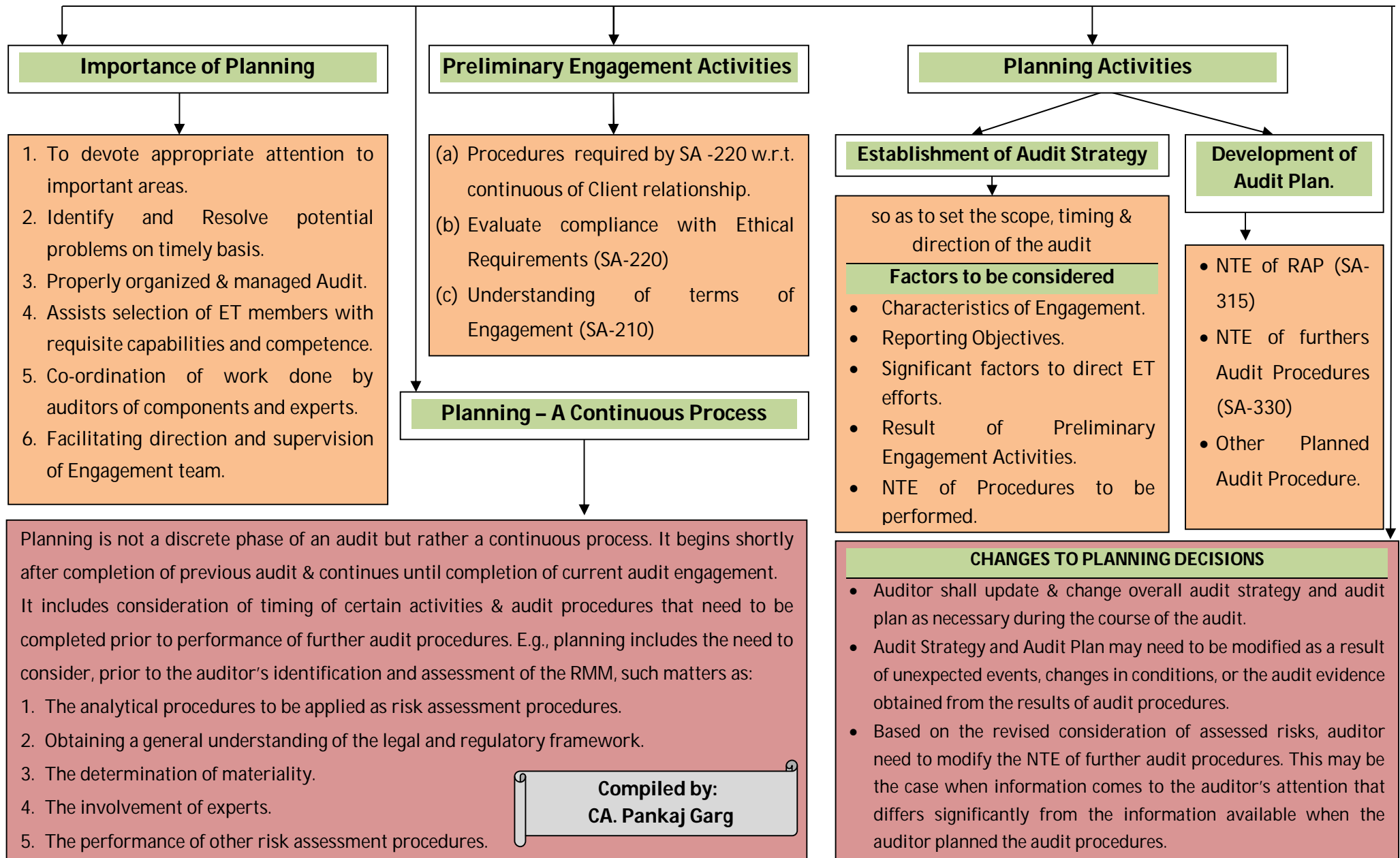
## SA 299 "Responsibility of Joint Auditors"



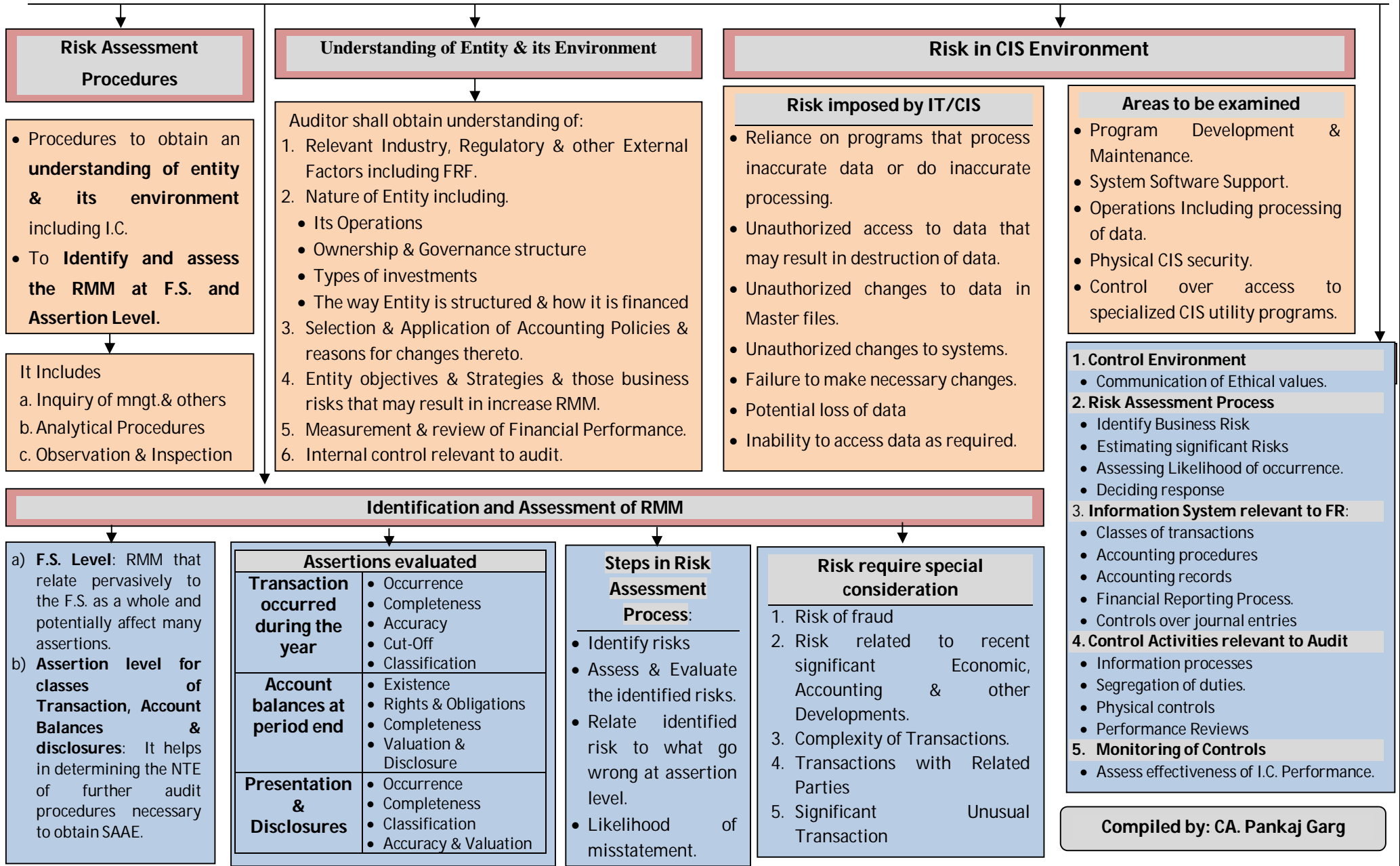
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## SA 300 (Revised) – Planning in an audit of Financial Statements



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



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

### Concept of Materiality

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

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

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

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Judgment of materiality provides a basis for:

- Determination of NTE of RAP
- Identifying and assessing RMM.
- NTE of further audit procedures.

### Performance Materiality

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

### Revision of Materiality

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

### Auditor's Duties

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

### Use of benchmark in determining Materiality

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

#### Factors affecting identification of appropriate benchmark

- The elements of the financial statements;
- Items on which the attention of the users of the particular entity's financial statements tends to be focused;
- 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;
- The entity's ownership structure and the way it is financed; and
- The relative volatility of the benchmark.



# SA – 330 “Responses to Assessed Risks”

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

## Tests of Controls

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

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

Evaluate the audit evidences

Material weaknesses identified

Communicate to Mngt. & TCWG – on timely basis

## Substantive Procedures

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

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

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

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

### Special Considerations

#### Using Audit Evidence obtained in Interim Period:

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

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

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

### Factors warranting re-test of controls

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

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

## 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.

## Auditor's considerations

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- 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 *determine whether a sufficient understanding of nature and significance of services provided by service organization* 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.**

