

# CA FINAL AUDIT

## Notes



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For May 2024 & Onwards

# CA FINAL

( For May 2024 & Onwards)

# AUDIT NOTES

CA SHUBHAM KESWANI



## AUDIT NOTES

By CA Shubham Keswani

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8-9-10, Hans Bhawan Building, Wing-2,  
IP Estate , New delhi 110002

Ph.: +91 9958000380, 9899632870  
E- Mail : Contact@makemydelivery.com  
Web.: makemydelivery.com

## Preface to the 6<sup>th</sup> edition:

'Fun is just another word for Learning'- Raphael Koster (Creative Director Star Wars Galaxies)

- ✓ There are so many topics, What to learn & What to read?
- ✓ What if I'm unable to cover the syllabus in last 1.5 days?
- ✓ Everyone says learning Key Words is important, but how to identify them?

As a Student I was always bogged down by all such dilemmas & thought how magical it'd be if someone could make notes & guide me that would make revision a cakewalk in last 1.5 days.

Gandhi Ji says,

"Be the change you want to see",

so decided that instead of waiting, I should sit down with ICAI Study Material & finally the journey of these notes began.

It was fun in bringing down a chapter from 60 pages to 15 pages, but it was all my CA Exams Hard work which paved way for this Smart Work.

Never thought such bulky material could be summarised in such concise manner but as they say,

"Where there's a Will, there's a Way"

Having secured an Exemption at both levels in this paper, I knew that the game is all about Key Words, so why not share the Cheat Code with everyone!

I'm sure that this book coupled with the Right study strategy can easily help you get an Exemption in this paper & turn your Fear into Love for Audit.

This is a colour-coded book for easy understanding:

- Black-Headings
- Blue- Main Concept
- Red- Important Points
- Green- Amendments

Thankful to my parents, CA Gobind Ram Keswani & Mrs. Rekha Keswani & sister, Dakksha Keswani for their continuous support.

Heartfelt gratitude for Aadil Sayyed, for designing this masterpiece. Also like to thank Bhaskar Borana Sir for believing in my skill & will to make 'Audit a Fun Learning Experience for Students'. Thankful to Aakash Kandoi Sir for his continuous support. Sincere thanks to Make My Deliveries for publishing this book.

*"Dedicated to every CA Student working hard day & night to fulfill their dream to be become Chartered Accountant one day"*

Trust me,

Notes & Question Bank coupled with class guidance enough to easily score 70+ in Audit.

Do make me PROUD ♡

Happy Learning!

Regards,

CA Shubham Keswani

AIR 8 CA Final & AIR 29 CA IPCC

B.Com(H), Shri Ram College of Commerce

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# 01 Standards on Auditing



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

All firms to have system of quality control that provides reasonable assurance that:

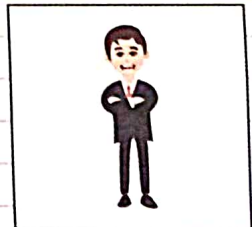
- Firm & personnel comply with professional standards, regulatory & legal (PRL) requirements, &
- Reports issued by firm or partners are appropriate in circumstances.

### Definitions:-

- Engagement Partner (EP) - partner or other person in firm who is member of ICAI and in full time practice and responsible for engagement and its performance, and for report issued on behalf of firm, and who has appropriate authority from professional, legal or regulatory body.
- Engagement quality control review - process to provide objective evaluation, before report is issued, of significant judgments that engg. team made and conclusions reached in formulating report.
- Engagement quality control reviewer - partner, person in firm, qualified external person, or team of individuals, with experience and authority to objectively evaluate, before report is issued, significant judgments engg. team made and conclusions reached in formulating report. However, in case review is done by a team of individuals, such team should be headed by a member of ICAI.

### Elements of a System of Quality Control

- Leadership responsibilities for quality within firm
- Ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring



### Leadership Responsibilities for Quality within Firm

Actions of EP and appropriate msgs to other members of engg. team, in taking responsibility for overall quality on each audit engg, emphasise:

- The importance to audit quality of:
  - Performing work that complies with PRL requirements
  - Complying with the firm's quality control policies and procedures as applicable
  - Issuing auditor's reports that are appropriate in the circumstances and
  - The engagement team's ability to raise concerns without fear of reprisals and
- The fact that quality is essential in performing audit engagements.





