ENGAGEMENT & QUALITY CONTROL STANDARDS

3 Layer Technique

- Layer 1 – Summaries for Last Minute Revision
- Layer 2 – SA Notes
- Layer 3 – Detailed answers on questions on Standards

A Conceptual, Clear & Comprehensive Approach

CA Sarthak Jain
All India CA Ranker
Engagement and Quality Control Standards has been an area where students for long have been suffering from inadequate resources and reference material for understanding these standards in the right perspective with relevant jargon but in user friendly language.

These notes are just a humble attempt in the right direction and trust they shall prove to one of the most updated, precise and accurate material on Engagement and Quality Control Standards. I hope and rationally trust that this creation of mine will give you the best for you exams.

"These notes are not meant for commercial publication. We wished if we could publish and help all CA students to take advantage of these notes... but since these NOTES are result of undivided love and faith of our students I would like to dedicate these notes to the students and why not certain privileges should only be available to students of F.A.S.T. across the country."

Rights with the Author

Edition – First & Last

In this dynamic world, we don’t believe in revising and publishing edition 1, 2, 3... We believe in constant-complete revolution. So, every edition is a thoroughly researched and updated new publication. So, no new editions, only new publications every time.

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Although every care has been taken but still mistakes may appear in this book, neither author nor publisher is responsible for any sort of damage caused to the reader due to any unwanted mistake, error or omission found therein this book.

Subject to Indore Jurisdiction
A CA is said to be an expert of Auditing. An understanding of auditing procedures and Auditing Standards is imperative for attaining expert knowledge in this field. For a student of CA too, the importance of Auditing is immense due to upcoming trends and issues on Auditor's responsibility, introduction of international auditing standards consequently it is becoming the favorite of not just the examiners but also the interviewers looking to recruit fresher Chartered Accountants.

The aim of writing this book is not just to ensure comprehensive coverage of the subject but also to help the reader to gain conceptual clarity and practical understanding on each and every topic. A lot of research has been made for preparation of the book and various live examples have been incorporated for making the content more relevant and for easier comprehension of the readers.

Since CA exams expect expert level of knowledge from the students every effort has been made to cover each and every concept with utmost detail. Further, at length discussions have been made with various Senior Executives of premier Indian corporate, professionals of the BIG 4 audit firms, industry professionals, interviewers of various companies, experienced CAs, etc. for incorporating practical cases, updations, etc in the book. I further extend my gratitude to all the professionals who have spared their time and effort for the book.

Additionally, for readers' convenience, we have compiled all previous exam questions, FAQs apart from other brain teasers along with relevant extract from Standards on Auditing making the book a single reference module for the students.

I would like to thank my team and every person who has assisted in making this book possible. Above all, I would like to thank all faculties of FAST for their support, an Institute dedicated for overall development of its students.

Although great care has been taken while preparing this book, still some errors might have crept in. I will be highly obliged if you kindly bring in my notice about any error, omission or suggestion for the improvement of this book.

Special thanks to my dear student ‘Praveen Jain’ & ‘Medha Agrawal’ who have dedicated their time and hard work in the preparation of the content of this book

CA Sarthak Jain
All India CA Rank Holder
The maintenance of quality in every engagement is the collective concern of the Institute as well as all members of the profession. Further, being a member of IFAC requires ICAI to maintain international quality standards for all engagements undertaken by chartered accountants.

In an attempt to guide the members of the Institute to ensure that every engagement, be it Audit, Review, other Assurance or Related Service in order to achieve a standardization the Institute has issued Engagement and Quality Control Standards divided into Standards on Auditing (SA), Standard on Review Engagements (SRE), Standard on Other Assurance Engagements (SAE) and Standard on Related Services (SRS).

ICAI being a member of International body of Accountants has issued all the above standards in line with the internationally accepted standards and has also in the standards detailed material modification in comparison to the international standards. However, as a part of CA curriculum the Indian context of the standard is only relevant.
### Syllabus of STANDARDS ON AUDITING

**FAST EXCLUSIVE HELICOPTER CHARTS**

Engagement and Quality Control Standards (FRAMEWORK)

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SA 701, 800 series, 2000 series, 3000 series & 4000 series covered separately
STANDARDS ON AUDITING

LAYER

1. Summaries - Helicopter View Charts
1. Applicable Financial Reporting Framework (FR F/W)

- C: \( F/W \) Compliance Framework \( \rightarrow \) Compliance with requirements of a framework
- FP: \( F/W \) Fair Presentation Framework \( \rightarrow \) Compliance with requirements of a framework \( \rightarrow \) Additionally requires:
  - a. Additional disclosures
  - b. Necessary to depart from a requirement of framework to achieve fair presentation

2. Financial Statements

- GP: \( FS \) General Purpose FS \( \rightarrow \) Not for specific but users at large \( \rightarrow \) 200 to 700 series of SA applies
- SP: \( FS \) Special Purpose FS \( \rightarrow \) For special purpose/users \( \rightarrow \) Special series 800 series

3. Financial Statements

- FS: \( FS \) A structured representation of historical financial information. Can be Complete set of financial statements or a single financial statement.
  - Balance Sheet
  - Statement of P & L
  - Cash Flow Statement
  - Explanatory notes and accounting policies
4. Audit Premise

Management responsible for

- Preparation and presentation of the financial statements in accordance with the applicable framework
- Design, implementation and maintenance of internal control so that FS are free from material misstatement
- All information, such as records and documentation, relevant to FS
- Unrestricted access to those within the entity
- Any additional information

Management to Provide auditor

5. Management

Person with executive responsibility for the conduct of operations
6. Misstatement

Difference between reported and to be reported:
- Amounts
- Classification
- Presentation
- Disclosure of a reported financial statement item

Frauds
- On the Company
- By the Company
- Reporting Frauds
- Misappropriation of assets
- Principle Errors
- Logical Errors
- Clerical Errors
- Error of Commission Error of Omission Compensating Errors

F/E

Misstatements can arise from error or fraud.

Errors

7. Materiality

Assessed at:
- Individual or Aggregate

At:
- Planning and performing the audit – For Generic Users
- Determination whether to report Uncorrected Misstatement – For any individual user too
- Material Misstatement
- Checked for Account balance, classes of transaction and disclosures
- Uncorrected Material Misstatement
- Pervasive effect on FS

Depends on: Quality – Nature of Size AND Quantity - Amount
14. Auditor Opinion

- **Unmodified**
  - True and Fair View with or without Emphasis of Matters/Other Matters
  - **Qualified**
    - True and Fair View with exceptions
  - **Modified**
    - **Adverse**
      - No True & Fair View
    - **Disclaimer**
      - No Opinion, FS are regarded as unaudited

15. Those Charged With Governance

- **TCWG**
  - Responsibility for overseeing the
    - Strategic direction of the entity
    - Obligations related to the Accountability of the entity
    - Financial Reporting process

16. Risk – Factors causing risk

- **Risk**
  - **Inherent risk at assertion level**
    - FS likely to be susceptible to misstatements
    - Judgments involved in account balance
    - Unusual & Complex transactions
    - Transaction outside the normal processing cycle
    - Susceptibility of asset to loss
  - **Overall Audit risk at FS level**
    - Integrity of management
    - Management experience, knowledge, professionalism
    - Unusual pressures within the entity
    - Nature of Entity’s business
    - Factors affecting business
SA 200 (R) - Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing

(1) Compliance with Ethical Requirements
   a. Integrity
   b. Objectivity
   c. Professional Competence and Due Care
   d. Confidentiality, and
   e. Professional Behavior
   f. Independence

(2) Professional Skepticism
   a. Code of Ethics
   b. SA 200 / 220 / 260, SQC 1
   c. G41 on Independence of Auditor

   Key points:
   a. Free mind and appears to be of free mind
   b. Engagement team to be independent
   c. Circumstances & relationship that result in threats to be identified & resolved
   d. Network Firm
   e. Declaration of Independence of firm and network
   f. Responsibility

(3) Professional Judgment
   a. Professional judgment refers to
   b. Application of relevant knowledge and experience:
   c. To the facts and circumstances:
   d. For interpretation of relevant ethical requirements and the SAs; and

   Key points:
   b. Instances when auditor will get alert to misstatements:
   i. Contradictory evidence
   ii. Fraud indications
   iii. Doubt on reliability

(4) Sufficient Appropriate Audit Evidence and Audit Risk
   a. Audit Evidence
   b. Sufficiency
      a. Risk of Material Misstatement
      b. Quality of Audit Evidence
   c. Appropriateness:
      a. Relevance
      b. Reliability
   d. Audit Risk
      a. Risk of Material Misstatement (IR + CR)
      b. Detection Risk (DR)

(5) Conduct of an Audit in accordance with SAs
   a. Complying with SAs
   b. Objectives stated in Individual SAs
   c. Complying with Relevant Requirements unless entire SA is not relevant; or requirement is conditional and condition does not exist.
   d. Failure to Achieve an Objective evaluate whether this prevents the auditor from achieving the overall objectives and thereby requires to modify the auditor’s opinion or withdraw from the engagement
SA 210 (R) – Agreeing the Terms of Audit Engagements

1) Preconditions for an Audit
   A. FR F/W is acceptable
   B. Mgt. acknowledges AUDIT PREMISE

Factors affecting acceptability of FR F/W
- The nature of the entity (Bus/ NPO)
- The purpose of the financial statements (General / Special)
- The nature of the financial statements (Complete / Single)
- Whether law or regulation prescribes the applicable FR F/W (Bank/Ins)

Factors affecting suitability of F/W
- Relevance, Reliability, Neutrality, Understandability, Completeness

2) Limitation on Scope Prior to Acceptance
   Imposed by Law?
   Yes - Consider accepting  No - Refuse

3) Other Factors Affecting Acceptance
   Limitations imposed by mgt
   Do not accept

4) Agreement on Audit Engagement Terms
   - Agree with Mgt and TCGA
     - In form of letter
     - Addressed to mgt by auditor

Component Auditor

Contents
- A. Mandatory
- B. If irrelevant
- C. Optional

Separate EL?

