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ENGAGEMENT & QUALITY CONTROL STANDARDS

ENGAGEMENT & QUALITY CONTROL STANDARDS

APPLICABILITY PREFACE, CA13 & COE

- As per the Preface, the SAs will apply whenever an independent audit is carried out
- Now Legal Mandate for auditors to follow
- (a) Section 143(9) of the Companies Act, 2013, every auditor shall comply with the auditing standards
- (b) Section 143 (10), CG may prescribe standards of auditing or any addendum thereto
- Deviations from SAs?....Report...else guilty
- (a) Clause 9, Part I, Schedule II of CA Act, 1949

FRAMEWORK OF ENGAGEMENT AND QUALITY CONTROL STANDARDS (46)

- ASSURANCE SERVICES
  - AUDIT & REVIEW
    - AUDIT
      - SA (34+3)
        - 100-999
    - REVIEW
      - SRE (3)
        - 2000-2699
  - OTHER THAN AUDIT & REVIEW
    - OTHER ASSURANCE
      - SAE (3)
        - 3000-3699
- OTHER SERVICES
  - RELATED SERVICES
    - NON-ASSURANCE
      - SRS (2)
        - 4000-4699

BODY OF SA

- Introduction
- Objective of SA
- Definitions
- Requirements
- Application & Other Explanatory matters
- Appendix, if any

Formulation of Standards

- Project Identification, Prioritization & Approval
- Consultation and Debate
- Exposure Draft
- Public Exposure
- Responses Drafts and Consideration of Comments
- Re-exposure

SA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing

Q.1 Objective Of Independent Audit ?

The overall objectives of the auditor are:

- To obtain reasonable assurance about whether the FSas a whole are free from MM, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the FS are prepared, in all material respects, in accordance with an applicable FRFW; and
- To report on the FS, and communicate as required by the SAs, in accordance with the auditor' s findings.

What if, Auditor fails achieve prescribed objectives?

- **If a qualified opinion in the auditor's report is sufficient for purposes of reporting:-**

No Further Proceedings.

- **If a qualified opinion in the auditor's report is insufficient for purposes of reporting:–**
- The SAs require that the auditor disclaim an opinion or withdraw from the

Q.2 Reasonable Assurance

- High level of assurance but not absolute as there are limitations of audit
- Obtained by SAAE to reduce audit risk to an acceptably low level.
- To obtain reasonable assurance the auditor needs to auditor
- (a) exercise professional judgment; and
- (b)maintain professional skepticism
- Identify and assess ROMM, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity' s IC (SA 300 & 400 Series)
- Obtain SAAE about whether MM exist, through designing and implementing appropriate responses to the assessed risks (SA 500 Series)
- Form an opinion on the FS based on conclusions drawn from the audit evidence obtained (SA 700 Series)

Q.3 Ethical Requirements relating to an Audit of FS

Application & Other Explanatory Matter

- Compliance with 'Code of Ethics' issued by the ICAI is the relevant ethical requirement.
- Fundamental principles:-
- (a) Integrity
- (b) Objectivity
- (c) Professional Competence and Due Care
- (d) Confidentiality, and
- (e) Professional Behavior
- It also requires the auditor to be independent

Q.4 Auditor's Independence

DEFINE

Independence is the keystone upon which the respect and dignity of a profession is based.

Independence implies that the judgment of a person is not subordinate to the wishes or directions of another person who might have engaged him or to his own self interest.

In the context of auditors, his independence is necessary so as to enable him to express unbiased opinion on financial statements.

The user of the financial statement will rely on the opinion of the auditor only when he is convinced about his independence.

INSUBSTANCE

The independence is a condition of mind and personal character and should not be confused with the superficial and visible standards of independence which are sometime imposed by law.

Independence of the auditor has not only to exist in fact, but should also appear to so exist to all reasonable persons.

UNDER COMPANIES ACT

- The Companies Act, 2013, has therefore enacted specific provisions to give concrete shape to this vital concept

- Also Consider Including in Answer:
- (A)Independence requirements under SAs
- SA 220 requires independence of engagement team, firm and network firms. SA 260 requires auditor to give declaration of independence in certain cases.
- (B) Independence requirements under CA Act / ICAI
- ICAI mandates any person having substantial interest (20% or more of voting power / profit share himself or through relatives) to not accept audit – clause 4 to Part I to Schedule II of CA Act, 1949.
- (C) ICAI has also issued a guidance note on auditor' s independence

Independence under Companies Act

The Companies Act, 2013, has therefore enacted specific provisions to give concreteshape to this vital concept:

- The provisions disqualifying certain types of persons from undertaking audit of limited companies.
- Provisions relating to ceiling on the number of audits that can be undertaken by a chartered accountant.
- Provisions requiring special resolution for appointing auditors in certain cases.
- Other provisions on appointment, re-appointment and removal of auditors, are designed with sufficient independence to carry out the audit in the larger interest of shareholders and other users.
- Power to qualify his report is yet another weapon in the armory of the auditor to protect his independence.
- Provisions relating rotation of auditor/audit firm.

Q.5 Conduct of an Audit in accordance with SA

Complying with SAs Relevant to the Audit

- The auditor is thereby required to understand the complete text of SAs and its various sections which includes:
- a. Introduction
- b. Objective of SA
- c. Definitions
- d. Requirements
- e. Application & Other Explanatory matters
- f. Appendix, if any
-
- Any non compliance with a relevant SAs needs to be reported in the audit report with explanations as non compliance with SAs would also hold the auditor guilty under Clause 9 of Part I of Schedule II of CA Regulations, 1988

Objectives Stated in Individual SAs

To achieve the overall objectives of the auditor, the auditor shall achieve the objectives stated in relevant SAs by:-

- Determine need for any additional audit procedures; and
- Evaluate whether SAAE has been obtained.

Complying with Relevant Requirements

The auditor shall comply with each requirement of an SA unless, in the circumstances of the audit:-

- The entire SA is not relevant; or
- The requirement is not relevant because it is conditional and the condition does not exist.

Failure to Achieve an Objective

Auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SAs, to modify the auditor's opinion or withdraw from the engagement.

Q.6 What is meant by ASSERTIONS in FS? Specify assertions for Account balance, transactions and Disclosures separately too.

Assertions

Assertions at the level of Account balance, transactions and Disclosures are seen by the auditor while applying RAP and determining the NTE of FAP. Assertions includes:

(a) Authorisation
(b) Existence and Obligation
(c) Period
(d) Ownership and Title
(e) Valuation and Measurement
(f) Completeness and Classification
(g) Disclosure and Presentation
(h) Rights and Obligations

Example
Trade receivable appearing in Balance Sheet at 2,00,000 reflects that the Trade Receivables in the BS:
> include all sales transaction occurred during the year.
> have been recorded properly and occurred during the year
>These constitute assets of the entity.
> have been shown at proper value, i.e. after showing the deduction on account of provision for bad and doubtful debts, etc.
These assertions can be dividend under 3 below mentioned category

Assertions about classes of transactions and events

- **Occurrence—transactions and events that have been recorded have occurred and pertain to the entity.**
- **Completeness—all transactions and events that should have been recorded have been recorded.**
- **Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately.**
- **Cut-off—transactions and events have been recorded in the correct accounting period.**
- **Classification—transactions and events have been recorded in the proper accounts.**

Assertions about account balances

- **Existence—assets, liabilities, and equity interests exist.**
- **Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.**
- **Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded.**
- **Valuation and allocation—assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.**

Assertions about presentation and disclosure:

- Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity.
- Completeness—all disclosures that should have been included in the financial statements have been included.
- Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.
- Accuracy and valuation—financial and other information are disclosed fairly and at appropriate amounts.

SA 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing

Q.7 Define Factor affecting Inherent Risk at Overall FS Level and at Assertion Level

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

Q.8 Auditor Opinion

Unmodified

- True and Fair View with or without Emphasis of Matters/Other Matters

Modified

- **Qualified** – True and Fair View with exceptions
- **Adverse** – No True & Fair View
- **Disclaimer** – No option, FS are

Q.9 Ethical Requirements relating to an Audit of FS

Assessed at :
- Individual or Aggregate

Determined While :
- Planning and Performing the audit – For generic Users
- Determination whether to report Uncorrected Misstatement – For Any Individual user too

Assertion Level
- Material Misstatement
- Checked for Account balance, classes of transaction and disclosures

- Overall Level
- Uncorrected Material Misstatement
- Pervasive effect on FS

Q.10 Preconditions for an Audit ?

In order to establish whether the preconditions for an audit are present, the auditor shall:

- Determine whether the FRFW is acceptable; and
- MGT acknowledges and understands its responsibility (AUDIT PREMISE):

(1) Preparation of the FS in accordance with the applicable FRFW

(2) For IC necessary to enable the preparation of FS that are free from MM, whether due to fraud or error; and

(3) To provide the auditor with:

- Access to all information such as records, documentation and other matters;
- Additional information that the auditor may request for audit; and
- Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Determining the Acceptability of the FRFW

- The nature of the entity
- The purpose of the FS
- The nature of the FS
- Whether law or regulation prescribes the applicable FRFW.

Factors affecting assessment of suitability of framework

- Relevance
- Completeness
- Reliability, in that the information provided in the FS
- Neutrality
- Understandability

Q.11 Limitation on Scope Prior to Audit Engagement Acceptance ?

The auditor may decide not to send a new audit engagement letter or other written agreement each period.

Auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Q.12 Agreement on Audit Engagement Terms ?

- The auditor shall agree the terms of the audit engagement with MGT or TCWG, as appropriate.
- Audit engagement letter or other suitable form of written agreement shall include:
  (a) The objective and scope of the audit of the FS;
  (b) The responsibilities of the auditor (Refer SA200);
  (c)The responsibilities of MGT (design and maintenance of internal controls, selection of accounting policies,

  making accounting estimates, making information available for the purpose of audit, prevention / detection and correction of frauds and errors, etc.)
  (d) Identification of the applicable FRFW; and
  (e)Reference to the expected form and content of any reports.
- If law or regulation prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement, except for a letter acknowledging :
  (a) the fact that such law or regulation applies and
  (b) that MGT acknowledges and understands its responsibilities of audit premise.

Audits of Components - Whether to send a separate audit engagement letter to the component?

Depends on the following:
- Who appoints the component auditor;
- Whether a separate auditor's report is to be issued on the component;
- Legal requirements in relation to audit appointments;
- Degree of ownership by parent; and Degree of independence of the component MGT from the parent entity.

Q.13 Recurring Audits ?

The auditor may decide not to send a new audit engagement letter or other written agreement each period.

However, the following factors would decide:

- Any indication that the entity misunderstands the objective and scope of the audit.
- Any revised or special terms of the audit engagement.
- A recent change of senior MGT.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements.
- A change in the FRFW adopted in the preparation of the FS.
- A change in other reporting requirements.

SA 210 Agreeing the Terms of Audit Engagements

Q.14 Acceptance of a Change in the Terms of the Audit Engagement ?

- Accept only if reasonable justification for doing so if there is reduction in scope
- New terms – New agreement in writing
- If terms change unsuitable to auditor and MGT refuses to continue auditor to:
- (a) Withdraw; and
- (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as TCWG, owners or regulators.

Q.15 Additional Considerations in Engagement Acceptance?

- Financial Reporting Standards supplemented by Law or Regulation
- Financial Reporting Standards prescribed by Law or Regulation – Other Matters Affecting Acceptance
- Auditor's Report Prescribed by Law or Regulation

Financial Reporting Standards supplemented by Law orRegulation (Additional Disclosure required by Law)

- The additional requirements can be met through additional disclosures in the FS,
- The description of the applicable FRFW in the FS can be amended accordingly.

Financial Reporting Standards prescribed by Law or Regulation – Other Matters Affecting Acceptance

If, according to auditor, FRFW prescribed by law or regulation would be 1 unacceptable, he shall accept the audit engagement only if:-

- (a)MGT agrees to provide additional disclosures required to avoid statements being misleading, &
- (b)The terms of audit engagement specifies that:-
- (I) Auditor's Report shall incorporate an Emphasis of Matter Paragraph, drawing users attention to this, &
- (ii) Auditor's Report shall not include phrases ' Present Fairly, in all material aspects' or 'give a T&F View in accordance with applicable FRFW', unless the law or regulation so requires.

Auditor's Report Prescribed by Law or Regulation

- In many cases, the law or regulation applicable to the entity prescribes layout or wording of the auditor's report in a form or in items that are significantly different from the requirements of SAs.
- In such case, the auditor shall evaluate, whether users might misunderstand the assurance obtained from the audit of the FS, and if so happens, whether additional explanation in the auditor's report can reduce the possible misunderstanding.
- If, according to auditor, the additional explanation cannot reduce such misunderstanding the auditor shall not accept audit engagement.
- The auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with SAs.
- However, the auditor should disclose that he is encouraged to apply SAs.

Q.16 Acceptance and Continuance of Client Relationships and Audit Engagements ?

- Acceptance or retention of a client to be after assessment of its :
  (a) Integrity of MGT
  (b) Availability of time and resource
  (c) Independence (as prescribed under SQC 1)

- If the engagement partner subsequently obtains information leading to declining the audit then firm and partner to take a joint decision

Q.17 Write short notes on Direction

Direction includes informing the members of the engagement team of matters such as:

- Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with professional skepticism as required by SA 200.
- Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement.
- The objectives of the work to be performed.
- The nature of the entity' s business.
- Risk-related issues.
- Problems that may arise.
- The detailed approach to the performance of the engagement.

Q.18 Supervision

Supervision includes matters such as:

- Tracking the progress of the audit engagement.
- Considering the competence and capabilities of individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the audit engagement.
- Addressing significant matters arising during the audit engagement, considering their significance and modifying the planned approach appropriately.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement

Q.19 Reviews – Define and explain its objectives

- Review is the responsibility of engagement partner to check if audit as per firm's policies and procedures.
- Near to the end of audit, the engagement partner shall, through a review be satisfied that SAAE has been obtained to draw a conclusion.
- A review consists of consideration whether, for example:
- The work has been performed in accordance with professional standards and regulatory and legal requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to support the auditor's report; and
- The objectives of the engagement procedures have been achieved.

Q.20 Explain scope of Engagement Partner's Review of Work

The Engagement Partner's Review of Work Performed include:

- Critical areas of judgment, especially those relating to difficult or contentious matters identified during the course of the engagement;
- Significant risks; and
- Other areas the engagement partner considers important.

The engagement partner need not review all audit documentation, but may do so.

Q.21 Write short note on Consultation, Engagement Quality Control Review and Differences of opinion

Consultation refers to seeking advice on technical, ethical or other matters from within or outside the firm from professionals or agencies

The engagement partner shall:

- Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
- Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement;
- Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
- Determine that conclusions resulting from such consultations have been implemented.

Q.21 Write short note on Consultation, Engagement Quality Control Review and Differences of opinion

Consultation

Consultation refers to seeking advice on technical, ethical or other matters from within or outside the firm from professionals or agencies

The engagement partner shall:

- Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
- Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement;
- Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
- Determine that conclusions resulting from such consultations have been implemented.

Q.22 Engagement Quality Control Review

- For audits of FS of listed entities, and those other audit engagements, if any for which the firm has determined that an engagement quality control review is required, the engagement partner shall:

(a) Determine that an engagement quality control reviewer has been appointed;
(b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
(c) Not date the auditor's report until the completion of the engagement quality control review.

- The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:

(a) Discussion of significant matters with the engagement partner;
(b) Review of the FS and the proposed auditor's report;
(c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
(d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

- For audits of FS of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:

(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;
(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports

Q.23 Differences of opinion

If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.

Q.24 Benefits of Timely Preparation of Audit Documentation ?

Timely documentation:
- Enhances the quality of the audit
- Facilitates the effective review and evaluation of the audit evidence / conclusions reached
- Documentation prepared after the audit work has been performed is likely to be less accurate

Q.25 Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

ELEMENTS OF DOCUMENTATION

Documentation to be such that an experienced auditor, having no previous connection with the audit, to understand:
(a) Audit Procedures Performed
(b) Results of Audit Procedures Performed & Evidences Obtained
(c) Conclusions and Auditor Judgments

DOCUMENTATION OF AUDIT PROCEDURES PERFORMED includes:

In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:
(a) The identifying characteristics of the specific items or matters tested
(b) Who performed and the date such work was completed; and
(c) Who reviewed and the date and extent of such review.

INCONSISTENCIES

If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

Matters Arising after the Due Date of the Auditor's Report

If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document:
(a) The circumstances encountered;
(b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
© When and by whom the resulting changes to audit documentation were made and reviewed.

Q.26 What are the factors that affect the Form, Content and Extent of Audit Documentation ?

Depends on factors such as

- The size and complexity of the entity.
- The nature of the audit procedures to be performed.
- The identified ROMM.
- The significance of the audit evidence obtained.
- The nature and extent of exceptions identified.
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The audit methodology and tools used.

Q.27 What are the matters that should be definitely documented ?

Auditor need to specifically document significant matters relating to:

- Significant risks identified
- Significant uncertainties noticed
- Findings resulting to modifications
- Limitation and difficulties in auditing
- Professional judgment relating to subjective areas like estimates, uncertainties associated with the client, etc

Q.28 Assembly of the Final File

- Its an administrative process
- Auditor shall assemble the audit documentation in an audit file on a timely basis after the date of the auditor' s report. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor' s report.
- Once complete no data shall be deleted or discarded before the end of its retention period which is not notified to be 7 years unless a higher period required under any law for the time being in force.
- For any modification after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document:

(a) He specific reasons for making them; and

(b) When and by whom they were made and reviewed.

SA 240

The Auditor's Responsibilities relating to Fraud in an Audit of FS

Q.28 Discussion Among the Engagement Team

Discussion among the team members and members who are not part of engagement team to update about suspect areas of fraud. Discussion to be on matters viz.:

- An exchange of ideas among engagement team members
- A consideration of earnings MGT and the practices that might be followed by MGT to manage earnings that could lead to fraudulent financial reporting.
- A consideration of the known external and internal factors affecting the entity that may create an incentive or pressure
- A consideration of MGT's involvement in overseeing employees with access to cash or other assets susceptible to misappropriation.
- A consideration of any unusual or unexplained changes in behavior or lifestyle of MGT or employees which have come to the attention of the engagement team.
- An emphasis on the importance of maintaining a proper state of mind throughout the audit regarding the potential for MM due to fraud.
- A consideration of the types of circumstances that, if encountered, might indicate the possibility of fraud.
- A consideration of how an element of unpredictability will be incorporated into the nature, timing and extent of the audit procedures to be performed.
- A consideration of any allegations of fraud that have come to the auditor's attention.
- A consideration of the risk of MGT override of controls.

Q.30 RAP and Related Activities

Inquiries from MGT and Others within the Entity

The auditor shall make inquiries of MGT regarding:

- MGT's assessment of the risk;
- MGT's process for identifying and responding to the risks of fraud in the entity;
- MGT's communication, if any, to TCWG;
- MGT's communication, if any, to employees regarding its views on business practices and ethical behavior.
- Frauds noticed by MGT during the year
- Communication with Internal Auditor, if any

TCWG

Unless all of TCWG are involved in managing the entity, the auditor shall obtain an understanding of how TCWG exercise oversight of MGT's processes.

Unusual or Unexpected Relationships identified

The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures.

Other Information

The auditor shall consider whether other information obtained by the auditor indicates ROMM due to fraud like information acquired during acceptance of audit, while rendering other services to the client like review of interim financial reports, etc.

Evaluation of Fraud Risk Factors

Fraud risk factors relate to the undue pressures, lack of ICs and personal bias/interest of the company and or its employees, heavy expectations of stakeholders, granting significant bonuses, etc that lead to possibilities of misstatements in FS. Though fraud risk factors do not necessarily imply that fraud exists but they give the auditor suspicion that frauds might exist.

Fraud risk factors which primarily arises on account of following reason:

- An incentive or pressure to commit fraud;
- A perceived opportunity to commit fraud; and
- An ability to rationalize the fraudulent action.

SA 240 The Auditor's Responsibilities relating to Fraud in an Audit of FS

Q.31 Response to Assessed Risk

Response at Overall Level

In determining overall responses due to fraud at the FS level, the auditor shall:
- Assign and supervise personnel – As per the knowledge, skill and ability;
- Selection of accounting policies
- Surprise Checks - Incorporate unpredictability in nature, timing and extent of audit procedures.

Response at Assertion Level

The auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed ROMM due to fraud at the assertion level.

Response to Risk related to MGT Override Controls

The auditor shall determine whether the auditor needs to perform extra audit procedures.
- Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the FS. In designing and performing audit procedures for such tests, the auditor shall:
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; and
- Select journal entries and other adjustments made at the end of a reporting period
- Review accounting estimates for biases. In performing this review, the auditor shall:
- Evaluate whether the judgments and decisions made by MGT, indicate a possible bias; and
- Perform a retrospective review of MGT judgments and assumptions related to significant accounting estimates reflected in the FSof the prior year.
- For significant transactions that are outside the normal course of business for the entity and MGT has not discussed its business rationale, are overly complex like with web subsidiaries, relating to related parties, etc

Q.32 Evaluation of Audit Evidence

- Evaluate whether analytical procedures consistent with the auditor's understanding of entity
- When the auditor identifies a misstatement, evaluate whether fraud
- Evaluate implications in relation to other aspects of the audit, particularly the reliability of MGT representations.
- re-evaluate the assessment of the ROMM due to fraud and its resulting impact on the nature, timing and extent of audit procedures.