## Independence

Policies & procedures should enable firm to:

- **Communicate** independence requirements to personnel & others.
- **Identify & evaluate** circumstances creating threat to independence.
- Take appropriate **action** to eliminate threats/withdrawal from engg.

### Policies & Procedures in case of breach of Independence requirements

Policies and procedures should include requirements for:

- All subject to independence requirements to **promptly notify firm** of independence breaches
- Firm to **promptly communicate** identified breaches to:
  - EP** who, with firm, needs to address the breach &
  - Other relevant personnel** in firm and those subject to independence requirements who need to take appropriate action &
- Prompt communication to firm** by EP and other individuals of **actions taken to resolve the matter**, so that firm can determine whether it should take further action.

### Notes:

- ✓ At least annually, firm should obtain **written confirmation** of compliance with policies and procedures on independence from all firm personnel.
- ✓ **Familiarity threat** is particularly relevant in **F.S. audits of listed entities**. For these audits, **EP** should be rotated after a pre-defined period, normally **not more than 7 years**.

### Acceptance & Continuance of Client Relationships and Engagement

EP shall be satisfied that appropriate procedures regarding acceptance and continuance of client relationships and audit engagements have been followed.

Info. such as following assists EP in determining whether decisions regarding acceptance and continuance of audit engg. are appropriate:

- The integrity of principal owners, key mgt and **TCWG** of entity
- Whether engg. team is **competent** to perform audit engg. and has necessary capabilities, including **time and resources**
- Whether firm & engg. team can comply with relevant **ethical requirements** &
- **Significant matters** that have arisen during current or previous audit engg, & their implications for continuing the relationship.



### Evaluating the Integrity of Client

With regard to integrity of a client, matters that firm considers include, for example:

- ✓ Identity and business reputation of client's principal owners, key mgmt, related parties and TCWG.
- ✓ Nature of client's operations, including business practices.
- ✓ Info. concerning attitude of client's principal owners, key mgmt and TCWG towards matters such as aggressive interpretation of a/c stds and internal control environment.
- ✓ Whether client is aggressively concerned with maintaining firm's fees as low as possible.
- ✓ Indications of inappropriate limitation in scope of work.
- ✓ Indications that client might be involved in money laundering or other criminal activities.
- ✓ Reasons for proposed appointment of firm and non-reappointment of previous firm.

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Information on integrity of client that the firm obtains may come from, for example:

- Communications with existing or previous providers of professional accountancy services to client discussions with other 3<sup>rd</sup> parties.
- Inquiry of other firm personnel or 3<sup>rd</sup> parties such as bankers, legal counsel and industry peers.
- Background searches of relevant databases.

Matters to be considered in determining if firm has capabilities, competence, time and resources undertake new engagement:

- ✓ Firm personnel have knowledge of relevant industries or subject matters
- ✓ Firm personnel have experience with regulatory or reporting requirements, or ability to apply necessary skills and knowledge effectively
- ✓ The firm has sufficient personnel with the necessary capabilities and competence
- ✓ Experts are available, if needed
- ✓ Individuals meeting criteria and eligibility requirements to perform EQCR are available and
- ✓ Firm be able to complete engagement within reporting deadline.

Knowledge » Experience » Sufficiency » Experts + EQCR » Completion



## Withdrawal from Engagement

Policies and procedures on withdrawal from engagement include following:

- ✓ Discussing with client's mgt and TCWG regarding action that firm might take based on relevant facts and circumstances. If firm determines it is appropriate to withdraw, discussing with appropriate level of client's mgt and TCWG withdrawal & reasons for withdrawal from engg.
- ✓ Considering PRL requirement for firm to remain in place, or for firm to report withdrawal, together with reasons for withdrawal, to regulatory authorities.
- ✓ Documenting significant issues, consultations, conclusions and basis for conclusions.  
[Discuss → Withdraw → Reporting → Documenting]

## Human Resources

Establish policies/procedures to reasonable assure that:

- Firm has suff. personnel with capabilities, competence & commitment (CCC) to ethical principles & EP to issue appropriate report.
  - Firm's performance evaluation, compensation and promotion procedures give due recognition & reward to development and maintenance of competence and commitment to ethical principles.
- Such policies address following personnel issue:  
Recruitment → Performance evaluation → Competence/Capabilities → Career Development → Promotion/Compensation → Estimation of personnel needs

In particular, the firm:

- Makes personnel aware of firm's expectations regarding performance and ethical principles;
- Provides personnel with evaluation, and counseling on, performance, progress and career development;&
- Helps personnel understand promotion depends on performance quality and adherence to ethical principles, and failure to comply with firm's policies and procedures may result in disciplinary action

## Assignment of Engagement Teams

Firm establishes procedures to assess its staff's capabilities and competence.

