PROFILE

Name AKASH GUPTA

Subject AUDITING AND ETHICS

Academic Year [redacted] Semester

Address RAMPARK EXTN, GZB

Branch Contact 7838600356

Professor in Charge CA KAPIL GOYAL

Institute / University / School ICAI

FLOW OF AUDIT

STEP-I: WALK-THROUGH

Suppose, there are 100 risks in an area and, these risks are mitigated by 150 controals.

CONTROL RISK MANAGEMENT TABLE

RISK	CONTROL
A	1, 2
B	3
C	4, 5, 6
D	7, 8

Auditor will select the relevant controals

Identify the Significant Risk

STEP-II: TEST OF CONTROL

Test the relevant controals

↓

Testing the result of Control

↓ If PASS

OKAY

↓ If FAILS

If some samples fails, for example 2 samples failed out of 12, then, test another 40 samples

↓

and, also discuss with management for reason [in our example, the reason was death of CFO's mother]

If Auditor Satisfied → OKAY

If Auditor not satisfied → Further testing / Management Response

Further testing → Check compensating controls, if any, & test them

If controls are OKAY then document them

If controls are FAILED then,
- Mention in Report
- Check Impact on next step

After control testing Auditor decides control risk, whether the control risk is
- Low, or
- Medium, or
- High

HOW TO DECIDE CONTROL TESTING SAMPLES

It depends on the nature and frequency of Controals

NATURE	FREQUENCY
Manual	Daily
Automated	Weekly
Manual + Automated	Monthly
	Yearly

STEP-III : FINANCIAL STATEMENT TESTING

Purchase of ₹10,000 cr. and there 4,00,000 transactions related to purchase

therefore, 100% checking is NOT POSSIBLE

So, the auditor need to do sampling

But HOW ??

- Sampling by Materiality [Big transactions] [SA-320]
- By tool or software [Ex : IDEA in KPMG]
  - Purchase Data – 4,00,000 transactions
  - Materiality – SA-320 [Ex - transaction above 50L]
  - Control Risk – Low
  - Inherent Risk – Low
  - Minimum Sample Size – 400 for Ex. (optional)

NOTE: Before putting the purchase data in the IDEA software, we will do IPE Testing [Information produced by Entity] check whether the data is

- Complete
- Accurate
- Reliable
- Relevant

then, IDEA will generate samples, say, 450 Samples

↓

then, Send the list of these 450 samples to the client

↓

On these 450 Samples – Check Assertions

ASSERTIONS	TOD Sample checking	Other Audit Procedures
COMPLETENESS	✓	Other Audit Procedures
EXISTANCE	X	Physical Verification
ACCURACY	✓	〃 〃
VALUATION	Transaction ✓	
	Valuation X	Other Audit Procedures
OBLIGATION/ RIGHTS		Other Audit Procedures
PRESENTATION	X	Other Audit Procedures

Sample checking TOD + Other Audit Procedures
= Substantive Audit procedures

Summary:

Step-I: Walk-through — Process, Risk, Control

Step-II: Control Testing — Control Risk: Low, Medium, High

Step-III: Substantive Audit Procedures

IDEA Software → DATA, MATERIALITY, IR, CR, Min. SAMPLE → 450 SAMPLES

↓

Check Assertions by performing Substantive Audit procedures

SA-200

Overall objectives of the Independent Auditor and the Conduct of an Audit in Accordance with SAs

As per SA-200, the overall objectives of the auditor are:

a) To obtain reasonable assurance about whether the F.S. as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the F.S. are prepared, in all material respects, in accordance with an applicable FRF, and

b) To report on the F.S. and communicate as required by the SAs, in accordance with the auditor's findings.

In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient, the SAs require that the auditor disclaim an opinion or withdraw from the engagement.

Conduct of an Audit in Accordance with SAs

1. Compliance
2. Objectives
3. Complying with relevant requirements
4. Failure to achieve an objective

Ethical Requirements Relating to an Audit of F.S.