SA 240

The Auditor's Responsibilities relating to Fraud in an Audit of FS

Q.32 Auditor Unable to Continue the Engagement

The auditor shall:

- Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities;
- Consider whether it is appropriate to withdraw from the engagement; and
- If the auditor withdraws:
  (1) Discuss with the appropriate level of MGT and TCWG; and
  (2) Determine whether there is a professional or legal requirement to report to appointing authority or to regulatory authorities

Q.33 Communications to

MGT&TCWG

- **If the auditor has identified a fraud or has indication of fraud, the auditor shall communicate these matters on a timely basis to the appropriate level of MGT.**
- **The auditor shall communicate with TCWG any other matters related to fraud that are, in the auditor's judgment, relevant to their**

Regulatory and Enforcement Authorities

The auditor' s legal responsibilities may override the duty of confidentiality in some circumstances.

Q.34 FRAUD RISK FACTORS

RAUDULENT FINANCIAL REPORTING

- **Incentives/Pressures**
- **Financial stability or profitability is threatened**
- **Excessive pressure exists for MGT**
- **Personal financial situation of MGT or TCWG is threatened**
- **Opportunities**
- **Nature of the industry or the entity's operations**
- **The monitoring of MGT is not effective**
- **There is a complex or unstable organizational structure**
- **IC components are deficient**
- **Attitudes/Rationalizations**
- **Communication, implementation, support, or enforcement of the entity's values**
- **Management practice of making large commitments**
- **Low morale / initiative among senior MGT.**
- **The relationship between MGT and the current or predecessor auditor is strained**

MISAPPROPRIATION OF ASSETS

- **Incentives/Pressures**
- **Personal financial obligations may create pressure on MGT or employees**
- **Adverse relationships between the entity and employees with access to cash**
- **Opportunities**
- **Inadequate IC over assets may increase the susceptibility of misappropriation of those assets**
- **Nature of business activities / exposure to such assets highly susceptibility of misappropriation**
- **Attitudes/Rationalizations**
- **Disregard for the need for monitoring / IC over misappropriation of assets**
- **Behavior indicating displeasure or dissatisfaction**

Q.36 Audit procedures to address the assessed ROMM due to fraud resulting from both fraudulent financial reporting and misappropriation ofassets at assertion level

The following are specific examples of responses:

- Visiting locations
- Performing certain tests on a surprise or unannounced basis
- Requesting that inventories be counted at the end of the reporting period
- Altering the audit approach in the current year
- Performing a detailed review of the entity' s quarter-end or year-end adjusting entries
- For significant and unusual transactions, investigating the possibility of related parties and the sources of financial resources
- Performing substantive analytical procedures using disaggregated data.
- Conducting interviews of personnel
- When other independent auditors are auditing the FS of one or more subsidiaries, divisions or branches, discussing with them the extent of work necessary to be performed to address the assessed RoMM due to fraud resulting from transactions and activities among these components.
- If the work of an expert becomes particularly significant with respect to a FS item for which the assessed risk of misstatement due to fraud is high, performing additional procedures relating to some or all of the expert' s assumptions, methods or findings to determine that the findings are not unreasonable, or engaging another expert for that purpose.
- Performing audit procedures to analyze selected opening balance sheet accounts of previously audited FS to assess how certain issues involving accounting estimates and judgments, for example, an allowance for sales returns, were resolved with the benefit of hindsight.
- Performing procedures on account or other reconciliations prepared by the entity
- Performing computer-assisted techniques
- Testing the integrity of computer-produced records and transactions.
- Seeking additional audit evidence from sources outside of the entity being audited.

Q.37 Examples of Circumstances that Indicate the Possibility of Fraud

Discrepancies in the accounting records, including:

- Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
- Unsupported or unauthorized balances or transactions.
- Last-minute adjustments that significantly affect financial results.
- Evidence of employees' access to systems and records inconsistent with that necessary to perform their authorized duties.
- Tips or complaints to the auditor about alleged fraud.

Conflicting or missing evidence, including:

- Missing documents.
- Documents that appear to have been altered.
- Unavailability of other than photocopied documents when documents in original form are expected to exist.
- Significant unexplained items on reconciliations.
- Unusual balance sheet changes, or changes in trends or important FS ratios or relationships, for example, receivables growing faster than revenues.
- Unusual discrepancies between the entity's records and confirmation replies.
- Large numbers of credit entries and other adjustments made to accounts receivable records.
- Missing or non-existent cancelled checks in circumstances where cancelled checks are ordinarily returned to the entity with the bank statement.
- Missing inventory or physical assets of significant magnitude.
- Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies.
- Fewer responses to confirmations than anticipated or a greater number of responses than anticipated.

Problematic or unusual relationships between the auditor and MGT, including:

- Denial of access to records, facilities, certain employees, customers, vendors, or others
- Undue time pressures imposed by MGT to resolve complex or contentious issues.
- Complaints by MGT about the conduct of the audit or MGT intimidation of engagement team members
- Unusual delays by the entity in providing requested information.
- Unwillingness to facilitate auditor access to key electronic files for testing through the use of computer-assisted audit techniques.
- Denial of access to key IT operations staff and facilities, including security, operations, and systems development personnel.
- An unwillingness to add or revise disclosures in the FS to make them more complete and understandable.
- An unwillingness to address identified deficiencies in IC on a timely basis.

Others

- Unwillingness by MGT to permit the auditor to meet privately with TCWG.
- Accounting policies that appear to be at variance with industry norms.
- Frequent changes in accounting estimates that do not appear to result from changed circumstances.
- Tolerance of violations of the entity's Code of Conduct.

SA 250

Consideration of L&R in an Audit of FS

Q.38 Responsibility of MGT for Compliance with L&R

Ordinarily, the audit response to an assessed risk of material misstatement due to fraud relating to misappropriation of assets will be directed toward certain account balances and classes of transactions.

Examples of responses to the auditor's assessment of the risk of material misstatements due to misappropriation of assets are as follows:

- Counting cash or securities at or near year-end.
- Confirming directly with customers the account activity (including credit memo and sales return activity as well as dates payments were made) for the period under audit.
- Analyzing recoveries of written-off accounts.
- Analyzing inventory shortages by location or product type.
- Comparing key inventory ratios to industry norm.
- Reviewing supporting documentation for reductions to the perpetual inventory records.
- Performing a computerized match of the vendor list with a list of employees to identify matches of addresses or phone numbers.
- Performing a computerized search of payroll records to identify duplicate addresses, employee identification or taxing authority numbers or bank accounts.
- Reviewing personnel files for those that contain little or no evidence of activity, for example, lack of performance evaluations.
- Analyzing sales discounts and returns for unusual patterns or trends.
- Confirming specific terms of contracts with third parties.
- Obtaining evidence that contracts are being carried out in accordance with their terms.
- Reviewing the propriety of large and unusual expenses.
- Reviewing the authorization and carrying value of senior management and related party loans.
- Reviewing the level and propriety of expense reports submitted by senior management.

Q.39 Responsibility of MGT for Compliance with L&R

It is the responsibility of MGT, with the oversight of TCWG to institute policies procedures and system to ensure compliance with all L&R.

The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with L&R:

- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
- Instituting and operating appropriate systems of IC.
- Developing, publicizing and following a code of conduct.
- Ensuring employees are properly trained and understand the code of conduct.
- Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
- Engaging legal advisors to assist in monitoring legal requirements.
- Maintaining a register of significant L&R with which the entity has to comply within its particular industry and a record of complaints.

In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:

- An internal audit function.
- An audit committee.
- A compliance function.

Q.40 Responsibility of Auditor & Limitations of Auditor

- The auditor is not responsible for preventing noncompliance and cannot be expected to detect non-compliance with all L&R.

- The auditor is responsible for obtaining reasonable assurance that the FS, taken as a whole, are free from MM, whether caused by fraud or error.

- In conducting an audit of FS, the auditor takes into account the applicable legal and regulatory framework.

- Inherent limitations on the auditor's ability to detect MM is greater as:
- (a) L&R, relating principally to the operating aspects not captured by the entity's financial reporting systems
- (b) Non-compliance may involve conduct designed to conceal it
- (c) Whether an act constitutes non-compliance is ultimately a matter for legal determination by a court of law.

- Non-compliance with L&R may involve financial reporting issues, imposition of fines and penalties and also impact auditors judgment about integrity of MGT, employees thereby affecting the risk assessment of the entity and evidences provided by the entity

SA 250

Consideration of L&R in an Audit of FS

Q.41 The Auditor's Consideration of Compliance with L&R

Obtaining Understanding of Legal & Regulatory Framework

As part of obtaining an understanding of the entity and its environment in accordance with SA 315, the auditor shall obtain a general understanding of:

- The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
- How the entity is complying with that framework.

Responsibility for Directly Related & Other L&R

Directly Related

The auditor shall obtain SAAEregarding compliance with the provisions of those L&R generally recognized to have a direct effect on FS.

Illustrations of such law:

- The form and content of FS;
- Industry-specific financial reporting issues;
- Accounting for transactions under government contracts; or
- The accrual or recognition of expenses for income tax or retirement benefits.

Other Laws & Regulations

The auditor shall perform the following audit procedures to help identify instances of non-compliance with other L&R that may have a material effect on the FS:

- Inquiring of MGT and, where appropriate, TCWG, as to whether the entity is in compliance with such L&R; and
- Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.

Other Audit Procedures

During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with L&R to the auditor's attention.

For example, such audit procedures may include:

- Reading minutes;
- Inquiring of the entity's MGT and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and
- Performing substantive tests of details of classes of T-AB-D.

Written Representation

The auditor shall request MGT and, where appropriate, TCWG to provide written representations that all known instances of non-compliance or suspected non-compliance with L&R whose effects should be considered when preparing FS have been disclosed to the auditor.

SA 250

Consideration of L&R in an Audit of FS

Q.42 Indicators of Non-compliance

Following matters, it may be an indication of non-compliance with L&R:

- Investigations by regulatory organisations and government departments or payment of fines or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchasing at prices significantly above or below market price.
- Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
- Unusual payments towards legal and retainership fees.
- Unusual transactions with companies registered in tax havens.
- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorised transactions or improperly recorded transactions.

Adverse media comment.

Q.43 Audit Procedures When Non-Compliance is Identified or Suspected

Further procedures when Non-compliance suspected or Identified

Auditor shall obtain:

- An understanding of the nature of the act and the circumstances in which it has occurred; and
- Further information to evaluate the possible effect on the FS like imposition of penalties, need to disclose and need to qualify the report.

Impact on Other Areas of Audit

The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action.

Further Discussion and Limitations on Audit

If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with MGT and, where appropriate, TCWG.

If MGT or, as appropriate, TCWG do not provide sufficient information auditor should consult legal counsel of the client or auditors legal expert and accordingly obtain legal advice for further course of action

Withdrawal from Engagement

If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect and is under no limitation to continue.

When deciding whether withdrawal from the engagement is necessary, the auditor may consider seeking legal advice.

If withdrawal from the engagement is prohibited, the auditor may consider alternative actions, including describing the non-compliance in an Other Matter(s) paragraph in the auditor's report.

Q.44 Reporting of Identified or Suspected Non-Compliance

Reporting Non-Compliance

Reporting to TCWG

The auditor shall communicate with TCWG matters involving noncompliance with L&R unless they are involved in MGT hence already aware

If TCWG are involved in non-compliance next higher level, if any should be communicated such as an audit committee or supervisory board.

Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

Reporting in Auditor's Report

If the auditor concludes that the non-compliance has a material effect on the FS, and has not been adequately reflected in the FS, the auditor shall, in accordance with SA 705, express a qualified or adverse opinion on the FS. In case of limitation on audit disclaimer as per SA 705 to be given.

Reporting to Regulatory Bodies

If the auditor has identified or suspects non-compliance with L&R, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non- compliance to parties outside the entity.

The auditor' s professional duty to maintain the confidentiality of client information may preclude reporting identified or suspected non-compliance with L&R to a party outside the entity. However, the auditor' s legal responsibilities vary under different L&R and, in certain circumstances, the duty of confidentiality may be overridden by statute, the law or courts of law.

SA 260

Consideration of L&R in an Audit of FS

Q.45 Matters to be Communicated to TCWG

The Auditor's Responsibilities in Relation to the FS Audit

The auditor shall communicate with TCWG the responsibilities of the auditor in relation to the FS audit, including that:

- The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by MGT with the oversight of TCWG;
- The audit of the FS does not relieve MGT or TCWG of their responsibilities

Planned Scope and Timing of the Audit

The auditor shall communicate with TCWG an overview of the planned scope and timing of the audit.
Matters communicated may include:

- How the auditor proposes to address the significant ROMM, whether due to fraud or error.
- The auditor's approach to IC relevant to the audit.
- The application of materiality in the context of an audit.
- Where the entity has an internal audit function, the extent to which the auditor will use the work of internal audit, and how the external and internal auditors can best work together in

Significant Findings from the Audit

The auditor shall communicate with TCWG:

(A) The auditor's views about significant qualitative aspects of the entity's accounting practices:
- including accounting policies,
- accounting estimates and
- FS disclosures.

(B) Significant difficulties, if any, encountered during the audit may include such matters as;
- Significant delays in MGT providing required information.
- An unnecessarily brief time within which to complete the audit.
- Extensive unexpected effort required to obtain SAAE.
- The unavailability of expected information.
- Restrictions imposed on the auditor by MGT.
- MGT's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.

© Unless all of TCWG are involved in managing the entity:
(1) Material weaknesses, if any, in the design, implementation or operating effectiveness of IC that have come to the auditor's attention and have been communicated to MGT as required by SA 315 or SA 330;
(2) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with MGT; Like
- Business conditions affecting the entity, and business plans and strategies that may affect the ROMM.
- Concerns about MGT's consultations with other accountants on accounting or auditing matters

(3) Written representations the auditor is requesting; and

(D) Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

Supplementary Matter
Matters including significant deficiencies in governance structures or processes, and significant decisions or actions by senior MGT that lack appropriate authorization which are incidental but not the main object of auditor may be reported to by the auditor.

Q.46 The Communication Process

Establishing the Communication Process

The auditor shall communicate with TCWG the form, timing and expected general content of communications.

Forms of Communication

- The auditor shall communicate in writing with TCWG regarding significant findings from the audit
- The auditor shall communicate orally if the matter is not very significant, already resolved, requires immediate communication, is highly sensitive etc.

Timing of Communications

The auditor shall communicate with TCWGon a timely basis. It would essentially start from the time of engagement acceptance and subsequent periodicity shall be dependent on like size of the entity, availability of governing body, legal requirements, etc.

Adequacy of the Communication Process

- The auditor shall evaluate whether the two-way communication between the auditor and TCWG has been adequate for the purpose of the audit.
- If there is a limitation in communication with governing body the auditor may consider it as a limitation of scope and need to modify its report, or seek communication from higher

Q.47 Determination of Whether Deficiencies in IC Have Been Identified

- If the auditor has identified one or more deficiencies in IC, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.

- The auditor shall communicate in writing significant deficiencies in IC identified during the audit to TCWG on a timely basis.

- The auditor shall also communicate to MGT at an appropriate level of responsibility on a timely basis:

(A) In writing, significant deficiencies in IC that the auditor has communicated or intends to communicate to TCWG, unless it would be inappropriate to communicate directly to MGT in the circumstances; and

(B) Other deficiencies in IC identified during the audit that have not been communicated to MGT by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit MGT's attention.

- The auditor shall include in the written communication of significant deficiencies in IC:

(A) A description of the deficiencies and an explanation of their potential effects; and

(B) Auditor shall further explain that:

(1) The purpose of the audit was for the auditor to express an opinion on the FS;

(2) The audit included consideration of IC relevant to the preparation of the FSin order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IC; and

(3) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to TCWG.

SA 299 Responsibility of Joint Auditors

Q.48 Division of Work

- Where joint auditors are appointed, they should, by mutual discussion, divide the audit work among themselves.
- The division of work would usually be in terms of audit of identifiable units or specified areas and documented and preferable communicated to the enetity.
- Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors.

Q.49 Relationship Among Joint Auditors

Joint Responsibilities

All the joint auditors are jointly and severally responsible –

- in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors.
- in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- for examining that the FS of the entity comply with the disclosure requirements of the relevant statute; and
- for ensuring that the audit report complies with the requirements of the relevant statute.

Individual Responsibilities

- In respect of audit work divided among the joint auditor, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him.
- It is the individual responsibility of each joint auditor to:
- (1) Determine the nature, timing and extent of audit procedures to be applied in relation to the area of work allocated to him.
- (2) Determine appropriateness of using test checks or sampling
- (3) To study and evaluate the prevailing system of IC relating to work allocated to him.
- (4) Review the audit reports / returns of the divisions / branches allocated to him and to ensure that they are properly incorporated into the accounts of the entity.
- (5) Exercise his judgmentwith regard to the necessity of visiting such divisions / branches.

Q.50 Reporting Responsibilities

- Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report.
- A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement.

Q.51 Planning Activities – Audit Strategy A.Planning Activities – Audit Plan

While establishing such audit strategy, auditor shall:

- Identify the characteristics of the engagement that defines scope.
- Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of communications required.
- Consider the factors that are significant in direction of the team.
- Consider the results of preliminary engagement activities.
- Ascertain the nature, timing and extent of resources necessary to perform the engagement.

The auditor must update and change the overall audit strategy & audit plan, if necessary during course of audit.

In the audit plan following description should be included:

- The nature, timing and extent of planned RAP, as determined in SA 315.
- The nature, timing and extent of planned further audit procedures at the assertion level, as determined in SA 330.
- Other planned audit procedures that are necessary for compliance with SAs.

The auditor must plan the nature, timing and extent of direction and supervision of engagement team members and review their work.

The auditor shall undertake the following activities prior to starting an initial audit:

- Performing procedures required by SA 220 regarding the acceptance of the client relationship and the specific audit engagement; and
- Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements.

Q.52 Additional Considerations in Initial Audit Engagements

- Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor's working papers.
- Any major issuesdiscussed with MGTin connection with the initial selection as auditor, the communication of these matters to TCWG and how these matters affect the overall audit strategy and audit plan.
- The audit procedures necessary to obtain SAAE regarding opening balances (see SA 510 "Initial Engagements–Opening Balances").
- Other procedures required by the firm's system of quality control for initial audit engagements (for example, the firm's system of quality control may require the involvement of another partner or senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

Q.53 Characteristics of the Engagement

Framework

- The FRFW
- Industry-specific reporting requirements

Components

The number and locations of components to be included.

- The nature of the control relationships between a parent and its components that determine how the group is to be consolidated.
- The extent to which components are audited by other auditors.
- The nature of the business segments to be audited, including the need for specialized knowledge.
- The need for a statutory audit of standalone FS in addition to an audit for consolidation purposes.

Timing of Communications

- The availability of the work of internal auditors
- The entity' s use of service organizations
- The expected use of audit evidence obtained in previous audits
- The effect of information technology on the audit procedures

SA 300 Planning an Audit of FS

Q.54 Reporting Objectives, Timing of the Audit, and Nature of Communications

Reporting

- The entity's timetable for reporting, such as at interim and final stages.

Timing

- The organization of meetings with MGT and TCWG to discuss NTE of the audit work.
- The expected type and timing of reports to be issued and other communications including the auditor's report, MGT letters and communications to TCWG.

Communication

- Communication with auditors of components
- The expected nature and timing of communications among engagement team members
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities

Q.55 Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

RoMM

- The determination of materiality
- Preliminary identification of areas where there may be a higher ROMM
- The impact of the assessed ROMM at the overall FS level on direction, supervision and review
- Auditor's emphasis to exercise professional skepticism

Prior Experience

- Results of previous audits that involved evaluating the operating effectiveness of IC, including the nature of identified deficiencies and action taken to address them.

Ics

- Evidence of MGT's commitment to the DIM of sound IC
- Volume of transactions, which may determine whether it is more efficient for the auditor to rely on IC.
- Importance attached to IC throughout the entity

Changes

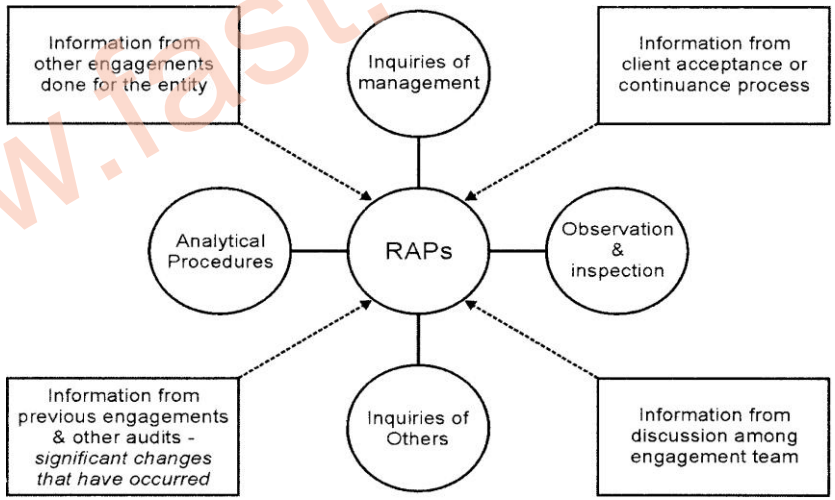
- Significant business developments affecting the entity, including changes in information technology and business processes, changes in key MGT, and acquisitions, mergers and divestments.
- Changes in industry regulations and new reporting requirements.
- Significant changes in the FRFW, such as changes in accounting standards.