If terms of engagement prescribed by law:
- a. No need for EL
- b. Letter with confirmation of - (i) Applicability of relevant law (ii) Mgt accepts and understands its responsibility of audit premise

- a. Communication with previous auditor
- b. Use of work of expert, internal auditors, other auditors
- c. Restriction on auditors liability
- d. Obligation to share working papers
- e. Other relationships if any
- a. Elaboration of scope
- b. Planning and performance arrangements
- c. Fees
- d. Acknowledgement of letter
- e. Reappointment as per same terms unless agreed else
SA 210 (R) – Agreeing the Terms of Audit Engagements

(5) Recurring Audits

Separate EL?

On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.

1. Misunderstanding - in the objective and scope of the audit.

2. Changes in -
   - Senior management
   - Ownership
   - Nature or size of the business
   - Legal or regulatory requirements
   - Financial reporting framework
   - Reporting requirements.
   - Terms of engagement

However, in order to avoid confusing the reader, the report on the related service would not include reference to:
   a. The original audit engagement;
   b. Any procedures that may have been performed in the original audit engagement, except where the audit engagement is changed to an engagement to undertake agreed-upon procedures.

(6) Acceptance of a Change in the terms of the Audit Engagement

Assess reason of same?

Yes

New EL for new terms, and no reference of old reports

Withdraw and check if legal obligation to report

No

Justified

If found,
   a. additional requirements to need additional disclosures
   b. Describe the FS audited

(7) Additional Considerations in Engagement Acceptance

FR Standards supplemented by L&R

FR Standards prescribed by L&R

Auditor's Report prescribed by L&R

Yes

Can additional disclosure reduce misunderstanding, else not accept audit

No mention of audit as per SAs (though SAs encouraged to be applied)
SA 220 (R) – Quality Control for an Audit of Financial Statements

(1) Leadership Responsibilities for Quality

- Engagement partner (EP) responsible for overall quality for his audit

(2) Relevant Ethical Requirements

EP should remain alert & observant to identify evidences of non-compliance

(a) Integrity
(b) Objectivity
(c) Professional competence and due care
(d) Confidentiality
(e) Professional behavior

In case of non-compl. EP must determine appropriate action

(3) Independence

Engagement partner to:
(a) Obtaining information from the firm/network firms, to identify and evaluate circumstances relationship that create threats to independence;
(b) Evaluate identified breaches that create a threat to independence
(c) Take appropriate action to eliminate or reduce or, if considered appropriate, to withdraw from the audit engagement,

(4) Acceptance and Continuance of Client Relationships and Audit Engagements

A. Mgt Integrity
B. Capabilities, Time and Resources
C. Ethical Requirements

Owner-Mgt reputation, Nature of Biz, Aggressiveness, Negotiation, Press Info, Past exp., Previous auditor communication, limitations imposed

Knowledge, Competence, Availability, etc

As discussed

(5) Human Resource (SQC 1)

a. Recruitment;
b. Performance evaluation;
c. Capabilities
d. Competence
e. Career development
f. Promotion
g. Compensation
h. Estimation of Personnel Needs
SA 220 (R) – Quality Control for an Audit of Financial Statements

(6) Assignment of Engagement Team
- Eng. Partner - SQC 1
  - (a) appropriate capabilities, competence, authority
  - (b) as per LSR and time to perform
  - (c) responsibility communicated to him and introduced to client

(7) Engagement Performance

A. Direction
- Direction includes informing the team members:
  - Responsibilities as per SA 200
  - Responsibilities of respective partners where more than one partner is involved
  - The objectives of audit work to be performed
  - The nature of the entity's business
  - Risk-related issues
  - Problems that may arise
  - Detailed approach to performance

B. Supervision
- Whether time assigned is sufficient
- Tracking the progress, work carried as per plan, addressing significant matters faced, matters for consultation, to be discussed with more experienced team members, difference of opinion, conflict resolution

C. Reviews
- By a competent person including EVP covering:
  - Work performed as per SA 3, LSR
  - Matters raised
  - Consultations taken
  - Need to review the NTE of AR
  - Conclusions as per findings
  - SAE
  - Misstatements resolved
  - Objective achieved

D. EP Review
- Critical areas of judgment / contentious matters
- Significant risks
- Other areas EP considers important EP need not review all audit documentation, but may do so

E. Consultation
- Seeking advice on technical, ethical or other matters within or outside EP (if)
  - Take RESPONSIBILITY for team seeking consultation on difficult matters;
  - Be SATISFIED that members have undertaken appropriate consultation
  - ENSURE nature, scope and conclusions resulting from such consultations are agreed with the party consulted
  - DETERMINE whether conclusions from consultations implemented

F. Engagement Quality Control Review
- For audit of listed companies by firms
- Appoint Eng QC Reviewer & set NTE of procedures of Eng QC Reviewer
- Discuss significant matters
- Before issuing AR
  - EVALUATE particularly:
    - Discussion with EP
    - Review of FS and proposed AR
    - Review significant judgments of team
    - Evaluate appropriateness of opinion
  - ALSO CONSIDER
    - Independence, Documentation & Consultation on matters of difference of opinion

G. Differences of opinion
- Whether resolved with documentation

H. Inspection
- Every EP assignment should be covered in inspection at least once in 3 years
- Internal or external firm can be used
- To be done on surprise basis

Monitoring - Ensure audit as per QCP
- SQC 1
- MONITORING: Constant review Actions against complaints against auditors and deficiencies in QCP
- Update in 3 years
- DOCUMENTATION
  - Ensure salinity, confidentiality, retrievability, etc.
  - Retention of working papers for 7 years [SQC 1]
  - Property of Auditor
SA 240 (R) - The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements

**INTRODUCTION**

A. Frauds
- Intentional misstatement in FS
- Auditor concerned with financial frauds that can be:
  1. Reporting frauds and
  2. By the company

B. Mgt Responsibility
- Mgt responsible to prevent or detect & correct design, implement & monitor controls for frauds

C. Auditor's Responsibility
- Not responsible to detect frauds unless suspicion arises
- Professional skepticism
- Reasonable assurance
- Detection risk higher in case of frauds than errors
- Auditor suspects but does not make a legal determination of frauds

**CLASSIFICATION OF FRAUD**
1. Reporting frauds and
2. Misappropriation of assets
3. Frauds on the company and
4. By the company

**REQUIREMENTS**

**Professional Skepticism**
- Cross check the audit evidence provided by mgt. even in absence of suspicion.
- And remain alert for any transactions raising suspicion of frauds.
- Discussion among engagement team.

**Discussion with engagement team**
- Matters like:
  1. Exchange of ideas, considering mgt. practices, internal / external factors, incentives & pressure on entity, management involvement, any unusual act of mgt in notice of team, management overriding controls, unpredictability in checks etc.

**Professional Skepticism**
- Evaluate unusual or unexpected relationships identified
  - Unusual or Unexpected Relationships identified

**Risk Assessment Procedures and Related Activities**
- Inquiries from Management
  - Inquire of mgt.:
    i) Risk assessment, identification and response to assessed risk.
    ii) Management Communication to TCWG/ internal auditor employees
    iii) FS level
  - Unlikely, if mgt. is guilty:
    i) FS level
    ii) Account, Balance, Transaction or Disclosure level

**Identification & Assessment of Risk**
- Assess as per SA 315 at:
  i) FS level
  ii) Account, Balance, Transaction or Disclosure level

**Response to the Assessed Risk**
- Response at Overall Level:
  - Assign and supervise personnel – as per the knowledge, skill and ability.
  - Evaluate selection of accounting policies / estimates / judgments
  - Surprise Checks
  - Incorporate unpredictability in nature, timing and extent of audit procedures
  - Multiple AE
  - Reliance on External Evidence more

**Response at Assertion Level**
- Modify NTE of AP according to risks.

**Evaluation of Audit Evidences**
- If misstatements identified:
  - Assess outcome of AP SA 520 Assess if indication of fraud Reassess RoM Modify NTE of AP

**Auditor Unable to Continue the Engagement**
- Consider to withdraw
- Communicate with appointing authority and legal bodies only of required by any law
- If withdraws then report to management, TCWG and legal bodies / appointing authority if required under any law

**Documentation as per 315 & 300 + reason behind recording suspected fraud.**
SA 260 (R) – Communication with Those Charged With Governance

(1) Those Charged With Governance
- Determine the appropriate person(s):
- Communication with a Subgroup of TCWG - Looking after specific area
- When all of TCWG are Involved in Managing the Entity - Communication with mgt sufficient