Capabilities and competence considered when assigning engg. teams, and determining level of supervision reqd, include following:

- ✓ Understanding, and practical experience with, engg. of similar nature and complexity through appropriate training and participation.
- ✓ An understanding of PRL requirements.
- ✓ Appropriate technical knowledge, including knowledge of relevant information technology.
- ✓ Knowledge of relevant industries in which clients operate.
- ✓ Ability to apply professional judgment.
- ✓ Understanding of firm's quality control policies and procedures.

### Engagement Performance

Review responsibilities are determined on basis that more experienced engagement team members, including engagement partner, review work performed by less experienced team members.

Reviewers consider whether:

- a. Work has been performed in accordance with PRL requirements
- b. Significant matters have been raised for further consideration
- c. Appropriate consultations have taken place and resulting conclusions have been documented and implemented
- d. There is a need to revise the nature, timing and extent of work performed
- e. The work performed supports conclusions reached and is appropriately documented
- f. The evidence obtained sufficient and appropriate to support report and
- g. The objectives of engagement procedures have been achieved.

Supervision includes following:

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

### Consultation

Firm should establish policies designed to provide it with reasonable assurance that:

- a. Appropriate consultation takes place on difficult or contentious matters
- b. Sufficient resources are available to enable appropriate consultation to take place
- c. The nature and scope of such consultations are documented and
- d. Conclusions resulting from consultations are documented and implemented.

### Engagement Quality Control Review (EQCR)

Review Responsibility:

EP shall take responsibility for reviews being performed as per firm's review policies.

For audits of F.S. of listed entities, engagement partner shall:

- ✓ Determine that an engagement quality control reviewer (EQCR) has been appointed
- ✓ Discuss significant matters arising during audit engagement, with EQCR and
- ✓ Not date auditor's report until the completion of EQCR i.e. EQCR should be completed before Auditor's Report is issued.



- An EQCR for audits of F.S. of listed entities includes considering the following:
- ✓ Engagement team's evaluation of **firm's independence** in relation to specific engagement.
  - ✓ **Significant risks** identified during the engg. and responses to those risks.
  - ✓ **Judgments made**, particularly w.r.t materiality and significant risks.
  - ✓ Whether **appropriate consultation** has taken place on matters involving differences of opinion or other difficult or contentious matters, and conclusions arising from them.
  - ✓ Significance and disposition of corrected and uncorrected **misstatements identified** during the engg.
  - ✓ Matters to be **communicated** to **management and TCWG** and regulatory bodies.
  - ✓ Whether **working papers** selected for review reflect work performed in relation to significant judgments and support the conclusions reached.
  - ✓ The **appropriateness of report** to be issued.

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Firm's policies and procedures are designed to maintain objectivity of EQCR.

For eg, engagement quality control reviewer:

- ✓ **Is not selected by engagement partner;**
- ✓ **Does not participate in engagement** during period of review;
- ✓ **Does not make decisions for engagement team;** and
- ✓ **Is not subject to other considerations** that would threaten reviewer's objectivity.

Can EP consult EQCR during engagement? **Yes** as long as it doesn't affect quality of engagement.

Reviewer's objectivity should be maintained.

Engagement Documentation (ED)

- ✓ **Assembly of final engg. files** on a timely basis. In the case of audit, such a time **limit is ordinarily not more than 60 days after date of auditor's report.**
- ✓ **Retention period ordinarily is no shorter than 7 years from date of the auditor's report, or, if later, the date of the group auditor's report.**

Ownership of Engagement Documentation (ED): ED is property of firm. Firm may, at its discretion, make portions of, or extracts from ED available to clients, provided such disclosure doesn't



undermine validity of work performed, or, in case of assurance engagements, independence of the firm or its personnel.

### Complaints and Allegations

(i) Firm should establish policies designed to provide it with reasonable assurance that it deals appropriately with:

- a) Complaints and allegations that work performed by firm fails to comply with professional standards and regulatory & legal requirements; and
- b) Allegations of non-compliance with firm's system of quality control. (types of complaints)

(ii) Complaints and allegations may originate from within or outside the firm. They may be made by firm personnel, clients or other 3<sup>rd</sup> parties. (within or outside?)