Q.56 Nature, Timing and Extent of Resources

- The selection of the engagement team and assignment of audit work to appropriately experienced team members as per ROMM
- Engagement budgeting

Identifying and Assessing the RoMM through understanding the entity & its Environment

Scope
❖ Auditor responsibility to identify & assess RoMM in FS. ❖ Through understanding: ➢ The entity. ➢ Its environment. ➢ Its ICs.

QUEST 57. RAP (RAPs):	➢ Procedures to understand entity & its environment (ICs also). ➢ To identify & assess RoMM - fraud/ error - at FS& assertion level.	
	Significant Risk:	RoMM requiring special audit consideration.
	Material Weakness:	A weakness in IC that could have a material effect on the FS.
	RAPs - Types	
		
QUEST 58. Required Understanding of the Entity and Its Environment,	**Entity & Its Environment – Industry, Regulatory & Other Factors**	❖ **Industry Factors:** ➢ Market competition ➢ Cyclical/ seasonal activity ➢ Product technology ➢ Energy cost & supply

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including IC – ENVIRONMENT		**Type of industry may give rise to specific risk factors** ❖ **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
	Required Understanding of the Entity and Its Environment, including IC – ENTITY	**Entity & Its Environment – Nature of the Entity** ❖ **Helps in understanding:** ➢ Structure of the entity - complex/ simple. ➢ Ownership and related parties. ❖ **Business operations** ❖ **Investment activities** ❖ **Financing activities** ❖ **Financial Reporting** ❖ **Accounting Policies** ❖ **Business Objective & Related Risk**

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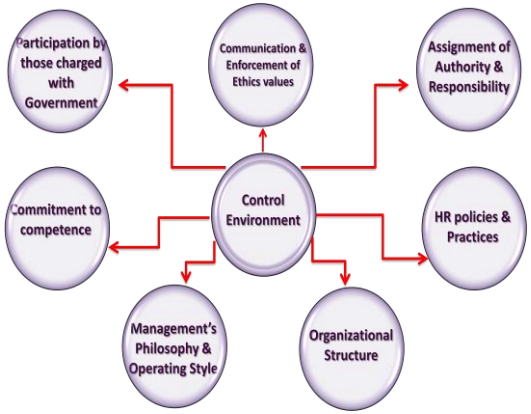
ICS

ICs-I	ICs-II
❖ **Obtain an Understanding:** ➢ Not all controls are relevant to Financial Reporting. ➢ Use Professional judgment. ❖ **Purpose:** ➢ Reliable financial reporting. ➢ Efficiency/ effectiveness of operations. ➢ Compliance with laws & regulations. ➢ Safeguarding of assets. ➢ Design, implementation & maintenance varies with size & complexity of entity. **Smaller Entity Consideration:** ❑ **ICs - less structures & simple**	❖ **Limitations:** ➢ Faulty human judgment. ➢ Collusion among employees and/ or MGT. ➢ MGT override of controls. ➢ Costs benefits. ➢ Judgments as to nature & extent of risk assumed vis a vis controls. **Small Entity Considerations** ❖ Fewer employees therefore less segregation of duties but closer owner oversight. ❖ More chances of owner override of controls.

IC – Components	Control Environment – Elements
	

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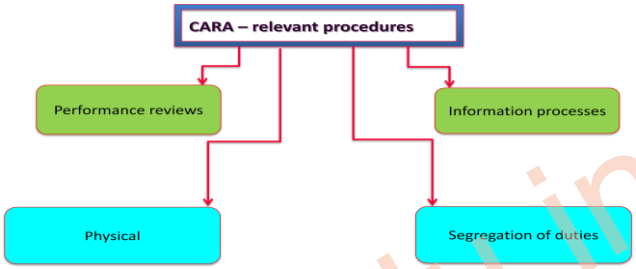
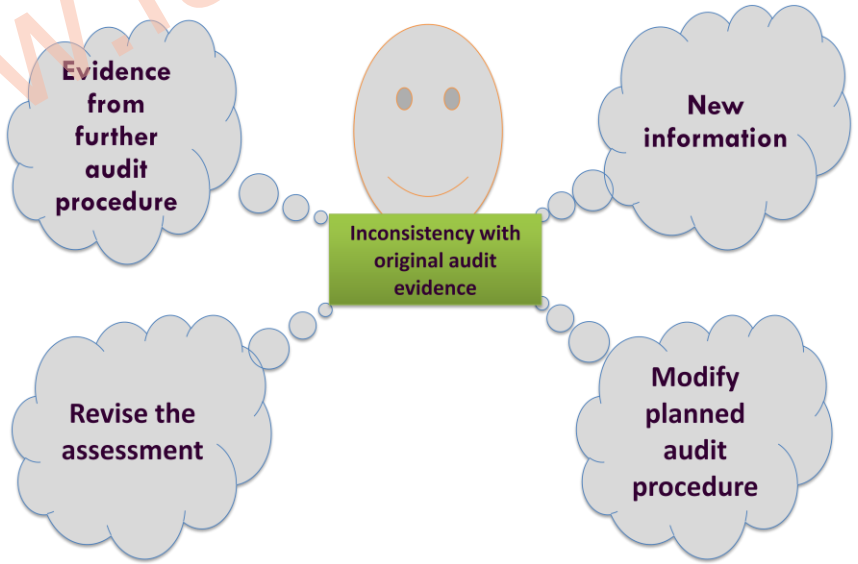
	Control Activities relevant to Audit (CARA) - relevant procedures 
QUEST 59. Identifying & Assessing ROMM – Audit aspects	**Auditor's procedures:** ➢ Identify risks - understanding the entity & its environment. ➢ Assess identified risks. ➢ Evaluate their effect on FS. ➢ Relate identified risks to possible misstatement at assertion level: • Consider relevant controls & relate them to assertions. ➢ Consider likelihood of misstatement(s) & magnitude. 

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QUEST 60. Material Weakness in IC	❖ **Types:** ➢ ROMM identified by auditor but not controlled by entity/control is inadequate. ➢ Weakness in entity's RAPs. ➢ Absence of entity's RAPs, where there should have been one. ❖ Could be in controls that prevent/ detect & correct frauds/ errors. ❖ Evaluate, whether he has identified Material weaknesses. ❖ Weakness could be in design, implementation, and maintenance. ❖ Communicate on timely basis to MGT&TCWG.
QUEST 61. Documentation	❖ Discussion with engagement team and significant decisions reached. ❖ Key elements of understanding of entity, its environment & ICs. ❖ Identified & assessed RoMM at FS& assertion level. ❖ Risks that require special audit consideration. ❖ Risks for which substantive procedures alone do not suffice. ❖ Form & extent of documentation depends upon: ➢ Nature, size & complexity of entity & ICs. ➢ Availability of information from entity. ➢ Audit methodology. ➢ Technology used in audit

SUPPLEMENTARY NOTES ON SA 315

IDENTIFYING AND ASSESSING THE ROMM THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

The Entity's IC

An understanding of IC assists the auditor in identifying types of potential misstatements and factors that affect the ROMM, and in designing the nature, timing, and extent of further audit procedures.

The following application material on IC is presented in four sections, as follows:

A. General Nature and Characteristics of IC.
B. Controls Relevant to the Audit.
C. Nature and Extent of the Understanding of Relevant Controls.
D. Components of IC.

QUEST 62. General Nature and Characteristics of IC	**Purpose of IC**	IC objectives: • The reliability of the entity's financial reporting; • The effectiveness and efficiency of its operations; • Its compliance with applicable L&R; and • Safeguarding of assets.
	Limitations of IC	• Human judgment in decision-making can be faulty • Breakdowns in IC can occur because of human error. For example, there may be an error in the design or operation of a control may not be effective • Controls can be circumvented by the collusion of two or more people or inappropriate MGT override of IC. • MGT may make faulty judgments on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume • Cost-Benefit analysis
	Considerations specific to smaller entities	Smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity.
	Division of IC into components	The division of IC into the following five components, for purposes of the SAs, provides a useful framework for auditors to consider how different aspects of an entity's IC may affect the audit: (a) The control environment; (b) The entity's risk assessment process; (c) The information system, including the related business processes, relevant to financial reporting, and communication; (d) Control activities; and

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		(e) Monitoring of controls.
	IT benefits an entity's IC by enabling an entity to:	• Consistently apply predefined business rules and perform complex calculations in processing large volumes of transactions or data; • Enhance the timeliness, availability, and accuracy of information; • Facilitate the additional analysis of information; • Enhance the ability to monitor the performance of the entity's activities and its policies and procedures; • Reduce the risk that controls will be circumvented; and • Enhance the ability to achieve effective segregation of duties by implementing security controls in applications, databases, and operating systems.
	IT also poses specific risks to an entity's IC, including, for example:	• Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both. • Unauthorised access to data that may result in destruction of data or improper changes to data. Particular risks may arise where multiple users access a common database. • The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties. • Unauthorised changes to data in master files. • Unauthorised changes to systems or programs. • Failure to make necessary changes to systems or programs. • Inappropriate manual intervention. • Potential loss of data or inability to access data as required.
	Manual elements in IC may be <u>more suitable</u>	Where judgment and discretion are required such as for the following circumstances: • Large, unusual or non-recurring transactions. • Circumstances where errors are difficult to define anticipate or predict. • In changing circumstances that require a control response outside the scope of an existing automated control. • In monitoring the effectiveness of automated controls.
	Manual elements in IC may be <u>less reliable</u>	Than automated elements because they can be more easily bypassed, ignored, or overridden and they are also more prone to simple errors and mistakes. Manual control elements may be less suitable for the following circumstances: • High volume or recurring transactions, or in situations where errors that can be anticipated or predicted can be prevented, or detected and corrected, by control parameters that are automated. • Control activities where the specific ways to perform the control can be adequately designed and automated.
QUEST 63. Controls Relevant to the	**Factors relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit** may include such matters as the following: • Materiality	

Audit	• The significance of the related risk • The size of the entity • The nature of the entity's business, including its organisation and ownership characteristics. • The diversity and complexity of the entity's operations • Applicable legal and regulatory requirements • The circumstances and the applicable component of IC. • The nature and complexity of the systems that are part of the entity's IC, including the use of service organisations • Whether, and how, a specific control, individually or in combination with others, prevents, or detects and corrects, MM. •	
	RELEVANCE OF ICS BASED ON THE OBJECTIVES IT SUPPORTS	1. **Controls over the completeness and accuracy of information** produced by the entity may be relevant to the audit if the auditor intends to make use of the information in designing and performing further procedures. 2. **Controls relating to operations and compliance objectives** may also be relevant to an audit if they relate to data the auditor evaluates or uses in applying audit procedures. 3. **IC over safeguarding of assets** against unauthorised acquisition, use, or disposition may include controls relating to both financial reporting and operations objectives. The auditor's consideration of such controls is generally limited to those relevant to the reliability of financial reporting. 4. **In certain circumstances, the statute or the regulation governing the entity may require the auditor to report on compliance** with certain specific aspects of ICs as a result, the auditor's review of IC may be broader and more detailed.
QUEST 64. Nature and Extent of the Understanding of Relevant Controls	RAP to obtain audit evidence about the design and implementation of relevant controls may include: • Inquiring of entity personnel. • Observing the application of specific controls. • Inspecting documents and reports. • Tracing transactions through the information system relevant to financial reporting.	
QUEST 65. Components of IC	**Control Environment**	Elements of the control environment that may be relevant when obtaining an understanding of the control environment include the following: (a) Communication and enforcement of integrity and ethical values (b) Commitment to competence (c) Participation by TCWG (d) MGT's philosophy and operating style (e) Organisational structure (f) Assignment of authority and responsibility (g) Human resource policies and practices

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QUEST 66. Components of IC	**The Entity's Risk Assessment Process**	The entity's risk assessment process forms the basis for how MGT determines the risks to be managed.
QUEST 67. Components of IC	**The Information System**	The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures and records designed and established to: • Initiate, record, process, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity; • Resolve incorrect processing of transactions, for example, automated suspense files and procedures followed to clear suspense items out on a timely basis; • Process and account for system overrides or bypasses to controls; • Transfer information from transaction processing systems to the general ledger; • Capture information relevant to financial reporting for events and conditions other than transactions, such as the depreciation and amortisation of assets and changes in the recoverability of accounts receivables; and • Ensure information required to be disclosed by the applicable FRFW is accumulated, recorded, processed, summarised and appropriately reported in the FS.
QUEST 68. Components of IC	**Control Activities**	Examples of specific control activities include those relating to the following: • Authorization. • Performance reviews. • Information processing. • Physical controls. • Segregation of duties. Control activities that are relevant to the audit are: • Those that are required to be treated as such, being control activities that relate to significant risks and those that relate to risks for which substantive procedures alone do not provide SAAE; or • Those that are considered to be relevant in the judgment of the auditor.
QUEST 69. Components of IC	**Monitoring of Controls**	Monitoring of controls is a process to assess the effectiveness of IC performance over time. It involves assessing the effectiveness of controls on a timely basis and taking necessary remedial actions. MGT's monitoring activities may include using information from communications from external parties such as customer complaints and regulator comments that may indicate problems or highlight areas in need of improvement.
QUEST 70. Identifying and	**Assessment of ROMM at the FS**	➲ ROMM at the FS level refer to risks that relate pervasively to the FS as a whole and potentially affect many assertions.

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Assessing the ROMM	**Level**	➲ Risks at the FS level may derive in particular from deficient control environment
	Assessment of ROMM at the Assertion Level	➲ ROMM at the assertion level for classes of transactions, account balances, and disclosures need to be considered because such consideration directly assists in determining the nature, timing, and extent of further audit procedures at the assertion level necessary to obtain SAAE.
		The Use of Assertions Assertions used by the auditor to consider the different types of potential misstatements that may occur fall into the following three categories and may take the following forms: **(a) Assertions about classes of transactions and events for the period under audit:** (i) **Occurrence –** transactions and events that have been recorded have occurred and pertain to the entity. (ii) **Completeness –** all transactions and events that should have been recorded have been recorded. (iii) **Accuracy –** amounts and other data relating to recorded transactions and events have been recorded appropriately. (iv) **Cut-off –** transactions and events have been recorded in the correct accounting period. (v) **Classification –** transactions and events have been recorded in the proper accounts. **(b) Assertions about account balances at the period end:** (i) **Existence –** assets, liabilities, and equity interests exist. (ii) **Rights and obligations –** the entity holds or controls the rights to assets, and liabilities are the obligations of the entity. (iii) **Completeness –** all assets, liabilities and equity interests that should have been recorded have been recorded. (iv) **Valuation and allocation –** assets, liabilities, and equity interests are included in the FS at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded. **(c) Assertions about presentation and disclosure:** (i) **Occurrence and rights and obligations –** disclosed events, transactions, and other matters have occurred and pertain to the entity. (ii) Completeness – all disclosures that should have been included in the FS have been included. (iii) Classification and understandability – financial information is appropriately presented and described, and disclosures are clearly expressed. (iv) Accuracy and valuation – financial and other information are disclosed fairly and at appropriate amounts.

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Objective	The Auditor's objective is: 'To apply the concept of materiality appropriately in planning and performing the audit'
Materiality in the Context of an Audit	1. **FRFW often discuss the concept of materiality in the context of the preparation and presentation of FS**. Although FRFW may discuss materiality in different terms, they generally explain that: ▪ Misstatements, including omissions, are considered to be material if they, **individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the FS;** ▪ **Judgments about materiality are made in the light of surrounding circumstances**, and are affected by the size or nature of a misstatement, or a combination of both; and ▪ **Judgments about matters** that are material to users of the FS are based on a consideration of the **common financial information needs of users** as a group. *The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.* 2. Certain cases, such a discussion is present in the applicable FRFW and provides a frame of reference to the auditor in determining materiality for the audit. 3. The auditor's determination of materiality is a **matter of professional judgment,** and is affected by the auditor's perception of the financial information needs of users of the FS. 4. The concept of materiality is applied by the auditor both in: 5. **(a)planning and performing the audit**, and **(b) in evaluating the effect of:** (a) **identified misstatements on the audit** and (b) **uncorrected misstatements**, if any, on the FS and in forming the opinion in the **auditor's report**. 6. Auditor makes judgments of size of misstatement that will be treated as material which provide a basis for: **a. Determining the nature, timing and extent of RAP;** **b. Identifying and assessing the ROMM; and** c. **Determining the nature, timing and extent of further audit procedures.** 7. The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in aggregate, will always be evaluated as immaterial. **The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality**. *Although, it is not*

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	practicable to design audit procedures to detect misstatements that could be material solely because of their nature, *the auditor considers not only the size but also the nature of uncorrected misstatements*, and the particular circumstances of their occurrence, when evaluating their effect on the FS
Materiality and Audit Risk	1. Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the FS are materially misstated. 2. Audit risk is a function of the ROMM and detection risk. 3. Materiality and audit risk are considered throughout the audit, in particular, when: a. Identifying and assessing the ROMM; b. Determining the nature, timing and extent of further audit procedures; and c. Evaluating the effect of uncorrected misstatements, if any, on the FS and in forming the opinion in the auditor's report
Definitions	**Performance Materiality** means the amount or amounts set by the auditor at less than materiality for the FS as a whole to reduce to an appropriately low level the probability that: a. the aggregate of uncorrected and b. undetected misstatements *(as due to sampling and non-sampling risk certain misstatements will always remain undetected)*exceeds materiality for the FS as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of T-AB-D.

QUEST 71. Determining Materiality and Performance Materiality When Planning he Audit	1. When establishing the **overall audit strategy**, the auditor shall determine **materiality for the FS as a whole.** 2. If, in the **specific circumstances** of the entity, there is one or more particular classes of T-AB-D for which **misstatements of lesser amounts than the materiality for the FS as a whole could reasonably be expected to influence the economic decisions of users** taken on the basis of the FS, the auditor shall also determine the materiality level or levels to be applied to those particular classes of T-AB-D. 3. The auditor shall **determine performance materiality** for purposes of assessing the ROMM and determining the nature, timing and extent of further audit procedures.	
	Use of Benchmarks in Determining Materiality for the FS as a Whole	1. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the FS as a whole. Factors that may affect the identification of an appropriate benchmark include the following: ▪ **The elements of the FS** (for example, assets, liabilities, equity, revenue, expenses); ▪ Whether there are items on which the **attention of the users** of the particular entity's FS tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets); ▪ **The nature of the entity, where the entity is at in its life cycle, and the industry and economic**

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		environment in which the entity operates; ▪ The entity's **ownership structure and the way it is financed** (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and ▪ The relative **volatility of the benchmark**. 2. Examples of benchmarks that may be appropriate include such as: a. Profit before tax, total revenue, gross profit and total expenses, total equity or net asset value. b. Profit before tax from continuing operations is often used for profit-oriented entities. c. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.
	Materiality Level or Levels for Particular Classes of T-AB-D	Factors that may indicate the existence of classes of T-AB-D for which misstatements of lesser amounts than materiality for the FS as a whole are considered to be material, include the following: ▪ **Whether law, regulations or the applicable FRFW affect users' expectations** regarding the measurement or disclosure of certain items (for example, related party transactions and the remuneration of MGT and TCWG). ▪ **The key disclosures** in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company). ▪ Whether **attention is focused on a particular aspect** of the entity's business that is separately disclosed in the FS (for example, a newly acquired business)
	Performance Materiality	**Need for Performance Materiality** ▪ Planning the audit solely to detect individually MM overlooks the fact that the aggregate of individually MM may cause the FS to be materially misstated. ▪ Further it leaves no margin for possible undetected misstatements. **Reduction of Audit Risk** Performance materiality (which, as defined, is one or more amounts) is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the FS exceeds materiality for the FS as a whole
QUEST 72. Revision as the Audit Progresses	1. The auditor shall revise materiality for the FS as a whole (and, if applicable, the materiality level or levels for particular classes of T-AB-D) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. 2. If the auditor concludes that a lower materiality for the FS as a whole (and, if applicable, materiality level or levels for particular classes of T-AB-D) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.	