(2) Matters to be Communicated
- The Auditor's Responsibilities in Relation to the Financial Statement Audit
  Auditor responsible for making opinion on FS, Mgt & TCWG still responsible to prepare
- Planned Scope and Timing of the Audit
  Overview of scope, Communicate: Plan for significant risk areas
  Approach towards IC
  Materiality in audit
  Coordination with Internal audit function, if any
- Significant Findings from the Audit
  a. Qualitative aspects - Accounting policies + accounting estimates + FS disclosures
  b. Inappropriate accounting practices in view of auditor
  c. Significant difficulties, if any, encountered during the audit may include such matters as:
     Delays in providing information, excessive effort to obtain SAEA, unavailability of information, restrictions imposed, management's unwillingness to conduct assessment on request for going concern etc.
  d. Material Weaknesses in IC + Significant matters for discussion like business risks / consultations / engagements terms + WR required
  e. Other matters necessary for TCWG oversight of FS & Supplementary matters like authorisations missing, other I&R non-compliances, deficiencies in organisation structure, etc.
- Auditor Independence
  Auditor and network firms independence disclosure of all relationships and fees charged safeguards to eliminate identified threats to independence

(3) The Communication Process
- Establishing the Communication Process
  a. Decide from, timing & expected general content of communication
  b. 2 way communication process
- Forms of Communication
  (Writing)
  If significant or (Orally followed by writing)
  If not so significant
- Timing of Communications
  Timely basis, Depends on size of entity, arrangements made by entity, status of TCWG, materiality of misstatements, RoM
- Adequacy of the Communication Process
  Auditor to assess adequacy and check if any limitation exist, accordingly modify report/seek common wid higher auth.
SA 265 – Communicating Deficiencies in IC to TCWG & Management

**Scope** - No responsibility of auditor to extend procedures to check IC deficiencies beyond requirement of SA 315/330, SA requires only reporting of identified frauds

**Definition**
Deficiency in Internal Control
This exists when:
1. A control is designed, implemented or operated in such a way that it is UNABLE TO prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
2. A control necessary to prevent, or detect and correct, misstatements is missing

**Significant Deficiency in Internal Control**
In auditor’s judgement merit attention of TCWG

**Determination of whether significant deficiencies in Internal Control have been identified & communicated to TCWG in writing**
Indicators of deficiencies in ICs:
- Ineffective control environment like unauthorized transactions, mgmt overrides controls, mgmt fraud, absence / ineffective of risk assessment, ineffective response to assessed risks, unidentified misstatements prior period items, mgmt inability to oversee FS, etc.

**Significant Deficiencies in IC**
- Deficiency whether significant depends on:
  - Likelihood of deficiency leading to material misstatements in future, Fraud possibility, complexity, materiality, volume, frequency of deficiency, impact on other areas & importance of controls over PR process like controls over frauds / monitoring / accounting policies applications / related parties / year end transactions

**Communication of Deficiencies in Internal Control**
If Significant - TCWG and Mgt in writing
Else - Mgt in writing or orally

Letter of communication of significant deficiency:
- A description of the deficiencies and its potential effects; and
- Information to understand the context explaining:
  - i. Auditor responsibility to make opinion on FS;
  - ii. It involves assessment of ICs relevant to the preparation of FS to design audit procedures but not for expressing opinion on effectiveness of ICs; and
  - iii. The matters reported are limited to deficiencies identified during audit and merit being reported to TCWG

SA 299 – Responsibility of Joint Auditors

**Joint Auditor:** More than one auditor responsible to issue a joint report on FS of any entity

**Division of Work**
- On quantifiable basis or in terms of identifiable units or specified area terms
- + Mutually decided +
- Some areas may be jointly audited +
- Document division of work & should be communicated to the entity

**Coordination**
- Report matters of importance of each other area identified during audit +
- This should be done by submission of report prior to finalisation of audit

**Joint Responsibility:**
Joint and severally responsibility –
- a. Audit work not divided;
- b. Decisions taken by all the joint auditors regarding NTE of AP etc
- c. In respect of matters which are brought to the notice of the joint auditors by any one and joint agreement done;
- d. Examining FS comply with requirements of statute and e. Report complies with the requirements of relevant statute.

**Individual Responsibility:**
- a. NTE of AP
- b. Obtaining SAAE incl written representations
- c. Documentation
- d. Planning, Direction, Supervision, Review
- e. Audit of branches allotted to individual auditors
- f. Test check, sampling (sufficient/not)
- g. Check of ICs
- h. Exercising judgments relating to area allotted to him

**Reporting Responsibility:**
- Joint report, except if difference in opinion then separate report (No majority basis opinion)
SA 300 (R) – Planning an Audit of Financial Statements

**So that:**
- Focus on imp. Areas.
- Pre-empt problems.
- Audit in effective & efficient manner.
- Selecting term with proper level of competence.
- Direction supervision & review.
- Using work of others to assist in audit.

(1) Benefits of Planning
- Discussing plans with TLM to facilitate conduct of audit. Planning is a continuous process.

(2) Involvement of Key Engagement Team Members
- Top/Experienced person involvement in planning & participative in discussion.

(3) Preliminary Engagement Activities
- SA 220 - Client acceptance procedures, & quality control (Ethical requirements incl. independence and SA 210 - Terms of Engagement.
- a. Identify the characteristics of the engagement that defines scope.
- b. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of communications required.
- c. Consider the factors that are significant in direction of the team.
- d. Consider the results of preliminary engagement activities.
- e. Ascertain the nature, timing and extent of resources necessary to perform the engagement.

(4A) Planning Activities - Audit Strategy setting scope, timing & direction of audit
- a. The nature, timing and extent of planned risk assessment procedures, as determined in SA 315.
- b. The nature, timing and extent of planned further audit procedures at the assertion level, as determined in SA 330.
- c. Other planned audit procedures that are necessary for compliance with SAs.

(4B) Planning Activities - Audit Planning
- a. Overall Audit Strategy
- b. Audit Plan
- c. Any significant changes & reasons.

(5) Documentation
- a. SA 220- procedures wrt acceptance of client relationship.
- b. SA 510, Communication with previous auditor, more flexibility, other procedures required by firm OCPP.

SA 320 (R) – Materiality in Planning and Performing an Audit

Auditors determination of materiality is a matter of professional judgement and is affected by purpose that FS is going to serve.

(1) Materiality in the Context of an Audit
- Individually - Collectively
- Quality - Quantity
- Inverse relation with Audit Risk
- It is an amount benchmark
- Based on common need of users and not specific users
- Assessed at the time of planning and performing the audit (SA 320) and at the time of evaluation uncorrected material misstatement (SA 450)
- Required while planning and performing the audit to determine NTE of Risk assessment procedures, further audit procedures and other audit procedures is an Auditor's judgement.

(2) Determining Materiality and Performance Materiality When Planning an Audit
- Materiality set as a benchmark may be a % of profits or operating profits or ordinary profits or an amount set at overall FS level and at assertion level as a whole
- Performance materiality at a little lower level to reduce the risk of not detecting a material misstatement
- + set diff. materiality level for those classes of transaction where smaller amounts of Mis. St. can influence user's decision making

(3) Revision as the Audit Progresses
- Flexibility must in materiality based on findings of auditor + determine whether to revise performance materiality & whether NTE of FAP remain appropriate.

(4) Materiality does not necessarily establish an amount below which uncorrected misstatements, individually or in aggregate, will always be evaluated as immaterial. Some misstatements may be material even if they are below materiality because of their nature, and the particular circumstances of their occurrence.

(5) Documentation
- a. The audit documentation shall include the following amounts and the factors considered in their determination:
  - Materiality for the financial statements as a whole;
  - If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;
  - Performance materiality;
  - Any revision of (a)-(c) as the audit progressed.
SA 315 Identifying & Assessing the Risk of Material Misstatement through understanding the entity & its Environment

Introduction:
Identifying & assessing ROM
1.) Identify risk-understanding the entity & its env.
2.) Assess identified risks.
3.) Evaluate their effect on FS.
4.) Relate risk to assertions.
5.) Consider likelihood of misstatement & magnitude.

(1) Risk Assessment Procedures (RAPs)
- Procedures to understand entity & its environment (IIs also)
  To identify & assess risk of material misstatement - fraud/ error - at financial statement & assertion level

(2) Types of RAP
- Inquiries with management
- Inquiries of Others
- Analytical Procedures
- Observation & Inspection

(3) Understanding of Environment
- Industry Factors:
  Market competition, Cyclical/ seasonal activity,
  Product technology, Energy cost & supply
- Regulatory Factors:
  Accounting principles & industry specific practices, Regulatory framework, Government policies, Legislation affecting operations, Taxation, Environmental requirements
- Other External Factors:
  General economic conditions, Interest rates & availability of finance, Inflation/ currency revaluation

(4) Understanding of Entity
- Structure of the entity - complex/ simple.
- Ownership and related parties.
- Business operations
- Investment activities
- Financing activities
- Financial Reporting
- Accounting Policies
- Business Objective & Related Risks
- Components
- Control Environment
- Control Activity
- RAP
- Monitoring

(5) INTERNAL CONTROLS
- Reliable financial reporting.
- Efficiency/ effectiveness of operations.
- Compliance with laws & regulations.
- Safeguarding of assets.
- Design, implementation & maintenance varies with size & complexity of entity.