(iii) Firm establishes clearly defined channels for firm personnel to raise any concerns in manner that enables them to come forward without fear of reprisals. (how we receive them?)

(iv) Firm investigates such complaints and allegations in accordance with established policies and procedures. Investigation is supervised by partner with sufficient authority & experience within firm but not involved in engagement, and includes involving legal counsel as necessary. Small firms and sole practitioners may use qualified external person or another firm to carry out investigation. Complaints, allegations and responses to them are documented. (Investigate & document)

(v) Where results of investigations indicate deficiencies in design or operation of the firm's quality control policies and procedures, or non-compliance with firm's SQC by individual or individuals, firm takes appropriate action. (Action)

### SA 220 Quality Control for an Audit of F.S.

SQC → Firm level & SA 220 → Audit engagement level.

Differences of Opinion may arise:

- Within the Engagement Team,
- With those consulted, or
- Between the EP and EQC Reviewer.

Engagement Team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.

**"Like Auditors maintain QUALITY in your studies & fulfil your Dreams"**



## SA 200 Overall Objectives of Independent Auditor and Conduct of an Audit in Accordance with Standards on Auditing

### Overall Objective of Auditor?

In conducting an audit of F.S., overall objectives of auditor are:

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

Note: In all cases when reasonable assurance can't be obtained and qualified opinion is insufficient, auditor shall disclaim an opinion or withdraw from engg, where withdrawal is legally permitted.

### Definitions

- Applicable financial reporting framework (FRF) - FRF adopted by mgt and, where appropriate, TCWG in preparation and presentation of F.S. that is acceptable in view of nature of entity and objective of F.S., or that is required by law or regulation.  
"fair presentation framework" refer to FRF that requires compliance with requirements of framework and:
  - Acknowledges, to achieve fair presentation of F.S., it may be necessary for mgt to provide disclosures beyond those specifically required by framework (+) or
  - Acknowledges explicitly that it may be necessary for mgt to depart from a requirement of framework to achieve fair presentation of F.S. Such departures are expected to be necessary only in extremely rare circumstances. (-)"Compliance framework" is used to refer to a FRF that requires compliance with requirements of framework, but does not contain acknowledgements in (i) or (ii) above.
- Financial statements (F.S.) - Structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or changes therein for a period of time in accordance with a FRF.
- Misstatement - Difference between amount, classification, presentation, or disclosure (a/c/p/d) of a reported financial statement item & the (a/c/p/d) that is required for the item to be as per applicable FRF. Misstatements can arise from error or fraud.



Misstatements se darr nahi lagta sahab,  
material misstatements se lagta hai!

- Those charged with governance (TCWG) - Person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing strategic direction of entity and obligations related to accountability of entity. (Executive Members-CEO/CFO/MD)

### Ethical Requirements Relating to Audit of Financial Statements

- Auditor shall comply with relevant ethical requirements, including those pertaining to independence.
- Independence comprises both independence of mind and independence of appearance.
- Independence enhances auditor's ability to act with integrity, be objective and maintain attitude of professional skepticism.

### Professional Skepticism

An attitude that includes a

- ✓ questioning mind (?),
- ✓ being alert to conditions (!) which may indicate possible misstatement due to error or fraud, and
- ✓ critical assessment of audit evidence.

Professional skepticism includes being alert to, for eg:

- Audit evidence that contradicts other audit evidence obtained.
- Information that brings into ques. reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest need for audit procedures in addition to those required by SAs.

Maintaining professional skepticism throughout audit is necessary to reduce risks of:

- Overlooking unusual circumstances.
- Over generalising when drawing conclusions from audit observations.
- Using inappropriate assumptions in determining the nature, timing, and extent (NTE) of the audit procedures and evaluating the results thereof.

### Professional judgment

Application of relevant training, knowledge and experience,

- ✓ within the context provided by auditing, accounting and ethical standards,
- ✓ in making informed decisions about
- ✓ the courses of action appropriate in circumstances of audit engagement.