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QUEST 73. Overall Responses	The auditor shall design and implement overall responses to address the assessed ROMM at the FS level.	
	Overall responses to address the assessed ROMM at the FS level may include:	▪ Emphasizing to the audit team the need to maintain professional skepticism ▪ Assigning more experienced staff or those with special skills or using experts ▪ Providing more supervision ▪ Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed ▪ 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 date; or modifying the nature of audit procedures to obtain more persuasive audit evidence
	Overall responses to address the assessed risks of an ineffective control environment may include:	▪ Conducting more audit procedures as of the 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. Such considerations, therefore, have a significant bearing on the auditor's general approach, for example, an emphasis on substantive procedures (substantive approach), or an approach that uses ToC as well as substantive procedures (combined approach).
QUEST 74. Audit Procedures Responsive to the Assessed ROMM at the Assertion Level	The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed ROMM at the assertion level	
	Nature	The **nature of an audit procedure** refers to its purpose (i.e., test of controls or substantive procedure) and its type (i.e., inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure).
	Timing	1. The auditor may perform ToC or substantive procedures at an interim date or at the period end. 2. The higher the RoMM, the more likely it is that the auditor may decide it is more effective to perform substantive procedures nearer to, or at, the period end 3. On the other hand, performing audit procedures before the period end may assist the auditor in identifying significant matters at an early stage of the audit **4. certain audit procedures can be performed only at or after the period end, for example:** ▪ Agreeing the FS to the accounting records; ▪ Examining adjustments made during the course of preparing the FS; and ▪ 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.
	Extent	1. The extent of an audit procedure judged necessary is determined after considering the **materiality, the assessed risk, and the degree of assurance the auditor plans to obtain**. 2. The use of computer-assisted audit techniques (CAATs) may enable more extensive testing of electronic transactions and account files

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QUEST 75. ToC	1. The auditor shall design and perform ToC to obtain SAAE as to the operating effectiveness of relevant controls when: a. The auditor's assessment of ROMM at the assertion level includes an expectation that the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or b. Substantive procedures alone cannot provide SAAE at the assertion level. 2. In designing and performing ToC, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.	
	Nature and Extent of ToC	**In designing and performing ToC, the auditor shall:** a. Perform other audit procedures in combination with inquiry to obtain audit evidence about the 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
	Timing of ToC	The auditor shall test controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls, subject to below mentioned paragraphs, in order to provide an appropriate basis for the auditor's intended reliance.
	Using audit evidence obtained during an interim period	When the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall: 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.
	Using audit evidence obtained in previous audits	1. In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following: a. The effectiveness of other elements of IC, 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. (Ref: Para. A35) e. of 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;

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		f. Whether the lack of a change in a particular control poses a risk due to changing circumstances; and g. The ROMM and the extent of reliance on the control. 2. If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific controls, and: a. If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit. b. If there have not been such changes, the auditor shall test the controls at least once in every third audit, and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods.
QUEST 76. Substantive Procedures	Irrespective of the assessed ROMM, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.	
	Substantive Procedures Related to the FS Closing Proces	The auditor's substantive procedures shall include the following audit procedures related to the FS closing process: a. Agreeing or reconciling the FS with the underlying accounting records; and b. Examining material journal entries and other adjustments made during the course of preparing the FS.
	Substantive Procedures Responsive to Significant Risk	When the auditor has determined that an assessed RoMM at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.
	Timing of Substantive Procedures	1. When substantive procedures are performed at an interim date, the auditor shall cover the remaining period by performing: a. substantive procedures, combined with ToC for the intervening period; or b. if the auditor determines that it is sufficient, further substantive procedures only; that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.
QUEST 77. Evaluating the Sufficiency and Appropriatenes s of Audit Evidence	If the auditor has not obtained SAAE as to a material FS assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain SAAE, the auditor shall express a qualified opinion or a disclaimer of opinion.	

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SA 402

Audit Considerations relating to an Entity using a Service Organisation

Q.78 Obtaining an Understanding of the Services Provided By a Service Organisation, Including IC

- The user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity' s operations, including:

- (a)The nature and significance of services provided by the service organization AND ITS EFFECT ON USER ENTITY' S IC;
- (b) The nature and materiality of the transactions processed AND ITS EFFECT ON USER ENTITY' S FINANCIAL REPORTING PROCESSES;
- (c)The DEGREE OF INTERACTION between the activities of the service organisation and those of the user entity; and
- (d) The NATURE OF THE RELATIONSHIP between them including contractual terms

- As per the requirements of SA 315 auditor to obtain understanding of design and implementation of COMPLEMENTARY USER ENTITY CONTROLS

Q.79 Further Procedures if sufficient understanding not obtained

- Determine whether sufficient understanding of effect on user entity' s IC relevant to audit has been obtained to provide basis for the identification and assessment of ROMM. If not, the user auditor to obtain that understanding from one or more of the following procedures:

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

Q.80 Obtaining SAAE based on assessed ROMM

- In accordance with SA 330, the user auditor shall:
- Determine whether SAAE concerning the relevant FS assertions is available from records held at the user entity; and, if not,
- Perform further audit procedures to obtain SAAEor use another auditor to perform those procedures at the service organisation on the user auditor' s behalf.

SA 402

Audit Considerations relating to an Entity using a Service Organisation

Q.81 Service Organisation Auditors Report and Reports without work of Sub-Service Organisation

- a. Type 1 – Report on Suitability of Design(on SO accounting and IC systems)
- i. A description of the service organisations' s accounting and IC systems, ordinarily prepared by the MGT of the service organisation; and
- ii. An opinion by the service organisation' s auditor that;
- a. The above description is accurate;
- b. The systems controls have been placed in operation; and
- c. The accounting and IC systems are suitably designed to achieve their stated objectives.

- b. Type 2 – Report on Suitability of Design and Operating Effectiveness(on SO accounting and IC systems)
- All the above discussed A and
- i. The accounting and IC systems are operating effectively based on the results from the ToC.
- (In addition to the opinion on operating effectiveness, the service organisation' sauditor would identify the ToC performed and related results)
-
- Type 1 reports may not reduce the assessment of control risk but Type 2 may provide such a basis.

Type 1 and Type 2 Reports that exclude the Services of a Subservice Organisation (Carve-Out against Inclusive Approach)

If the user auditor plans to use a Type 1 or a Type 2 report that excludes the services provided by a subservice organisation and those services are relevant to the audit of the user entity' s FS, the user auditor shall apply the requirements of this SA with respect to the services provided by the sub-service organisation.

Q.82 Fraud, Non-Compliance with L&R and Uncorrected Misstatements in relation to activities at the Service Organisation

Inquire MGT of the user entity whether the service organization has reportedor it is aware of any:

- (a) fraud,
- (b) non-compliance with L&R or
- (c) uncorrected misstatements
- affecting the FS of the user entity.

The user auditor shall evaluate how such matters affect the nature, timing and extent of the user auditor' s further audit procedures and auditor' s report.

Q.83 Reporting by the User Auditor

- The user auditor shall modify the opinion in the user auditor' s report in accordance with SA 705 if the user auditor is unable to obtain SAAEregardingthe services provided by the service organisation relevant to the audit of the user entity' s FS.

- The user auditor shall not refer to the work of a service auditor in the user auditor' s report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor' s report shall indicate that the reference does not diminish the user auditor' s responsibility for the audit opinion.

- If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor' s opinion, the user auditor' s report shall indicate that such reference does not diminish the user auditor' s responsibility for that opinion.

SA 450

Audit Considerations relating to an Entity using a Service Organisation

Q.84 Accumulation of Identified Misstatements Before Communicating to MGT

The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.

- " Clearly trivial" are matters that are clearly inconsequential, whether taken individually or in aggregate by any criteria of size, nature or circumstances.
- Auditor before communicating misstatements to MGT and TCWG, may distinguish misstatements between
- (a) factual misstatements,
- (b) judgmental misstatements and
- (c) projected misstatements.
- Factual misstatements are misstatements about which there is no doubt.

- Judgmental misstatements are differences arising from the judgments of MGT concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies that the auditor considers inappropriate.
- Projected misstatements based on misstatements identified in the sample, projecting misstatements to the total population.

Q.85 Accumulation of Identified Misstatements Before Communicating to MGT

Evaluating Effect of Identified Misstatements on Audit Auditor to, for identified misstatements, assess whether there is a need to revise the OVERALL AUDIT STRATEGY and AUDIT PLAN, if:

- (a)The aggregate of misstatements accumulated approaches materiality level as determined in SA 320;or
- (b) Aggregated of misstatements accumulated during the audit with UNDETECTED MISSTATEMENTS, could be material; [UNDETECTED MISSTATEMENTS – Nature of identified misstatements and the circumstances of their occurrence may indicate other misstatements may exist that remain undetected due to Sampling and Non-Sampling Risk]

Request to MGT

The auditor may request MGT to:

- Examine a class of T-AB-Dto understand the cause of a misstatement identified by the auditor and
- Perform procedures to determine the amount of the actual misstatement in the class of T-AB-D, and
- Make appropriate adjustments to the FS.

Such a request may be made, for example, auditormay have only identified misstatements in an audit sample and wish to project it to the entire population.

Q.86 Communication and Correction of Misstatements

- Communicate on a timely basis all misstatementsaccumulated during the audit with the appropriate level of MGT, unless prohibited by law or regulation.
- The auditor shall request MGT to correct those misstatements and if MGT corrects check adjustments made in the FS.
- If MGT refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall:
- (a) Obtain understanding of MGT' s reasons for not making corrections and
- (b) Consider this while evaluating whether the FS as a whole are free from MM.

SA 450

Audit Considerations relating to an Entity using a Service Organisation

Q.87 Evaluating the Effect of Uncorrected Misstatements

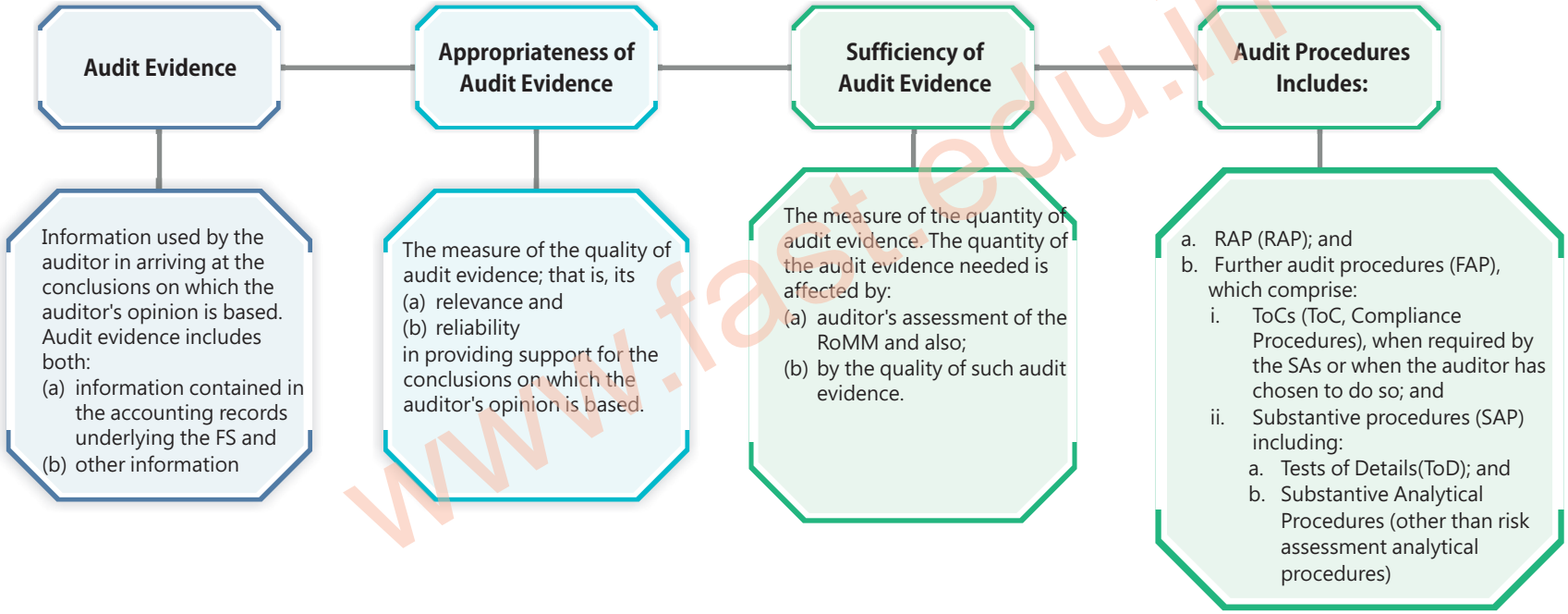
- Reassess whether materiality determined in accordance with SA 320 remains appropriate
- Evaluate whether uncorrected misstatements are material, individually or in aggregate, considering:
- (a) Size and nature of the misstatements, both in relation:
- to particular classes of T-AB-D and
- FSas a whole, and
- considering the particular circumstances of their occurrence (Refer Application part below); and
- (b) Effect of uncorrected misstatements in prior periods
- (c) Communicate TCWG about uncorrected misstatements individually and request to correct

Q.88 Circumstances leading the auditor to evaluate misstatements as material, even if they are lower than the materiality for the FS as a whole.

Circumstances that may affect the evaluation include the extent to which the misstatement:

- affects compliance with regulatory requirements;
- affects compliance with debt covenants or other contractual requirements;
- Relates to the incorrect selection or application of an accounting policy that has an immaterial effect on the current period's FS but is likely to have a material effect on future periods' FS;
- Makes a change in earnings or other trends, especially in the context of general economic and industry conditions;
- affects ratios used to evaluate the entity's financial position, results of operations or cash flows;
- Affects segment information presented in the FS (for example, the significance of the matter to a segment or other portion of the entity's business that has been identified as playing a significant role in the entity's operations or profitability);
- has the effect of increasing MGT compensation, for example, by ensuring that the requirements for the award of bonuses or other incentives are satisfied;
- Is significant having regard to the auditor's understanding of known previous communications to users, for example in relation to forecast earnings;
- Relates to items involving particular parties (for example, whether external parties to the transaction are related to members of the entity's MGT);
- Is an omission of information not specifically required by the applicable FRFW but which, in the judgment of the auditor, is important to the users' understanding of the financial position, financial performance or cash flows of the entity; or
- Affects other information that will be communicated in documents containing the audited FS (for example, information to be included in a "MGT Discussion and Analysis" or an "Operating and Financial Review") that may reasonably be expected to influence the economic decisions of the users of the FS. SA 720 deals with the auditor's consideration of other information, on which the auditor has no obligation to report, in documents containing audited FS.

Audit Evidence



Q.89 SAAE (SAAE)

1. The auditor shall design and perform audit procedures that are appropriate in the circumstances for purpose of obtaining SAAE.
2. Audit Evidences have following characteristics:
   a. It can be obtained from internal or external sources
   b. It is obtained by applying:
      i. audit procedures or
      ii. other procedures(Eg. during client relationship acceptance, previous experience, etc)
   c. Absence or non-availability of information is also an audit evidence
   d. Evidences can also be obtained through MGT expert
3. The sufficiency and appropriateness of audit evidence are interrelated. Obtaining more audit evidence, however, may not compensate for its poor quality.
4. Appropriateness is the measure of the quality of audit evidence; that is,
   a. Its relevance and
   b. Its reliability which is influenced by:
      i. its source and
      ii. its nature, and
      is dependent on the individual circumstances under which it is obtained.
5. Whether SAAE has been obtained to reduce audit risk to an acceptably low levelis a matter of professional judgment.

Q.90 TYPES OF AUDIT PROCEDURES

As required by, and explained further in, SA 315 and SA 330, audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing:

a. RAP; and
b. FAP, which comprise:
   i. ToC, when required by the SAs or when the auditor has chosen to do so; and
   ii. SAP, including:
      a. ToD and
      b. Substantive analytical procedures.

Q.91 METHODS OF OBTAINING AUDIT EVIDENCES

Inspection (as To C as well as ToD)

Inspection involves:
a. examining records / documents or
b. physical examination of an asset.

Inspection of records and documents (whether internal or external, in paper form, electronic form, or other media) provides audit evidence of different degrees of reliability, depending on their nature and source and, on the effectiveness of the controls over their production (internal records).

An example of inspection used as a test of controls is inspection of records for evidence of authorization.

Observation (mostly as ToC)

Observation consists of looking at a process or procedure being performed by others.

Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.

For example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities.

External Confirmation (mostly as ToD)

An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when checking account balances and their elements. Refer SA 505

Recalculation (mostly as ToD)

Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

Reperformance (mostly as ToC)

Reperformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's IC.

Analytical Procedures (mostly as ToD)

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data.
Refer SA 520

Inquiry(as ToC as well as ToD)

1. Inquiry consists of seeking information of knowledgeable persons, both
   a. financial and non- financial,
   b. within the entity or outside the entity.
2. Inquiry is used extensively throughout the audit in addition to other audit procedures.
3. Inquiries may range from formal written inquiries to informal oral inquiries.
4. Evaluating responses to inquiries is an integral part of the inquiry process.
5. Responses to inquiries may provide the auditor with
   a. information not previously possessed; or
   b. with corroborative audit evidence.
6. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.
7. In respect of some matters, the auditor may consider it necessary to obtain WR to confirm responses to oral inquiries. Refer SA 580

Q.92 AUDIT TECHNIQUES

Audit techniques, refers to collection and accumulation of audit evidence.
Some of the techniques commonly adopted by the auditors are the following:

(i) Posting checking
(ii) Casting checking
(iii) Physical examination and count
(iv) Confirmation
(v) Inquiry
(vi) Year-end scrutiny
(vii) Re-computation
(viii) Tracing in subsequent period
(ix) Bank Reconciliation.

Audit procedure Vs Audit techniques

Often used interchangeably but

- Procedure may comprise a number of techniques and represents the broad frame of the manner of handling the audit work;
- Techniques stand for the methods employed for carrying out the procedure.

For example, procedure requires an examination of the documentary evidence. This job is performed by the procedure known as vouching which would involve techniques of checking computation, posting, casting, inspecting supportings of documentary evidence.

Q.93 Information to Be Used as Audit Evidence

Relevance and Reliability
When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence.

Using the work of a MGT's expert
The auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes,:

a. Evaluate the competence, capabilities and objectivity of that expert;
b. Obtain an understanding of the work of that expert; and

Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Relevance

- Relevance deals with the logical connection with the purpose of the audit procedure / the assertion under consideration.
- The relevance of information to be used as audit evidence may be affected by the direction (purpose) of testing.

Reliability

Is influenced by its:

(a) Its source
(b) Its nature, and
(c) Circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant.

Following generalizations about the reliability of audit evidence may be useful:

- The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
- Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable
- Audit evidence in documentary form, is more reliable than evidence obtained orally
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies

Q.94 Selecting Items for Testing to Obtain Audit Evidence

When designing ToCs and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure.

Selecting All Items

100% examination may be appropriate when, for example:

- The population constitutes a small number of large value items;
- There is a significant risk and other means do not provide SAAE;
- The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

Selecting Specific Items

- While selective examination of specific items from a class of transactions or account balance will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling.

Audit Sampling

- Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. Audit sampling is discussed in SA 530 (R).

Q.95 Inconsistency in, or Doubts over Reliability of, Audit Evidence

If:

a. audit evidence obtained from one source is inconsistent with that obtained from another; or
b. the auditor has doubts over the reliability of information to be used as audit evidence,

The auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.

Q.96 INVENTORY

Attending physical inventory counting & comparing

Obtaining SAAE regarding the existence and condition of inventory by:

a. ATTEND PHYSICAL INVENTORY COUNTING -
Attendance at physical inventory counting, unless impracticable, to:
   i. Evaluate MGT's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;
   ii. Observe the performance of MGT's count procedures;
   iii. Inspect the inventory; and
   iv. Perform test counts; and

b. CROSS CHECK –
Comparing entity's final inventory records with actual inventory count results.

Physical inventory counting at a different date

Auditor shall additionally perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the FS are properly recorded

Auditor unable to attend physical inventory counting due to unforseen reasons

Auditor shall:
(a) make or observe some physical counts on an alternative date, and
(b) perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the FS are properly recorded

Impracticable to attend a physical inventory counting

Auditor shall perform alternative audit procedures to obtain SAAE regarding the existence and condition of inventory.

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

Inventory with third parties

Auditor shall obtain SAAE regarding the existence and condition of that inventory by performing one or both of the following:
a. Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
b. Perform inspection or other audit procedures appropriate in the circumstances.

SA 501 Audit Evidence-Specific Considerations for Selected Items

Q.97 Litigation and Claims

1. Design and perform audit procedures to identify litigation and claims involving the entity which may give rise to a RoMM, including:
   a. Inquiry of MGT and, where applicable, others within the entity, including in-house legal counsel;
   b. Reviewing minutes of meetings of TCWG and correspondence between the entity and its external legal counsel; and
   c. Reviewing legal expense accounts.

2. Seek direct communication with the entity's external legal counsel
   If the auditor assesses a RoMM regarding litigation or claims may exist, the auditor shall seek direct communication with the entity's external legal counsel.
   The auditor shall do so through a letter of inquiry, prepared by MGT and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor.

3. If law / regulation / body prohibits the entity's external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures.

4. If:
   a. MGT refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and
   b. The auditor is unable to obtain SAAE by performing alternative audit procedures, the auditor shall modify the opinion in the auditor's report in accordance with SA 705.

Completeness of Litigations and Claims

1. Litigation and claims involving the entity may have a material effect on the FS.
2. Other relevant procedures, other than as given in this SA, include, for example, using information obtained through RAP.

Reviewing Legal Expense Accounts

Depending on the circumstances, the auditor may judge it appropriate to examine related source documents, such as invoices for legal expenses, as part of the auditor's review of legal expense accounts.

Letter Of Specific Inquiry

The auditor shall request MGT and TCWG to provide WR that:
(a) all known actual or possible litigation and claims whose effects should be considered when preparing the FS have been disclosed to the auditor and
(b) appropriately accounted for and disclosed in accordance with the applicable FRFW.

Communication with the Entity's External Legal Counsel Letter Of General Inquiry

In some cases, the auditor may seek direct communication with the entity's external legal counsel through a LETTER OF GENERAL INQUIRY. For this purpose, a letter of general inquiry requests the entity's external legal counsel to inform the auditor of:
a) any litigation and claims that the counsel is aware of, and
b) an assessment of the outcome of the litigation and claims, and
c) an estimate of the financial implications, including costs involved.

Meeting the Legal Expert

Auditor may have the need to meet for example, where:
a. The auditor determines that the matter is a significant risk.
b. The matter is complex.
c. There is disagreement between MGT and the entity's external legal counsel.

Ordinarily, such meetings require MGT's permission and are held with a representative of MGT in attendance.