A. Purpose:
- Faulty human judgment.
- Collusion among employees and/or management.
- Management override of controls.
- Costs & benefits.
- Judgments as to nature & extent of risk assumed vis-à-vis controls.

B. Limitations:
- Discussion with engagement team and significant decisions reached.
- Key elements of understanding of entity, its environment & IIs.
- Identified & assessed risks of material misstatements at financial statement & assertion level.
- Risks that require special audit consideration.
- Risks for which substantive procedures alone do not suffice.

(6) Documentation
- From & extent of documentation depends upon:
  - Nature, size & complexity of entity & IIs.
  - Availability of information from entity.
  - Audit methodology.
  - Technology used in audit.
SA 330 (R) – The Auditor’s Responses To Assessed Risks

(1) Response to Overall Risk
Auditor may use a
COMBINED
(Compliance +
Substantive)
approach or only
SUBSTANTIVE
approach

SUBSTANTIVE AP
A. Overall Response to assessed RISK of MISSTATEMENT
Emphasis on professional skepticism
Assigning more experienced staff or those with special skills or using experts
More supervision
Incorporating Unpredictability in further AP
Making general changes to the nature, timing or extent of audit procedures, for example: performing substantive procedures at the period end instead of at an interim data; or modifying the nature of audit procedures to obtain more persuasive evidence

TEST OF CONTROLS
B. Overall Response to assessed risk for INEFFECTIVE CONTROL
More audit procedures at period end rather than at an interim date
Obtaining more extensive audit evidence from substantive procedures
Increasing the number of locations to be included in the audit scope

(2) Response Risks at Assertion Level
A. Substantive & Compliance AP
Modify Nature-Timing-Extent of Audit Procedures

B. Nature of AP
A. Purpose of AP
Test of controls or substantive procedure
B. Type of AP
Inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure

C. Extent of AP
Depends on
i. Materiality,
ii. Assessed Risk
iii. Degree of assurance the auditor plans to obtain

SUBSTANTIVE AP
A. Purpose of AP
Test of controls or substantive procedures
B. Type of AP
Inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedures
Depends on
i. Materiality,
ii. Assessed Risk
iii. Degree of assurance the auditor plans to obtain

TEST OF CONTROLS
Used only when
i. Controls operating effectively or
ii. Substantive alone cannot provide SAAE

a. Perform other audit procedures in combination with inquiry to obtain AE about operating effectiveness of the controls, including:
   i. How the controls were applied at relevant times during the period under audit;
   ii. The consistency with which they were applied;
   iii. By whom or by what means they were applied.
b. Determine whether the controls to be tested depend upon other controls (indirect controls), and if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls
At interim date or at the period end?
A. Interim Date AP better -
   Checks before year end where auditor needs to identify
   significant risk at initial level
B. Period end better -
   i. Checks to agree FS to accounting records;
   ii. Adjustments made in preparing FS; and
   iii. Procedures to respond to a risk that, at the period end,
       the entity may have entered into improper sales contracts,
       or transactions may not have been finalized.
C. Factors affecting timing -
   i. The control environment.
   ii. When relevant information is available (for example,
       electronic files may subsequently be overwritten, or
       procedures to be observed may occur only at certain
       times).
   iii. The nature of the risk (for example, if there is a risk of
       inflated revenues to meet earnings expectations by
       subsequent creation of false sales agreements, the auditor
       may wish to examine contracts available on the date of the
       period end).
   iv. The period or date to which the audit evidence relates

INTERIM PERIOD -
a. Obtain audit evidence about significant changes to those controls
   subsequent to the interim period; and
b. Determine the additional audit evidence to be obtained for the remaining
   period.

RELYING ON AE OBTAINED IN PREVIOUS PERIOD
Consider the following:
a. The effectiveness of other elements of internal control, including the
   control environment, the entity’s monitoring of controls, and the entity’s risk
   assessment process;
b. The risks arising from the characteristics of the control, including whether
   it is manual or automated;
c. The effectiveness of general IT-controls;
d. The effectiveness of the control and its application by the entity, including
   the nature and extent the extent of reliance on the control;
e. Deviations in the application of the control noted in previous audits, and
   whether there have been personnel changes that significantly affect the
   application of the control;
f. Whether the lack of a change in a particular control poses a risk due to
   changing circumstances; and

g. The risks of material misstatement and the extent of reliance on the
   control
   auditor shall establish the continuing relevance by performing inquiry
   combined with observation or inspection, to confirm the understanding of
   those specific controls, and
   a. If there have been changes test the controls in the current audit
   b. If there have not been such changes test the controls at least once in every
      third audit (spread over 3 years

The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial
statements, including the related disclosures, is in accordance with the applicable financial reporting framework.

Evaluate whether SAE are obtained to give conclusion in Audit Report
If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall
attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a
qualified opinion or a disclaimer of opinion

1. The auditor shall document:
a. The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the
   further audit procedures performed;
b. The linkage of those procedures with the assessed risks at the assertion level; and
   c. The results of the audit procedures, including the conclusions where these are not otherwise clear.
2. If the auditor plans to use AE about operating effectiveness of controls obtained in previous audits, document the conclusions reached about relying on
   such controls.
3. Documentation should demonstrate that FS agree with accounting records.
SA 402 (R) Audit Considerations relating to an Entity using a Service Organisation

1. Service Auditor
   An auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation.

2. Service Organisation
   A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities’ information systems relevant to financial reporting.

3. Service Organization’s System
   The policies and procedures designed, implemented and maintained by the service organisation to provide user entities with the services covered by the service auditor’s report.

4. Subservice Organisation
   A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities’ information systems relevant to financial reporting.

5. User Auditor
   An auditor who audits and reports on the financial statements of a user entity.

6. User entity
   An entity that uses a service organisation and whose financial statements are being audited.
(1) Obtaining an Understanding of the Services Provided by a Service organisation, Including Internal Control

- Obtain understanding including:
  - The nature of the services provided and its significance including effect on user entity's internal control;
  - The nature and materiality of the transactions processed;
  - The degree of interaction between the two entities; and
  - The nature of the relationship between the user entity and the service organisation, including the relevant contractual terms

Auditor should obtain sufficient understanding of nature & significance of services given by subservice organisation & its affect on user entity:

- a. Obtaining a Type 1 or Type 2 report, if available;
- b. Contacting the service organisation, through the user entity, to obtain specific information;
- c. Visiting the service organisation;
- d. Using another auditor to perform procedures that will provide the necessary information about the relevant controls

(2) Responding to the Assessed Risks of Material Misstatement

If SAAE not available from records at user entity perform further audit procedures

(3) Service Organisation Auditor's Report Type 1 or Type 2 Reports that Exclude the Services of a Subservice Organisation

- a. Type 1 – Report on Suitability of Design
  1. A description of the service organisation's accounting and internal control systems, ordinarily prepared by the management of the service organisation, and
  2. An opinion by the service organisation's auditor that:
     - The above description is accurate;
     - The systems controls have been placed in operation; and
     - The accounting and internal control systems are suitably designed to achieve their stated objectives.

- b. Type 2 – Report on Suitability of Design and Operating Effectiveness
  All the above discussed A and
  1. The accounting and internal control systems are operating effectively based on the results from the tests of control. In addition to the opinion on operating effectiveness, the service organization’s auditor would identify the tests of control performed and related results.
  Only this shall assist auditor in assessment of risk of controls at SO

(4) Extend AP

Whether service organisation has reported to mgt. of user entity any Fraud, Non Compliance with Laws and Regulations and Uncorrected Misstatements in Relation to Activities at the Service Organisation + User auditor should evaluate how this affects NTE for APs.

(5) Reporting by the User Auditor

No reference to work of service auditor unless relevant to explain modification in the user auditor's report given based on SA report
SA 500 - Audit Evidence

1. Sufficient Appropriate Audit Evidence (SAAE)
   - Characteristics of AE
     - Obtained during the course or in previous years or even while accepting the client engagement
     - Obtained through entity’s records and even from mgmt expert
     - Absence of any info may also be an AE
     - Some AE are corroborative and some contradict
     - Can be obtained from internal/external sources
     - Different AE, different reliability
     - Management representations also AE
     - Consultation / Expert may also be used
     - AE persuasive not conclusive

2. Methods of Applying Audit Procedures (AP)
   - A. Inquiries
     - From mgmt and bodies engaged in preparation of FS
     - Financial and non-financial data
     - Used extensively
     - Additional not only AE
     - Where mgmt intend to be verified other than inquiries auditor to understand past history, mgmt logic and its ability to perform the intention
     - More persuasive
     - Oral discussions to be followed by written representation from mgmt to confirm responses
     - Could be from employees or consultants assisting preparation of FS
   - Act of being observed may affect procedure
   - B. Observation
     - Overseeing mgmt inspection / controls
     - Reliable for checking procedures
     - Visual evidences, hence more reliable, can be used to check IC procedures. Eg Inventory count, internal Controls design, etc
     - Limitation - evidence only for that period provided
   - C. Inspection
     - I. of records (vouchers) / documents (eg. Bonds, shares, internal external and physical examination of assets
     - To check account balances, internal controls, classes of transactions and disclosures
     - Can be test of details or test of controls
   - D. Reperformance
     - Independent performance of controls by auditor as followed by mgmt
     - E. Recalculation
     - Checking mathematical accuracy of records
     - Done manually or electronically
   - F. Analytical Procedures - SA 520 Evaluating plausible relationship among both financial & non financial data.
     - External Confirmations - Information from 3rd parties about balances, transactions, etc (SA 505)