Professional judgment is necessary in particular regarding decisions about:

- **Materiality and audit risk.**
  - Nature, timing, and extent (NTE) of **audit procedures** used to meet requirements of SAs and gather audit evidence.
  - Evaluating whether **SAAE** has been obtained, and whether more needs to be done to achieve objectives of SAs and thereby, overall objectives of auditor.
  - **Evaluation of management's judgments** in applying entity's applicable FRF.
  - **Drawing of conclusions** based on audit evidence obtained, for eg, assessing reasonableness of estimates made by management in preparing F.S.
- [Materiality + Risk >> Audit Procedures >> SAAE >> Conclusions >> Mgt judgement]

### Sufficient & Appropriate Audit Evidence (SAAE)

To obtain **reasonable assurance**, auditor shall obtain SAAE to **reduce audit risk to an acceptably low level** and draw reasonable conclusions on which to base auditor's opinion

- Reasonable assurance - In context of audit of F.S, a **high, but not absolute, level of assurance.**
- Audit evidence - Info. used by auditor in arriving at conclusions on which auditor's opinion is based.

(i) **Sufficiency is measure of quantity** of audit evidence.

Quantity is affected by:

- auditor's assessment of risks of material misstatement (ROMM) and
- quality of such audit evidence.

(ii) **Appropriateness is measure of quality** of audit evidence i.e. its **relevance and its reliability** in providing support for conclusions on which auditor's opinion is based.

### Audit Risk

Risk that auditor expresses **inappropriate audit opinion** when F.S. are **materially misstated**. Audit risk is function of the risks of material misstatement and detection risk.

Risk of material misstatement (ROMM) - The risk that F.S. are materially misstated prior to audit.

This consists of two components, described as follows at assertion level:

Inherent Risk	Control Risk
Susceptibility of an assertion about a <b>ABCD</b> to a <b>misstatement</b> that could be <b>material</b> , either individually or when aggregated with other misstatements, <b>before</b> consideration of any related <b>controls</b> .	Risk that a <b>misstatement</b> that could occur in an <b>assertion</b> about a <b>ABCD</b> and that could be <b>material</b> , either individually or when aggregated with other misstatements, will not be <b>prevented, or detected and corrected</b> , on a timely basis by entity's <b>internal control</b> .



ROMM may exist at two levels:

**Overall F.S. level** i.e. relate to F.S. as a whole potentially affecting many assertions

**Assertion level** for CoTs, account balances, and disclosures (ABCD)

Why we assess RoMM at assertion level?

ROMM at assertion level are assessed in order to **determine NTE of further audit procedures** necessary to obtain SAAE. This evidence enables auditor to express an opinion on F.S. at an acceptably low level of audit risk.

**Detection risk** - Risk that **procedures performed by auditor** to reduce audit risk to acceptably low level will **not detect a misstatement** that exists and could be material, either individually or when aggregated with other misstatements i.e. Risk of not detecting a material misstatement.

#### Scope of Audit

Auditor's opinion on F.S. deals with whether F.S. are prepared, in all material respects, as per applicable FRF.

- Such an opinion is common to all audits of F.S.
- Auditor's opinion therefore doesn't assure, future viability of entity nor efficiency or effectiveness with which mgt has conducted affairs of entity.
- In some cases applicable laws and regulations may require auditors to provide opinions on other specific matters, such as effectiveness of internal control, or consistency of a separate mgt report with F.S.
- While SAs include requirements and guidance in relation to such matters to the extent they are relevant to forming an opinion on F.S., auditor would be required to undertake further work if auditor had additional responsibilities to provide such opinions.

#### The Premise (Responsibilities of Mgt & TCWG)

- For **preparation and presentation of financial statements** (PPFS) as per **applicable FRF**; this includes **design, implementation and maintenance (DIM)** of **internal control (IC)** relevant to PPFS free from material misstatement, whether due to fraud or error; &
- To **provide auditor with:**
  - All information**, such as records and documentation, & other matters relevant to PPFS
  - Any additional info** that auditor may request from mgt and, where appropriate, TCWG and
  - Unrestricted access** to those within entity from whom auditor determines necessary to obtain audit evidence.



- As part of their responsibility for PPFS, mgt and, TCWG are responsible for:
- Identification of applicable FRF, in context of relevant laws or regulations.
  - PPFS as per that framework.
  - Adequate description of that framework in F.S.

Preparation of F.S. requires mgt to exercise judgment in making *a/c estimates* that are reasonable in circumstances, as well as to select and apply *appropriate a/c policies*. These judgments are made in the context of applicable FRF.