Letter Of Specific Inquiry

If it is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general inquiry, for example if his professional body prohibits response to such letter, auditor may seek direct communication through a LETTER OF SPECIFIC INQUIRY. For this purpose, a letter of specific inquiry includes:
a. A list of litigation and claims;
b. Where available, MGT's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications, including costs involved; and

A request that the entity's external legal counsel confirm the reasonableness of MGT's assessments and provide the auditor with further information if the list is considered by the entity's external legal counsel to be incomplete or incorrect.

Q.98 Segment Information

The auditor shall obtain SAAE regarding the presentation and disclosure of segment information in accordance with the applicable FRFW by:

a. Obtaining an understanding of the methods used by MGT in determining segment information, and:
   i. Evaluating whether such methods are likely to result in disclosure in accordance with the applicable FRFW; and
   ii. Where appropriate, testing the application of such methods; and
b. Performing analytical procedures or other audit procedures appropriate in the circumstances.

SA 505

External Confirmations

Why External Confirmation Procedures to Obtain Audit Evidence?

1. Depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity.
2. Following generalisations applicable to audit evidence makes EC a very suitable method of obtaining audit evidences:
   i. Audit evidence is more reliable when it is obtained from independent sources outside the entity.
   ii. Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
   iii. Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.

Definitions

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 indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested 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 provided in the request.

4. Non-Response
   A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

5. Exception
   A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

Q.99 External Confirmation Procedures

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

a. Determining the information to be confirmed or requested
Information for which confirmations can be sought includes confirmation on trade receivables or payables, bank deposits and statements, third party stock, investments, mortgages or charges in favor of third parties, terms of agreement (side agreement), etc

b. Selecting the appropriate confirming party
Party, who as per auditor's knowledge has the information for which confirmation is desired

c. Designing the confirmation requests(refer below)
Including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor (refer application and other explanatory notes); and

d. Follow-up
Sending the requests, including follow-up requests when applicable, to the confirming party which can be oral too.

Designing Confirmation Requests

The design of a confirmation request may directly affect the confirmation:
(a) response rate, and
(b) the reliability and the nature of the audit evidence obtained from responses.

1. Factors to consider when designing confirmation requests include:
   - The assertions being addressed.
   - Specific identified RoMM, including fraud risks.
   - The layout and presentation of the confirmation request.
   - Prior experience on the audit or similar engagements.
   - The method of communication (for example, in paper form, or by electronic or other medium).
   - MGT's authorization or encouragement to the confirming parties to respond
   - The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).
2. Positive External Confirmation – More Reliable But Less Responsive
   A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by
   (a) indicating the confirming party's agreement with the given information, or
   (b) by asking the confirming party to provide information (Blank Confirmation Request)
   A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence.

Blank Confirmation Request – Pros and Cons
There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct.
The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request, and ask the confirming party to fill in the amount or furnish other information.
On the other hand, use of this type of "blank" confirmation request may result in lower response rates because additional effort is required of the confirming parties.

Q.100 MGT's Refusal to Allow the Auditor to Send a Confirmation Request

1. If MGT refuses to allow the auditor to send a confirmation request, the auditor shall:
   a. Inquire as to MGT's
   a. reasons for the refusal, and
   b. seek audit evidence as to their validity and reasonableness(a common reason is an ongoing legal dispute or negotiation);
   b. Evaluate the implications of MGT's refusal on the auditor's assessment of the relevant RoMM, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and
   c. Perform alternative audit procedures designed to obtain relevant and reliable audit evidence which would include checking subsequent payments, etc.

2. If the auditor concludes that:
   (a) MGT's refusal to allow the auditor to send a confirmation request is unreasonable, or
   (b) the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with TCWG in accordance with SA 260 ® and accordingly draft his opinion.

Q.101 Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests

When auditor is in doubts about the reliability of response he shall obtain further audit evidence to resolve those doubts.

Reliability may be dependent on factors like
- confirmation obtained indirectly,
- electronic confirmations,
- confirmation given by third party and not addressee,

in which case the auditor should request to directly communicate or seek oral confirmations to substantiate electronic confirmations etc.

Unreliable Responses
When the auditor concludes that a response is unreliable, the auditor may need to revise the assessment of the RoMM and modify planned audit procedures accordingly, in accordance with SA 315. (For example, an unreliable response may indicate a fraud risk factor that requires evaluation in accordance with SA 240)

Non-Responses

In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence.

Application & Other Explanatory Matter
1. Examples of alternative audit procedures the auditor may perform include:
   - For accounts receivable balances – examining specific subsequent cash receipts, shipping documentation, and sales near the period-end.
   - For accounts payable balances – examining subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes.

2. The nature and extent of alternative audit procedures are affected by the account and assertion in question.
   For example, fewer responses to confirmation requests than anticipated, or a greater number of responses than anticipated, may indicate a previously unidentified fraud risk factor that requires evaluation in accordance with SA 240 (Revised)

Q.102 Negative Confirmations

When a Response to a Positive Confirmation Request is necessary to Obtain SAAE

a. If the auditor has determined that (a response to a positive confirmation request is necessary to obtain SAAE) alternative audit procedures will not provide the audit evidence the auditor requires like for instances -
   - The information available is only available outside the entity.
   - Specific fraud risk factors, such as the risk of MGT override of controls, or the risk of collusion

b. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion in accordance with SA 705.

Exceptions

1. The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements.
2. When exception is identified, the auditor is required to:
   - evaluate whether such exception is indicative of misstatement and consequently its impact on fraud
   - Exceptions may provide a guide to the quality of responses from similar confirming parties or for similar accounts.
   - Exceptions also may indicate a deficiency, or deficiencies, in the entity's IC over financial reporting.
   - Some exceptions do not represent misstatements. For example, the auditor may conclude that differences in responses to confirmation requests are due to timing, measurement, or clerical errors in the external confirmation procedures.

1. Negative confirmations provide less persuasive audit evidence than positive confirmations.
2. Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed RoMM at the assertion level unless ALL of the following are present:

   a. The auditor has assessed the RoMM as low and has obtained SAAE regarding the operating effectiveness of controls relevant to the assertion;
   b. The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;
   c. A very low exception rate is expected; and
   d. The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

For Example - Sending negative confirmation requests to creditors may be a useful procedure in considering whether such balances may be understated, but is unlikely to be effective if the auditor is seeking evidence regarding overstatement.

SA 510 Initial Audit Engagements - OPENING BALANCES

Objective of SA 510

The Auditor's objective while conducting initial audit engagement is to obtain SAAE about whether:

a. Opening balances contain misstatements that materially affect the current period's FS; and

b. Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's FS, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable FRFW.'

Definitions

1. Initial Audit Engagement

An engagement in which either:

a. The FS for the prior period were not audited; or

b. The FS for the prior period were audited by a predecessor auditor.

2. Opening Balances (Closing balances + Accounting Policies + Disclosures)

Those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period.

Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

3. Predecessor Auditor

The auditor from a different audit firm, who audited the FS of an entity in the prior period and who has been replaced by the current auditor.

Q.103 Audit Procedures

Opening Balances

1. The auditor to:

a. Check carry forward
- Determining whether the prior period's closing balances have been correctly brought forward to the current period
- When appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss;

b. Check application of accounting policies
Determining whether the opening balances reflect the application of appropriate accounting policies; and

c. Performing one or more of the following:

i. If Previous Year audited–
Peruse copies of audited FS relating to the prior period FS.

ii. Evidence obtained during current year regarding previous year-Audit procedures performed in the current period do provide evidence relevant to the opening balances in certain cases;
or

iii. Obtaining evidences through applying specific procedures - Performing specific audit procedures to obtain evidence regarding the opening balances
not audited otherwise while performing current year audit procedures.

Note – If PY FS are audited, usually auditor can rely on the PY audited FS, unless circumstances applied during the year indicate misstatements relating to previous year. In such case additional procedures to be performed.

2. Identification of Misstatements in Opening balances
- If the auditor obtains audit evidence that,
- the opening balances contain misstatements that could materially affect the current period's FS,
- the auditor shall perform such additional audit procedures to determine the effect on the current period's FS whether or not PY FS are audited.

3. Communication of Misstatements
If the auditor concludes that such misstatements exist in the current period's FS, the auditor shall communicate the misstatements with the appropriate level of MGT and TCWG in accordance with SA 450.

SA 510 Initial Audit Engagements - OPENING BALANCES

AUDIT EVIDENCE – OPENING BALANCE – CURRENT ASSETS & LIABILITIES

1. AE obtained as a part of CY AP –
   For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures.
   For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.

2. AE not obtained as a part of CY AP –
   In the case of opening inventories, however, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period.
   Therefore, additional audit procedures may be necessary, and one or more of the following may provide SAAE:
   - Observing a current physical inventory count and reconciling it to the opening inventory quantities.
   - Performing audit procedures on the valuation of the opening inventory items.
   - Performing audit procedures on gross profit and cut-off.

AUDIT EVIDENCE – OPENING BALANCE – NON-CURRENT ASSETS & LIABILITIES

For non-current assets and liabilities, such as property plant and equipment, investments and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances.

In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties, for example, for long-term debt and investments.

In other cases, the auditor may need to carry out additional audit procedures.

Accounting Policies

The auditor shall obtain SAAE about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's FS, and whether changes in the accounting policies have been properly accounted for and adequately presented and disclosed in accordance with the applicable FRFW.

Relevant Information in the Predecessor Auditor's Report

If the prior period's FS were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the RoMM in the current period's FS in accordance with SA 315.

Consistency of Accounting Policies

If the auditor concludes that:

a. The current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable FRFW; or
b. A change in accounting policies is not properly accounted for or not adequately presented or disclosed in accordance with the applicable FRFW, the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with Proposed SA 705.

Modification to the Opinion in the Predecessor Auditor's Report

If the predecessor auditor's opinion regarding the prior period's FS included a modification to the auditor's opinion that remains relevant and material to the current period's FS, the auditor shall modify the auditor's opinion on the current period's FS in accordance with Proposed SA 705 and Proposed SA 710 (R).

Nature of Analytical Procedures

1. Analytical procedures include the consideration of comparisons of the entity's financial information with, for example:
   - Comparable information for prior periods
   - Anticipated results of the entity
   - Similar industry information
2. Analytical procedures also include consideration of predictable relationships between financial and or non-financial data
3. Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses using advanced statistical techniques. Analytical procedures may be applied to consolidated FS, components and individual elements of information.

Definitions

Analytical Procedures

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

The auditor's choice of procedures, methods and level of application is a matter of professional judgement.

Q.104 Substantive Analytical Procedures

When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall:

a. Suitability Of Analytical Procedure
   Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed RoMM and tests of details, if any, for these assertions;

b. Reliability of data for application of Analytical Procedures
   Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of
   (i) source,
   (ii) comparability,
   (iii) nature and relevance of information available, and
   (iv) controls over preparation;

c. Developing an Expected Outcome of amount or ratio for comparison with actual
   Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the FS to be materially misstated; and

d. Interpreting difference
   Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required.

SA 520 Analytical Procedures

Suitability of Particular Analytical Procedures for Given Assertions

Suitability of Analytical Procedures
Substantive analytical procedures are generally more applicable to :

- Large volumes of transactions that tend to be predictable over time.
- Where relationships among data exist and continue in the absence of known conditions to the contrary.
- Auditor's assessment of how effective it will be in detecting a misstatement
  Different types of analytical procedures provide different levels of assurance
  For example, the prediction of total rental income on a building and calculation and comparison of gross margin percentages as a means of confirming a revenue.

Influenced by nature of the assertion and the auditor's assessment of the RoMM.
For example, if controls over sales order processing are weak, the auditor may place more reliance on tests of details rather than on substantive analytical procedures for assertions related to receivables.

Use as corroborative audit evidences
For example, when obtaining audit evidence regarding the valuation assertion for accounts receivable balances, the auditor may apply analytical procedures to an aging of customers' accounts in addition to performing tests of details on subsequent cash receipts to determine the collectability of the receivables.

Considerations Specific to Public Sector Entities
The relationships may not always be relevant in the audit of governments or other non-business public sector entities as:

- little direct relationship between revenue and expenditure.
- industry data or statistics for comparative purposes may not be available in the public sector.

The Reliability of the Data

The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

a. Source of the information available;
b. Comparability of the information available;
c. Nature and relevance of the information available.
   For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
d. Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

Evaluation of Whether the Expectation Is Sufficiently Precise

- The accuracy with which the expected results of substantive analytical procedures can be predicted
  For example, the auditor may expect greater consistency in comparing gross profit margins from one period to another than in comparing discretionary expenses, such as research or advertising.
- The degree to which information can be disaggregated.
  For example, substantive analytical procedures may be more effective when applied to financial information on individual sections of an operation or to FS of components of a diversified entity, than when applied to the FS of the entity as a whole.
- The availability of the information, both financial and non-financial.
  For example, the auditor may consider whether financial information, such as budgets or forecasts, and non-financial information, such as the number of units produced or sold, is available to design substantive analytical procedures. If the information is available, the auditor may also consider the reliability of the information as discussed in above paragraphs above.

Q.105 Analytical Procedures that Assist When Forming an Overall Conclusion

The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the FS are consistent with the auditor's understanding of the entity.

Application & Other Explanatory Matter

1. The conclusions drawn are intended to corroborate conclusions formed during the audit of items. This assists the auditor to draw reasonable conclusions on which to base the auditor's opinion.
2. The results of such analytical procedures may identify a previously unrecognized RoMM.
3. The analytical procedures performed in accordance with mentioned paragraph may be similar to those that would be used as RAP.

Definitions

1. **Audit Sampling (sampling)**
   The application of **audit procedures to less than 100% of items** within a population of audit relevance such that **all sampling units have a chance of selection** in order to provide the auditor with a reasonable basis on which **to draw conclusions about the entire population**.

2. **Population**
   The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

3. **Sampling Risk**
   The risk that the **auditor's conclusion based on a sample may be different** from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:
   i. In the case of a test of controls, that **controls are more effective** than they actually are, or in the case of a test of details, that a **MM does not exist** when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it **affects audit effectiveness** *and is more likely to lead to an inappropriate audit opinion.*
   ii. In the case of a test of controls, that **controls are less effective** than they actually are, or in the case of a test of details, that a **MM exists** when in fact it does not. This type of erroneous conclusion **affects audit efficiency** as it would *usually lead to additional work* to establish that initial conclusions were incorrect.

4. **Non-Sampling Risk**
   The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

   Examples of non-sampling risk include use of inappropriate audit procedures, or misinterpretation of audit evidence and failure to recognise a misstatement or deviation.

5. **Anomaly**
   A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

6. **Sampling Unit**
   The individual items constituting a population.

   The sampling units might be physical items (for example, cheques listed on deposit slips, credit entries on bank statements, sales invoices or debtors' balances) or monetary units.

7. **Statistical Sampling**

An approach to sampling that has the following characteristics:

i. **Random selection** of the sample items; and
ii. The **use of probability** theory to **evaluate sample results**, including **measurement of sampling risk**.

A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.

8. Stratification

The process of **dividing a population into sub-populations**, each of which is a group of sampling units which have similar characteristics (often monetary value).

9. Tolerable Misstatement

- A monetary amount set by the auditor,
- in respect of which the auditor seeks to obtain an appropriate level of assurance that,
- the actual misstatement in the population is less than amount set by the auditor.

When designing a sample, the auditor determines tolerable misstatement in order to address the risk that the aggregate of individually in MM may cause the FS to be materially misstated and provide a margin for possible undetected misstatements. Tolerable misstatement is the application of performance materiality, as defined in SA 320 (R), to a particular sampling procedure. Tolerable misstatement may be the same amount or amount lower than performance materiality (say a % of Performance Materiality)

10. Tolerable Rate of Deviation

- A rate of deviation from prescribed IC procedures set by the auditor,
- in respect of which the auditor seeks to obtain an appropriate level of assurance that,
- the actual rate of deviation in the population is less than the rate of deviation set by the auditor.

<table>
<tr><td>QUEST 106. Sample Design, Size and Selection of Items for Testing</td><td colspan="2">1. Sample Design –
When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

2. Sample size - The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.

3. Sampling Unit Selection - The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.</td></tr>
<tr><td></td><td>Sample Design</td><td>The auditor considering the purpose of audit procedures to be applied should determine the population from which sample should be drawn.

Stratification or Value weighted selection (where weights are given to more material / risk prone items) can enhance the quality of sampling.

Prior to designing the sample, auditor should also make an assessment of :
1. Expected Rate of Deviation – Example, If Auditor’s assessment of Control Risk is high he may want to avoid Test of controls completely.
2. Expected Error (Misstatement) –If exceptionally high, then auditor may want to go for 100% check instead of sampling.</td></tr>
<tr><td></td><td>Sample Size</td><td>1. The level of sampling risk that the auditor is willing to accept (Tolerable Error or Rate of Deviation) affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.
2. The sample size can be determined by the application of a statistically based formula or through the exercise of professional judgment.
3. An increase in auditors control risk assessment or expected rate of deviation shall increase the sample size for test of controls.
However, an increase in tolerable rate of deviation shall reduce the sample size.
Similarly an increase in auditors RoMM or expected rate of misstatement shall increase the sample size for test of details. However, an increase in tolerable rate of error shall reduce the sample size.
Further a scientific stratification can reduce the sample size. However, number of sampling units have negligible impact on the sample size.</td></tr>
<tr><td></td><td>Selection of Items for</td><td>With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected.</td></tr>
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	Testing	With **non-statistical sampling**, **judgment is used** to select sample items. The principal methods of selecting samples are the use of random selection, systematic selection and haphazard selection.
QUEST 107. Performing Audit Procedures	1. The auditor shall perform audit procedures, appropriate to the purpose, on each item selected. 2. If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a **replacement item**. 3. If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of ToCs, or a misstatement, in the case of tests of details.	
	Application & Other Explanatory Matter	1. An example of when it is necessary to perform the procedure on a replacement item is when a cancelled cheque is selected while testing for evidence of payment authorisation. If the auditor is satisfied that the cheque has been properly cancelled such that it does not constitute a deviation, an appropriately chosen replacement is examined. 2. An example of when the auditor is unable to apply the designed audit procedures to a selected item is when documentation relating to that item has been lost. 3. An example of a suitable alternative procedure might be the examination of subsequent cash receipts together with evidence of their source and the items they are intended to settle when no reply has been received in response to a positive confirmation request.
QUEST 108. Nature and Cause of Deviations and Misstatements	**Investigate Deviations and Misstatements:** The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit. **Anomaly & Other Misstatements** ***Anomaly*** In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, **the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population**. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain SAAE that the misstatement or deviation does not affect the remainder of the population. ***Other Misstatements*** In analysing the deviations and misstatements identified, the auditor may observe that **many have a common feature**, for example, type of transaction, location, product line or period of time. In such circumstances, the auditor may decide to: (a) identify all items in the population that possess the common feature, and	

	(b) extend audit procedures to those items. In addition, such deviations or misstatements may be intentional, and may indicate possibility of fraud.	
QUEST 109. Projecting Misstatements	For tests of details, the auditor shall project misstatements found in the sample to the population.	
	Application & Other Explanatory Matter	1. The auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement *(however this may not be sufficient to determine amount to be recorded/rectified in the books)* **Anomaly**, may be excluded when projecting misstatements. However, while evaluating whether uncorrected misstatements are material, such uncorrected anomalous misstatement will be considered in addition to the projection of the non-anomalous misstatements. 2. **For ToCs, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole**. SA 330 provides guidance when deviations from controls upon which the auditor intends to rely are detected, which primarily requires modifications in further substantive audit procedures.
QUEST 110. Evaluating Results of Audit Sampling	The auditor shall evaluate: a. The results of the sample; and **b. Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.**	
	Application & Other Explanatory Matter	1. **For ToCs**, an unexpectedly high sample deviation rate may lead to an **increase in the assessed RoMM.** 2. For **tests of details**, an **unexpectedly high misstatement** amount in a sample may **cause the auditor to believe that a class of transactions or account balance is materially misstated.** 3. In the case of tests of details, the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population. 4. **Projected misstatement + anomalous misstatement> Tolerable misstatement -** Sample does not provide a reasonable basis for conclusions about the population that has been tested. 5. **Projected misstatement > Expected error (misstatement)** used to determine the sample size, the auditor may conclude that there is an unacceptable sampling risk 6. If the **auditor concludes that audit sampling has not provided a reasonable basis for conclusions**, the auditor may: ▪ Request MGT to: ○ Investigate identified misstatements and potential for further misstatements and ○ To make any necessary adjustments;

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		or ▪ Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. *For example, in the case of ToCs, the auditor might extend the sample size, test an alternative control or modify related substantive procedures.*
QUEST 111. SAMPLE SELECTION METHODS	There are many methods of selecting samples. The principal methods are as follows: (a) **Random selection** (applied through random number generators, for example, random number tables). (b) **Systematic selection**, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerised random number generator or random number tables. (c) **Monetary Unit Sampling** is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts. (d) **Haphazard selection,** in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability and thus attempt to ensure that all items in the population have a chance of selection. **Haphazard selection is not appropriate when using statistical sampling.** (e) **Block selection** involves selection of a block(s) of contiguous items from within the population. **Block selection cannot ordinarily be used in audit sampling** because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.	

Definitions

1. **Accounting Estimate**
   An **approximation of a monetary amount in the absence of a precise means of measurement.** This term is used for an amount measured at **fair value** there is estimation uncertainty, as well as for other amounts that require estimation.

2. **Auditor's Point Estimate or Auditor's Range**
   The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating MGT's point estimate.