3. Types of Audit Procedures
   - I. Types of Audit Procedures
     - A. Risk Assessment Procedures
     - B. Further Audit Procedures
       - 1. Compliance Procedures
       - 2. Substantive Procedures
         a. Test of Details
         b. Analytical Procedures
     - Auditor to determine appropriate NATURE-TIMING & EXTENT OF AUDIT PROCEDURES (Refer SA 330)
   - Act of being observed may affect procedure
   - B. Observation
     - Overseeing mgmt inspection / controls
     - Reliable for checking procedures
     - Visual evidences, hence more reliable, can be used to check IC procedures. Eg Inventory count, internal Controls design, etc
     - Limitation - evidence only for that period provided
   - C. Inspection
     - I. of records (vouchers) / documents (eg. Bonds, shares, internal external and physical examination of assets
     - To check account balances, internal controls, classes of transactions and disclosures
     - Can be test of details or test of controls
   - D. Reperformance
     - Independent performance of controls by auditor as followed by mgmt
     - E. Recalculation
     - Checking mathematical accuracy of records
     - Done manually or electronically
   - F. Analytical Procedures - SA 520 Evaluating plausible relationship among both financial & non financial data.
     - External Confirmations - Information from 3rd parties about balances, transactions, etc (SA 505)

4. Information to Be Used as Audit Evidence
   - Only Reliable and Relevant Audit Evidences to be relied on
     - Appropriateness
   - NTE of AP when info provided by managements expert is to be used as AE:
     - 1. Complexity of matter
     - 2. Rom in the
     - 3. Availability of act. AE
     - 4. Auditor’s knowledge of filed of management expert & whether he’s subject to any technical standards
     - 5. Nature scope & object of management experts work

5. Selecting Items for Testing
   - A. 100% Selection
     - Volume is low, value is high,
     - Risk of Misstatement is high + other evidences not available
     - Availability of Audit Tools
     - Repetitive nature items + process performed automatically by is
   - B. Selective Checking
     - Not sampling
     - 100% check on few items
     - When items can be clearly segregated into material and immaterial
     - On high value / key items / items over a certain amount. No info about remained but population
   - C. Sampling (SA 530)
     - When 100% or selective not appropriate / practical
     - Opinion on population
     - Reassess - RoM, Reliability of AE, Fraud indication
SA 501 (R) – Audit Evidence - Specific Considerations for Selected Items

**Inventory**

- **Relevant Matters at Inventory Count:**
  - **Nature of Inventory.**
  - **Stages of completion of WIP.**
  - **RoM related to inventory.**
  - **IC related to inventory.**
  - **Whether adequate procedures and proper instructions issued for PV.**
  - **Timing of PV.**
  - **Whether the entity maintains a perpetual inventory system.**
  - **The locations at which inventory is held.**
  - **Whether the assistance of an auditor's expert is needed.**
  - **Observe the performance of management count procedures.**

- **Inventory wid III Parties obtain SAAE by:**
  (A) **Inspect the Inventory to identify obsolete/damaged/aging inventory.**
  (B) **Tracing items from management's count records to physical inventory & vise versa helps in performing test controls.**

- **Unable to attend due to unforeseen reasons**
  - **MAKE / OBSERVE at alternate date a PV**
  - **Obtain AE of changes in inventory between these dates**

- **Impairable to attend Physical Inventory counting**
  - **Apply alternative AP to obtain SAAE else modify report**

**Litigation and Claims**

1. **AP to IDENTIFY material litigation and claims including:**
   - a. Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;
   - b. Reviewing minutes of meetings of TCGW and correspondence with its external legal counsel; and to obtain
   - c. Reviewing legal expense accounts SAAE wrt pending litigation & its financial implication.

2. If RoM exists, additionally seek direct communication with the entity's external legal counsel -
   - i. Letter of general inquiry
   - ii. prepared by management and
   - iii. sent by the auditor,
   - iv. response directly to auditor
   - v. Confirmation on list of claims + expected outcome + loss / costs involved/estimated
   - b. **If response not expected then send Letter of specific inquiry with:**
     - i. List of claims known
     - ii. Management's estimate of outcome
     - iii. Amount involved
     - and request counsel to confirm the auditors information
     - c. If matter complex / significant risk / disagreement between mgt and counsel then arrange direct meeting to discuss the likely outcome

3. **If communication prohibited for counsel apply alternate procedures**
   - (1) Requesting III Party confirmation w.r.t. quantity & condition of inventory.
   - (2) When in doubt about integrity & objectivity of auditor performing inspection/other AP/arranging for another auditor or service auditor's report to attend PV.

4. **If mgt refuses / counsel does not responds / prohibited to respond + auditor unable to obtain SAAE by alternative AP then modify report**

5. **Obtain WR from mgt about L&C actual or possible disclosed to auditor + properly accounted / disclosed in FS as per FR F/w**

**Segment Information**

- **Obtain SAAE regarding presentation and disclosure of segment information as per FR F/w by:**
  - a. Obtaining understanding of methods used by mgt in determining segment information evaluating whether methods selection and application is appropriate (e.g. methods relating to intersegment transfers, allocations, consistency with previous years etc); and
  - b. Performing analytical procedures or other audit procedures as appropriate
  - *Auditor’s responsibility is in respect to FS taken as a whole & thus he's not required to perform audit procedures that's necessary to express an opinion on segmenting.*
SA 505 (R) – External Confirmations

Definition
1. External Confirmation Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.
2. Positive Confirmation Request
   - A request that the confirming party respond directly to the auditor to indicate whether it agrees or disagrees with the information.
3. Negative Confirmation Request
   - A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information.
4. Non-Response
   - A failure of the confirming party to respond, or to fully respond, to a positive confirmation request, or a confirmation request returned undelivered.
5. Exception
   - A response that indicates a difference between information contained in the entity’s records, and information provided by the confirming party.

(1) External Confirmation Procedures
A. Determining the information to be confirmed or requested

(2) Management’s Refusal
   - If mgmt refuses:
     1. Identify reasons
     2. Assess effect on NTE of AP, frauds, RoM
     3. Alternative AP be performed to obtain relevant & reliable evidences

B. Selecting the appropriate confirming party

C. Designing the confirmation requests, with proper addressee, responses to be sent directly to the auditor etc; and

D. Follow-up

(3) Results of the EC Procedures
   - Reliability of Responses to Confirmation Requests:
     If doubted extend AP to obtain reliable evidences

   - Non-Responses (to +ve confirmation request)
     - Apply alternate AP as per materiality and assess need to revise RoM

   - When a Response to a Positive Confirmation Request is Necessary to Obtain SAAE:
     - When EC is only AE, fraud like of mgmt override controls etc. If no response then modify report

   - Exceptions
     - Evaluate whether misstatement or not accordingly affects risk of frauds, reliability of other info from same source, may indicate deficiency in ICS

(4) Negative Confirmations
   - Provide less persuasive AE hence used if:
     a. RoM low, ICS effective;
     b. High volume low value data;
     c. A very low exception rate is expected, homogeneous data; and
     d. High probability of respondent to respond in case of exceptions

   - A response deemed unreliable:
     c. A non-response; or
     d. A response indicating an exception.

(5) Evaluating the Evidence Obtained

Evaluate reliability and relevance of EC obtained by categorising such results as follows:
   a. A response by appropriate confirming party indicating agreement with the information provided b. A response deemed unreliable; c. A non-response; or d. A response indicating an exception.
**SA 510 (R) – Initial Audit Engagements - OPENING BALANCES**

### Definition

1. **Initial Audit Engagement**
   - An engagement in which either:
     a. The financial statements for the prior period were not audited; or
     b. The financial statements for the prior period were audited by a predecessor auditor

2. **Opening Balances (Closing balances + Accounting Policies + Disclosures)**
   - Account balances based upon the closing balances of the prior period reflecting transactions and events of the prior periods and accounting policies in the prior period and includes disclosure existing in the prior period + disclosure wrt contingencies & commitments.