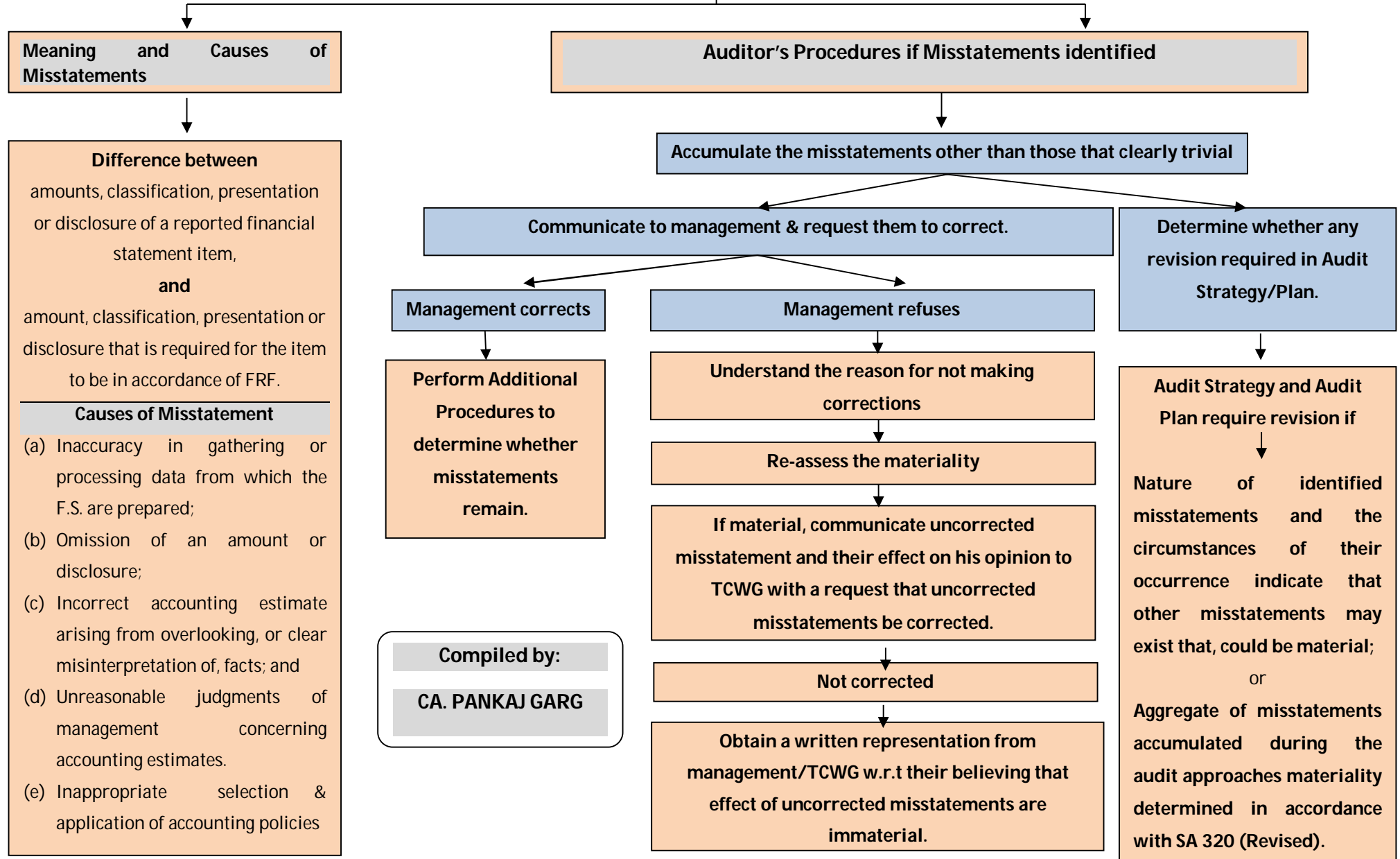
**User Auditor:** An auditor who audits and Reports on the financial statements of a user entity.

**User Entity:** 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.

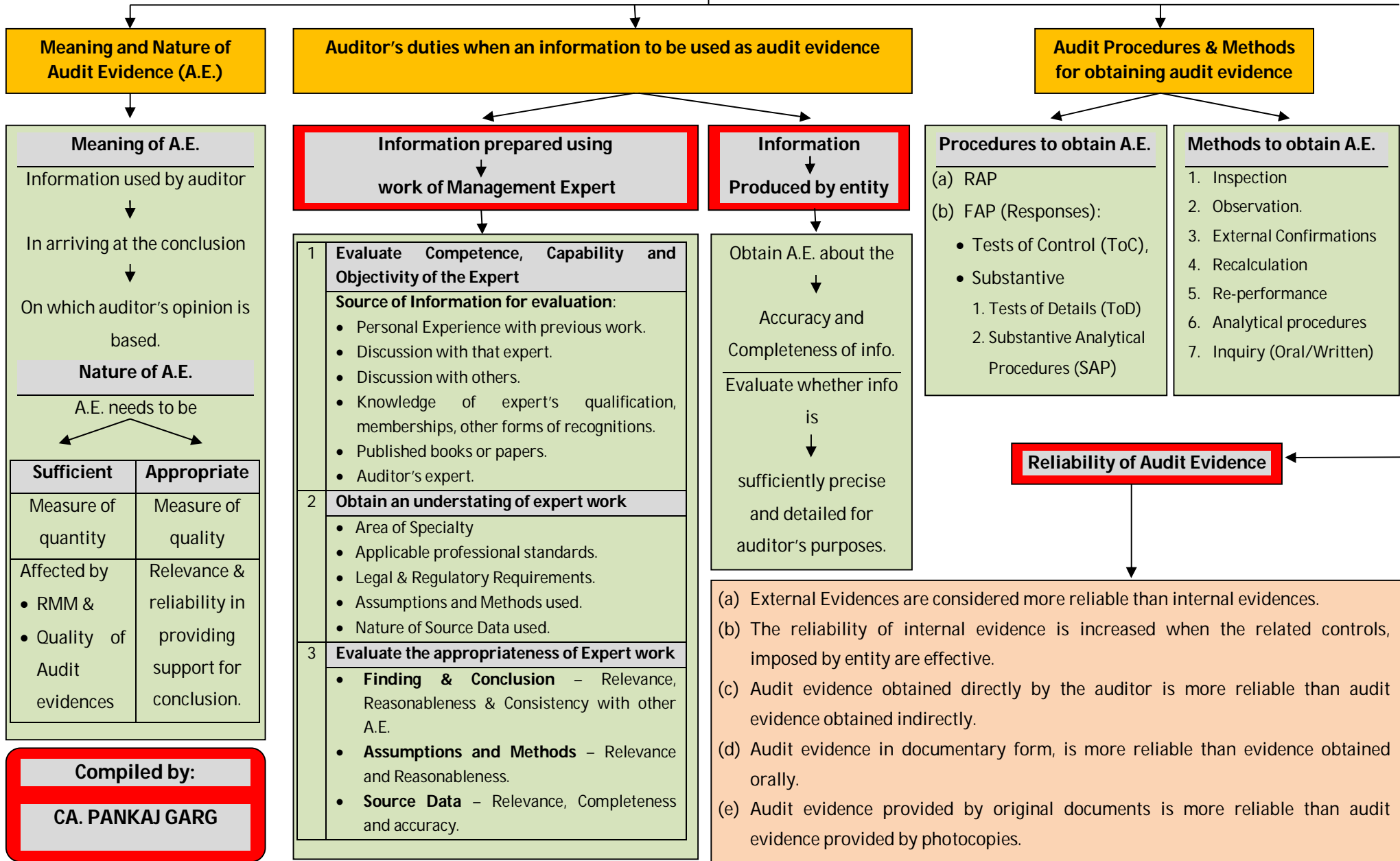
**Type 2 Report:** Report on the description, design and operating effectiveness of controls at a service organisation for a specified period.

# SA 450 "Evaluation of Misstatements Identified during the Audit"



**Compiled by:**  
**CA. PANKAJ GARG**

# SA 500 "Audit Evidence"



**Compiled by:**  
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# SA 501 "Audit Evidence – Specific Considerations for Selected Items"

## Inventory – Existence & Condition

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### General Procedures

When inventory is material to the F.S.  
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 the auditor shall obtain SAAE  
 ↓  
 regarding **existence & condition** by

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

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

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

### Special Procedures

- |   |   |
|---|---|
| 1 | <p><b>Inventory counting conducted at date other than B/S date</b></p> <p>Perform audit procedures to obtain audit evidence</p> <p>↓</p> <p>about whether changes in inventory between the count date and the date of the F.S. are properly recorded.</p>   |
| 2 | <p><b>Auditor unable to attend Inventory Count</b></p> <p>Make or observe some physical counts on an alternative date,</p> <p>↓</p> <p>and perform audit procedures on intervening transactions</p>   |
| 3 | <p><b>Attendance at inventory count is impracticable</b></p> <p>Perform alternative audit procedures to obtain S.A.A.E. regarding existence and condition of inventory.</p> <p>↓</p> <p>If it is not possible to do so, modify the opinion in the auditor's report in accordance with SA 705.</p> |
| 4 | <p><b>Inventory under custody and control of Third Party</b></p> <p>Obtain S.A.A.E by performing the following:</p> <p>(a) Request confirmation from third party.</p> <p>(b) Perform Inspection/other audit procedure.</p>  |

## 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.

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

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**Modifv Opinion in accordance with SA 705**

## Segment Reporting – Presentation & Disclosures

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

(a) Obtaining an understanding of the methods used by management in determining segment information, and

- Evaluate whether such methods are likely to result in disclosure in accordance with the applicable FRF; and
- Where appropriate, testing the application of such methods; and

(b) Performing analytical procedures or other audit procedures appropriate in the circumstances.



# SA – 505 “External Confirmation”

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

## Meaning & Type of E.C.

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

### 2 Types

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

### Areas where External Confirmation may be obtained:

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

## External Confirmation Procedures

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

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

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

## Audit Procedures in Special Circumstances

### Mngt. refuses to allow the auditor to send request

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

### Responses to E.C. request

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

**Compiled by: CA. Pankaj Garg**

## Limited use of -ve Request

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

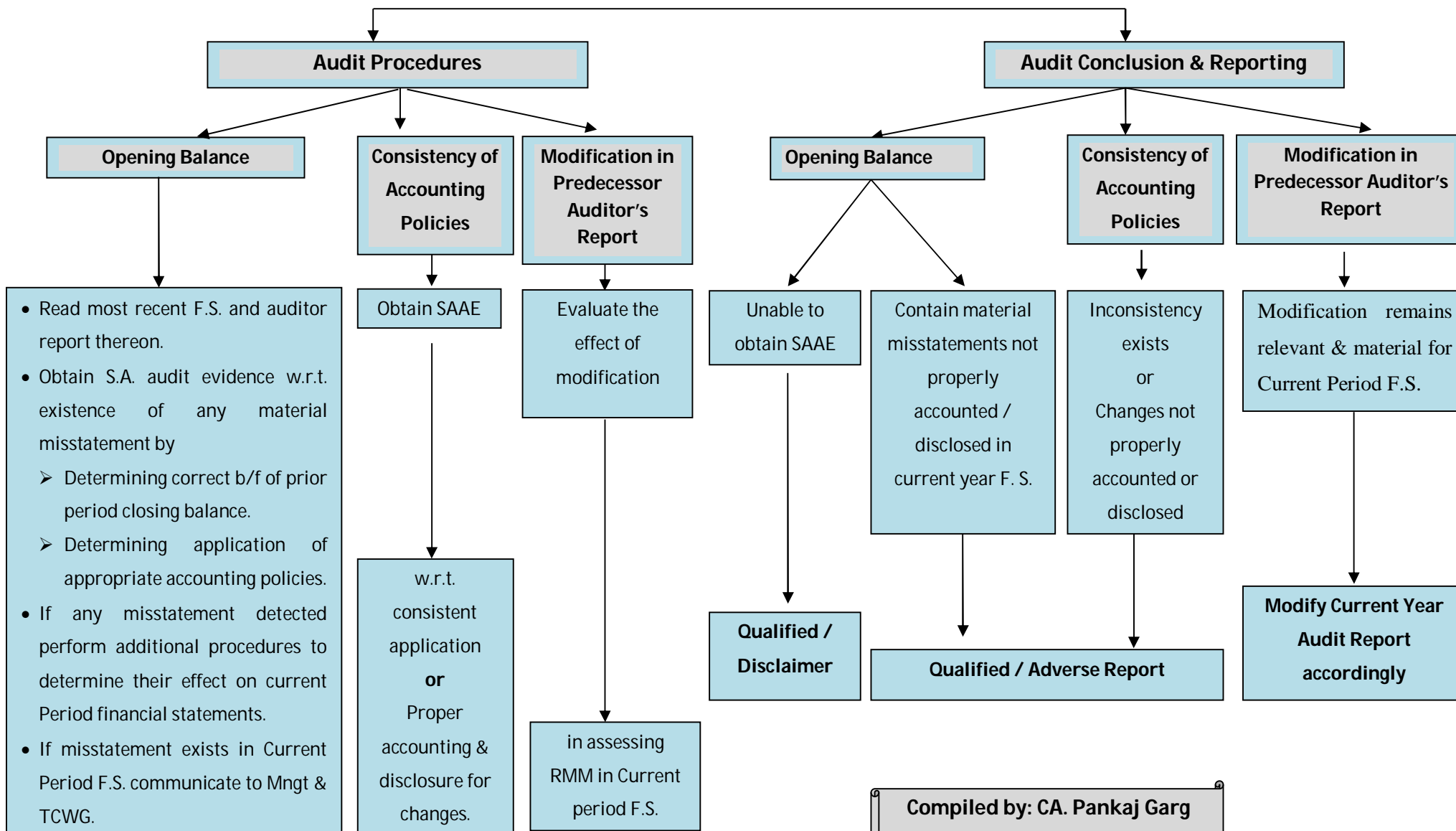
### Circumstances in which negative request may be used as sole substantive procedure:

- Low RMM.
- Population consists of large no. of small, homogenous account balances.
- Expectation of low exception rate.
- Auditor not aware of circumstances that 3<sup>rd</sup> party disregard request.