- F.S. may be prepared in accordance with a FRF designed to meet:
- *Common financial information needs* of a wide range of users (i.e., "general purpose F.S."); or
  - *Financial information needs of specific users* (i.e., "special purpose F.S.").

### Inherent Limitations of Audit (ILA)

Auditor isn't expected to and *can't reduce audit risk to zero* and therefore *can't obtain absolute assurance* that F.S. are free from material misstatement due to fraud or error.

This is because there are inherent limitations of an audit, which result in *most of audit evidence* being *persuasive rather than conclusive*.

#### 1. Nature of financial reporting:

Preparation of F.S. involves *judgment by mgt* in applying requirements of applicable FRF to facts and circumstances of entity. For eg: Accounting estimates

#### 2. Nature of audit procedures:

- (i) Possibility that *mgt & others don't provide complete info* relevant to P.P.F.S
- (ii) *Fraud* may involve sophisticated and carefully organised schemes designed to conceal it.
- (iii) *Audit is not an official investigation* into alleged wrongdoings. He doesn't have special powers eg. search.

#### 3. Timeliness of Reporting & Balance between Benefit and Cost:

*Relevance of information*, and thereby its value, *tends to diminish over time*, and there is a balance to be struck between the reliability of information and its cost.

#### 4. In case of certain assertions or subject matters, potential effects of inherent limitations on auditor's ability to detect material misstatements are particularly significant.

Such assertions or subject matters include:

- ✓ *Fraud*, particularly fraud involving senior management or collusion.
- ✓ The existence and completeness of *related party* relationships and transactions.



- ✓ The occurrence of **non-compliance** with laws and regulations.
- ✓ Future events or conditions that may cause an entity to cease to continue as a going concern.

## Notes:

- Because of inherent limitations of audit, there is unavoidable risk that some material misstatements of F.S. may not be detected, even though audit is properly planned and performed as per SAs.
- Subsequent discovery of a MM of F.S. resulting from fraud or error doesn't by itself indicate failure to conduct audit as per SAs.
- However, ILA are not a justification for auditor to be satisfied with less-than-persuasive audit evidence.

## Conduct of an Audit in accordance with SAs

- **Complying with SAs Relevant to Audit:**
  - Auditor shall **comply with all SAs** relevant to audit.
  - SA is **relevant** to audit when it is in effect and **circumstances addressed by the SA exist**.
  - Auditor shall have an **understanding of entire text** of an SA including application.
  - Auditor shall **not represent compliance with SAs in auditor's report unless auditor has complied with requirements** of this SA and all other SAs relevant to the audit.
- **Objectives Stated in Individual SAs:**
  - Achieve overall objective → using objectives of relevant SAs
  - Having regard to interrelationships among SAs:
    - ✓ Determine if any audit procedure in addition to that required by SAs is necessary.
    - ✓ Evaluate whether SAAE has been obtained
- **Complying with Relevant Requirements**
  - Auditor shall **comply with each requirement** of SA **unless**, in circumstances of audit:
    - a. An SA is not relevant or
    - b. There's conditional requirement & condition doesn't exist.
  - In **exceptional circumstances**, auditor may depart from relevant requirement in SA. In such cases, auditor shall perform **alternative audit procedures**.
- **Failure to achieve an Objective**
  - Evaluate if it prevents auditor from achieving overall objective &
  - Requires to modify opinion or withdraw from engagement
  - It's a significant matter requiring documentation as per SA 230

**"Do Sufficient & Appropriate coverage to get Reasonable Assurance of Passing CA Exams"**



## SA 210 Agreeing the Terms of Audit Engagement

### Objective

Objective of auditor is to accept or continue audit engagement only when **basis upon which it is to be performed** has been **agreed**, through:

- (a) Establishing whether **preconditions for audit** are present and
- (b) Confirming that there is **common understanding** b/w auditor and mgt and, where appropriate, TCWG on terms of audit engagement.

### Preconditions of Audit

Auditor shall:-

- a. determine whether **FRF is acceptable** [Factors discussed later]
- b. Obtain **agreement of mgt** that it acknowledges and understands its **responsibility**:
  - i) For **preparation of F.S.** in accordance with applicable FRF
  - ii) For such **Internal Control (IC)** as mgt determines necessary to enable preparation of F/S free from material misstatement, whether due to fraud or error &
  - iii) To **provide the auditor** with:
    - a) **Access to all info.** of which mgt is aware that's relevant to preparation of F/S (records, docs etc)
    - b) **Additional information** that auditor may request from mgt for purpose of audit and
    - c) **Unrestricted access** to persons within entity from whom auditor determines necessary to obtain audit evidence.