3. **Predecessor Auditor**
   - The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor

### (1) Audit Procedures

- **Opening Balances**
  - Read PY FS, disclosures and PY AR
  - 1. Obtain SAAE:
    - i. Carry forward of cl. Balance to C.Y. properly
    - ii. Check application of accounting policies consistently
    - iii. AP as applicable:
      - a. If PY audited - Pursue copy of PY AR
      - b. Else, check if AE obtained in CY of Opening Balances
    - c. Else, obtain evidences through applying specific procedures
    - If misstatements noticed then apply further AP and evaluate effect on CY FS and respond as per SA 450

### (2) Audit Conclusions and Reporting

- **Consistency of Accounting Policies**
  - Check if change in policies is justified, appropriately accounted and disclosed

- **Consistency of Accounting Policies**
  - Modified opinion in case of inappropriate change / accounting and disclosure of change in accounting policy

- **Relevant Information in the Predecessor Auditor’s Report**
  - If PY report modified amend CY AP to assess impact on CY FS

- **Openings to the Opinion in the Predecessor Auditor’s Report**
  - Modify report if relevant to CY FS
SA 520 (R) – Analytical Procedures

**Analytical Procedures**

**Definition**
AnPr evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

**Nature:**
a. Encompass investigation of results different from expectations  
b. Extent to use is matter of proof judgement  
c. Based on trend / ratio analysis on comparable info of prior period / budgets / industry info

---

**1. Substantive Analytical Procedures**

a. Suitability of Analytical Procedure Considering Nature of assertion + RoM + Test of Details  
   Better for large volumes, predictable relationships

b. Reliability of data for application of Analytical Procedures  
   Depends on Source, Comparability, Nature and Relevance of Information available and Controls over preparation

c. Developing an Expected Outcome of amount or ratio for comparison with actual  
   Evaluate can expectation be reliably made to detect a misstatement

d. Interpreting difference  
   Difference in recorded amount and expectation

---

**2. AP when Forming Overall Conclusion**

- Near the end of audit  
- As per understanding obtained in SA 315  
- FS whether consistent with auditors understanding

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**3. Investigating Results of Analytical Procedures**

If outcome of AP shows any Inconsistencies
a. Inquire mgt and obtain evidences to mgt responses  
b. perform other AP as necessary
SA 530 (R) – AUDIT SAMPLING

**Definition**
- **Audit Sampling**: AP on less than 100% to draw conclusion on entire population with each unit having equal chance of selection.
- **Population** - 100% items about which auditor wishes to draw conclusions.
- **Sampling Units** - Individual items of population.
- **Anomaly**: A misstatement or deviation not representative of complete population but an exception.

**Sampling Risk**
- **Risk of incorrect opinion** based on sampling in comparison to opinion formed if 100% check done.
- **Types of Sampling Risk**:
  - Test of Controls - Risk of Over Reliance (affects opinion).
  - Under Reliance (affects efficiency).
  - Substantive Procedures - Risk of Incorrect acceptance (affects opinion) / Incorrect Rejection (affects efficiency).

**Sample Design, Size and Selection of Items for Testing**
- **Sample Design**
  - Determine the purpose of audit procedure.
  - Identify the population to draw samples.

**Sample Size (SS)**
- Sufficient to reduce audit risk to acceptable low levels.
- Impact on Sample Size:
  - High expected rate of deviation / misstatement - Higher SS.
  - Higher tolerable rate of deviation / misstatement - Lower SS.
  - Better stratification - Lower SS.
- Number of Sampling Units - No effect on SS.

**Selection (PM)**
- Each unit to have equal chance of selection.
- **Methods**:
  - Random Sampling (Statistical method)
  - Random numbers used.
  - Haphazard Sampling - Arbitrary selection.
  - Systematic Selection (Non-statistical method) - Units in fixed intervals selected.
  - Monetary Unit Sampling - Value weighted selection of items.
  - Block Selection - Selection of a contiguous block. Method not advisable for sampling.

**Performing Audit Procedures**
- Perform appropriate procedures.
- If AP not applicable on selected item use Replacement Item.
- No replacement if auditor unable to apply AP eg. data missing but considered as a deviation.

**Projecting Misstatements**
- For test of details auditor to project misstatement to population.
- For test of details refer SA 330.
- No projections for anomaly as it is exceptional item.
- However while evaluating UMM even uncorrected anomalies considered and if Projected misstatements and anomalies exceed tolerable misstatement levels probability of auditor opinion being modified increases.

**Nature and Cause of Deviations and Misstatements**
- Identify Nature and Cause of deviations and effect on Audit.
- If clearly an ANOMALY, then no change in AP desired. But to prove that deviation is an anomaly additional AP must be applied and SAE must be obtained that it doesn’t represent entire population.

**Evaluating Results of Audit Sampling**
- The auditor shall evaluate:
  - The results of the sample; and
  - Whether the use of audit sampling has provided a reasonable basis for conclusions about the population.
- If not:
  - Request management to investigate identified misstatements and potential for further misstatements and correct them.
  - Refer NTE of AP.
SA 540 (R) – Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

**Definition**

- Accounting Estimate: Approximation of monetary amount in absence of precise amount. Includes fair value estimation.
- Auditor’s Point Estimate or Auditor’s Range: Defined by auditor to evaluate estimates.
- Estimation Uncertainty: Susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.
- Management’s Point Estimate: Amount selected by management for recognition or disclosure in financial statements.
- Outcome: Actuals of the estimates.

**Risk Assessment Procedures and Related Activities**

1. Auditor to obtain understanding of entity’s following in extension of procedures in SA 315:
   a. FR F’w requirements incl disclosure requirements.
   b. How management identifies transactions/events/conditions that give rise to needed estimates.
   c. How management makes the estimates, and an understanding of the data on which they are based, including:
      i. The method used.
      ii. Relevant controls.
      iii. Whether management has used an expert.
      iv. The assumptions underlying.
   d. Whether there has been or ought to have been a change from the prior period in the methods, why; and
   e. Whether and, if so, how management has assessed the effect of estimation uncertainty.
2. Review outcome of prior year estimates in current year or its reassessment to assess RoM (not intended to make judgements made in prior period).

**Identifying and Assessing the RoM**

- Identify degree of uncertainty associated with estimates and whether any such estimate gave high estimation uncertainty and thus giving rise to significant risks.

**Responses to the Risks of Material Misstatement**

- Undertake one or more of following procedures:
  a. Events occurring after the Balance Sheet Date.
  b. Test management estimate:
     Check method and appropriateness of assumptions used.
  c. Test operating effectiveness of controls.
  d. Develop auditor’s point estimate or range of estimate.

**Further Substantive Procedures to Respond to Significant Risks**

- Recognition and Measurement Criteria:
  - Auditor to assess recognition of estimates and measurement criteria appropriate?
  - Evaluating the Reasonableness of the Accounting Estimates, and Determining Misstatements wrt applicable FRF.
  - Disclosures Related to Accounting Estimates:
    1. Obtain SAAE about whether disclosures are as per requirements of FRFW.
    2. Evaluate adequacy of disclosure wrt significant risk caused by estimation if any.

- Indicators of possible Management Bias by reviewing judgements & decisions.
- Obtain WR from management & TOCG wherever required wrt significant assumptions.
- Documentation:
  - The audit documentation shall include:
    a. The basis for the auditor’s conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and
    b. Indicators of possible management bias, if any.
SA 550 (R) – Related Parties

Objective

(1) Risk Assessment Procedures and Related Activities
- Understanding the Entity’s Related Party Relationships & Transactions
  - Identify RP and changes during the year
  - The nature RP relationships and RPT during the year along with type and purpose of the transactions.
  - Inquire of controls to:
    - Identify RP
    - Authorise & approve significant RP
- Authorize & approve RPT outside normal course
- Maintaining Alertness for Related Party Information When Reviewing Records Or Documents
- In particular, remain alert while inspecting:
  - Minutes
  - Bank, legal, 3rd party confirmation such other records
- Further for any transaction outside the normal course of biz, inspect:
  - Whether RP involved
  - Nature of transactions
  - Sharing Related Party Information with the Engagement Team
    - As and when identified

(2) Identification and Assessment of the Risks of Material Misstatement Associated with RP Relationships and Transactions
- Identify risk of RP transactions and transactions outside normal course

(3) Responses to the RoM Associated with RP Relationships & Transaction
- Identify of Previously Unidentified or Undisclosed Related Party Relationships and Transactions
  - Communicate to team
  - Request mgmt to identify transactions with such RP
  - Identify why mgmt controls skipped such RP
  - Perform substantive procedures on such RP and transactions with such parties
  - Reconsider the risk of more such RP
  - Evaluate if fraud exists and whether it intends intentional

(4) Evaluation of the Accounting as per FRF and Disclosures of Identified Related Party Relationships and Transactions Which May affect T&F View/may make FS misleading

(5) Written Representations
- They have disclosed Identity and all the related party relationship and transactions
- Have appropriately accounted for such transactions requirements of the framework

(6) Communication With Those Charged With Governance Matters in Connection With RPs

(7) Documentation Of Name of Related Parties & Nature of Relationships
SA 560 (R) – Subsequent Events

Intro FS may be affected by certain events that occur post the date of FS
1. Conditions existed, 2. Conditions arose after date of FS

Definitions
1. Date of approval of Financial Statement: When FS are prepared & asserted by authority to be responsible.
2. Date of Auditor's Report: The date auditor dates the report as per SA 700.
3. Date the FS are issued: Date on FS (audited) with AR are made available to III parties.
4. Subsequent Events: Events b/w date of Financial Statement & AR + facts becoming known to auditor after AR date.

(1) Events Occurring Between the Date of the FS and the Date of the AR - Obtain SAAE

Auditor to obtain SAAE that all such events have been identified & adjusted by:
Understanding how mgmt identifies,
Inquiring mgmt, TOR, others.
Reading minutes held after date of financial statement.
Latest interim FS, budgets, CF outcomes etc.
Obtain WR from mgmt whether each such event is reflected in FS.

subsequent events procedures that the auditor performs may,
depend on the information that is available and,
the extent to which the accounting records have been prepared since the date of the financial statements. When the accounting records are not up-to-date, and accordingly no interim financial statements (whether for internal or external purposes) have been prepared, or minutes of meetings of management or those charged with governance have not been prepared, relevant audit procedures may take the form of inspection of available books and records, including bank statements.