# SA – 510 “Initial Audit Engagements – Opening Balances”

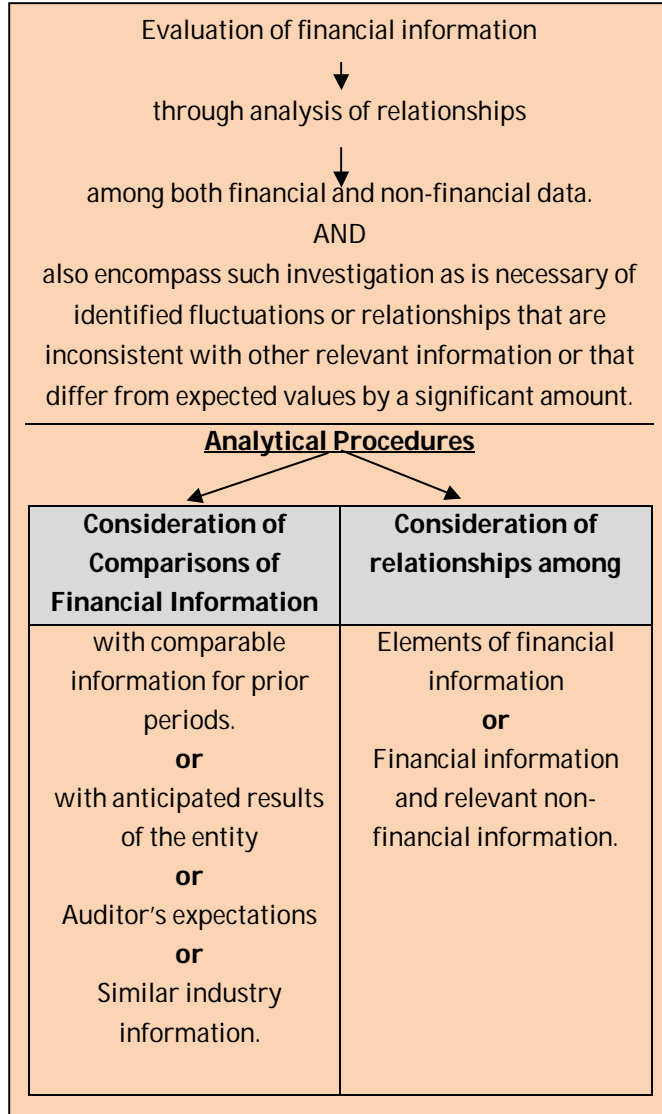
**Meaning of Initial Audit Engagement:** An Engagement in which financial statements for prior period are not audited or were audited by predecessor auditor.

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



# SA 520 "Analytical Procedures"

## Meaning and Nature of Analytical Procedures



## Auditor's Procedures

- 1 Determine the suitability of particular substantive analytical procedures (SAP)**  
 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 ToD are performed on same assertion.
- 2 Evaluate the reliability of data**  
 Following factors affects the reliability:
  - Source of the information available.
  - Comparability of the information available.
  - Nature and relevance of the information available, and
  - Controls over the preparation of the information
- 3 Develop an expectation of recorded amounts or ratios** and evaluate whether the expectation is sufficiently precise to identify material misstatement.
- 4 Determine the amount of any difference of recorded amounts from expected values** that is acceptable without further investigation.
- 5 Investigating Results of Analytical Procedures**  
 If auditor identified fluctuations or relationships that are inconsistent with other relevant information or differ from expected values by a significant amount, the auditor shall investigate such differences by:
  - (a) Inquiring of management; and
  - (b) Performing other audit procedures as necessary in the circumstances.

Compiled by: CA. Pankaj Garg

# SA – 530 (Revised) “AUDIT SAMPLING”

## Meaning & Types of Audit Sampling

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

### Types of Sampling

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

## Sampling risk

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

### Test of controls

Controls are more effective than they actually are

Controls are less effective than they actually are

### Tests of details

Material misstatements does not exist when in fact it does.

Material misstatement exists when in fact it does not

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**CA. Pankaj Garg**

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

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

## Auditor's Duties

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

# SA – 540 (Revised) “Auditing Accounting Estimates(AE), including Fair Value Accounting Estimates and Related Disclosures”

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

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## Meaning & Nature of Accounting Estimates

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

## Auditor's Duties

### Risk Assessment Procedures & Related Activities

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

**Estimation making process**

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

### Responses to Assessed Risks

Based on assessed RMM, auditor shall determine:

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

#### General Responses to Assessed RMM

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

#### Specific Responses to Significant Estimation Uncertainties

1. Evaluate the following:
  - How management has considered alternative assumptions or outcomes,
  - How management has addressed estimation uncertainty in making the accounting estimate.
  - Whether the significant assumptions used by management are reasonable.
  - Management's intent to carry out specific courses of action and its ability to do so.
2. If in auditor's judgement, 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"

Compiled by: CA. Pankaj Garg

## Meaning of Related Party

### EITHER

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

### OR

Where applicable FRF establishes minimal or no RP requirements:

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

## Auditor's responsibilities in relation to RP

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

## Auditor's Duties

### Risk Assessment procedures

1	<b>Understanding the Entity's RP relationship and Transactions</b> <ol style="list-style-type: none"> <li>a. Auditor to inquire management regarding:                             <ul style="list-style-type: none"> <li>• Identity of entity's RP, changes from prior period.</li> <li>• Nature of relationships between entity and RP.</li> <li>• Type &amp; purpose of transactions with RP.</li> </ul> </li> <li>b. Obtain understanding whether mngt has established controls to:                             <ul style="list-style-type: none"> <li>• Identify, account for &amp; disclose RP relationships &amp; transactions.</li> <li>• Authorise &amp; approve significant transactions with RP.</li> <li>• Authorise &amp; approve significant transactions outside normal course of business.</li> </ul> </li> </ol>																								
2	<b>Maintaining Alertness for RP Information when Reviewing Records/Documents</b> <ul style="list-style-type: none"> <li>• Auditor to remain alert when inspecting records w.r.t. info indicating existence of RP relationships or transactions not previously identified or disclosed.</li> <li>• If auditor identifies significant transactions outside entity's normal course of business, inquire of mngt about (a) Nature of these transactions, and (b) Whether RP could be involved.</li> </ul> <p><b>Possible Sources for identification of RP Information:</b></p> <table border="1"> <tr> <td>1</td> <td>Income Tax Returns</td> <td>7</td> <td>Shareholder's Register</td> </tr> <tr> <td>2</td> <td>Internal Audit Report</td> <td>8</td> <td>Life insurance Polcies</td> </tr> <tr> <td>3</td> <td>Contracts with Mngt</td> <td>9</td> <td>Statement of conflict of interest</td> </tr> <tr> <td>4</td> <td>Contracts outside normal course of business</td> <td>10</td> <td>Information supplied to regulatory authorities</td> </tr> <tr> <td>5</td> <td>Contracts re-negotiated</td> <td>11</td> <td>Specific Invoices from advisors</td> </tr> <tr> <td>6</td> <td>Register of Investments</td> <td>12</td> <td></td> </tr> </table>	1	Income Tax Returns	7	Shareholder's Register	2	Internal Audit Report	8	Life insurance Polcies	3	Contracts with Mngt	9	Statement of conflict of interest	4	Contracts outside normal course of business	10	Information supplied to regulatory authorities	5	Contracts re-negotiated	11	Specific Invoices from advisors	6	Register of Investments	12	
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6	Register of Investments	12																							
3	<b>Identifying Fraud risk factors</b> <p>Domination of mgmt by a single person or small group without compensating controls is a fraud risk factor.</p> <p><b>Indicators of dominant influence:</b></p> <ul style="list-style-type: none"> <li>• RP has vetoed significant business decisions taken by mgmt or TCWG.</li> <li>• Significant transactions are referred to RP for final approval.</li> <li>• No/ little debate among mgmt or TCWG regarding business proposal initiated by RP.</li> <li>• Transactions involving the RP are rarely independently reviewed / approved.</li> </ul>																								

### Responses to Assessed Risks

1	<b>Identification of unidentified / undisclosed RP or RP transaction.</b> <ul style="list-style-type: none"> <li>• Communicate to other members of ET.</li> <li>• Request Mngt to identify the transactions with the newly identified RP.</li> <li>• Inquire reasons for mngt failure to identify RP or disclose RP relationship and transactions.</li> <li>• Reconsider the risk that other unidentified RP or undisclosed RP transactions may exist.</li> <li>• If non disclosure appears intentional, evaluate implications for audit.</li> </ul>
2	<b>Identified significant RP Transactions outside Entity's Normal course of Business.</b> <ul style="list-style-type: none"> <li>• Inspect underlying contracts to evaluate business rationale.</li> <li>• Examine the terms on which transactions takes place.</li> <li>• Collect evidences w.r.t. approval and authorisation of transaction.</li> <li>• Collect evidences for appropriate accounting &amp; disclosure in compliance of FRF.</li> </ul>
3	<b>Assertions that RP Transactions were conducted on arm Length price.</b> <ul style="list-style-type: none"> <li>• Collect SAAE w.r.t. mngt assertion of Arm's length transaction.</li> <li>• Compare transaction prices with the prices for identical transactions prevailing in ordinary course of business.</li> <li>• Engage expert to determine market value.</li> </ul>

# 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

Compiled by: CA. Pankaj Garg

### 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 mngt for identification of significant events.
  - (b) **Inquire the Management** as to Occurrence of subsequent events which may affect the F.S.
  - (c) Read the **Minutes of Meetings** that held after the B/S date.
  - (d) Study the **Interim Financial Statements**, if any.
- (iii) If auditor identifies any event which require any adjustment/disclosure, he should **ensure its appropriate treatment** in F.S.
- (iv) Obtain a **WR from the Mngt.** 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
  - Extent 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.