If preconditions not present, auditor shall discuss matter with mgt

Unless required by law or regulation, auditor shall **not accept** proposed audit engagement:

- a. If auditor has determined that **FRF** to be applied in preparation of F/S is **unacceptable** or
- b. If agreement has not been obtained.

### Limitation on Scope Prior to Audit Engagement Acceptance

If mgt or TCWG impose limitation on scope of auditor's work such that auditor believes it'd result in **audit disclaiming an opinion** on F/S, shall **not accept** such audit engg, **unless required by law or regulation**.

### Contents of Agreement on terms of Audit engagement

Agreed terms of audit engg. shall be recorded in audit engg. letter or other written agreement and include

- a. The **objective and scope** of the audit of F.S.
- b. The **responsibilities** of auditor
- c. The responsibilities of **management**
- d. Identification of **applicable FRF** for preparation of F.S. and
- e. Reference to **expected form and content** of any **reports** to be **issued by auditor** and a statement that there may be **circumstances** in which a report may differ from its expected form and content.

### Recurring Audits: New engagement letter each time?

Auditor may decide not to send new audit engg. letter or other written agreement each period.

Following factors make it appropriate to revise terms of audit engg. or remind entity of existing terms:

- ✓ Any indication that **entity misunderstands objective and scope** of audit.
- ✓ Any **revised or special terms** of audit engagement.
- ✓ A **recent change of senior management**.
- ✓ 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 **FRF** adopted in the preparation of F.S.
- ✓ A change in **other reporting requirements**.

### Acceptance of a Change in Terms of Audit Engagement

Auditor shall **not agree** to change in terms of audit engg. where there is **no reasonable justification** for doing so. If, prior to completing audit engg, auditor is requested to change it to an engagement that conveys **lower level of assurance**, determine **whether there is reasonable justification** for doing so.

If terms are changed, auditor and mgt agree on and record new terms of engagement in engagement letter or other suitable form of written agreement.

If auditor **unable to agree** to change of terms and **not permitted** by mgt to **continue**, auditor shall:

- (a) **Withdraw** from audit engg. where possible under law or regulation and
- (b) **Determine** whether there is **obligation**, either contractual or otherwise, to **report** circumstances to other parties, such as TCWG, owners or regulators

### FRF Prescribed by Law or Regulation—Other Matters Affecting Acceptance

If auditor has determined → FRF prescribed by law or regulation would be unacceptable but for the fact that its prescribed by law or regulation, auditor shall accept audit engg. only if following conditions are present:

- a. **Management agrees to provide additional disclosures** in F.S. and
- b. It is recognised in **terms of audit engagement** that:
  - i) Auditor's report will include **EOM para**, drawing users' attention to add. disclosures, as per **SA 706** &
  - ii) Unless auditor is required by law or regulation to express auditor's opinion on F.S. by using phrases "present fairly, in all material respects", or "give a true & fair view" as per applicable FRF, auditor's opinion on F.S. will **not include such phrases**.

If above conditions not present and auditor reqd. by law or regulation to undertake audit engg., he shall:

- (a) Evaluate effect of misleading nature of F.S. on auditor's report and
- (b) Include appropriate reference to this matter in terms of audit engg.



- Factors relevant to auditor's determination of acceptability of FRF to be applied in preparation of F.S. include:
- **Nature** of entity (for example, whether it is a business enterprise, or a not for profit organization)
  - **Purpose** of F.S. (for eg, whether they are prepared to meet common financial information needs of a wide range of users or financial information needs of specific users)
  - **Nature** of F.S. (for example, whether F.S. are complete set of F.S or a single F.S.) and
  - Whether **law or regulation** prescribes applicable FRF.

### Audit of Components

When auditor of parent entity is also auditor of component, factors that may influence decision whether to send separate audit engagement letter to the component include the following:

- (i) **Who appoints** component auditor
- (ii) Whether a **separate auditor's report** is to be issued on the component
- (iii) **Legal requirements** in relation to audit appointments
- (iv) **Degree of ownership** by parent and
- (v) Degree of **independence** of the component management from the parent entity.

### SA 230 "Audit Documentation"

Record of

- ✓ audit procedures performed,
- ✓ relevant audit evidence obtained, and
- ✓ conclusions the auditor reached" (commonly known as working papers).