3. **Estimation Uncertainty**
   The susceptibility of an accounting estimate and related disclosures to an **inherent lack of precision** in its measurement.

4. **MGT Bias**
   A lack of neutrality by MGT in the preparation and presentation of information.

5. **MGT's Point Estimate**
   The **amount selected by MGT for recognition or disclosure** in the FS as an accounting estimate.

6. **Outcome of An Accounting Estimate**
   The actual monetary amount which results from the resolution of the underlying transaction(s),event(s) or condition(s) addressed by **the accounting estimate**

QUEST 112. RAP and Related Activities

When performing RAP and related activities auditor shall obtain an understanding of:

a. The **requirements of the applicable FRFW** relevant to accounting estimates, including related disclosures.
b. **How MGT identifies** those transactions, events and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the FS.
c. **How MGT makes** the accounting estimates, and an understanding of the data on which they are based, including:
   i. **The method,** including where applicable the model, used in making the accounting estimate;
   ii. **Relevant controls;**
   iii. Whether MGT **has used an expert;**
   iv. The **assumptions underlying the accounting estimates;**
   v. Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why; and
   vi. Whether and, if so, how MGT has assessed the effect of **estimation uncertainty**.

Review outcome of prior period estimates

The auditor shall review the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent re estimation for the purpose of the current period.

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QUEST 113. Responses to the Assessed RoMM	Auditor shall undertake one or more of the following, taking account of the nature of the accounting estimate: **a. Events occurring after the Balance Sheet Date:** Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate. **b. Test MGT estimate:** Test how MGT made the accounting estimate and the data on which it is based. In doing so, the auditor shall evaluate whether: i. The **method of measurement** used is appropriate in the circumstances; and ii. The **assumptions** used by MGT are reasonable in light of the measurement objectives of the applicable FRFW. **c. Test operating effectiveness of controls** *(together with appropriate substantive procedures)* Test the operating effectiveness of the controls over how MGT made the accounting estimate, together with appropriate substantive procedures. **d. Develop auditors point estimate or range of estimate** Develop a point estimate or a range to evaluate MGT's point estimate. For this purpose: i. When the **auditor uses assumptions or methods that differ from MGT's**, the auditor shall obtain an understanding of MGT's assumptions or methods to establish that it takes relevant variables and should evaluate any significant differences from MGT's point estimate. ii. When the **auditor concludes that it is appropriate to use a range**, the auditor **shall narrow the range**, based on audit evidence available, **until all outcomes within the range are considered reasonable.**	
QUEST 114. Further Substantive Procedures to Respond to Significant Risks	**Estimation Uncertainty**	1. For accounting estimates that give rise to significant risks, in addition to other substantive procedures performed, auditor shall evaluate the following: a. **How MGT has considered alternative assumptions or outcomes**, and why it has rejected them, or how MGT has otherwise addressed estimation uncertainty in making the accounting estimate. b. **Whether the significant assumptions used by MGT are reasonable**. c. Where relevant to the reasonableness of the significant assumptions used by MGT or the appropriate application of the applicable FRFW, **MGT's intent to carry out specific courses of action and its ability to do so**. 2. **If, auditor is not satisfied he should develop a range** with which to evaluate the reasonableness of the accounting estimate
	Recognition and Measurement Criteri	For accounting estimates that give rise to significant risks, the auditor shall obtain SAAE whether: a. **MGT's decision to recognize, or to not recognize**, the accounting estimates in the FS; and b. the **selected measurement basis** for the accounting estimates, are in accordance with the requirements of the applicable FRFW.
QUEST 115. Indicators of Possible MGT Bias	The auditor shall **review the judgments and decisions made by MGT** in the making of accounting estimates to identify whether there are indicators of possible MGT bias. *Remember - Indicators of possible MGT bias do not themselves constitute misstatements.*	

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Objective	The Auditor's Objectives are: ***a.*** ***Even When There Are No Requirements For Disclosure In FRFW*** Obtain understanding of ***related party relationships and transactions*** sufficient: i. **To recognize fraud risk factors**, (affecting risk identification and assessment); and ii. **To conclude FS**, (insofar as affected by those relationships and transactions): ▪ Achieve a *true and fair presentation* (for fair presentation frameworks); or ▪ Are not *misleading* (for compliance frameworks); and ***b.*** ***When FRFW Prescribes Certain Disclosures*** In addition, to obtain SAAE about whether RP-R&T have been appropriately **identified, accounted for and disclosed** as per the requirements of framework.
Responsibilities of the Auditor	1. **Where no such requirement exists in the FRFWs** Even if the applicable FRFW establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's RP-R&T to: a. Achieve a true and fair presentation (for fair presentation frameworks); or b. Are not misleading (for compliance frameworks). 2. **Where FRFWs establish accounting and disclosure requirements for related party relationships, transactions and balances.** The auditor has a responsibility to perform audit procedures to identify, assess and respond to the RoMM arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework. 3. **High Fraud Risk factor** In addition, an understanding of the entity's RP-R&T is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by SA 240 because fraud may be more easily committed through related parties. 4. **High detection risk** In the context of related parties, inherent limitations *on the auditor's ability* to detect MM are greater for such reasons as: ▪ **Unawareness -** MGT may be unaware of the existence of all RP-R&T ▪ **Collusion / Concealment -** Related party relationships may present a greater opportunity for collusion, concealment or manipulation by MGT.

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Definitions	**Related Party** A party that is either: i. A related party **as defined in the applicable FRFW**; or ii. Where the applicable **FRFW establishes minimal or no** related party **requirements**: a. **A person or other entity** that has **control or significant influence**, directly or indirectly through one or more intermediaries, over the reporting entity; b. **Another entity** over which the reporting entity **has control or significant influence**, directly or indirectly through one or more intermediaries; or Another entity that **is under common control** with the reporting entity through having: ▪ Common controlling **ownership**; ▪ Owners who are **close family members**; or ▪ Common key **MGT**. However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

QUEST 116. RAP and Related Activities	**Understanding the Entity's RP-R&T**	1. The engagement team discussion under SA 315 and SA 240 shall include specific consideration of misstatements in FS due to fraud or error resulting from entity's RP-R&T. 2. The auditor shall **inquire of MGT** regarding: a. The **identity** of the entity's related parties, including changes from the prior period; b. The **nature of the relationships** between the entity and these related parties; and c. Whether the entity entered into any **transactions with these related parties** during the period and, if so, the **type and purpose of the transactions**. 3. The auditor shall **inquire of MGT and others within the entity, and perform other RAP** considered appropriate, **to obtain an understanding of the controls**, if any, that MGT has established to: a. **Identify, account for, and disclose** RP-R&T in accordance with the applicable FRFW; b. **Authorise and approve** significant transactions and arrangements with related parties; and c. **Authorise and approve** significant transactions and arrangements **outside the normal course of business.**
	Maintaining Alertness for Related Party Information When	**<u>REMAIN ALERT FOR UNDISCLOSED RPs</u>** 1. During the audit, the auditor shall **remain alert**, when inspecting records or documents, **for arrangements or other information that may indicate** the existence of RP-R&T **that MGT has not previously identified or disclosed to the auditor**.

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	Reviewing Records or Documents	***Indicators of RPs*** **In particular, the auditor shall inspect the following for indications**: a. **Bank, legal and third party confirmations** obtained as *part of the auditor's procedures*; b. **Minutes of meetings** of shareholders and of TCWG; and c. Such **other records** or documents as the auditor considers necessary in the circumstances of the entity. **TRANSACTIONS OUTSIDE THE NORMAL COURSE** **If the auditor identifies significant transactions outside the entity's normal course of business** when performing the audit procedures or through other audit procedures, the **auditor shall inquire of MGT** about: a. The **nature** of these transactions; and **b. Whether related parties could be involved.**
	Sharing Related Party Information with the Engagement Team	The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team.
QUEST 117. Responses to the RoMM Associated with RP-R&T	**Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions**	1. If the auditor identifies arrangements or information that suggests the existence of RP-R&T that MGT has not previously identified or disclosed to the auditor, the **auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions**. 2. If the **auditor identifies related parties or** significant related party **transactions that MGT has not previously identified or disclosed to the auditor**, the auditor shall: a. Promptly **communicate** the relevant information **to the other members of the engagement team**; b. Where the applicable FRFW establishes related party requirements: i. **Request MGT to identify all transactions** with the newly identified related parties for the auditor's further evaluation; and ii. **Inquire as to why the entity's controls over RP-R&T failed** to enable the identification or disclosure of the RP-R&T; c. **Perform appropriate substantive audit procedures** relating to such newly identified related parties or significant related party transactions; d. **Reconsider the risk** and perform additional audit procedures as necessary; and e. If the **non-disclosure by MGT appears intentional** (and therefore indicative of a RoMM due to fraud), *evaluate the implications for the audit.*

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	Identified Significant Related Party Transactions outside the Entity's Normal Course of Business	For identified significant related party transactions **outside the entity's normal course of business**, the auditor shall: a. Inspect the underlying contracts or agreements, if any, and evaluate whether: i. The **business rationale** (or lack thereof) of the transactions, whether genuine or to engage in fraudulent financial reporting or to conceal misappropriation of assets; ii. The **terms of the transactions** are **consistent with MGT's explanations;** and iii. The **transactions have been appropriately accounted for and disclosed** in accordance with the applicable FRFW; and **b. Obtain audit evidence that the transactions have been appropriately authorised and approved.**
	Related Party Transactions Conducted on Arm's Length	Assertions in FS That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction - **Auditor shall obtain SAAE about the assertion.**

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Generally Accepted Accounting Principles in India (AS-4 and Ind AS - 10 requirements)	1. FRFWs (GAAPs) ordinarily identify two types of events: a. Those that provide evidence of conditions that **existed at the date of the FS (Commonly referred as 'Adjusting Events')**; b. Those that provide evidence of conditions that **arose after the date of the FS (Commonly referred as 'Non-Adjusting Events')**. ***Author's Note*** ▪ **AS-4 (Events Occurring After the BS Date)** requires adjusting events to be accounted for in the FS and non-adjusting events to be neither accounted nor disclosed in the FS (however, disclosure in approving authority's report is permitted if the event is significant) ▪ **Ind-AS-10 (Events After the Reporting Period)** requires adjusting events to be adjusted in the FS and non-adjusting events to be disclosed in the FS ▪ Under both the standards, Events after the BS Date / Reporting Period refers to events from the date of FS to the date of approval of FS by approving authority (Type A events) ▪ Consequently, usually the date of approval of FS and date of Auditor's Report are same or as near to possible, to avoid mismatch of MGT and auditor's responsibilities under the accounting and auditing standards respectively.
Definitions	**1. Subsequent Events** Events occurring between the date of the FS and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report. ***Author's Note:*** Thereby Subsequent Events would include: a. Event from the Date of BS to the Date of Approval of the FS ***(Let's say, Type A events)*** b. Event from the Date of Approval of the FS to the Date of Auditor's Report ***(Let's say, Type B events)*** c. Event from the Date of Auditor's Report to the Date when FS are Issued ***(Let's say, Type C events)*** d. Event from the Date when FS are Issued to Date of Approval of FS ***(Let's say, Type D events)*** **2. Date of Approval of the FS** The date on which all the statements that comprise the FS have been prepared and relevant authority have accepted and communicated that they have taken responsibility for those FS. **3. Date the FS are issued** The date that the auditor's report and audited FS are made available to third parties.

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Auditor's Responsibilities	Auditor is responsible to obtain: a. SAAE for Type A and B Events b. Respond appropriately to Type C and D Events if such events comes to the notice of auditor and to report appropriately.

QUEST 118. Events Occurring Between the Date of the FS and the Date of the Auditor's Report (Type A and Type B events)	1. The auditor shall perform audit procedures designed to obtain SAAE for Type A + B events that require adjustment of, or disclosure in, the FS have been identified. ***<u>Audit Procedures for Identification of Subsequent Events (Type A + B)</u>*** 2. Audit procedures shall include the following: a. Obtaining an **understanding of any procedures MGT has established** to ensure that subsequent events are identified. b. **Inquiring of MGT** *(refer to Application part)* **and**, where appropriate, **TCWG** as to whether any subsequent events have occurred which might affect the FS. c. **Reading minutes**, if any, of the meetings, of the entity's owners, MGT and TCWG, that have been **held after the date of the FS** and inquiring about matters discussed at any such meetings for which minutes are not yet available. d. **Reading the entity's latest subsequent interim FS**, if any, etc. 3. Additional audit procedures to include: ▪ Read the entity's latest available budgets, cash flow forecasts and other related **MGT reports for periods after the date of the FS;** ▪ Inquire, or extend previous oral or written inquiries, of the entity's **legal counsel** concerning litigation and claims; or ▪ Consider whether **WR covering particular subsequent events may be necessary** to support other audit evidence and thereby obtain SAAE. ▪ In case of certain entities, such as Government entities - Auditor may read / inquire about official records of relevant proceedings of the legislature and matters addressed in proceedings ***<u>Adjustments or Disclosures in FS</u>*** 3. As a result of the procedures performed when auditor identifies events that require adjustment / disclosure in FS, the auditor shall **determine whether each such event is appropriately reflected in those FS**
QUEST 119. Facts Which Become known to the Auditor After the Date of the Auditor's	1. The auditor has **no obligation** to perform any audit procedures regarding the FS after the date of the auditor's report. 2. However, when, after the date of the auditor's report but before the date the FS are issued, a **<u>fact becomes known to the auditor</u> that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report,** the auditor shall: a. **Discussthe matter** with MGT and, where appropriate, TCWG.

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Report but Before the Date the FS are Issued ***(Type B events)***	b. **Determine whether the FS need amendment** and, if so, c. **Inquire how MGT intends to address** the matter in the FS. 3. If **MGT amends the FS**, the auditor shall: a. **Carry out the audit procedures** necessary in the circumstances on the amendment. b. Unless the circumstances in paragraph 4 below applies ***(Referred in book as DUAL DATING Para):*** i. **Extend the audit procedures** referred to in above paragraphs to the date of the new auditor's report; and ii. **Provide a new auditor's report** on the amended FS. The new auditor's report shall not be dated earlier than the date of approval of the amended FS. ***4. <u>DUAL DATING PARA</u>****(Name reference only for understanding purposes)* When law, regulation or the FRFW does not prohibit MGT from restricting the **amendment in FSONLY to the extent as required on account of noticed subsequent events**, the *auditor is permitted to restrict the audit procedures on subsequent events* to that amendment. **In such cases, the auditor shall either:** a. **Dual Dating** (with explanation): Amend the auditor's report to **include an additional date** indicating that the auditor's procedures on subsequent events are restricted solely to the amendment of the FS described in the relevant note to the FS; **or** **b. EoM or OM** Provide a **new or amended auditor's report** that includes a statement in an Emphasis of Matter paragraph or Other Matter(s) paragraph that **conveys that auditor's procedures on subsequent events are restricted solely to the amendment of the FS as described in the relevant note to the FS** **<u>MGT REFUSAL TO AMEND</u>** When MGT does not amend the FS in circumstances where the auditor believes they need to be amended, then: a. Auditor shall modify the opinion as required by SA 705 and then provide the auditor's report (unless already issued to MGT); or b. If the auditor's report has already been provided to the entity, the **auditor shall notify MGT** and, unless all of TCWG are involved in managing the entity, TCWG, **not to issue the FS to third parties before the necessary amendments have been made**. *If the FS are nevertheless subsequently issued without the necessary amendments, the* ***auditor shall take appropriate action, to seek to prevent reliance on the auditor's report.*** *In case of certain entities, such as government entities when MGT does not amend the FS auditor may also be required to report separately to the legislature, or other relevant body.* **<u>LEGAL PROHIBITION</u>** In some entities, MGT may not be required by the applicable law, regulation or the FRFW to issue amended FS and, accordingly, the auditor need not provide an amended or new auditor's report.

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QUEST 120. Facts Which Become known to the Auditor After the FS are Issued **(Type D events)**	1. After the FS have been issued, the auditor has no obligation to perform any audit procedures regarding such FS. **2.** However, when, after the FS have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, **may have caused the auditor to amend the auditor's REPORT, the auditor shall***(same as in Type C Events)***:** a. Discuss the matter with MGT and, where appropriate, TCWG. b. Determine whether the FS need amendment c. Inquire how MGT intends to address the matter in the FS. 3. If the MGT amends the FS, the auditor shall: a. Carry out the audit procedures necessary in the circumstances on the amendment. **b. Review the steps taken by MGT to ensure that anyone in receipt of the previously issued FS together with the auditor's report thereon is informed of the situation***(additional precaution under Type D Events)* c. Unless the circumstances in DUAL DATING Para (discussed above) apply: i. **Extend the audit procedures referred to in above paragraphs to the date of the new auditor's report**; and ii. Provide a new auditor's report on the amended FS and the date the new auditor's report no earlier than the date of approval of the amended FS. 4. The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter(s) paragraph **referring:** **(a) to a note to the FS** that discusses the reason for the amendment of the previously issued FS and **(b) to the earlier report provided by the auditor** **MGT REFUSAL TO AMEND** If MGT does not take the necessary steps to ensure: (a) that anyone in receipt of the previously issued FS is informed of the situation and (b) does not amend the FS in circumstances the auditor shall notify MGT and TCWG that the **auditor will seek to prevent future reliance on the auditor's report.** If, despite such notification**, MGT or TCWG do not take these necessary steps**, the auditor shall **take appropriate action** to seek to prevent reliance on the auditor's report which could include obtaining legal advice.

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Going Concern Assumption	○ Under the going concern assumption, an entity is viewed as continuing in business for the **foreseeable future**. ○ **General purpose FS are prepared on a going concern basis**, unless MGT either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. ○ Special purpose FS may or may not be prepared in accordance with a FRFW for which the going concern basis is relevant. ○ When the use of the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.
Responsibilities of MGT	Whether or not any FRFW requires, **since the going concern assumption is a fundamental principle** in the preparation of FS**MGT's responsibility includes responsibility to assess the entity's ability to continue as a going concern**.
Responsibilities of Auditor	The auditor's responsibility is to obtain SAAE about a. **The appropriateness of MGT's use of the going concern assumption** in the preparation and presentation of the FS and b. To **conclude whether there is a material uncertainty** about the entity's ability to continue as a going concern.

QUEST 121. RAP and Related Activities	When performing RAP as required by SA 315, the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Auditor to inquire whether MGT has made an assessment of going concern assumption: **a. If MGT has already made such assessment –** **Discuss the assessment** with MGT and determine **whether MGT has identified events or conditions** that may cast significant doubt on the entity's ability to continue as a going concern and, **if so, MGT's plans to address them**; or **b. If not –** Auditor shall **discuss with MGT** the basis for the intended use of the going concern assumption, and **inquire of MGT whether events or conditions exist that** may cast significant doubt on the entity's ability to continue as a going concern. **The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.**
QUEST 122. Evaluating Mgt.'s Assessment and Period Beyond Mgt.'s Assessment	1. The auditor shall evaluate MGT's assessment of the entity's ability to continue as a going concern (covering period covered by MGT unless the period is less than 12 months) 2. The auditor shall inquire of MGT as to its knowledge of **events or conditions beyond the period of MGT's assessment that may cast significant doubt** on the entity's ability to continue as a going concern. 3. Other than inquiry of MGT, the auditor does not have a responsibility to perform any other audit procedures.

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QUEST 123. Events or Conditions That May Cast Doubt about Going Concern Assumption	Examples of events or conditions that, individually or collectively, may cast significant doubt about the going concern assumption. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists: **Financial** ▪ Net liability or net current liability position. ▪ Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets. ▪ Indications of withdrawal of financial support by creditors. ▪ Negative operating cash flows indicated by historical or prospective FS. ▪ Adverse key financial ratios. ▪ Substantial operating losses or significant deterioration in the value of assets used to generate cash flows. ▪ Arrears or discontinuance of dividends. ▪ Inability to pay creditors on due dates. ▪ Inability to comply with the terms of loan agreements. ▪ Change from credit to cash-on-delivery transactions with suppliers. ▪ Inability to obtain financing for essential new product development or other essential investments. **Operating** ▪ MGT intentions to liquidate the entity or to cease operations. ▪ Loss of key MGT without replacement. ▪ Loss of a major market, key customer(s), franchise, license, or principal supplier(s). ▪ Inability to obtain financing for essential new product development or other essential investments. **Operating** ▪ MGT intentions to liquidate the entity or to cease operations. ▪ Loss of key MGT without replacement. ▪ Loss of a major market, key customer(s), franchise, license, or principal supplier(s). ▪ Labour difficulties. ▪ Shortages of important supplies. ▪ Emergence of a highly successful competitor. **Other** ▪ Non-compliance with capital or other statutory requirements. ▪ Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.