1. Integrity
2. Objectivity
3. Professional Competence and due care
4. Confidentiality
5. Professional Behaviour

Professional Skepticism

1. Questioning mind
2. being alert to conditions that may indicate possible misstatement due to error or fraud
3. Reduces the risk of
   - Overlooking unusual circumstances.
   - Over generalising when drawing conclusions from audit observation.
   - Using inappropriate assumptions in determining N,T,E of audit procedures.

Professional Judgment

1. Application of relevant training, Knowledge and experience in planning and performing an audit of F.S.
2. exercised throughout the audit
3. important when deciding about:
   - Materiality & Audit risk
   - NTE of audit procedures
   - Evaluating sufficiency & appropriateness of audit procedures
   - Evaluating management judgment in applying applicable FRF
   - Drawing conclusions based on audit evidence.

Sufficient Appropriate Audit Evidence

To obtain reasonable assurance

1. Reasonable Assurance : A high, but not absolute, level of assurance.
2. Sufficient Appropriate Audit Evidence : Sufficiency refers to quantum and Appropriateness refers to quality.

Audit Risk

risk that the auditor expresses an inappropriate audit opinion.

Inherent Limitations

1. Nature of financial reporting
   - Preparation of F.S. involves making many judgments by management
   - Responsibility of preparation of F.S. and design of internal Control.
2. Nature of Audit Procedures
   - Practical limitations due to sampling
   - Legal limitation → management may not provide complete information as requested by the auditor
   - Fraud by management
   - Related Party Transaction [SA-550]
3. Not in nature of Investigation
4. Timeliness of financial reporting & decrease in relevance of information over time.
5. Future events [SA-560]

SA-210

Agreeing the Terms of an Audit Engagements

Preconditions for an Audit

- Acknowledgement by management of its responsibility w.r.t
- preperation of F.s. as per FRF
- Internal Control so that F.s. should be free from frauds and errors
- They will provide autidor with:
  - access to all information
  - additional information
  - unrestricted access to persons if necessary

NOTE: Auditor should not accept the audit if aforesaid preconditions are not present or prior to acceptance management impose any limitation.

Audit Engagement Terms

- Audit engagement letter includes
- Objectives of the Audit
- Scope of Audit
- Responsibility of management & Auditor
- Identification of FRF
- Reference to expected form & content of reports to be issued by the auditors
- If laws / Regulation prescribes terms, then no need for separate written terms except that management acknowledge the same.

Additional Consideration

Financial Reporting standards are in conflict with laws, Discuss with the management

If additional disclosure in financial statements or amendment to standard is possible

- If Yes, then OK
- If No, then Modify the Audit Report

Recurring Audit - Whether to Revise / Remind

Before completing Audit, if the client requests the auditor to change the terms that conveys

Consider whether justification for change

- YES
  - Agree to the new terms
- NO
  - If management doesn't permit original engagement, then withdraw form engagement and communicate to TCWG and members

Important Question For Exam

However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- 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 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 financial reporting framework adopted in the preparation of the F.S.
- A change in other reporting requirements.

SA-220

Quality Control for an Audit of Financial Statements

Planning Stage

- Acceptance and continuance of client relationships and specific engagements.
- Human resources
- Assignment of engagement teams
- Independence
- Ethical Requirements
- Leadership responsibilities for quality within the firm.

Execution / Engagement Performance

- Direction
- Supervision
- Consultation
- Discuss key matters
- Monitoring
- EQR
- Documentation

Engagement Quality Control Review [EQR]

- Review all process including
- Appointment
- Independence
- Discuss Significant matters
- Review Propose Audit Report

- Review Documentation
- Difference of Opinion ?
- EQR Documentation

Important For Exams

1. Examples of Information which should be consider by the firm before acceptance of new client:

→ The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
→ The nature of the client's operations, including its business practices.
→ Information concerning the attitude of the client's principal owners, key management & TCWG towards such matters as aggressive interpretation of accounting standards & the internal control environment.
→ Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
→ Indications of an inappropriate limitation in the scope of work.
→ Indications that the client might be involved in money laundering or other criminal activities.
→ The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
→ The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