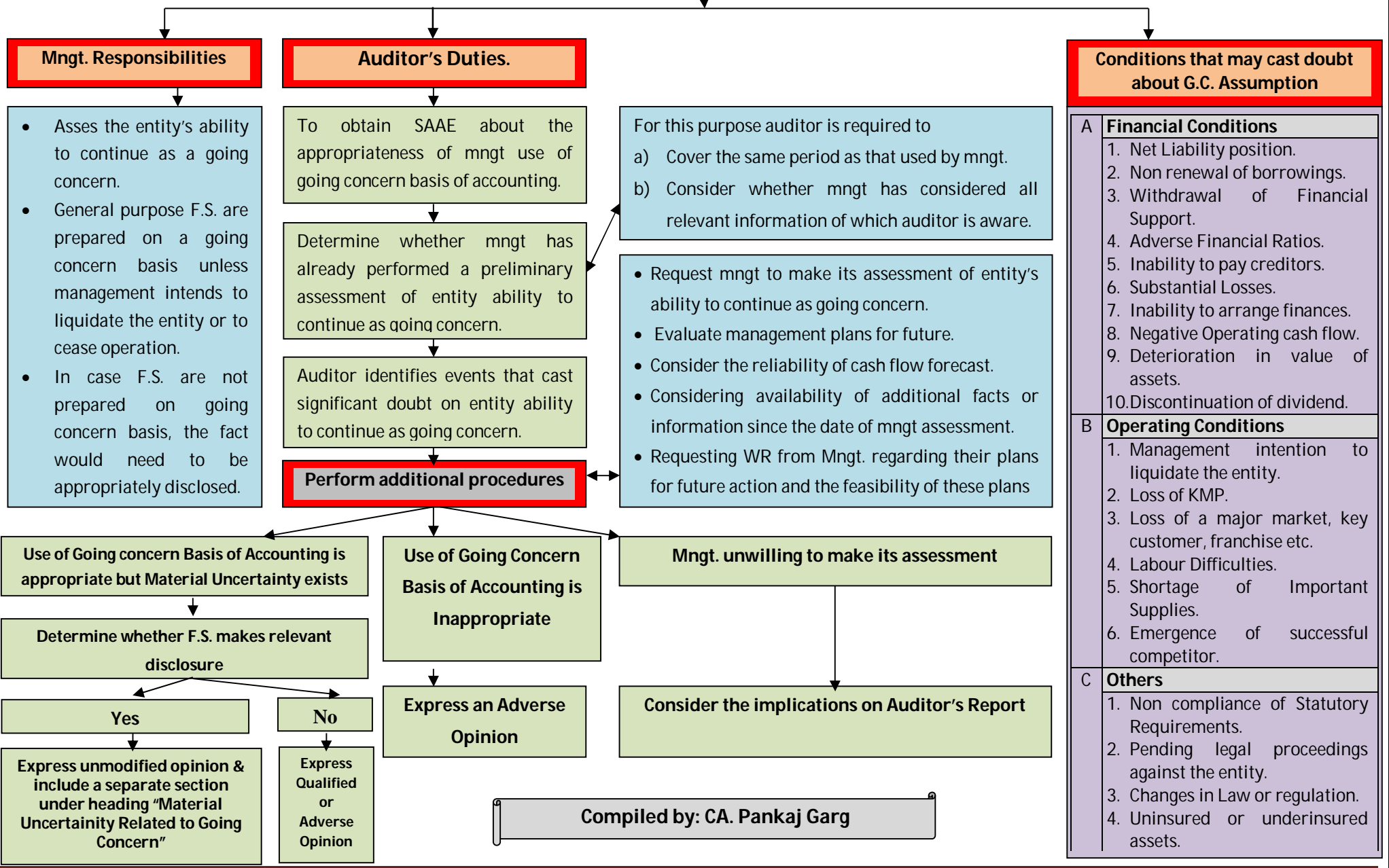
#### After issue of F.S.

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 the 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”



Compiled by: CA. Pankaj Garg

# SA 580 "Written Representation"

## Meaning and Nature of WR

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

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

## Requirements of SA 580

### Matters for which WR may be obtained

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

### Auditor Responses in different Situations

#### Management refuses to provide WR

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

**Compiled by:**  
**CA. Pankaj Garg**

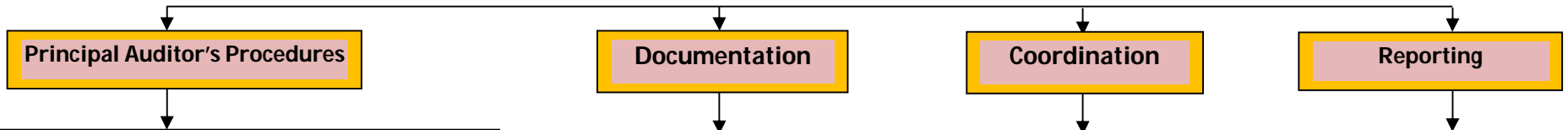
#### Reliability of WR is doubtful

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

## SA – 600 “Using the Work of Another Auditor”

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

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



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 Mgt. 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.

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.
6. Manner of dealing with Modified Report of Other Auditor while finalising Principal Auditor's Report.

1. Sufficient liaison/co-ordination 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.

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 FI of the component audited by OA.
2. Report should state clearly **division of responsibility** between PA and OA.

Compiled by: CA. Pankaj Garg



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

## Meaning & scope of Internal Audit Function

### Meaning

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

### Scope of Internal Audit

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

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

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

↓ by evaluating the following

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

If Not Satisfactory

Do not use the work of internal Audit function.

If Satisfactory

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

### Use the work of internal Audit Function

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

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

### 1 Determining whether IA can be used to provide DA

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

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

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

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

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

**Significant judgments include the following:**

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

### 3 Using Direct Assistance of Internal Auditor

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

Compiled by: CA. Pankaj Garg

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

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

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

**Compiled by:**

**CA. PANKAJ GARG**

### 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

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

## Elements of an Unmodified Audit Report

1	<b>Title</b>	“Independent Auditor’s Report” – so as to distinguish from reports issued by others.				
2	<b>Addressee</b>	Auditor’s Report shall be addressed as appropriate. Generally, it is addressed to those for whom it is prepared.				
3	<b>Opinion Section</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><b>Fair Presentation Framework</b></td> <td>In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____ in accordance with [applicable FRF]</td> </tr> <tr> <td style="text-align: center;"><b>Compliance Framework</b></td> <td>In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]</td> </tr> </table>	<b>Fair Presentation Framework</b>	In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____ in accordance with [applicable FRF]	<b>Compliance Framework</b>	In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]
		<b>Fair Presentation Framework</b>	In our opinion, the F.S. present fairly in all material respects in accordance with [applicable FRF]; Or In our opinion, the F.S. gives a true and fair view of _____ in accordance with [applicable FRF]			
		<b>Compliance Framework</b>	In our opinion, the F.S. present, in all material respect in accordance with [applicable FRF]			
Opinion Para shall also cover the following: <ul style="list-style-type: none"> <li>Identify the Entity.</li> <li>Identify the title of each financial statement.</li> <li>Specify the period/date covered by each F.S.</li> <li>State that F.S. have been audited.</li> </ul>						
4	<b>Basis for Opinion</b>	<ul style="list-style-type: none"> <li>States that audit was conducted in accordance with SAs.</li> <li>Refer to Section of Auditor’s report that describes the auditor’s responsibilities.</li> <li>Compliance of Ethical requirements including independence.</li> <li>Auditor’s believing that they had obtained sufficient and appropriate audit evidence to provide a basis for the opinion.</li> </ul>				
5	<b>Going Concern</b>	Where applicable, auditor shall report in accordance with SA 570.				
6	<b>Key Audit Matter</b>	In case of Listed Entity, auditor shall communicate Key Audit Matters in Auditor’s Report in accordance with SA 701.				
7	<b>Management Responsibilities for the F.S.</b>	<ul style="list-style-type: none"> <li>To prepare F.S. in accordance with applicable FRF.</li> <li>Maintenance of adequate records for safeguarding of assets and prevention and detection of fraud.</li> <li>Making reasonable and prudent judgements and estimates.</li> <li>Design, Implementation and maintenance of Internal Control.</li> <li>Assessing the appropriateness of Going Concern basis of accounting.</li> <li>Overseeing the financial reporting process.</li> </ul>				
8	<b>Auditor’s responsibilities for the Audit of F.S.</b>					
9	<b>Other Reporting responsibilities</b>	<ul style="list-style-type: none"> <li>Heading: “Reporting on Other Legal and Regulatory Requirements”.</li> <li>Will include reporting of CARO, 2016, reporting u/s 143(3) of Companies Act, 2013, Rule 11 of CAAR, 2014.</li> </ul>				
10	<b>Signature</b>	In personal name and name of firm, along with the membership number and firm registration number.				
11	<b>Place</b>	The city where audit report is signed.				
12	<b>Date</b>	It should not be earlier than date on which audit evidences are collected.				

1. 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.
2. Explanation w.r.t. reasonable assurance and application of concept of materiality.
3. Statement that auditor exercises professional judgement 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 A/cing 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.

**Compiled by:  
CA. PANKAJ GARG**

# 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

## 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 judgement, 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.

Compiled by: CA. PANKAJ GARG

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

## Types of modified Opinion

Qualified	Issued when: F.S. are misstated having material but not pervasive effect.  Or Auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material but not pervasive effect.
Adverse	Issued when F.S. are misstated having material and pervasive effect.
Disclaimer	Issued when auditor not been able to collect sufficient appropriate audit evidence for transactions that are having material and pervasive effect.

	Pervasive	Not Pervasive
Material Misstatement	<b>ADVERSE</b>	<b>QUALIFIED</b>
SAAE not obtained for material Transactions	<b>DISCLAIMER</b>	<b>QUALIFIED</b>

## Considerations while issuing modified Opinion

### Opinion Section

Use the heading –

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion.

Wordings of Opinion:

Qualified

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

Adverse

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

Disclaimer

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

### Basis for Opinion Section

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

- Include a description of matter giving rise to modification.