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	▪ Changes in law or regulation or government policy expected to adversely affect the entity. ▪ Uninsured or underinsured catastrophes when they occur. **MITIGATING FACTORS** The significance of such events or conditions often can be mitigated by other factors. For example, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.
QUEST 124. When Events or Conditions Are Identified - Additional Audit Procedures to Determine Whether or not Material Uncertainty Exists	When events or conditions have been identified that may cast significant doubt on the entity's ability to continue a going concern, the **auditor shall obtain SAAE to determine whether or not a material uncertainty exists** through performing **additional audit procedures**, *including consideration of mitigating factors*. These procedures shall include a. When MGT has not yet performed an assessment of the entity's ability to continue as a going concern, requesting MGT to make its assessment. b. Evaluating MGT's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether MGT's plans are feasible in the circumstances. *(for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital)* c. When the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of MGT's plans for future action: i. Evaluating the reliability of the underlying data generated to prepare the forecast; and ii. Determining whether there is adequate support for the assumptions underlying the forecast. d. Considering whether any additional facts or information have become available since the date on which MGT made its assessment. e. Requesting WR from MGT or, where appropriate, TCWG, regarding their plans for future action and the feasibility of these plans. *Where MGT's assumptions include continued support by third parties, the auditor may need to consider requesting WR (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.*
	Application & Other Explanatory Matter — **Audit procedures that are relevant may include the following:** ▪ Analyzing and discussing cash flow, profit and other relevant forecasts with MGT. ▪ Analyzing and discussing the entity's latest available interim FS. ▪ Reading the terms of debentures and loan agreements and determining whether any have been breached. ▪ Reading minutes of the meetings of shareholders, TCWG and relevant committees for reference to financing difficulties. ▪ Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of MGT's assessments of their outcome and the estimate of their financial implications. ▪ Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with

		related and third parties and assessing the financial ability of such parties to provide additional funds. ▪ Evaluating the entity's plans to deal with unfilled customer orders. ▪ Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern. ▪ Confirming the existence, terms and adequacy of borrowing facilities. ▪ Obtaining and reviewing reports of regulatory actions. ▪ Determining the adequacy of support for any planned disposals of assets
QUEST 125. Audit Conclusion and Reporting	Based on the audit evidence auditor shall conclude whether, in the auditor's judgment, a **material uncertainty exists** related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the **magnitude of its potential impact** and **likelihood of occurrence** is such that, appropriate disclosure of the nature and implications of the uncertainty is necessary for fair presentation / ensuring the FS are not misleading.	
	Material Uncertainty and Significant Uncertainty	The phrase **'material uncertainty'** means the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the FS. In some other FRFWs the phrase **'significant uncertainty'** is used in similar circumstances.
QUEST 126. Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists	**<u>MU + DISCLOSURES MADE IN FS</u>** When the auditor concludes that the **use of the going concern assumption is appropriate** in the circumstances **but a material uncertainty exists**, the auditor shall determine whether the FS: a. **Adequately describe** the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern **and MGT's plans to deal** with these events or conditions; **and** b. **Disclose clearly that there is a material uncertainty related to events or conditions** that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. OPINION Auditor shall express an **unmodified opinion and include an Emphasis of Matter** paragraph in the auditor's report to: a. Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and to b. Draw attention to the note in the FS that discloses the matters (SA 706)	

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	MU + NO ADEQUATE DISCLOSURES MADE IN FS If adequate disclosure is not made in the FS, the auditor shall express a **qualified or adverse opinion**, as appropriate (See SA 705). The auditor shall state in the auditor's report that there is a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.	
	Application & Other Explanatory Matter	**Audit Reporting When Disclosure of Material Uncertainty Is Adequate** The following is an illustration of an Emphasis of Matter paragraph when the auditor is satisfied as to the adequacy of the note disclosure: **Emphasis of Matter** Without qualifying our opinion, we draw attention to Note X in the FS which indicates that the Company incurred a net loss of ZZZ during the year ended March 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.
QUEST 127. Use of Going Concern Assumption Inappropriate	If the FS have been prepared on a going concern basis but, in the auditor's judgment, MGT's use of the going concern assumption in the FS is inappropriate, **the auditor shall express an adverse opinion.** *Auditor to express an **adverse opinion applies regardless of whether or not the FS include disclosure** of the inappropriateness of MGT's use of the going concern assumption.*	
QUEST 128. MGT Unwilling to Make or Extend Its Assessment	If MGT is unwilling to make or extend its assessment when requested to do so by the auditor, the **auditor shall consider the implications for the auditor's report.** ***A qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate**, because it may not be possible for the auditor to obtain SAAE regarding the use of the going concern assumption in the preparation of the FS*	

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Objective	Auditor's objectives are: a. To **obtain WR from MGT** that MGT believes that it has **fulfilled the fundamental responsibilities** that constitute the premise on which an audit is conducted; b. To **support other audit evidence** relevant to the FS or specific assertions in the FS by means of WR, if determined necessary by the auditor or required by other SAs; and c. To **respond appropriately to WR provided** by MGT **or if MGT does not provide** the WR requested by the auditor
WR as Audit Evidence	• **WR as an Audit Evidence** WR are necessary information that the auditor requires in connection with the audit of the entity's FS. Accordingly, similar to responses to inquiries, WR are audit evidence. • **Not SAAE** Although WR provide necessary audit evidence, they do not provide SAAE on their own about any of the matters with which they deal. • **WR not provided – Auditor's Alert** WR are an important source of audit evidence. If MGT modifies or does not provide the requested WR, it may alert the auditor to the possibility that one or more significant issues may exist. • **More persuasive than oral representations** Further, a request for written, rather than oral, representations in many cases may prompt MGT to consider such matters more rigorously, thereby enhancing the quality of the representations.
Definition	**WR** A written statement by MGT provided to the auditor to confirm certain matters or to support other audit evidence.

QUEST 129. MGT from Whom WR Requested	▪ **WR are requested from those responsible for the preparation and presentation of the FS**. WR may therefore be requested from the entity's CEO and CFO, or other equivalent persons. ▪ In some circumstances, however, **other parties, such as TCWG, are also responsible** for the preparation and presentation of the FS. ▪ MGT may decide to make inquiries of others in preparing and presenting the FS such individuals may include: o An actuary o Staff engineers o Internal counsel	
QUEST 130. WR about MGT's	**Preparation of the FS**	Representation from MGT that it has **fulfilled its responsibility for the preparation and presentation of the FS** as set out in the terms of the audit engagement particularly, whether the FS are prepared and presented as per

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Responsibilities		applicable FRFW.
	Information Provided and Completeness of Transactions	The auditor shall request MGT to provide a WR that: a. It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and b. All transactions have been recorded and are reflected in the FS. **This is particularly appropriate when:** • Those who signed the terms of the audit engagement no longer have the relevant responsibilities; • The terms of audit engagement were prepared in a previous year; • There is any indication that MGT misunderstands those responsibilities; or • Changes in circumstances make it appropriate to do s
	Content of such WR	MGT's responsibilities shall be described in the WR as described in the terms of the audit engagement (Audit Premise).
QUEST 131. Other WR	If, auditor determines that it is necessary to obtain one or more WR **to support other audit evidence** or **one or more specific assertions in the FS**, the **auditor shall request such other WR**. **Additional WR about the FS** They may include representations about the following: ▪ Whether the **selection and application of accounting policies are appropriate**; and ▪ Whether following matters have been recognized, measured, presented or disclosed in accordance with FRFW: ○ **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**; and ○ **Aspects of laws, regulations and contractual agreements** that may affect the FS, including non-compliance. **Additional WR about Information Provided to the Auditor** Like MGT has communicated to the auditor **all deficiencies in IC of which MGT is aware** **WR about Specific Assertions** For example, intent of MGT relevant to classification and valuation basis for investments	
QUEST 132. Date of and Period Covered by WR	▪ **Later the better** The date of the WRs shall be **as near as practicable to, but not after, the date of the auditor's report** on the FS. ▪ **Covers all FS and Period covered under audit** The written representations shall be **for all FS and period(s) referred to in the auditor's report.**	

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		▪ **Updating WR obtained during the course of audit** In certain circumstances auditor may obtain WR alongwith the course of audit, in such case an updation of WR near to end of the audit shall be further obtained to ensure subsequent events are also covered in the WR obtained ▪ **WR in case of change in MGT during the year** If there is a change in the MGT during the period, the present MGT is still responsible for giving WR for the complete period covered under audit.
QUEST 133. **Form of WR**		▪ **Form of WR** Representation letter addressed to the auditor. ▪ **If law or regulation requires MGT to make written public statements about its responsibilities** If it covers all matters as required under this SA then WR for such matters need to be covered in WR obtained
QUEST 134. **Doubt as to the Reliability of WR and Requested WR Not Provided**	**Doubt as to the Reliability of WR**	**A. If the auditor has concerns about the competence, integrity, ethical values or diligence of MGT** Auditor shall determine the effect: ▪ on reliability of representations obtained, and ▪ on audit evidence in general **B. If WR are inconsistent with other audit evidence** ▪ Auditor shall **perform audit procedures to attempt to resolve** the matter. ▪ **If the matter remains unresolved -** Auditor shall reconsider the assessment of integrity of MGT; and ▪ shall **determine the effect that this may have on the reliability of representations** and audit evidence in general **C. If auditor concludes that the WR are not reliable** Auditor shall take appropriate actions, including considering modification of opinion (SA 705)
	WR Requested Not Provided	If MGT does not provide one or more of the requested WR, the auditor shall: (a) **Discuss the** matter with MGT; (b) **Re-evaluate the integrity of MGT** and evaluate the effect that this may have on the reliability of representations and audit evidence in general; and (c) **Take appropriate actions**, including considering modification of opinion (SA 705)
	WR about MGT's Responsibilities	The auditor shall disclaim an opinion on the FS in accordance with SA 705 if: (a) The auditor concludes that there is sufficient doubt about the integrity of MGT such that the WR required on MGT responsibility are not reliable; or (b) MGT does not provide the WR required

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SA 600 Using the Work of Another Auditor

Definitions

1. **Principal Auditor**
   He is the auditor with responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor.

2. **Other Auditor**
   He is an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.

3. **Component**
   A division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by the principal auditor.

Q.135 Acceptance as Principal Auditor

The Proposed Auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor. For this purpose, he should consider:

a. The **materiality of the portion** of the financial information which the principal auditor audits;
b. The principal **auditor's degree of knowledge regarding the business of the components;**
c. The **RoMMs** in the financial information of the components audited by the other auditor; and
d. The **performance of additional procedures as set out in this SA** regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

Q.136 Co-ordination Between Auditor's

1. There should be **sufficient liaison between the principal auditor and the other auditor.** For this purpose, the principal auditor may find it necessary to **issue written communication(s) to the other auditor.**
2. The **other auditor,** knowing the context in which his work is to be used by the principal auditor, **should co-ordinate with the principal auditor.**
3. When considered necessary by him, the **principal auditor may require the other auditor to answer a detailed questionnaire** regarding matters on which the principal auditor requires information for discharging his duties. The other auditor should respond to such questionnaire on a timely basis.

Q.137 Reporting Considerations

When the principal auditor concludes, based on his procedures, that the **work of the other auditor cannot be used** and **the principal auditor has not been able to perform sufficient additional procedures** regarding the financial information of the component audited by the other auditor, the principal auditor **should express a qualified opinion** or disclaimer of opinion because there is **a limitation on the scope of audit.**

Q.138 Division of Responsibility

The principal auditor shall **not be responsible in respect of the work entrusted to the other auditors,** unless there are circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.
The principal auditor **shall state clearly the division of responsibility** by indicating the extent to which the financial information of components audited by the auditor have been included in the financial information of the entity, e.g., the number of divisions/ branches/ subsidiaries or other components audited by other auditors.

Q.139 Scope and Objectives of the Internal Audit Function

The activities of the internal audit function may include one or more of the following:

- Monitoring of IC
- Examination of financial and operating information
- Review of operating activities
- Review of compliance with laws and regulations
- Risk MGT
- Governance

Q.140 Determining Whether to Use the Work of the Internal Auditors

1. The external auditor shall determine:
   a. Whether the work of the internal auditors is likely to be adequate for purposes of the audit;
      i. The objectivity of the internal audit function;
      ii. The technical competence of the internal auditors;
      iii. Whether the work of the internal auditors is likely to be carried out with due professional care;
      iv. Whether there is likely to be effective | communication between the internal auditors and the external auditor.

Objectivity

- The status of the internal audit function within the entity affecting its objectivity
- Whether the internal audit function reports to TCWG or an officer with appropriate authority
- Whether the internal auditors are free of any conflicting responsibilities
- Whether TCWG oversee employment decisions related to the internal audit function.
- Whether there are any constraints or restrictions placed on the internal audit function by MGT or TCWG
- Whether, and to what extent, MGT act son there commendations of the internal audit function.

Technical competence

- Whether the internal auditors are members of relevant professional bodies
- Whether internal auditors have adequate technical training and proficiency as internal auditors.
- Compliance with the mandatory/recommendatory Standards on Internal Audit (SIAs)
- Whether there are established policies for hiring and training internal auditors

Due professional care

- Whether activities of the internal audit function are properly planned, supervised, reviewed and documented.
- The existence and adequacy of audit manuals or other similar documents, work programs and internal audit documentation.

Communication

Communication between the external auditor and the internal auditors may be most effective when the internal auditors are free to communicate openly with the external auditors, and:

- Meetings are held at appropriate intervals throughout the period;
- The external auditor is advised of and has access to relevant internal audit reports and is informed of any significant matters that come to the attention of the internal auditors; and
- The external auditor informs the internal auditors of any significant matters that may affect internal audit function.

SA 610 Using the Work of Internal Auditors

Q.141 Determining to What Extent to Use the Work of the Internal

The external auditor shall determine:

b. If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures.
   i. The **nature and scope of specific work performed,** or to be performed, by the internal auditors;
   ii. The **assessed RoMM** at the assertion level for particular classes of transactions, account balances, and disclosures; and
   iii. The **degree of subjectivity involved** in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions.

Planned Effect of the Work of the Internal Auditors on the Nature, Timing or Extent of the External Auditor's Procedures

It may be useful to agree in advance the following matters with the internal auditors:

- The timing of such work;
- The extent of audit coverage;
- Materiality for the FS as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures), and performance materiality;
- Proposed methods of item selection;
- Documentation of the work performed; and
- Review and reporting procedures.

Q.142 Using Specific Work of the Internal Auditors

1. In order to use specific work of the internal auditors, the **external auditor shall evaluate and perform audit procedures on that work to determine its adequacy for the external auditor's purposes.**
2. To determine the adequacy of specific work performed by the internal auditors for the external auditor's purposes, the external auditor shall evaluate whether:
   a. The work was **performed by internal auditors having adequate technical training and proficiency;**
   b. The work was **properly supervised, reviewed and documented;**
   c. Adequate **audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions;**
   d. **Conclusions reached are appropriate** in the circumstances and any reports prepared by internal auditors are consistent with results of work performed; and
   e. **Any exceptions or unusual matters disclosed by the internal auditors are properly resolved**

Q.143 Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether...

If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the:

(a) threats to objectivity and
(b) the level of competence of the internal auditors

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance

In determining the nature and extent of work that may be assigned to internal auditors the external auditor shall consider:

(a) The **amount of judgment involved** in planning and performing relevant audit procedures and evaluating the audit evidence gathered;
(b) **The assessed RoMM;** and
(c) The external auditor's evaluation of the existence and significance of **threats to the objectivity and level of competence** of the internal auditors who will be providing such assistance.

The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:

(a) Involve making **significant judgments** in the audit;
(b) Relate to **higher assessed RoMM** where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited;
(c) Relate to **work with which the internal auditors have been involved** and which has been or will be reported to MGT or TCWG; or
(d) **Relate to decisions the external auditor makes in accordance with this SA regarding the internal audit function** and the use of its work or direct assistance.

The external auditor shall evaluate whether, in aggregate, using internal auditors to provide direct assistance to the extent planned, together with the planned use of the work of the internal audit function, would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed.

Q.144 Using Internal Auditors to Provide Direct Assistance

Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:

(a) **Obtain written agreement** from an **authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions,** and that the entity will not intervene in the work the internal auditor performs for the external auditor; and

(b) **Obtain written agreement from the internal auditors** that they will **keep confidential specific matters** as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

The external auditor shall **direct, supervise and review the work performed by internal** auditors on the engagement in accordance with SA 220. In so doing:

(a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity; and

(b) The review **procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.**

SA 620 Using The Work of Auditor's Expert

The Auditor's Responsibility for the Audit Opinion

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 following this SA, concludes that the work of that expert is adequate for the auditor's purposes he may accept that **expert's findings or conclusions as appropriate audit evidence.**
Using the work of MGT's Expert is covered under SA 500

Definitions

Auditor's Expert
An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining SAAE.
(An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert, but is different from MGT expert who is engaged / employed by the MGT for recognizing assertions in the FS)

SA 620 Using The Work of Auditor's Expert

Q.145 Determining the Need for an Auditor's Expert

The auditor shall determine whether to use the work of an auditor's expert, if he is expertise in a field other than accounting or auditing and is necessary to obtain SAAE

Determining the Need for an Auditor's Expert.

1. An auditor's expert may be needed to assist the auditor in one or more of the following:
   - Obtaining an understanding of the entity and its environment, including its IC.
   - Identifying and assessing the RoMM.
   - Determining and implementing overall responses to assessed risks at the FS level.
   - Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising ToCs or substantive procedures.
   - Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the FS.

2. An auditor who is not an expert in a relevant field other than accounting or auditing may nevertheless be able to obtain a sufficient understanding of a field where he may not have an expertise necessary to perform the audit without an auditor's expert. This understanding may be obtained through, for example:
   - Experience in auditing entities that require such expertise in the preparation of their FS.
   - Education or professional development in the particular field.
   - Discussion with auditors who have performed similar engagements.

3. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor's expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor's expert may include:
   - Whether MGT has used a MGT's expert in preparing the FS.
   - The nature and significance of the matter, including its complexity.
   - The RoMM in the matter.
   - The expected nature of procedures to respond to identified risks, including the auditor's knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of audit evidence.

4. When MGT has used a MGT's expert in preparing the FS, the auditor's decision on whether to use an auditor's expert may also be influenced by such factors as:
   - The nature, scope and objectives of the MGT's expert's work.
   - Whether the MGT's expert is employed by the entity, or is a party engaged by it to provide relevant services

Q.146 Nature, Timing and Extent of Audit Procedures

The nature, timing and extent of the auditor's procedures (a auditor will have to apply his procedures even on using the work of expert which would include evaluating work of expert) will vary depending on the circumstances. Auditor shall consider matters including:

a) The **nature of the matter** to which that expert's work relates;
b) The **RoMM** 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 of and experience with previous work performed by that expert**; and
e) **Whether that expert is subject to the auditor's firm's quality control policies and procedures**

SA 620 Using The Work of Auditor's Expert

Q.147 The Competence, Capabilities and Objectivity of the Auditor's Expert

The auditor shall evaluate whether the auditor's expert has the 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.

The Competence, Capabilities and Objectivity of the Auditor's Expert

1. **Competence** relates to the nature and level of expertise of the auditor's expert.
2. **Capability** relates to the ability of the auditor's expert to exercise that competence in the circumstances of the engagement. Factors that influence capability may include, for example, geographic location, and the availability of time and resources.
3. **Objectivity** relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgment of the auditor's expert.
4. **Information regarding** the competence, capabilities and objectivity of an auditor's expert **may come from a variety of sources,** such as:
   - Personal experience with previous work of that expert.
   - Discussions with that expert.
   - Discussions with other auditors or others who are familiar with that expert's work.
   - Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
   - Published papers or books written by that expert.
   - The auditor's firm's quality control policies and procedures
5. Matters relevant to evaluating the competence, capabilities and objectivity of the auditor's expert include whether that expert's work is subject to **technical performance standards or other professional or industry requirements.**
6. Other matters that may be relevant include:
   - The relevance of the auditor's expert's competence the matter for which that expert's work will be used, including any areas of specialty within that expert's field. For example, a particular actuary may specialize in property and casualty insurance, but have limited expertise regarding pension calculations.
   - The auditor's expert's competence with respect to relevant accounting and auditing requirements.
5. Discussion interests and relationships of expert to be done that may include his:
   - Financial interests.
   - Business and personal relationships.
   - Provision of other services by the expert, including by the organization in the case of an external expert that is an organisation.
   - In some cases, it may also be appropriate for the audit or to obtain a written representation from the auditor's external expert about any interests or relationships with the entity of which that expert is aware

Q.148 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 purposes; and**
b) **Evaluate the adequacy of that work for the auditor's purposes.**

Q.149 Agreement with the Auditor's Expert

The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:

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.

SA 620 Using The Work of Auditor's Expert

Q.150 Evaluating the Adequacy of Auditor's Expert Work

The auditor shall evaluate the adequacy of the auditor's expert's work, including:

a. The relevance and reasonableness of that **expert's findings or conclusions,** and their consistency with other audit evidence;
b. If that expert's work involves use of **significant assumptions and methods,** the relevance and reasonableness of those assumptions and methods in the circumstances; and
c. If that expert's work involves the use of **source data** that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

Q.152 Reference to the Auditor's Expert in the Auditor's Report

The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so.

If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Q.151 Application and Explanatory Material

The Findings and Conclusions of the Auditor's Expert

1. **Specific procedures** to evaluate the adequacy of the auditor's expert's work for the auditor's purposes may include:
   - **Inquiries** of the auditor's expert.
   - **Reviewing** the auditor's expert's working papers and reports.
   - **Corroborative procedures,** such as:
     - Observing the auditor's expert's work;
     - Examining published data, such as statistical reports from reputable, authoritative sources;
     - Confirming relevant matters with third parties;
     - Performing detailed analytical procedures; and
     - Re-performing calculations.
   - Discussion with another expert with relevant expertise when, for example, the findings or conclusions of the auditor's expert are not consistent with other audit evidence.
   - **Discussing the auditor's expert's** report with MGT.

Assumptions, Methods and Source Data

- Assumptions and Methods

  When the auditor's expert's work is to evaluate underlying assumptions and methods, including models where applicable, used by MGT in developing an accounting estimate, the auditor's procedures to be primarily directed to evaluating whether the auditor's expert has adequately reviewed those assumptions and methods.