2. Information which may cause firm to withdraw:

- → The integrity of the principal owners, key management and TCWG of the entity
- → Competency of engagement team to perform the audit engagement and availability of necessary, including time and resources.
- → Compliance with relevant ethical requirements by firm and the engagement team
- → Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

ENGAGEMENT QUALITY CONTROL REVIEW

PARTNER	QUALITY CONTROL REVIEWER
1. The engagement partner shall: a) Determine that an engagement quality control reviewer has been appointed. b) Discuss significant matters with the engagement quality control reviewer, and c) Not date the auditor report until the completion of the engagement quality control review.	1. The Engagement quality control reviewer shall evaluate the following: a) Discussion of significant matters with the engagement partner b) Review of the financial statements and the proposed auditors report. c) Review of selected audit documentation, and d) Conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

2. Differences of opinion:
Firm's policies and procedures for dealing with and resolving differences of opinion.

2. For audits of F.S. of listed entities:
a) The engagement team's evaluation of the firm's independence.
b) Whether appropriate consulations has taken place and the conclusions arising from those consultations.
c) Whether audit documentation selected for reviews reflects the work performed and supports the conclusions reached

SA-230

Audit Documentation

Audit Documentation Meaning

record of audit procedure performed, relevant audit evidence obtained and conclusion reached.

"Work not documented, not done"

Audit Documentation Includes

- → Audit Programmes
- → Analysis
- → Email
- → Summary of significant matters

Purpose of Audit Documentation

- → Planning
- → Quality Control review
- → Deciding responsibility for work
- → For future reference
- → Legal requirement

Basic Requirement

- → Work papers should be designed & organised in standard format
- → Nature of Audit
- → Procedure performed
- → Significant matters and How they resolved ?

- Date, Signed and conclusion reached
- should maintain at least for 7 years from the date of Audit Report / Group Audit Report
- Maintain confidentiality unless required by laws & regulation

Assembly of Final Audit File

- Assembly of final audit file in 60 DAYS after the date of Audit report. [IMP FOR MCQ]
- No new audit procedure can be performed except admin process.

MATTERS ARISING AFTER THE DATE OF AUDIT REPORT [SA-560]

- Perform additional audit procedure
- Document circumstances encountered
- Who reviewed and how documented

General Concepts

- Significant matters & professional Judgement
- Ownership of Audit Documentation [IMP FOR EXAM]
- Working paper file
  - Permanent - Ex: MOA/AOA/ Aggreement
  - Current - Ex: Annual appoitment / Planning evidence
- Audit Note Book [IMP FOR 4 MARKS]
- Completion memorandum on audit documentation summary
  - Summary of significant matters
  - How they were resolved

SA-240

The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Why Management do Fraud?

- Incentive – Bonus to employees for more sales
- Ability of People – If you will not achieve this target, bonus will not paid
- Opportunity to commit fraud – Weak internal control [Issue procedure]

Situation	Management	Auditor
Responsibility for the prevention and detection of fraud	Primary responsibility → Management & TCWG Management & TCWG, should place a strong emphasis on fraud prevention, detection and correction.	An auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement. Link with – • SA 200 Inherent limitations • Risk of fraud is higher than error • Intentional Fraud • Auditor should maintain professional skepticism

Audit Procedure

Risk Assessment Procedure

Enquiring Management & Others within the Entity

The auditor shall make inquiries of management regarding:

i) Management's assessment of the risk of material misstatement due to fraud,

ii) Management's process for identifying & responding to the risks of fraud in the entity, including any specific risk of fraud,

iii) Management's communication, if any to TCWG,

iv) Managements' communication, if any, to employees regarding its views on business practices and ethical behaviour.

Identification and Assessment of RoMM

In accordance with SA-315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures.

The auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

Response to RoMM due to Fraud

Overall Responses SA 330

The auditor shall:

- Assign and supervise personnel as per their capability,
- Evaluate whether accounting policies adopted by the entity indicate fraudulent financial reporting resulting from management's effort to manage earnings,
- Incorporate supervise element in the selection of NTE of audit procedures

Response to Assessed risks of material misstatement due to fraud at the Assertion level

- Perform further audit procedure

For those entities that have an internal audit function, the auditor shall make inquiries of internal auditor. Enquiring TCWG i) He shall obtain an understanding of how TCWG supervise management's processes. ii) The auditor shall ask TCWG whether they have knowledge of any fraud affeting the entity.		• If Auditor identify misstatement than consider whether such a misstatement is indicative of fraud. • Re-evaluate the assessment of the risks of material misstatement due to fraud and its resulting impact on the NTE of audit procedures. • Evaluate the implications for the audit.

OBTAIN MANAGEMENT REPRENTATION LETTER [MRL] FOR

1. Its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;
2. It has disclosed to the auditor the results of its assessment of the risk of fraud;
3. It has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving:
   a. Management
   b. Employees who have significant roles in internal control
   c. others
4. It has disclosed to the auditor its knowledge of any allegations of fraud, or suspected fraud, affecting the entity's F.S.

Reporting Responsibility

To TCWG/ Management	Section - 143(12)	In CARO 2020	Not able to continue
Refer Chart	Refer Chart	As per Para 3(xi) of CARO 2020, whether any fraud by the company by its officers or employees has been noticed or reported during the year; If Yes, the nature and the amount involved is to be indicated.	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 * If auditor withdraws: • Discuss with the appropriate level of management & TCWG, the auditor's withdrawal from the engagement and the reasons for the withdrawal. • Determine whether there is a professional or legal requirement to report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities, the auditor's withdrawal from the engagement and reasons for the withdrawal.

FRAUD REPORTING
[Section - 143(12) & Rule 13]

Fraud involving amount of less than ₹ 1 crore

- Report to Board/Audit committee
  - Within 2 days of Knowledge
    - Report the following matters:
      a) Nature of fraud with discription
      b) Approximate amount involved
      c) Parties involved
- Disclose Board's Report
  - Disclose in Board's Report Disclosure of following details:
    a) Nature of fraud with description
    b) Approximate amount involved
    c) Parties involved if remedial action not taken
    d) Remedial actions taken

Fraud involving amount of ₹ 1 crore or above

- Report to central Government in following manner:
  - Within 2 days of Knowledge
    +
    Report to Board/Audit Committee
  - Seeking reply within 45 DAYS
    - Reply/obsenvations received within stipulated time
      - Forward Report + Reply/obsenvations + Comments to CG within 15 days of receipt of such reply/obsenvations
    - Reply/obsenvations not received within stipulated time
      - Forward Report + note containing details of report for which failed to receive any reply/obsenvation to CG

Section - 143 (13) : No Liability of Auditor

An auditor shall not be deemed to be guilty for breach of any of his duties by reason of his reporting any matter to the Central Government if such reporting is done in good faith.

Section - 143 (14) : Provisions Applicable to other Auditors

The provisions w.r.t. reporting of fraud shall mutatis mutandis apply to -

a) the cost accountant conducting cost audit under section - 148
b) the Company Secretary in practice conducting secretarial audit under section - 204

Section - 143 (15) : Punishment for Non - Compliance

If any auditor, CMA, CS in practice does not comply with the provisions of section - 143(12), he shall -

a) in case of a listed company, be liable to a penalty of five lakh rupees, and
b) in case of any other company, be liable to a penalty of one lakh rupees.

SA-250

Consideration of Laws and Regulations in an Audit of Financial Statement

Some laws or regulations have a direct effect on the financial statements

The auditor's responsibility is to obtain sufficient appropriate audit evidence about compliance with the provisions of those laws and regulations.

The auditor shall obtain a general understanding of:

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

Other laws or regulations are to be complied with by management but do not have a direct effect on an entity's financial statements

The auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws & regulations that may have a material effect on financial statements.