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

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

### Auditor’s Responsibility Section

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

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

**Compiled by:  
CA. PANKAJ GARG**

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

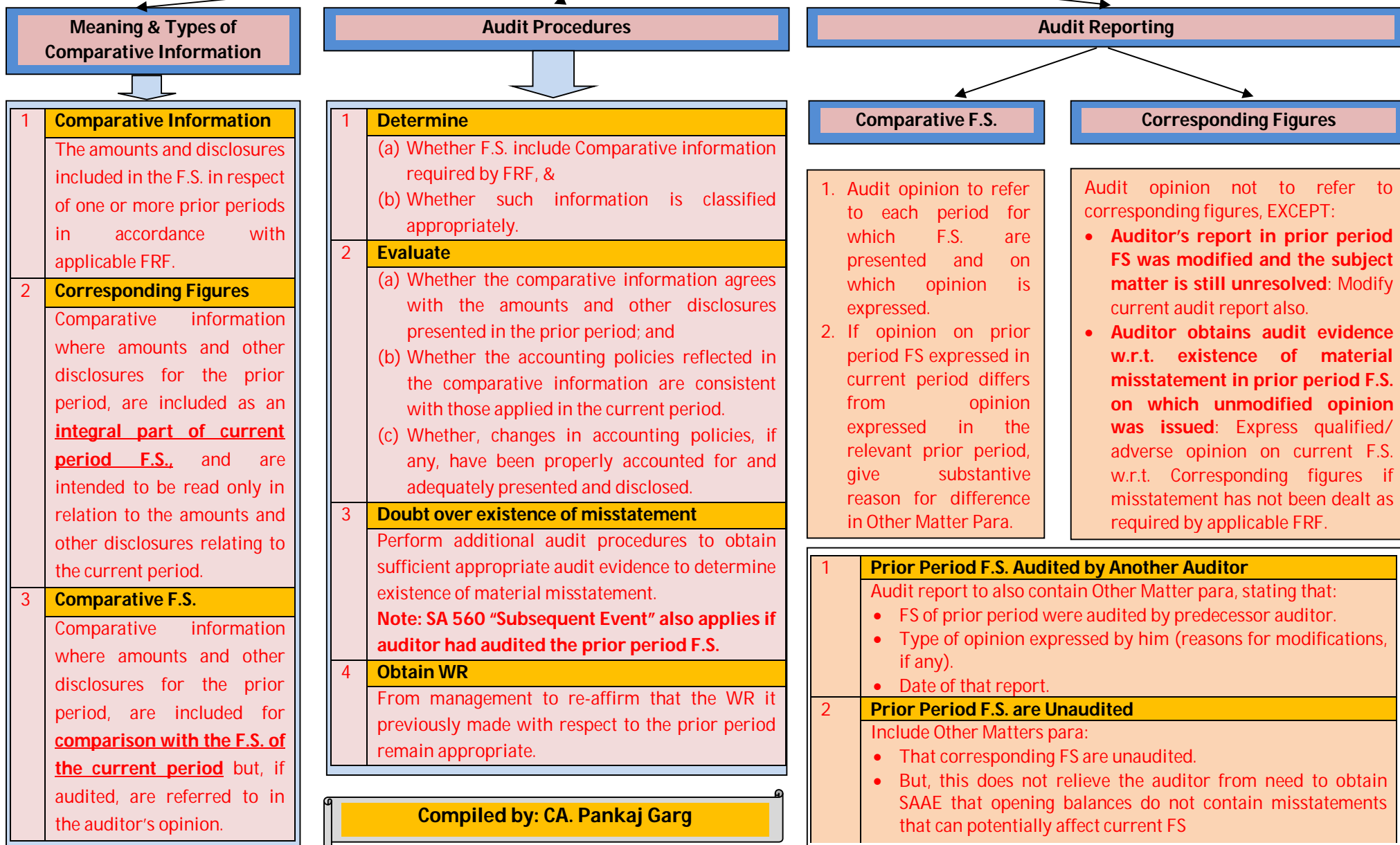
### Other Matter Para

1	<b>Meaning</b> A Para included in Auditors Report that refers to a matter other than presented/ disclosed in financial statement that in the auditors judgment is relevant for users understanding of audit auditors responsibilities or auditor's report.
2	<b>Requirements</b> <ul style="list-style-type: none"> <li>• OM Para is not a substitute of Key Audit Matter.</li> <li>• OM Para should be included in the audit report in a separate section termed as "Other Matter".</li> <li>• Differentiate "Other Matter" with Key Audit Matter".</li> </ul>
3	<b>Location in Audit Reports</b> <ul style="list-style-type: none"> <li>• Immediately after the "Key Audit Matter" section.</li> <li>• 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.</li> </ul>

**Compiled by:  
CA. Pankaj Garg**



# SA 710 "Comparative Information – Corresponding Figures and Comparative Financial Statements"

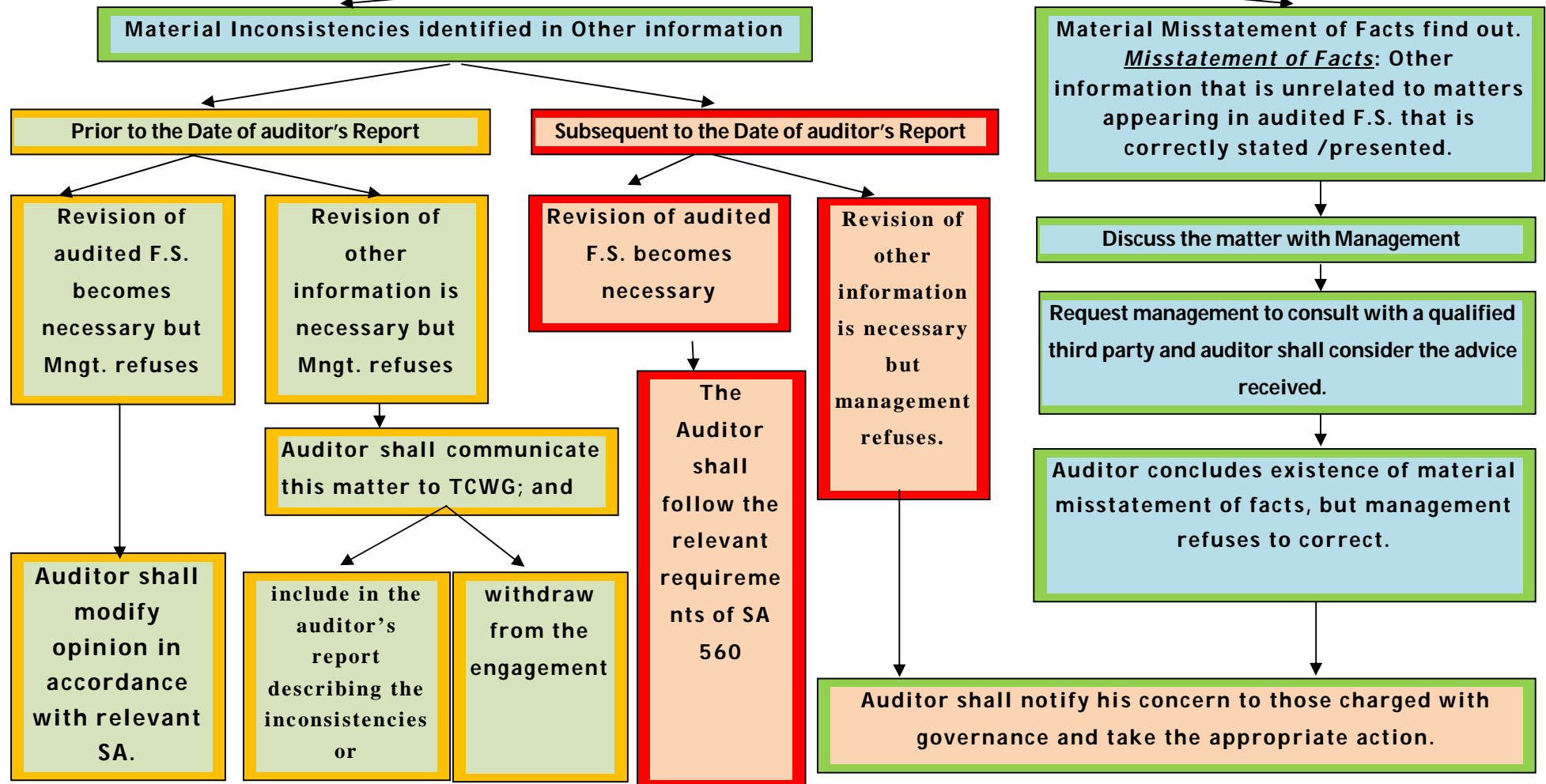


# SA 720 (Revised) - The Auditor's Responsibility in relation to Other Information in Documents containing Audited F.S.

**Purpose:** Auditor is not required to express an opinion on other information in documents containing audited F.S. (Ex. Annual Report), however, auditor reads the other information because credibility of F.S. may be undermined by Material inconsistencies between the audited financial statements and other information.

## Auditor's Procedures:

Make appropriate arrangements with Mngt & TCWG to obtain the other information prior to the date of auditor report & Read the information so obtained. If Information is not available prior to date of auditors report, read the other information as soon as practicable.



# SA 800 – “Special Considerations – Audit of F.S. prepared in accordance with SPF”

**Scope of SA 800:** SA 800 deals with Special considerations in application of SAs in audit of F.S. (Complete set) prepared in accordance with SPF.

**Objective of Auditor:** to address appropriately special considerations w.r.t. (a) Engagement Acceptance (b) Planning & performance (c) Opinion & Reporting.

## Meaning & Nature of Special Purpose Framework (SPF)

### Meaning of SPF

FRF designed to meet financial information need of specific users.

### Nature of SPF

It may be Fair presentation or Compliance.

### Examples of SPF

- Cash receipts and disbursements basis of accounting
- Financial reporting provisions established by a regulator to meet the requirements of that regulator.
- Financial reporting provisions of a contract.

Compiled by:  
CA. Pankaj Garg

## Auditor's Considerations

### Engagement Acceptance

1. Determine acceptability of FRF as per SA 210.
2. Obtain understanding of:
  - Purpose for which FS are prepared.
  - Intended users
  - Steps taken by Mngt. to determine acceptability of applicable FRF.
3. Consider financial information needs of users in determining acceptability of FRF.
4. Applicable FRF may encompass financial reporting standards established by an organization that is authorized to promulgate standards for SPFS.
5. In case any conflict exists in between financial reporting standards and legislative requirements, auditor need to take action as prescribed in SA 210.
6. In case FRF encompass financial reporting provisions of a contract, acceptability of FRF is determined by considering whether framework exhibits attributes normally exhibited by acceptable FRF as described in SA 210.