Reading Minutes
In case of certain entities, e.g., Central/State governments and related government entities (for example, agencies, boards, commissions), the auditor may read the official records of relevant proceedings of the legislature and inquire about matters addressed in proceedings for which official records are not yet available.

Written Representations
The auditor shall request management and, where appropriate, those charged with governance, to provide a written representation in accordance with SA 580 (R).

Written Representations' that all events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

(2) Facts Which Become known to the Auditor After the Date of the AR but Before the Date the FS are Issued

If known to the auditor and require amendments in FS, then request mgmt to amend:
If mgmt amends - Check amendment and issue a fresh report with dual dates / Emphasis of Matter Para mentioning the fact of change in FS
If mgmt refuses - Apply AP to check modification required, withdraw report and issue a qualified report, free to obtain legal advice.

When management has issued the financial statements despite the auditor's notification not to issue the financial statements to third parties, the auditor’s course of action to prevent reliance on the auditor’s report on the financial statements depends upon the auditor’s legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

(3) Facts Which Became known to the Auditor After the FS have been Issued

If known to the auditor and require amendments in FS, then request mgmt to amend:
If mgmt amends - Check amendment and issue a revised report with Emphasis of Matter Para mentioning the fact of change in FS Discussing reason of amendment and issue of revised report.
Date the new auditor's report no earlier than the date of approval of the amended financial statements;
If mgmt refuses - Apply AP to check modification required, withdraw report and issue a qualified report, free to obtain legal advice to seek prevention of reliance on old report.
SA 570 (R) – Going Concern

Introduction

Going Concern - Business shall continue till foreseeable future

Management responsibility - To assess appropriateness of going concern assumption

Auditor Responsibility - To obtain SAAE wrt:
1. Appropriateness of management assumption
2. Any material uncertainty about entity's ability to continue as going concern.

(1) Risk Assessment Procedures and Related Activities
- Inquire if mgt made an estimation for appropriateness of GC assumption.
- If made - Evaluate its appropriateness
  - Inquire mgt about how it considers biz as GC
  - Auditor to then remain alert and inquire of any conditions casting doubt on GC assumption.
  - Such factors can be divided into:
    a. Financial factors
    b. Operating factors
    c. Other factors

- If management estimate is for less than one year, ignore, if more than one year then consider period beyond mgt estimation whether any significant risk exists.

(2) Additional Audit Procedures When Events or Conditions Are Identified
- Auditor to obtain SAAE to determine whether or not a material uncertainty exists through performing additional audit procedures:
  - Request mgt to assess GC assumption if not already made
  - Evaluate mgt plan for future and its feasibility
  - Evaluate companies cash flow forecasts
  - Evaluate reliability of underlying data and support for forecasts made
  - Consider additional facts noticed after date of mgt assessment
  - Request WR regarding future plans and its feasibility.
  - Where management assumption:
    - Includes too much dependence on ill party then. Enquire with such ill party & their WR to obtain WR wrt such support
    - If Material Uncertainty Does Not Exist - Unmodified report
    - If Material Uncertainty Exists - But mgt able to demonstrate validity of GC assumption - Request mgt to disclose the factors and its plan and if disclosed in FS give an emphasis of matter else modify report
    - Mgt unable to demonstrate its ability to continue as GC - Adverse report
    - Similarly if mgt unwilling to extend its estimate / delays FS beyond usual time assess its effect on GC and AR

(3) Audit Conclusion and Reporting

(4) Going Concern Appropriate but Uncertainty Exists
- 1. Determine whether the financial statements:
   a. Describe principal events that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with them.
   b. Disclose clearly that there is a material uncertainty therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.
   2. If adequate disclosure is made auditor shall express an unqualified opinion and include an Emphasis of Matter to:
      a. Highlight the existence of a material uncertainty.
      b. Draw attention to the note in the financial statements that discloses the matters.
      c. If adequate disclosure is not made in auditor shall express a qualified or adverse opinion.

(5) Use of Going Concern Assumption Inappropriate
- If in the auditor's judgment, management's use of the going concern assumption in the financial statements is inappropriate, auditor shall express an adverse opinion.

(6) Mgt. Unwilling Make/Extend Its Assessment
- When so requested by Auditor, the auditor shall consider the implications for the auditor's report.

(7) Communication with Those Charged With Governance
- Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication shall include:
  a. Whether the events or conditions constitute a material uncertainty;
  b. Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and
  c. The adequacy of related disclosures in the financial statements.

(8) Significant Delay in Financial Statements Approval
- Auditor shall inquire as to the reasons. When delay could be related to events or conditions relating to the going concern auditor shall perform those additional audit procedures necessary, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty.
SA 580 (R) – Written Representations (WR)

(1) Introduction
- Management refuses to provide WR. It may alert the auditor to the possibility of existence of significant issues.
- WR are supportive evidence. Source of audit evidence.
- Management modifies or does not provide it may alert the auditor.
- Further, a request for written representations in many cases may prompt management to reconsider such matters more rigorously, enhancing the quality.
- However, WR cannot be only AE.

(2) Management from Whom WR Requested
- To reinforce the need for management to make informed representations, the auditor may request that management include in the written representations, confirmation that it has made such inquiries as it considered appropriate to place it in the position to be able to make the requested written representations. It is not expected that such inquiries would usually require a formal internal process beyond those already established by the entity.
- Person responsible for preparation and presentation of FS.
- Sometimes could be TCWG, internal counsel, mgmt expert etc. Eg. CEO/CGO/other.

(3) WR about Management’s Responsibilities
- Preparation of Financial Statements:
  1. That it has fulfilled its responsibility for the preparation and presentation of the financial statements.
  2. Whether the financial statements are prepared and presented in accordance with the applicable financial reporting framework.
- Information Provided and Completeness of Transactions:
  1. Provided all relevant information and access as agreed.
  2. All transactions have been recorded and are reflected in the financial statements.
- Description of Management’s Responsibilities in the WR

(4) Other WR
- In addition to WR needed as per SAS, if auditor requires any other WR to support AE, he should ask for such WR.
- Like:
  - Plans or intentions that may affect the carrying value or classification of assets and liabilities;
  - Liabilities, both actual and contingent;
  - Title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral;
  - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

(5) Date of and Period(s) Covered by WR & Form of WR
- Later the better.
- Not later than date of AR. In writing, a letter addressed to the auditor.
- For representation regarding responsibility made publicly under any law no need for additional WR.

(6) Doubt as to the Reliability of WR and Requested WR Not Provided
- Doubt as to the Reliability of WR:
  - Assess reliability of such WR and audit evidences in general.
  - If WR inconsistent with AE then resolve the matter.
  - If WR not reliable then modify report.
- Requested WR Not Provided:
  - Discuss with mgmt.
  - Assess reliability of such WR and audit evidences in general.
  - Take appropriate actions and modify report.
- WR about Management’s Responsibilities:
  - If not provided or not reliable then issue Disclaimer of Opinion.
SA 600 - Using the Work of Another Auditor (OA)

Definition

Principal Auditor - Auditor of entity
Other Auditor - Auditor of component (Branch, Subsidiary in case of Cons. FS)
Component - Division, branch, subsidiary which form part of FS

(1) Acceptance as Principal Auditor
- Depends on:
  Materiality of transaction audited
  Knowledge of components
  RoM in components
  Possibility to apply additional procedures under this SA

(2) The Principal Auditor’s Procedures & Responsibilities
Application & Other Explanatory Matter
- In certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so.
- Rely on work of other auditor after obtaining SASE whether work of OA adequate by:
  a. Advise him of use of his work
  b. Arrange proper coordination
  c. Inform of significant matters like inter-component transactions, timing of audit, etc.
  d. Advise him on significant accounting / auditing / reporting requirements
- No need to review his work unless competency doubted, in which case principal auditor to visit and examine the books

(3) Co-ordination Between Auditor’s
Sufficient coordination + Communicate of areas requiring other auditors attention + If required a questionnaire can be requested to be filled by other auditor

(4) Reporting Considerations
If work can be relied upon, unrevised report, else qualified report may be issued when work of OA not reliable

(5) Division of Responsibility
Specifically mention division of responsibility, as PA not responsible for work of OA unless such circumstances arise which may raise suspicion about OA’s reliability. Subject to requirements of this SA being fulfilled

SA 610 (R) – Using the Work of Internal Auditors (IA)

(1) Scope and Objectives of the Internal Audit Function
- Monitoring & reviewing of internal control
- Examination of financial and operating information
- Review economy, efficiency & effectiveness of operating activities
- Review of compliance with laws and regulations
- Risk management
- Governance

(2) Determining Whether and to What Extent to Use the Work of the IA
a. Assess whether the work of IA likely to be adequate;
   i. Objectivity;
   ii. Technical competence;
   iii. Due professional care;
   iv. Whether there is likely to be effective communication
b. If so, effect of the work of the IA on the NTE of AP depends on:
   i. The nature and scope of specific work performed, or to be performed by IA;
   ii. The assessed RoM
   iii. The degree of subjectivity involved in the evaluation of the audit evidence by IA

(3) Using Specific Work of the Internal Auditors
The external auditor shall evaluate whether:
- The work was performed by internal auditors having adequate technical training and proficiency;
- The work was properly supervised, reviewed and documented;
- Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions
- Conclusions reached are appropriate in the circumstances and reports consistent with the results of the work performed;
- Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.
While relying on work of internal auditor, external auditor should document conclusion regarding evaluation of adequacy of work of internal auditors.
SA 620 (R) – Using The Work of Auditor’s Expert

OBJECTIVE: The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor’s use of the work of an auditor’s expert. But, if the auditor using the work of an auditor’s expert, have followed this SA, it concludes that the work of that expert is adequate for the auditor’s purposes, the auditor may accept that expert’s findings or conclusions in the expert’s field as appropriate audit evidence.