### Purposes of Audit Documentation

1. Assisting engagement team to **plan and perform the audit**.
2. Assisting members of the engagement team responsible for supervision to direct and supervise the audit, and to discharge their **review responsibilities**.
3. Enabling engagement team to be **accountable for its work**.
4. Retaining **record of matters** of continuing significance to future audits.
5. Enabling **conduct of quality control reviews** and inspections.
6. Enabling **conduct of external inspections**.

[Retain → Plan & Perform → Accountable → Review & Inspections]

### Form, Content and Extent of Audit Documentation

Auditor shall prepare audit doc. sufficient to enable an experienced auditor to understand:

- a. Nature, timing, and extent of **audit procedures**
- b. Results of audit procedures performed, and **audit evidence** obtained and
- c. Significant matters arising during audit and **conclusions reached** thereon, significant professional judgments made in reaching those conclusions.

In documenting nature, timing and extent of audit procedures performed, auditor shall record:

- (i) The identifying **characteristics** of the specific items or matters tested
- (ii) **Who performed** audit work and **date** such work was completed and
- (iii) **Who reviewed** audit work performed and **date** and extent of such review

#### Factors effecting Form, content and extent of audit documentation

1. The **size and complexity** of entity.
2. The **nature of the audit procedures** to be performed.
3. The **identified risks of material misstatement**.
4. The **significance of the audit evidence** obtained.
5. The nature and extent of **exceptions** identified.
6. Need to document a **conclusion** or the basis for a conclusion not readily determinable from documentation of work performed or audit evidence obtained.
7. The **audit methodology** and tools used.
8. **Timely preparation** of Audit Documentation.

Learn with Fun ☺

#### Departure from a Relevant Requirement

If, in exceptional circumstances, auditor judges it necessary to depart from relevant requirement in SA, auditor shall document → **reasons** for departure and **alternative procedures** performed.

#### Documentation of Matters Arising after Date of Auditor's Report

If, in exceptional circumstances, auditor performs new or additional audit procedures or draws new conclusions after date of auditor's report, auditor shall document:

1. The **circumstances** encountered
2. **New or additional audit procedures** performed, **audit evidence** obtained, and **conclusions** reached and their effect on the auditor's report and
3. **When and by whom changes** to audit documentation were **made and reviewed**.

#### Assembly of Final Audit File

After assembly of final audit file has been completed, auditor shall not delete or discard audit documentation of any nature before end of its retention period i.e. 7 Years.

Auditor shall assemble audit documentation in audit file and complete administrative process of assembling file on timely basis after date of auditor's report i.e. after 60 days.





In circumstances where auditor finds necessary to modify existing audit documentation or add new audit documentation after assembly of final audit file completed, auditor shall, regardless of nature of modifications or additions, document:

- (a) Specific reasons for making them and
- (b) When and by whom they were made and reviewed.

Q. Its neither necessary nor practicable for auditor to document every matter considered on professional judgement made. Further its unnecessary to document separately compliance with matters for which compliance is demonstrated by documents included within audit file. Explain.

Its unnecessary for auditor to document separately (as in a checklist, for eg) compliance with matters for which compliance is demonstrated by documents included within audit file.

For example:

- ✓ Existence of adequately documented audit plan demonstrates that auditor has planned the audit.
- ✓ Existence of a signed engagement letter in audit file demonstrates that auditor has agreed terms of the audit engg. with mgt, or where appropriate, TCWG.
- ✓ An auditor's report containing an appropriately qualified opinion demonstrates that auditor has complied with requirement to express a qualified opinion as per the SAs.

In relation to requirements that apply generally throughout audit, there may be a no. of ways in which compliance with them may be demonstrated within audit file:

- ✓ For eg, there may be no single way in which the auditor's professional skepticism is documented. But audit documentation may nevertheless provide evidence of auditor's exercise of professional skepticism. Such evidence may include specific procedures performed to corroborate mgt's responses to auditor's inquiries.
- ✓ Similarly, that EP has taken responsibility for direction, supervision and performance of audit in compliance with SAs may be evidenced in a no. of ways. This may include documentation of EP's timely involvement in aspects of audit, such as participation in team discussion reqd. by SA 315.

Learning:

As work not documented is work not done,

questions not practiced by recalling or writing are Questions not done!

Do Practice the Questions Now 😊