### Planning & Performing an Audit Engagement

1. Determine whether application of SAs requires special consideration in the circumstances of engagement. For example, in SA 320, judgments about matters that are material need to be based on a consideration of financial information needs of intended users.
2. Auditor is required to consider the following:
  - Requirement of SA 200 on applicability of SAs and absence of conditions requiring applicability of an SA.
  - Requirement of SA 315 regarding understanding of selection & application of accounting policies. In case accounts are prepared on the basis of provisions of a contract, auditor is required to obtain understanding of significant interpretations of contract.
3. In the case of SPFS prepared in accordance with the requirements of a contract, mngt. may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SA 320.
4. In the case of SPFS, TCWG may not have a responsibility of overseeing the preparation of F.S. prepared as per requirements of SPF. In such cases, requirements of SA 260 may not be relevant to the audit of the SPFS.

### Forming an Opinion & Reporting

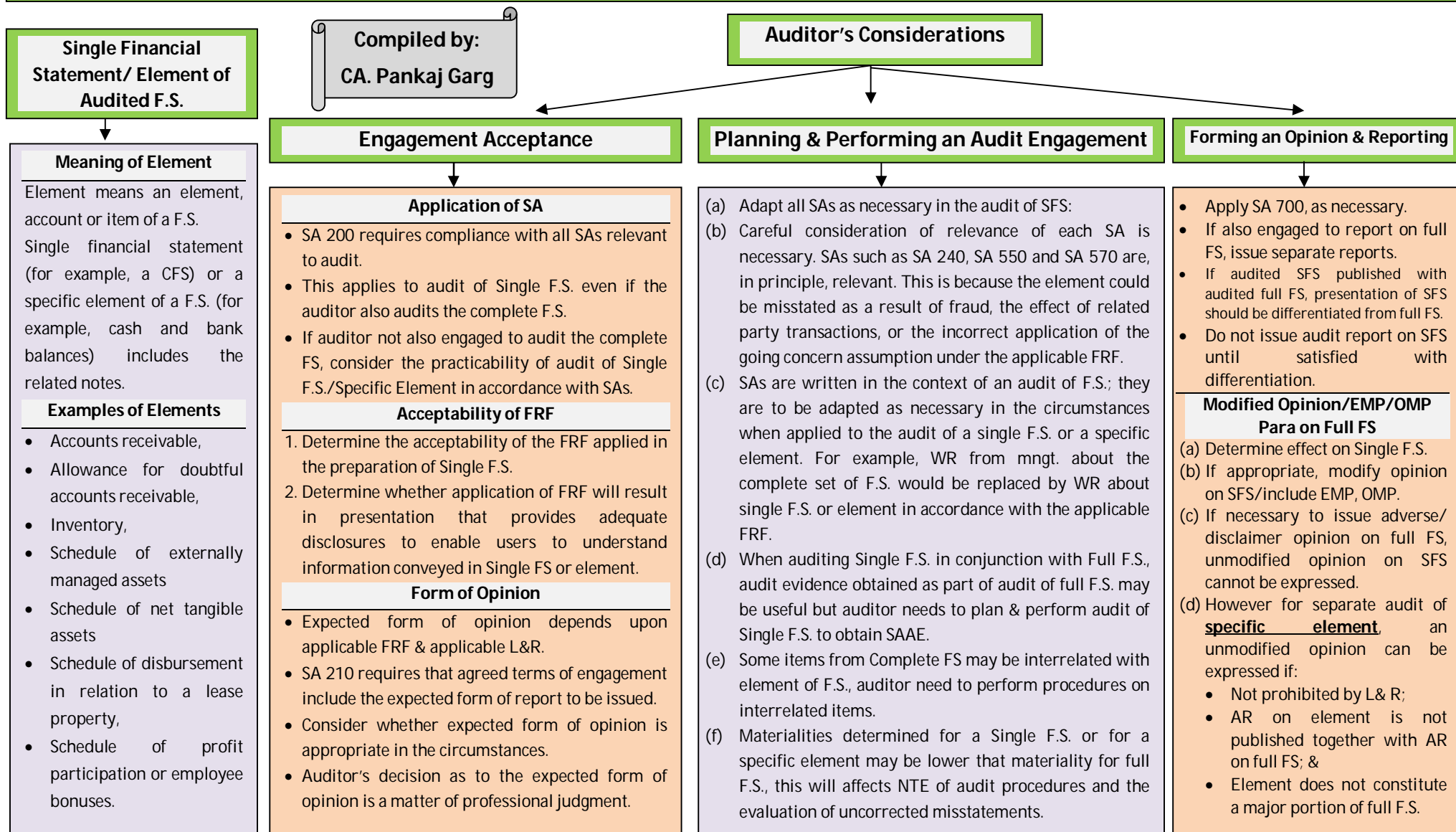
Apply requirements of SA 700 (Revised).  
Auditor's Report to include:

- (a) Purpose for which F.S. are prepared & Intended users.
- (b) Mngt. responsibility w.r.t. F.S. and selection of FRF.
- (c) EOM Para to alert users w.r.t. allocation of Special purpose F.S. and as such F.S. may not be suitable for another purpose.

# SA 805 "Special Considerations – Audits of Single F.S. and Specific Elements, Accounts or Items of a F.S."

**Scope of SA 805:** SA 805 deals with Special considerations in application of SAs in audit of Single F.S. or Single Element/Account or Item of F.S.

**Objective of Auditor:** to address appropriately special considerations w.r.t. (a) Engagement Acceptance (b) Planning & performance (c) Opinion & Reporting.



# SA 810 "Engagements to Report on Summary Financial Statements (SFS)"

- **Scope of SA 810:** deals with auditor's responsibilities, when engaged to report, on SFS, derived from FS audited in accordance with SA, by that same auditor.
- **Objective of Auditor:** to determine appropriateness of accepting the engagement & form opinion based on evaluation of Conclusions drawn from evidence obtained.
- **Meaning of Summary Financial Statements (SFS):** Historical financial info that is derived from FS, but contains less detail than FS, while still providing a structured representation consistent with that provided by entity's F.S.

## Engagement Acceptance

- (a) Accept engagement only when also engaged to audit, those F.S., from which SFS have been derived.
- (b) Before accepting Engagement, auditor shall:
1. Determine acceptability of applied criteria.
  2. Obtain agreement of mngt that acknowledges & understands its responsibilities:
    - For preparation of SFS in accordance with applied criteria;
    - To make audited FS available to intended users of SFS without undue difficulty; and
    - To include auditor's report on SFS in any document that contains SFS and that indicates that auditor has reported on them.
- (c) Agree with the management the form of opinion to be expressed on the SFS.
- (d) Do not accept engagement if:
- Criteria are not acceptable; or
  - unable to obtain management agreement.

## Nature of Procedures

- 1 **EVALUATE**
  - (a) Whether SFS adequately disclose their summarised nature & identify audited FS.
  - (b) If SFS are not accompanied by audited FS, whether they clearly describe from whom or where audited FS are available;
  - (c) Whether SFS adequately disclose the applied criteria.
  - (d) Whether SFS are prepared in accordance with applied criteria.
  - (e) Whether SFS contain necessary info & are appropriately aggregated.
  - (f) Whether audited F.S. are available to intended users without undue difficulty.
- 2 **COMPARE**  
SFS with related information in audited F.S. to determine whether SFS agree with or can be re-calculated from related information in audited F.S.

## Form of Opinion

**Unmodified opinion shall be expressed on Summary F.S. if**

↓

SFS are consistent, in all material respects, with audited FS, in accordance with applied criteria.

Special Considerations	
<b>Qualified Opinion/EOM/OM Para in Report on Audited FS</b>	<ol style="list-style-type: none"> <li>1. State that audit report on FS contains qualified opinion/EOM/OM para <b>AND</b></li> <li>2. Describe:                             <ul style="list-style-type: none"> <li>• Basis for qualified opinion on audited FS, and that qualified opinion; or EOM/OM para; and</li> <li>• Effect thereof on SFS, if any.</li> </ul> </li> </ol>
<b>Adverse Opinion/Disclaimer of Opinion on Audited FS</b>	Report on SFS is required to include the following: <ol style="list-style-type: none"> <li>1. Statement that audit report contains adverse/disclaimer of opinion;</li> <li>2. Description of basis of such opinion; and</li> <li>3. Statement that as a result of adverse/disclaimer of opinion it is inappropriate to express an opinion on SFS.</li> </ol>
<b>Modified Opinion on SFS</b>	Express <u>adverse opinion</u>  if SFS are not consistent in <b>all</b> material respects with or are not a fair summary of audited FS in accordance with applied criteria.



## SRE 2400 (Revised) "Engagements to Review Historical Financial Statements"

**Scope of SRE 2400:** It deals with practitioner responsibilities when engaged to perform a review of Historical F.S. when the practitioner is the auditor of the entity.  
**Objectives of Practitioner:** to obtain limited assurance primarily by performing Inquiry and Analytical Procedures about whether the F.S. as a whole are free from material misstatements.

### Acceptance Considerations

- |          |  |
|----------|--|
| <b>1</b> | <p><b>Factors affecting acceptance</b></p> <p>Unless required by law or regulation, the practitioner shall not accept review engagement if:</p> <ul style="list-style-type: none"> <li>(a) The practitioner is not satisfied that there is a rational purpose for the engagement.</li> <li>(b) Practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied;</li> <li>(c) Practitioner's preliminary understanding of the circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable;</li> <li>(d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; or</li> <li>(e) Management or TCWG impose a limitation on the scope of the practitioner's work.</li> </ul>  |
| <b>2</b> | <p><b>Preconditions for accepting review engagement</b></p> <p>Before acceptance, the practitioner shall:</p> <ul style="list-style-type: none"> <li>(a) Determine whether the FRF applied in the preparation of the F.S. is acceptable.</li> <li>(b) Obtain agreement of mngt. that it acknowledges &amp; understands its responsibilities:                             <ul style="list-style-type: none"> <li>(i) For preparation of the F.S. as per FRF;</li> <li>(ii) For necessary internal control to enable the preparation of F.S. that are free from material misstatement; and</li> <li>(iii) To provide the practitioner with:                                     <ul style="list-style-type: none"> <li>a. Access to all information which is relevant to the preparation of F.S.;</li> <li>b. Additional information that he may request from mngt. for review; and</li> <li>c. Unrestricted access to persons within the entity from whom he determines it necessary to obtain evidence.</li> </ul> </li> </ul> </li> </ul> |

### Procedures to be performed

The practitioner's inquiries of management and others within the entity, shall include the following:

- (a) How management makes the significant accounting estimates required under the applicable FRF;
- (b) Identification of related parties & related party transactions, including purpose of those transactions;
- (c) Whether there are significant, unusual or complex transactions, that may affect the entity's F.S., including:
  - (i) Significant changes in entity's business activities;
  - (ii) Significant changes to the terms of contracts;
  - (iii) Significant journal entries or other adjustments;
  - (iv) Significant transactions occurring near the end of the reporting period;
  - (v) Uncorrected misstatements identified; and
  - (vi) Effects or possible implications of transactions or relationships with related parties;
- (d) The existence of any actual, suspected or alleged:
  - (i) Fraud or illegal acts affecting the entity; and
  - (ii) Non-compliance with laws and regulations;
- (e) Whether mngt. has identified events occurring between date of F.S. and the date of the practitioner's report that require adjustment or disclosure;
- (f) Basis for management's assessment of the entity's ability to continue as a going concern;
- (g) Events or conditions that appear to cast doubt on the entity's ability to continue as a going concern;
- (h) Material commitments, contractual obligations or contingencies; and
- (i) Material non-monetary transactions or transactions for no consideration.