The auditor shall perform the following audit procedures to identify instances of non-compliance

1. Inquiring of management
2. Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.

AUDIT PROCEDURES WHEN NON-COMPLIANCE IS IDENTIFIED OR SUSPECTED

The auditor shall obtain:

* An understanding of the nature of the act and the circumstances in which it has occured
* Further information to evaluate the possible effect on financial Statements.

If the auditor suspects that there may be non-compliance, the auditor shall discuss the matter with management and TCWG. If management or TCWG do not provide sufficient information the auditor shall consider the need to obtain legal advice. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.

The following matters, it may also be an indication of non-compliance with laws and regulations:

- Investigation by regulatory organisations and government departments or payment of fines or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or govt. 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, purchase in the form of cashier's 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.

- Payment without proper exchange control documentation.
- Payment for goods or services made other than to the country from which the goods or services originated.
- 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 related transactions
- Adverse media comment.

NON-COMPLIANCE REPORTING

TO THOSE CHARGED WITH GOVERNANCE	IN THE AUDITOR REPORT	IN CARO 2020	TO REGULATORY AND ENFORCEMENT AUTHORITIES
Unless all of TCWG are involved in management of the entity, the auditor shall communicate as soon as practicable with TCWG matters involving non-compliance with laws & regulations that come to the auditor's attention. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon, the auditor shall consider the need to obtain legal evidence	Modify the Audit Report as per SA 705	If non-compliance belongs to Statutory dues as per para -3(vii)	Auditor shall determine whether the auditor has a responsibility to report the identified or suspected non compliance to parties outside the entity.

SA-260

Communication with TCWG

The Role of Communication

- Understanding matters related to the audit in context, and in developing a constructive working relationship, while maintaining the auditor's independance and objectivity.
- Obtain relevant information from TCWG to understand the entity
- Understand the TCWG responsibility relating to financial reporting to reduce the RoMM.

Auditor does not relieve from his responsibility if management communicated the same information to TCWG

OBJECTIVES OF COMMUNICATION:

- Auditor responsibility
- Planning, Scope and timing
- Obtain relevant information
- Provide observation on Timely Basis
- Effective communication b/w Auditor & TCWG

MATTERS TO BE COMMUNICATED:

- The Auditor's Responsibilities in relation to the F.S. Audit - SA 200 linking
- Planned scope and Timing of the Audit
- Significant findings from the Audit
- Auditor Independence
- Significant difficulties, if any, encountered during the audit

Significant Difficulties Encountered During the Audit may include such matters as:

1. Significant delays by management, the unavailiabilty of entity personnel, an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.
2. An unreasonably brief time within which to complete the audit.
3. Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
4. The unavailiabilty of expected information.
5. Restrictions imposed on the auditor by management.
6. Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

The Communication Process

- form, timing and content
- In written
- If communication process is not effective → effect on FS and appropriate action
- Documentation

SA-265

COMMUNICATING DEFICIENCES IN INTERNAL CONTROL TO TCWG AND THE MANAGEMENT

Communicate Deficiences in Internal Controls that the auditor has identified.

LINK WITH SA-315 ← Walkthrough / Test of Control → WHY??

↓

To design NTE of Audit Procedures (as per SA-330)

REQUIREMENT

- → Auditor should determine whether deficiencies is significant or not.
- → Communicate in writing on timely basis
- → Also communicate other deficiences identified during the audit.

AUDITOR SHOULD COVER THE FOLLOWING:

- → Description of Deficiencies
- → Effect

General Concepts (Important for Exams)

1. Draft Letter of Weakness

→ Points to be included in written letter for communication:

- Description of deficiency
- Area of weakness
- Effect
- Sufficient information to understand the deficiency

→ Important Points:

- Only weakness in Internal Control and Suggestion.
- Mention that Auditor tested controls to decide NTE of audit procedures not for opinion.
- Mention reference of the relevant document.
- This letter also help in reducing legal liability.