1. Areas requiring need of expert
   - An individual or organisation possessing expertise in a field other than accounting or auditing engaged or employed by the expert
   - Legal Matters, Valuation of assets and liabilities, IT systems, etc.
   - Experts include lawyers, actuaries, assayers, engineers, etc.
   - Obtaining an understanding of the entity and its environment, including its internal control.
   - Identifying and assessing the risks of material misstatement.
   - Determining and implementing overall responses to assessed risks at the financial statement level.
   - Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising tests of controls or substantive procedures.
   - Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.

2. Determining the Need for an Auditor’s Expert
   - Whether management has used a management’s expert in preparing the financial statements.
   - The nature and significance of the matter, including its complexity.
   - The risks of material misstatement in the matter.
   - The expected nature of procedures to respond to identified risks.

   - Auditors procedures will vary based on:
     a) The nature of the matter to which expert’s work relates.
     b) The RoM in the matter to which that expert’s work relates.
     c) The significance of that expert’s work in the context of the audit.
     d) The auditor’s knowledge; and
     e) Whether that expert is subject to the auditor’s firm’s QC.

4. The Competence, Capabilities and Objectivity of the Auditor’s Expert
   - Necessary competence, capabilities and objectivity for the auditor’s purposes.
   - In the case of an auditor’s external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert’s objectivity.

5. Obtaining an Understanding of the Field of Expertise of the Auditor’s Expert
   - The auditor shall obtain a sufficient understanding of the field of expertise of the Auditor’s expert to enable the auditor to:
     a) Determine the nature, scope and objectives of that expert’s work for the auditor’s purpose;
     b) Evaluate the adequacy of that work for the auditor’s purposes.

6. Agreement with the Auditor’s Expert
   - Specific procedures may include:
     a) The nature, scope and objectives of that expert’s work;
     b) The respective roles and responsibilities of the auditor and that expert;
     c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and
     d) The need for the auditor’s expert to observe confidentiality requirements.

7. Evaluating the Adequacy of the Auditor’s Expert’s Work
   - No, unless required for explaining the modification given based on his report should indicate that responsibility does not reduce auditor’s responsibilities for the opinion.
SA 700 (R) Forming an Opinion and reporting on Financial Statements

SA 705 (R) Modifications to the Opinion in the Independent Auditor’s report

SA 706 (R) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report

1. Form of Opinion
   - Unmodified Opinion (SA 700)
   - Modified Opinion (SA 705)
   - Emphasis of Matters and Other Matters (SA 706)

2. Auditor’s Report for: B. Auditor’s Report as per SA
   - To include all the below mentioned matters with further details like Title to be Independent Auditors Report, Signature of CA to be appended with Firm Name, His Name, Firm Reg No, Membership No his designation, etc.
   - To include at minimum:
     a. A title;
     b. An addressee, as required by the circumstances of the engagement;
     c. An introductory paragraph that identifies the financial statements audited;
     d. A description of the responsibility of management (or other appropriate term for the preparation of the financial statements);
     e. A description of the auditor’s responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
        i. A reference to Standards on Auditing and the law or regulation; and
        ii. A description of an audit in accordance with those Standards;
     f. An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the origin of the FRF/w);
     g. The auditor’s signature;
     h. The date of the auditor’s report; and
     i. The place of signature.

C. AR for Audits as per SA & ISA
   - Same report provided opinion shall be the same and reference to National (SAs) and International standards (ISAs) both given.
### SA 706 Contd..........................

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<thead>
<tr>
<th><strong>3</strong> Supplementary Information</th>
<th>If unaudited clearly identified</th>
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<tbody>
<tr>
<td><strong>4</strong> Types of Modification</td>
<td>Misstatement - Pervasive (Adverse), else (Qualified) Limitation - Pervasive (Disclaimer), else (Qualified)</td>
</tr>
</tbody>
</table>
| **5** Misstatement | i. The appropriateness of the selected accounting policies;  
  ii. The application of the selected accounting policies; or  
  iii. The appropriateness or adequacy of disclosures in the financial statements. |
| **6** Limitation (Auditor is unable to obtain SAAE) | (a) Circumstances beyond the control of the entity;  
  (b) Circumstances relating to the nature or timing of the auditor’s work; or  
  (c) Limitations imposed by mgt (Withdraw unless genuine reason or prohibited by law) |
| **7** Form and Content of the Auditor’s Report When the Opinion is Modified | o Basis for Modification Paragraph - Explain with reasons, financial effect on every assertion of FS and FS overall, if related to disclosure give disclosure unless financial effect or disclosure impracticable  
  o Opinion Paragraph - With appropriate heading |
| **8** Emphasis of Matter paragraph | A matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements. Not a modification, given with heading after Opinion Para |
| **9** Other Matter paragraph | Refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the AR. Not a modification, given at the end or appropriate place in AR |
COMPARATIVE INFORMATION: Includes:
1. Corresponding Figures (CYF)
   Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period.
2. Comparative Financial Statements (CFS)
   Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period, but, if audited, are referred to in the auditor's opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.

(1) Audit Procedures

1. Auditor shall evaluate whether:
   a. Comparative agrees with amounts and disclosures presented in prior period; and
   b. Accounting policies reflected are consistent or, changes if any have been properly accounted and disclosed.

2. Obtain WR about all prior periods (CFS)/current period (CYF) and any Prior period item in P&L (both).

(2) Audit Reporting

No reference to previous year except:
1. Previous Year Audited - Report Modified - Matter Unresolved - - Modify Current Report
   a. When affecting current year - Modify report
   b. When not affecting current year - Modify report with respect to corresponding figures
2. Previous Year Audited - Report unmodified - Misstatement noticed in current year - - Resolves else Modify Current Report with corresponding year figures

A Prior Period Financial Statements Audited by a Predecessor Auditor – Other Matter

1. Difference in current auditor's opinion and predecessor auditor's opinion - Auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in current report.
2. If a material misstatement exists affecting prior period on which the predecessor auditor had previously reported without modification - Predecessor auditor be informed.
   - Prior period FS are amended, and the predecessor auditor agrees to issue a new auditor’s report
   - Else the auditor shall report only on the current period.

- Prior Period Financial Statements Audited by a Predecessor Auditor

1. Prior Period Financial Statements Audited by a Predecessor Auditor – Other Matter paragraph in current report:
   a. FS of the prior period were audited by the predecessor auditor;
   b. The type of opinion and, if modified, the reasons, unless subsequently modified; and
   c. The date of that report.

In case of corresponding figures - WR for current period only
In case of comparative FS - WR asked for all periods referred in auditor's opinion
SA 720 – The Auditor’s Responsibility in relation to Other Information in Documents containing Audited FS

1. Other Information
   Financial and Non-financial information which is included, either by law, regulation or custom, in a document containing audited FSs and the auditor’s report thereon.

2. Misstatement of Fact
   Other information that is unrelated to matters appearing in the audited FSs that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited FS

(1) Reading Other Information

1. The auditor shall read the other information to identify material inconsistencies, if any, with the audited FSs.
2. Obtain from mgmt else read as soon as available

(2) Material Inconsistencies

Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor’s Report

1. Revision (Correction) required in FS - Modify Report
   When revision of the audited FSs is necessary and management refuses to make the revision, the auditor shall modify the opinion

Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor’s Report

1. Revision (Correction) required in other information – Other Matter / Withdraw
   When revision of the other information is necessary, the auditor shall communicate this matter to those charged with governance; and

   a. Include in the AR an Other Matter paragraph describing the material inconsistency; or as per SA 706
   b. Where withdrawal is legally permitted, withdraw from the engagement.

2. Revision (Correction) required in other information & Management agrees – Additional Procedures
   When revision of the other information is necessary and management agrees to make the revision, the auditor shall carry out the procedures necessary under the circumstances

   3. Revision (Correction) required in other information & management refuses – Inform governing body and appropriate action
   When revision of the other information is necessary, but management refuses to make the revision, the auditor shall notify those charged with governance of the auditor’s concern regarding the other information and take any further appropriate action

(3) Material Misstatements of Fact

If, on reading the other information the auditor becomes aware of an apparent MM of fact, discuss with mgmt

If auditor assesses material misstatement of fact, request mgmt consult appropriate 3rd party like legal counsel and consider the advice received

Auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall -notify TGWG and -take further appropriate action