In designing analytical procedures, the practitioner shall consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing the analytical procedures.

### Practitioner's Report

It shall be in writing, and shall contain the following elements:

- (a) Title, indicating report of independent practitioner for a review engagement;
- (b) The addressee(s).
- (c) Introductory paragraph that identifies F.S. reviewed & states that F.S. have been reviewed;
- (d) Description of responsibility of management for the preparation of F.S.
- (e) If the F.S. are special purpose F.S., a description of the purpose for which the F.S. are prepared and the intended users.
- (f) Description of practitioner responsibility to express a conclusion on the F.S.
- (g) Description of review of F.S. & its limitations, & the following statements:
  - review engagement under this SRE is a limited assurance engagement;
  - Practitioner performs procedures, consisting of making inquiries of mngt. and others and applying analytical procedures. and
  - The procedures performed are substantially less than those performed in an audit and accordingly, the practitioner does not express an audit opinion;
- (h) "Conclusion" that contains:
  - (i) The practitioner's conclusion on the financial statements as a whole, as appropriate; and
  - (ii) A reference to the applicable FRF used to prepare the F.S.
- (i) The date of the practitioner's report;
- (j) The practitioner's signature; and
- (k) The place of signature.



## SRE 2410 (Revised) "Review of Interim Financial Information performed by Independent Auditor of the Entity"

**Scope of SRE 2410:** It deals with auditor responsibilities when engaged to perform a review of Interim financial information (IFI) of the entity.

**Objectives of Auditor:** to express a conclusion whether on the basis of review anything has come to his attention that causes him to believe that IFI is not prepared in all material respects in accordance with applicable FRF.

### Procedures performed to update the understanding of the entity

1. Reading documentation, to the extent necessary, of the preceding year's audit and reviews of prior interim period(s) of the current year and corresponding interim period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period IFI.
2. Reading the most recent annual and comparable prior period IFI.
3. Considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's FS.
4. Considering materiality with reference to the applicable FRF as it relates to IFI to assist in determining nature and extent of procedures to be performed and evaluating effect of misstatements.
5. Considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's FS.
6. Considering significant financial accounting & reporting matters that may be of continuing significance such as material weaknesses in I.C.
7. Considering results of any audit procedures performed with respect to the current year's FS.
8. Considering results of any internal audit performed and the subsequent actions taken by management.
9. Inquiring of management about the results of management's assessment of the risk that the IFI may be materially misstated as a result of fraud.
10. Inquiring of management about the effect of changes in the entity's business activities.
11. Inquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of IFI.
12. Inquiring of management of the process by which the IFI has been prepared and the reliability of the underlying accounting records to which the IFI is agreed or reconciled.

### Examples of Analytical procedures that may be performed in review of IFI

1. Comparing the IFI with the IFI information of the immediately preceding interim period.
2. Comparing current IFI with anticipated results, such as budgets or forecasts
3. Comparing current IFI with relevant non-financial information.
4. Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor.
5. Comparing ratios and indicators for the current interim period with those of entities in the same industry.
6. Comparing relationships among elements in the current IFI with corresponding relationships in the IFI of prior periods, for example, expense by type as a %age of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
7. Comparing disaggregated data. Examples are:
  - By period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts.
  - By product line or source of revenue.
  - By location, for example, by component.
  - By attributes of the transaction.

**Compiled by: CA. Pankaj Garg**

# SAE 3400 "Examination of Prospective Financial Information (PFI)"

## Meaning and Types of PFI

<b>1</b>	<b>Meaning of PFI</b>				
	<ul style="list-style-type: none"> <li>Financial information based on assumptions about events that may occur in the future.</li> <li>Highly subjective in nature &amp; requires judgment in preparation.</li> </ul>				
<b>2</b>	<b>Types of PFI</b>				
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; width: 30px;"><b>Forecast</b></td> <td>PFI prepared on the basis of assumptions as to future events which management expects to take place. (Best-estimate assumptions).</td> </tr> <tr> <td style="text-align: center;"><b>Projection</b></td> <td>PFI prepared on basis of hypothetical assumptions about future events which are not necessarily expected to take place or a mixture of best-estimate &amp; hypothetical assumptions.</td> </tr> </table>	<b>Forecast</b>	PFI prepared on the basis of assumptions as to future events which management expects to take place. (Best-estimate assumptions).	<b>Projection</b>	PFI prepared on basis of hypothetical assumptions about future events which are not necessarily expected to take place or a mixture of best-estimate & hypothetical assumptions.
<b>Forecast</b>	PFI prepared on the basis of assumptions as to future events which management expects to take place. (Best-estimate assumptions).				
<b>Projection</b>	PFI prepared on basis of hypothetical assumptions about future events which are not necessarily expected to take place or a mixture of best-estimate & hypothetical assumptions.				
<b>3</b>	<b>Management Responsibility</b>				
	<p>Mngt is responsible for preparation of PFI including</p> <ul style="list-style-type: none"> <li>Identification and disclosure of PFI;</li> <li>The basis of forecast;</li> <li>Underlying assumptions.</li> </ul>				
<b>4</b>	<b>Auditor's Responsibility</b>				
	<ul style="list-style-type: none"> <li>To examine and report on PFI.</li> <li>Related to events &amp; actions that have not yet occurred and might not occur.</li> <li>Evidence are future oriented and thus speculative.</li> <li>Auditor is not in a position to express opinion as to whether the results shown in PFI will be achieved.</li> <li>He can provide only moderate assurance (Negative assurance)</li> </ul>				

## Acceptance of Engagement

Before accepting an engagement to examine PFI, the auditor would consider, amongst other things:

1. the intended use of the information;
2. whether the information will be for general or limited distribution;
3. the nature of the assumptions, that is, whether they are best-estimates or hypothetical assumptions;
4. the elements to be included in the information; and
5. the period covered by the information.

Auditor should not accept, or should withdraw from, an engagement when assumptions are clearly unrealistic or when auditor believes that PFI will be inappropriate for its intended use.

## Examination Procedures

When determining NTE of examination procedures, auditor should consider matters such as:

1. knowledge obtained during any previous engagements;
2. Mngt competence regarding preparation of PFI;
3. the likelihood of material misstatement;
4. the extent to which PFI is affected by mngt judgment;
5. the sources of information considered by the mngt for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, to support the assumptions;
6. the stability of entity's business; and
7. the engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information.

## Considerations in assessing the presentation and disclosure of PFI

When assessing presentation & disclosure of PFI, the auditor will need to consider whether:

1. presentation of PFI is informative and not misleading;
2. accounting policies are clearly disclosed in notes to PFI;
3. the assumptions are adequately disclosed in the notes;
4. the date as of which the PFI was prepared is disclosed;
5. the basis of establishing points in a range is clearly indicated; and
6. there is any change in the accounting policy of the entity from that disclosed in the most recent historical F.S. and whether reason for the change and the effect of such change on the PFI has been adequately disclosed.

## Evidences to be obtained for reporting on PFI

Auditor should document matters, which are important in providing evidence to support his report on examination of PFI, and evidence that such examination was carried out. Audit evidence in form of working papers will include:

- (1) the sources of information,
- (2) basis of forecasts,
- (3) the assumptions made in arriving the forecasts,
- (4) hypothetical assumptions, evidence supporting assumptions,
- (5) Mngt representations regarding intended use & distribution of the information, completeness of material assumptions,
- (6) Mngt acceptance of its responsibility for the information,
- (7) audit plan,
- (8) NTE of examination procedures performed, and,
- (9) in case the auditor expresses a modified opinion or withdraws from the engagement, the reasons forming the basis of such decision.

**Compiled by: CA. Pankaj Garg**

# SAE 3402 "Assurance Reports on Controls at a Service Organisation"

**Scope of SAE 3402:** It deals with assurance engagement undertaken by a member of ICAI to provide a report on controls at a service organization (SO) for use by user entities & their auditors. It complements SA 402.

**Objectives:** To obtain reasonable assurance w.r.t. description, design and operating effectiveness of controls established in the service organization.

## Acceptance Considerations

Before agreeing to accept, service auditor shall:

- (a) Determine whether:
  - (i) He has the capabilities and competence to perform the engagement;
  - (ii) Criteria to be applied by the SO to prepare the description of its system will be suitable and available to user entities and their auditors; and
  - (iii) Scope of engagement and SO description of its system will not be so limited that they are unlikely to be useful to user entities & their auditors.
- (b) Obtain the agreement of the SO that it acknowledges and understands its responsibility:
  - (ii) For preparation of the description of its system;
  - (iii) To have a reasonable basis for the SO assertions accompanying the description of its system;
  - (iv) For stating in the assertions, the criteria it used to prepare the description of its system;
  - (v) For stating in the description of its system, the control objectives and party who specified them;
  - (vi) For identifying the risks that threaten achievement of the control objectives and designing and implementing controls to provide reasonable assurance that those risks will not prevent achievement of the control objectives; &
  - (vii) To provide the service auditor with:
    - (a) Access to all relevant information;
    - (b) Additional information that the service auditor may request from the SO; and
    - (c) Unrestricted access to persons within the SO from whom he determines it necessary to obtain evidence.

## Assessing the Suitability of Criteria

**Criteria:** Benchmarks used to evaluate or measure a subject matter.

In assessing the suitability of criteria to evaluate the SO description of its system, the service auditor shall determine if the criteria encompass, at a minimum:

- (a) Whether the description presents how the SO system was designed & implemented, including, as appropriate:
  - The types of services provided.
  - The procedures, by which services are provided.
  - The related records and supporting information, including accounting records, supporting information and specific accounts that are used to initiate, record, process and report transactions.
  - How the SO system deals with significant events and conditions, other than transactions;
  - The process used to prepare reports and other information for user entities;
  - The specified control objectives and controls designed to achieve those objectives;
  - Complementary user entity controls contemplated in the design of the controls; and
  - Other aspects of the SO control environment, risk assessment process, information system and communication, control activities and monitoring controls that are relevant to the services provided.
- (b) In the case of a type 2 report, whether the description includes relevant details of changes to the SO system during the period covered by the description.
- (c) Whether the description omits or distorts information relevant to scope of SO system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities.