2. Indicators of Significant Deficiencies

→ Ineffective aspects of control environment
→ Ineffective response to significant risk
→ Misstatement not corrected by management

SA-299

Joint Audit of Financial Statements

Audit Planning

- Partner and other key members should be involve in planning.
- Jointly establish audit strategy.
- On the basis of strategy develop Audit Plan
- Audit plan should include
  - Scope and aspects of Audit
  - Common Audit areas
  - Reporting objective to decide NTE
  - Result of preliminary engagement activities
  - Communicate significant matters
  - NTE of resources necessary to perform the engagement.

Allocation of Work

- Devide by mutual discussion, e.g., Identified units or specified areas
- If division is not possible then divide on the basis of Assets, Liability, Income, Expense etc.

Risk Assessment

- ROMM communicate with each other.
- Discuss NTE of Audit Procedures related to 'specified allocated area as common area' and communicate to TCWG.
- Obtain common engagement letter & Common MRL.
- Sign Work Allocation Document and communicate to TCWG.

Responsibilty and Co-ordination among Joint Auditors

→ Auditor responsible for work allocated to him.

→ Auditor responsible to stay and evaluation of system of internal control.

→ All the Joint Auditors shall be, Individually, responsible for
- work which is not allocated
- planning activities
- Common decision
- matter noticed by one auditor and agreed by others
- Financial statement comply with
  - Relevant FRF
  - Relevant statues
  - Other legal and regulatory requirement
- Audit Report comply with
  - SAs
  - Relevant Statutes
  - Relevant Pronouncement of ICAI

Audit Conclusions and Reporting

- Issue common audit report like Reliance
- If difference in opinion issue Seperate audit report.

  NOTE: Joint auditor is not bound by majority of the other auditors.
- In case of dis-agreement make a note in the other matters paragraph as per SA-706

SA-300

Planning an Audit of Financial Statements

Step-I : Preliminary Engagement Activities

Perform procedures as per SAs

1. Engagement Terms as per SA-210
2. Client acceptance as per SA-220
3. Independance as per SA-220

Step-II : Planning Activities - Develop Audit Strategy

1. Results of preliminary engagement activities
2. Nature and scope of engagement
3. Reporting objective
4. Discuss significant matters
5. Knowledge of other entity
6. Ascertain the NTE of audit procedure

Step-III : Planning Activities - Develop Audit Plan

NTE as per SA-315

1. Planned Risk Assessment
2. Further Audit Procedure
3. Other Audit Procedure

Step-IV : Execution Stage

1. Update Audit plan as necessary during the course of Audit.
2. Plan NTE of Direction, Supervision and Review of team members.

STAGE-V : DOCUMENTATION

1. Audit strategy
2. Audit Plan
3. Changes in strategy and Plan

Initial Audit Engagement

1. All the above points
2. Communication with predecessor auditor
3. Major Issue in relation to Initial selection of Accounting Policy
4. obtain sufficiend & appropriate audit evidences for opening balances.

SA-315

Identifying and Assessing the Risk of Material Misstatements Through Understanding the Entity and Its Environment

Objective

The Auditor would identify and assess the Risk of material Statement at
- Financial Statement level
- Assertion level

Auditor should understand the entity and its environment including the Internal Control System.

Why Auditor is doing this ??

↓

To design and implement the response to the ROMM.
So, that the Auditor can reduce Romm to an acceptable low level.

RMM

Audit Risk = Inherent Risk × Control risk × Detection Risk

STEP-I : RISK ASSESSMENT PROCEDURE AND RELATED PROCEDURE

→ Inquiry of Management
→ Analytical Procedure
→ Observation and Inspection

* Auditor should consider whether he can accept the client
  [ex] Continuance
* Other client experience
* Discuss in team the susceptibility

→ Understand the Entity & Environment, including Internal Controls
• Obtain understanding of
  * Relevant industry, regulatory
  * Nature of Entity
    - Ownership
    - Operation
    - Type of Investment
    - Entity structure
• Selection and application of Accounting Policy
• Entity Internal Control