  The auditor's expert's work is to develop an auditor's point estimate or an auditor's range for comparison with MGT's point estimate. (Refer SA 540)

  When an auditor's expert's work involves the use of significant assumptions and methods, factors relevant to the auditor's evaluation of those assumptions and methods include whether they are:
  - Generally accepted within the auditor's expert's field;
  - Consistent with the requirements of the applicable FRFW;
  - Dependent on the use of specialised models; and
  - Consistent with those of MGT, and if not, the reason for, and effects of, the differences.
- Source Data Used by the Auditor's Expert

  When an auditor's expert's work involves the use of source data that is significant to that expert's work, procedures such as the following may be used to test that data:
  - Verifying the origin of the data, including assessment of ICs over the data and, where relevant, its transmission to the expert.
  - Reviewing the data for completeness and internal consistency.

  In many cases, the auditor may test source data. However, in other cases, when the nature of the source data used by an auditor's expert is highly technical in relation to the expert's field, that expert may test the source data. If the auditor's expert has tested the source data, inquiry of that expert by the auditor, or supervision or review of that expert's tests may be an appropriate way for the auditor to evaluate that data's relevance, completeness, and accuracy.

Inadequacy of Work of Expert

- If the auditor concludes that the work of the auditor's expert is not adequate for the auditor's purposes and
- the auditor cannot resolve the matter through the additional audit procedures like further work being performed by both the expert and the auditor, or include employing or engaging another expert,
- it may be necessary to express a modified opinion in the auditor's report in accordance with SA 705 because the auditor has not obtained SAAE.

Q.153 Forming an Opinion on the FS

- The auditor shall form an opinion on whether the FS are prepared, in all material respects, in accordance with the applicable FRFW.

- In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the FS as a whole are free from MM, whether due to fraud or error. That conclusion shall take into account:
- a. The auditor's conclusion, in accordance with SA 330, whether SAAE has been obtained;
- b. The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material; and
- c. The evaluations required as follows:
- i. FS are prepared, in all material respects, in accordance with the requirements of the applicable FRFW.
- ii. Significant accounting policies are appropriate, adequately disclosed
- iii. The accounting estimates made by MGT are reasonable;
- iv. The information presented in the FS is relevant, reliable, comparable and understandable;
- v. The FS provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the FS; and
- vi. The terminology used in the FS, including the title of each FS, is appropriate.
-
- Fair presentation framework - The auditor's evaluation as to whether the FS achieve fair presentation shall include consideration of:
- a.i. The overall presentation, structure and content of the FS; and
- a.ii. Whether the FS, represent transactions and events that achieves fair presentation.

Q.154 Form of Opinion

- The audit or shall express an unmodified opinion when the auditor concludes that the FS are prepared, in all material respects, in accordance with the applicable FRFW. Else shall modify the opinion in the auditor's report in accordance with SA 705.

SA 700

Forming an Opinion on the FS

Q.155 Auditor's Report

- The auditor' s report shall be in writing.
- Auditor' s Report for Audits Conducted in Accordance with Standards on Auditing
- Auditor' s Report Prescribed by Law or Regulation
- Auditor' s Report for Audits Conducted in Accordance with Both Auditing Standards Issued by ICAI and International SA

Title

The auditor' s report shall have a title that clearly indicates that it is the report of an independent auditor.

Addressee

The auditor' s report shall be addressed as required by the circumstances of the engagement. (Ref: Para.

Introductory Paragraph

- The introductory paragraph in the auditor' s report shall:
- a. Identify the entity whose FS have been audited;
- b. State the FS have been audited
- c. Identify the title of each statement that comprises the FS;
- d. Refer to the summary of significant accounting policies and other explanatory information; and
- e. Specify the date or period covered by each FS comprising the FS.

- MGT' s Responsibility for the FS
- 1. This section of the auditor' s report describes the responsibilities of those that are responsible for the preparation of the FS.
- 2. The auditor' s report shall include a section with the heading "MGT' s [or other appropriate term] Responsibility for the FS" .
- 3. The auditor' s report shall describe MGT' s responsibility in the manner described in terms of the audit engagement. The description shall include an explanation that MGT is responsible for:
- a. the preparation of the FS in accordance with the applicable FRFW;
- b. this responsibility includes the design, implementation and maintenance of IC relevant to the preparation of FS that are free from MM, whether due to fraud or error.

Auditor's Report for Audits Conducted in Accordance with Standards on Auditing

Auditor's Responsibility

- The auditor' s report shall include a section with the heading "Auditor' s Responsibility" .
- The auditor' s report shall state that the responsibility of the auditor is to express an opinion on the FS based on the audit.
- The auditor' s report shall state that the audit was conducted in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. The auditor' s report shall also explain that those Standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the FS are free from MM.
- The auditor' s report shall describe an audit by stating that:
- a. An audit involves performing procedures to obtain audit evidence;
- b. The procedures selected depend on the auditor' s judgment, including the assessment of the RoMM of the FS, IC relevant to the entity' s preparation of the FS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity' s IC.
- c. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by MGT, as well as the overall presentation of the FS.
- Where the FS are prepared in accordance with a fair presentation framework, the description of the audit in the auditor' s report shall refer to "the entity' s preparation and fair presentation of the FS" or "the entity' s preparation of FS that give a T&F View" , as appropriate in the circumstances.

Q.155 Auditor's Report

Auditor's Report for Audits Conducted in Accordance with Standards on Auditing

Auditor's Opinion

The auditor's report shall include a section with the heading "Opinion".

- When expressing an unmodified opinion on FS prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
- a. The FS present fairly, in all material respects, in accordance with [the applicable FRFW]; or
- b. The FS give a T&F View of in accordance with [the applicable FRFW].
- c. When expressing an unmodified opinion on FS prepared in accordance with a compliance framework, the auditor's opinion shall be that the FS are prepared, in all material respects, in accordance with [the applicable FRFW].
- If the reference to the applicable FRFW, in the auditor's opinion, is not to the Accounting Standards promulgated by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies promulgated by the Committee on Accounting Standards for Local Bodies (CASLB) of the Institute of Chartered Accountants of India, as may be applicable, the auditor's opinion shall identify the jurisdiction of origin of the framework.

Other Reporting Responsibilities

- If the auditor addresses other reporting responsibilities in the auditor's report on the FS that are in addition to the auditor's responsibility under the SAs to report on the FS, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section.
- If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in mentioned paragraphs of this SA shall be under the sub-title "Report on the FS." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the FS."

Signature of the Auditor
The auditor's report shall be signed.

Date of the Auditor's Report

- The auditor's report shall be dated no earlier than the date on which the auditor has obtained SAAE on which to base the auditor's opinion on the FS, including evidence that:
- a. All the statements that comprise the FS, including the related notes, have been prepared; and
- b. Those with the recognised authority have asserted that they have taken responsibility for those FS. Place of Signature
- The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

Q.155 Auditor's Report

Auditor's Report Prescribed by Law or Regulation

If the auditor is required by any law or regulation to use a specific layout or wording of the auditor's report, the auditor's report shall refer to Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements:

- a. A title;
- b. An addressee, as required by the circumstances of the engagement;
- c. An introductory paragraph that identifies the FS audited;
- d. A description of the responsibility of MGT (or other appropriate term for the preparation of the FS;
- e. A description of the auditor's responsibility to express an opinion on the FS 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 FS and a reference to the applicable FRFW used to prepare the FS (including identifying the jurisdiction of origin of the FRFW,);
- g. The auditor's signature;
- h. The date of the auditor's report; and
- i. The place of signature.

Auditor's Report Prescribed by Law or Regulation

- An auditor may be required to conduct an audit in accordance with the auditing Standards issued by the Institute of Chartered Accountants of India (the "national auditing standards"), but may additionally have complied with the International Standards on Auditing (ISAs) in the conduct of the audit. If this is the case, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if:

- a. There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs; and

- b. The auditor's report includes, at a minimum, each of the elements set out in paragraph 43(a)-(i) when the auditor uses the layout or wording specified by the national auditing standards. Reference to law or regulation in paragraph 43(e) shall be read as reference to the national auditing standards. The auditor's report shall there by identify such national auditing standards.

- When the auditor's report refers to both the national auditing standards and International Standards on Auditing, the auditor's report shall identify the national auditing standards being the Standards on Auditing issued by the Institute of Chartered Accountants of India.

Q.156 Supplementary Information Presented with the FS

- If supplementary information that is not required by the applicable FRFW is presented with the audited FS, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited FS. If such supplementary information is not clearly differentiated from the audited FS, the auditor shall ask MGT to change how the unaudited supplementary information is presented. If MGT refuses to do so, the auditor shall explain in the auditor's report that such supplementary information has not been audited.
- Supplementary information that is not required by the applicable FRFW but is nevertheless an integral part of the FS because it cannot be clearly differentiated from the audited FS due to its nature and how it is presented shall be covered by the auditor's opinion.

Q.157 Circumstances When a Modification to the Auditor's Opinion is Required

- The auditor shall modify the opinion in the auditor' s report when:
- a. The auditor concludes that, based on the audit evidence obtained, the FS as a whole are not free from MM;
- 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 FS.
- b. The auditor is unable to obtain SAAE to conclude that the FS as a whole are free from MM.
- The auditor' s inability to obtain SAAE (also referred to as a limitation on the scope of the audit) may arise from:
- (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.
-
- Examples of circumstances beyond the control of the entity include when:
- The entity' s accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.
-
- Examples of circumstances relating to the nature or timing of the auditor' s work include when:
- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain SAAE about the latter' s financial
- Information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor' s appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity' s controls are not effective.
-
- Examples of an inability to obtain SAAE arising from a limitation on the scope of the audit imposed by MGT include when:
- MGT prevents the auditor from observing the counting of the physical inventory.
- MGT prevents the auditor from requesting external confirmation of specific account balances.
-
- Resignation
- When the auditor concludes that resignation from the audit is necessary because of a scope limitation, there may be a professional, regulatory or legal requirement for the auditor to communicate matters relating to the resignation from the engagement to regulators or the entity' s owners.

SA 705

Modifications to the Opinion in the Independent Auditor's Report

Q.158 Determining the Type of Modification to the Auditor's Opinion

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion
- Consequence of an Inability to Obtain SAAE Due to A MGT-Imposed Limitation after the Auditor Has Accepted the Engagement
- Other Considerations Relating to an Adverse Opinion or Disclaimer of opinion

Qualified Opinion

The auditor shall express an adverse opinion when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the FS.

Qualified Opinion

The auditor shall express a qualified opinion when:

- The auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the FS; or
- The auditor is unable to obtain SAAE on which to base the opinion, but the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be material but not pervasive.

Disclaimer of Opinion

- The auditor shall disclaim an opinion when the auditor is unable to obtain SAAE on which to base the opinion, and the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive.
- The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained SAAE regarding each of the individual uncertainties, it is not possible to form an opinion on the FS due to the potential interaction of the uncertainties and their possible cumulative effect on the FS

Consequence of an Inability to Obtain SAAE Due to A MGT-Imposed Limitation after the Auditor Has Accepted the Engagement

- If, after accepting the engagement, the auditor becomes aware that MGT has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the FS, the auditor shall request that MGT remove the limitation.
- If, after accepting the engagement, the auditor becomes aware that MGT has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the FS, the auditor shall request that MGT remove the limitation.
- If MGT refuses to remove the limitation referred to in mentioned paragraph of this SA, the auditor shall communicate the matter to TCWG and determine whether it is possible to perform alternative procedures to obtain SAAE.
- If the auditor is unable to obtain SAAE, the auditor shall determine the implications as follows:
- a. If the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- b. If the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
- i. Resign from the audit, where practicable and not prohibited by law or regulation; or
- ii. If resignation from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the FS.
- 5. If the auditor resigns as contemplated by mentioned paragraph of this SA, before resigning, the auditor shall communicate to TCWG any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

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SA 705

Modifications to the Opinion in the Independent Auditor's Report

Q.158 Determining the Type of Modification to the Auditor's Opinion

Other Considerations Relating to an Adverse Opinion or Disclaimer of opinion

- When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the FS as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same FRFW on a single FS or one or more specific elements, accounts or items of a FS. To include such an unmodified opinion in the same report4 in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the FS as a whole.

Q.159 Form and Content of the Auditor's Report When the Opinion is Modified

- Basis for Modification Paragraph
- Opinion Paragraph
- Description of Auditor's Responsibility

When the auditor expresses a Qualified or Adverse Opinion

- Description of Auditor's Responsibility

When the Auditor Disclaims an Opinion

Basis for Modification Paragraph

- When the auditor modifies the opinion on the FS, the auditor shall, in addition to the specific elements required by the SA 700 (Revised), include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification. The auditor shall place this paragraph immediately before the opinion paragraph in the auditor's report and use the heading "Basis for Qualified Opinion", "Basis for Adverse Opinion", or "Basis for Disclaimer of Opinion", as appropriate.
- If there is a MM of the FS that relates to specific amounts in the FS (including quantitative disclosures), the auditor shall include in the basis for modification paragraph a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in the basis for modification paragraph.
- If there is a MM of the FS that relates to narrative disclosures, the auditor shall include in the basis for modification paragraph an explanation of how the disclosures are misstated.
- If there is a MM of the FS that relates to the non- disclosure of information required to be disclosed, the auditor shall:
- a. Discuss the non-disclosure with TCWG;
- b. Describe in the basis for modification paragraph the nature of the omitted information; and
- c. Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained SAAE about the omitted information.
- d. If the modification results from an inability to obtain SAAE, the auditor shall include in the basis for modification paragraph, the reasons for that inability.
- e. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the FS, the auditor shall describe in the basis for modification paragraph the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

SA 705

Modifications to the Opinion in the Independent Auditor's Report

Q.159 Form and Content of the Auditor's Report When the Opinion is Modified

Opinion Paragraph

- When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion", "Adverse Opinion", or "Disclaimer of Opinion", as appropriate, for the opinion paragraph.
- When the auditor expresses a qualified opinion due to a MM in the FS, the auditor shall state in the opinion paragraph that, in the auditor's opinion, except for the effects of the matter(s)described in the Basis for Qualified Opinion paragraph:
- a. The FS present fairly, in all material respects (or give a T&F View) in accordance with the applicable FRFW when reporting in accordance with a fair presentation framework; or
- b. The FS have been prepared, in all material respects, in accordance with the applicable FRFW when reporting in accordance with a compliance framework.
- When the modification arises from an inability to obtain SAAE, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s)..." for the modified opinion.
- When the auditor expresses an adverse opinion, the auditor shall state in the opinion paragraph that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph:
- i. Inclusion of this paragraph heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.
- ii. When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the opinion paragraph as these are not sufficiently clear or forceful.

Description of Auditor's Responsibility When the auditor expresses a Qualified or Adverse Opinion

- When the auditor expresses a qualified or adverse opinion, the auditor shall amend the description of the auditor's responsibility to state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion.

Description of Auditor's Responsibility When the Auditor

- When the auditor disclaims an opinion due to an inability to obtain SAAE, the auditor shall amend the introductory paragraph of the auditor's report to state that the auditor was engaged to audit the FS. The auditor shall also amend the description of the auditor's responsibility and the description of the scope of the audit to state only the following: "Our responsibility is to express an opinion on the FS based on

Disclaims an Opinion

- conducting the audit in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. Because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain SAAE to provide a basis for an audit opinion".

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Q.160 Emphasis of Matter Paragraphs in the Auditor's Report

- in the auditor's judgment it is necessary to draw users' attention to a matter presented or disclosed in the FS and is fundamental to users' understanding of the FS, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained SAAE that the matter is not materially misstated in the FS. Such a paragraph shall refer only to information presented or disclosed in the FS.
- When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:
  - (a) Include it immediately after the Opinion paragraph in the auditor's report;
  - (b) Use the heading "Emphasis of Matter", or other appropriate heading;
  - (c) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the FS; and
  - (d) Indicate that the auditor's opinion is not modified in respect of the matter emphasised.

Q.161 Emphasis of Matter Paragraphs in the Auditor's Report

- If in the auditor's judgment it is necessary to draw users' attention to a matter presented or disclosed in the FS and is fundamental to users' understanding of the FS, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor's report, with the heading "Other Matter", or other appropriate heading.
- The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section.

COMPARATIVE INFORMATION - Corresponding Figures and Comparative FS

Q.162 Audit Procedures

Auditor shall evaluate whether:

- The comparative information agrees with the amounts and other disclosures presented in the prior period; and
- The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

As required by SA 580 (R), the auditor shall request WR for

- All periods referred to in the auditor's opinion and
- Regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.

Application and Other Explanatory Material

Corresponding Figures

In the case of corresponding figures, the WR are requested for the FS of the current period only because the auditor's opinion is on those FS, which include the corresponding figures. However, the auditor requests a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.

Comparative FS

In the case of comparative FS, the WR are requested for all periods referred to in the auditor's opinion because MGT needs to re-affirm that the WR it previously made with respect to the prior period remain appropriate.

SA 710

COMPARATIVE INFORMATION - Corresponding Figures and Comparative FS

- When corresponding figures are presented, the auditor' s opinion shall not refer to the corresponding figures except in following cases:

- Previous Year Audited – Report Modified – Matter Unresolved - - Modify Current Report

If the auditor' s report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor' s opinion on the current period' s FS. In the Basis for Modification paragraph in the auditor' s report, the auditor shall either:

(a) When affecting current year – Modify report
Refer to both the current period' s figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period' s figures are material; or

(b) When not affecting current year – Modify report with respect to corresponding figures
In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period' s figures and the corresponding figures.

- Previous Year Audited – Report unmodified – Misstatement noticed in current year - - Resolves else Modify Current Report with corresponding year figures

If the auditor obtains audit evidence that a MM exists in the prior period FS on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable FRFW and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor' s report on the current period FS, modified with respect to the corresponding figures included therein.

- Prior Period FS Audited by a Predecessor Auditor – Reference in current report

If the FS of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor' s report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor' s report:

(a)That the FS of the prior period were audited by the predecessor auditor;
(b)The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
(c)The date of that report.

- Prior Period FS Not Audited – Other Matter in Auditor' s Report

If the prior period FS were not audited, the auditor shall state in an Other Matter paragraph in the auditor' s report that the corresponding the requirement to obtain SAAE that the opening

Q.163 Audit Reporting

- 1. When comparative FS are presented, the auditor' s opinion shall refer to each period for which FS are presented and on which an audit opinion is expressed.
- 2. Difference in current auditor' s opinion and predecessor auditor' s opinion-
- When reporting on prior period FS in connection with the current period' s audit, if the auditor' s opinion on such prior period FS differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706.
- Prior Period FS Audited by a Predecessor Auditor
- i. If the FS of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period' s FS, the auditor shall state in an Other Matter paragraph:
- a. That the FS of the prior period were audited by a predecessor auditor;
- b. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
- c. The date of that report, unless the predecessor auditor' s report on the prior period' s FS is revised with the FS.
- ii. If a MM exists that affects the prior period on which the predecessor auditor had previously reported without modification-
- The auditor shall communicate with the appropriate level of MGT and TCWG and request that the predecessor auditor be informed. If the prior period FS are amended, and the predecessor auditor agrees to issue a new auditor' s report on the amended FS of the prior period, the auditor shall report only on the current period.
- Prior Period FS Not Audited
- If the prior period FS were not audited, the auditor shall state in an Other Matter paragraph that the comparative FS are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain SAAE that the opening balances do not contain misstatements that materially affect the current period' s FS.

SA 720 The Auditor's Responsibility in relation to Other Information in Documents containing Audited FS

Q.164 Reading Other Information

- The auditor shall read the other information to identify material inconsistencies, if any, with the audited FS.
- The auditor shall make appropriate arrangements with MGT or TCWG to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable.

Q.165 Material Inconsistencies

If, on reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the audited FS or the other information needs to be revised.

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

- Revision (Correction) required in FS- Modify Report
  When revision of the audited FS is necessary and MGT refuses to make the revision, the auditor shall modify the opinion in accordance with [Proposed] SA 705.
- Revision (Correction) required in other information – Other Matter / Withdraw
  When revision of the other information is necessary and MGT refuses to make the revision, the auditor shall communicate this matter to TCWG; and
- (A) Include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency in accordance with [proposed] SA 706; or
- (B) Where withdrawal is legally permitted, withdraw from the engagement.

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

- Revision (Correction) required in FS- Refer SA 560
  When revision of the audited FS is necessary, the auditor shall follow the relevant requirements in SA 560 (Revised).
- Revision (Correction) required in other information &MGT agrees – Additional Procedures
  When revision of the other information is necessary and MGT agrees to make the revision, the auditor shall carry out the procedures necessary under the circumstances.
- Revision (Correction) required in other information &MGT refuses – Inform governing body and appropriate action
  When revision of the other information is necessary, but MGT refuses to make the revision, the

Q.166 MM of Fact

- If, on reading the other information for the purpose of identifying material inconsistencies, the auditor becomes aware of an apparent MM of fact, the auditor shall discuss the matter with MGT.
- When, following such discussions, the auditor still considers that there is an apparent MM of fact, the auditor shall request MGT to consult with a qualified third party, such as the entity' s legal counsel, and the auditor shall consider the advice received.
- When the auditor concludes that there is a MM of fact in the other information which MGT refuses to correct, the auditor shall notify TCWG of the auditor' s concern regarding the other information and take any further appropriate action.