## Elements of Assurance Report (Type 2)

Report on description, design and operating effectiveness of controls (Commonly known as Type 2 Report) includes:

- (a) A title that clearly indicates the report is an independent service auditor's assurance report.
- (b) An addressee.
- (c) Identification of SO description of its system.
- (d) Identification of the criteria, and the party specifying the control objectives.
- (e) A statement that the report is intended only for user entities and their auditors.
- (f) A statement that the SO is responsible for preparing the description of its system, including the completeness, accuracy & method of presentation of that description.
- (g) A statement that the service auditor's responsibility is to express an opinion on the SO description, design and operating effectiveness of those controls.
- (h) A statement that the engagement was performed in accordance with SAE 3402.
- (i) Summary of procedures to obtain reasonable assurance.
- (j) A statement of the limitations of controls.
- (k) The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:
  - The description fairly presents the SO system that had been designed and implemented throughout the specified period;
  - The controls related to the control objectives stated in the SO description of its system were suitably designed throughout the specified period; and
  - The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.
- (l) The date of the service auditor's assurance report.
- (m) Practitioner's Signature.
- (n) The place of signature.

# SAE 3420 "Assurance Engagements to report on the Compilation of Pro Forma Financial Information included in a Prospectus"

**Scope of SAE 3420:** It deals with reasonable assurance engagements undertaken by a practitioner to report on the responsible party compilation of pro forma financial information (PFI) included in a prospectus.

**Objectives:** To obtain reasonable assurance about whether the PFI has been compiled in all material respects on the basis of applicable criteria.

## Acceptance Considerations

- Before accepting an engagement, practitioner shall:
- Determine his capabilities & competence to perform the engagement;
  - Determine the suitability of applicable criteria;
  - Evaluate the wording of the opinion prescribed by the relevant L & R, if any, to determine that the practitioner will likely be able to express the opinion so prescribed;
  - Where the sources from which the unadjusted financial information have been extracted, have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, consider whether or not the relevant L & R permits reference in the practitioner's report to, the modified audit opinion or review conclusion w.r.t. such sources;
  - If entity's historical financial information has not been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement;
  - Obtain the agreement of the responsible party that it acknowledges its responsibility for:
    - Adequately disclosing and describing the applicable criteria to the intended users;
    - Compiling the PFI on basis of applicable criteria; &
    - Providing the practitioner with:
      - Access to all information.
      - Additional information that the practitioner may request from the responsible party;
      - Access to those within the entity.

## Planning and Performing

- Assessing the Suitability of the Applicable Criteria.**  
Practitioner shall assess suitability of applicable criteria & in particular determine that they include, at a minimum, that:
  - The unadjusted financial information be extracted from an appropriate source;
  - The pro forma adjustments be:
    - Directly attributable to the event or transaction;
    - Factually supportable; and
    - Consistent with the entity's applicable FRF; and
  - Appropriate presentation be made & disclosures be provided to enable the intended users to understand the information conveyed.
- Obtaining an understanding of how Responsible Party has Compiled the PFI.**
- Obtaining Evidence about appropriateness of Source from which Unadjusted Financial Information has been extracted**
- Obtaining Evidence about Appropriateness of the Pro Forma Adjustments**
- Obtaining Evidence about the Calculations within the PFI**
- Evaluating the Presentation of the PFI**  
It shall include consideration of:
  - Overall presentation and structure of the PFI, including whether it is clearly labeled to distinguish it from historical or other financial information;
  - Whether the PFI & related explanatory notes illustrate the impact of the event or transaction in a manner that is not misleading;
  - Whether appropriate disclosures are provided with the PFI to enable the intended users to understand the information conveyed; and
  - Whether the practitioner has become aware of any significant events subsequent to the date of the source from which the unadjusted financial information has been extracted that may require reference to, or disclosure in, the pro forma financial information.

## Elements of Assurance Report (Type 2)

- The practitioner's report shall include:
- A title – indicating independent assurance report;
  - An addressee(s), as agreed;
  - Introductory paragraphs that identify:
    - The pro forma financial information;
    - Source of unadjusted financial information;
    - The period covered by, or the date of, PFI; and
    - A reference to the applicable criteria;
  - A statement that the responsible party is responsible for compiling the PFI;
  - A description of the practitioner's responsibilities, w.r.t. expressing an opinion about whether the PFI has been compiled, on the basis of the applicable criteria;
  - A statement that the engagement was performed in accordance with SAE 3420.
  - Statements that:
    - Engagement involves performing procedures to assess whether the applicable criteria used provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction;
    - The procedures selected depend on the practitioner's judgment; and
    - The engagement also involves evaluating the overall presentation of the PFI;
  - Practitioner's opinion using one of the following phrases, which are regarded as being equivalent:
    - The PFI has been compiled, in all material respects, on the basis of the (applicable criteria); or
    - The PFI has been properly compiled on the basis stated;
  - The practitioner's signature;
  - The date of the report; and
  - The place of signature.

## SRS 4400 "Engagements to perform Agreed Upon Procedures"

**Scope of Engagement:** In an engagement to perform agreed-upon procedures, the auditor is engaged by the client to issue a report of factual findings, based on specified procedures performed on specified subject matter of specified elements, accounts or items of a financial statement.

**Objective of Engagement:** To carry out procedure of audit nature, to which auditor, entity & any appropriate third parties have agreed & to report on factual finding thereon.

### General Principles of Engagement

Auditor should comply with Code of Ethics issued by ICAI. Ethical Principles are:

- (i) Integrity;
- (ii) Objectivity
- (iii) Professional competence and due care;
- (iv) Confidentiality;
- (v) Professional conduct; and
- (vi) Technical standard

**Note: Independence is not a requirement for agreed-upon procedures engagement, however, the terms or objective of the engagement may require the auditor to comply with the independence requirements of the Code of Ethics issued by the ICAI. Where the auditor is not independent, a statement to that effect should be made in the report of factual findings.**

### Defining the Terms of Engagement

There should be a clear understanding among the auditor, the client and other specified parties. The terms to be agreed include the following:

- (a) Nature of the engagement
- (b) Purpose
- (c) Identification of the financial information
- (d) Nature, timing and extent of the specific procedures
- (e) Limitation on distribution of the report of factual findings. If such limitation would be in conflict with the legal requirements, the auditor would not accept the engagement.

Compiled by:  
CA. Pankaj Garg

### Reporting

The report of factual findings should contain:

- (a) Title;
- (b) Addressee
- (c) Identification of specific financial or not-financial information to which the agreed-upon procedures have been applied
- (d) A statement that the procedures performed were those agreed-upon with the recipient.
- (e) A statement that the engagement was performed in accordance with this standard & terms of engagement.
- (f) Identification of the purpose.
- (g) A listing of the specific procedures performed
- (h) A description of the auditor's factual findings including sufficient details of errors and exceptions found
- (i) A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.
- (j) A statement that the report is restricted to those parties that have agreed to the procedures to be performed.
- (k) A statement (when applicable) that the report relates only to the elements specified and that it does not extend to the entity's F.S. as a whole
- (l) Date of the report
- (m) Place of signature
- (n) Auditor's signature.

**Report should be signed by the auditor in his personal name. Where the firm is appointed, the report should be signed in the personal name of the auditor and in the name of the firm. Also mention the membership number.**



# SAE 4410 "Compilation Engagement"

**Scope of SAE 4410: It deals with practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that engagement.**

## Compilation Engagement

- It is an engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable FRF, and reports as required by this SRS.
- The practitioner's objectives under this SRS are to:
  - (a) Apply accounting & financial reporting expertise to assist management in the preparation and presentation of financial information in accordance with an applicable FRF based on information provided by management; and
  - (b) Report in accordance with requirements of this SRS.
- Since a compilation engagement is not an assurance engagement, a compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusion on preparation of the financial information.

## Mngt. Responsibility for Compilation Engagement

- While drafting letter of engagement, the practitioner shall include responsibilities of management for:
- (a) The financial information, and for the preparation and presentation thereof, in accordance with a FRF that is acceptable in view of the intended use of the financial information and the intended users;
  - (b) Design, implementation & maintenance of such internal control as mngt determines is necessary to enable the preparation of F.S. that are free from material misstatement, whether due to fraud or error;
  - (c) Accuracy & completeness of records, documents, explanations & other information provided by management for the compilation engagement; and
  - (d) Judgments needed in the preparation and presentation of the financial information.

## Quality control and Performing the Engagement

- 1 Engagement Level Quality Control**  
 The engagement partner shall take **responsibility** for:
  - (a) Overall quality of engagement to which that partner is assigned; &
  - (b) Performing engagement in accordance with firm's quality control policies and procedures, by:
    - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements;
    - (ii) Being satisfied that ET collectively has competence & capabilities to perform the compilation engagement;
    - (iii) Being alert for indications of non-compliance by members of the ET with relevant ethical requirements, and determining the appropriate action if matters come to the EP attention indicating that members of ET have not complied with relevant ethical requirements;
    - (iv) Directing, supervising and performing engagement in compliance with professional standards; and
    - (v) appropriate engagement documentation being maintained.
- 2 Performing the Engagement**
  1. Practitioner shall compile financial information using records, documents, explanations & other information, provided by mngt.
  2. If, practitioner becomes aware that records, documents, explanations or other information, are incomplete, inaccurate or not unsatisfactory, he practitioner shall bring that to the attention of management and request additional or corrected information.
  3. If mngt. failed to provide necessary information, as requested, he shall withdraw from the engagement and inform mngt and TCWG of the reasons for withdrawing.
  4. If the practitioner becomes aware that:
    - (a) The compiled financial information does not adequately refer to or describe the applicable FRF;
    - (b) Amendments to compiled financial information are required; or
    - (c) The compiled financial information is otherwise misleading, he shall propose the appropriate amendments to management.
  5. If mngt. declines, or does not permit him to make the proposed amendments to the compiled financial information, he shall withdraw and inform mngt/TCWG of the reasons for withdrawing.

## Practitioner Report

- Report shall be in writing, and include the following elements:
- (a) The report title;
  - (b) The addressee as required by terms;
  - (c) Statement that practitioner has compiled financial information based on information provided by mngt;
  - (d) Description of responsibilities of mngt, or TCWG, in relation to the compilation engagement, and financial information;
  - (e) Identification of the applicable FRF;
  - (f) Identification of the financial information, including the title and the date or the period to which it relates;
  - (g) Description of practitioner's responsibilities, including that the engagement was performed in accordance with this SRS.
  - (h) Explanations that:
    - Since compilation engagement is not an assurance engagement, the practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation; &
    - Accordingly, the practitioner does not express an audit opinion or a review conclusion.
  - (i) The date of the practitioner's report;
  - (j) The practitioner's signature; and
  - (k) The Place of signature.