Control Environment

- Culture of Heritage
- Strenght of Controls

Entity Risk Assessment Process

- Identify Risk
- Estimate significance of Risk
- Likelihood of occurance
- Action to address the risk

NOW AUDITOR WILL ACCESS THE ROMM

Step-II : Identifying and Assessing the Risk of Material Misstatement

- At financial statement level
- At Assertion level

Refer Practical Approach for RoMM

Risk that Require Special Audit Consideration :

- Risk of fraud
- Significant Accounting & Economic update
- Complex transaction
- Significant related party transactions
- Degree of subjectivity
- Unusual transaction

Revision of Risk Assessment

Practical Approach for RoMM

Purchase → ₹5,000 crore

↓

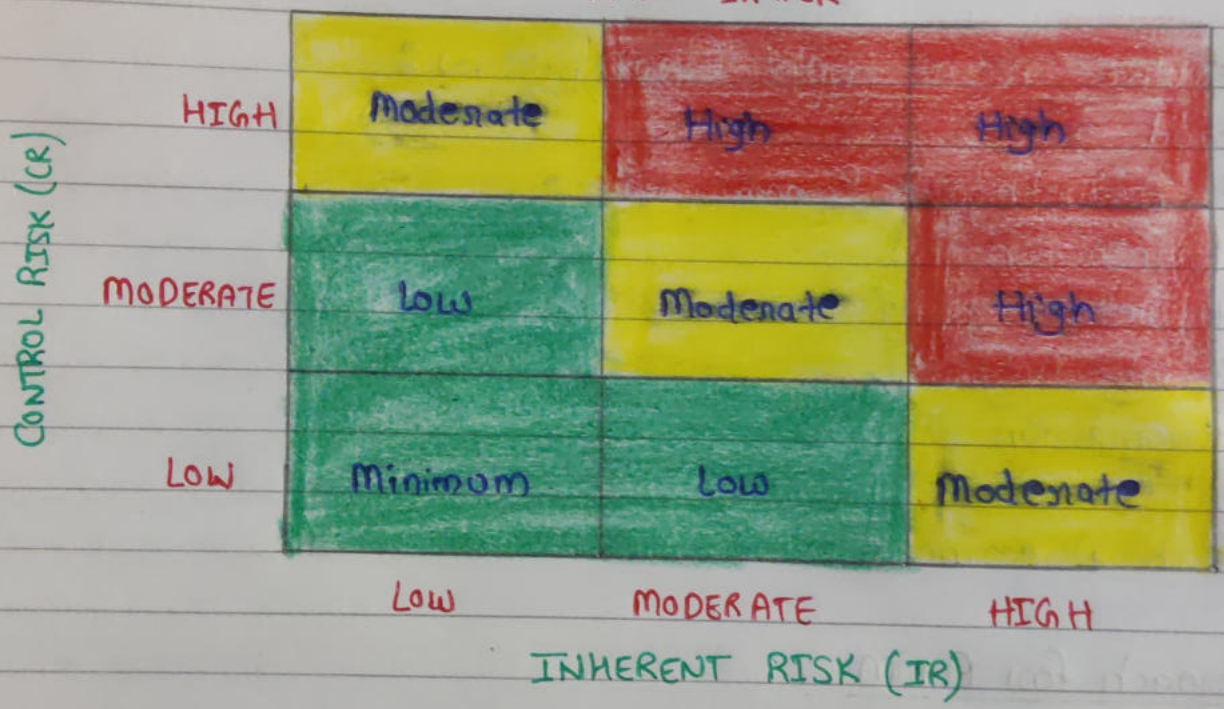
Sampling
- IR [SA 315] → RoMM
- CR
- Materiality [SA 320]
- Response [SA 330]

Identify IR X CR = RMM

IR ⇒ Understand Entity & Environment
↳ Low / Medium / High

CR ⇒ Walkthrough → Control Test
↳ Low / Medium / High

RMM = IR X CR



AUDIT RISK MATRIX

SA-320

Materiality in Planning and Performing an Audit

Audit Materiality in Planning and Performing an Audit

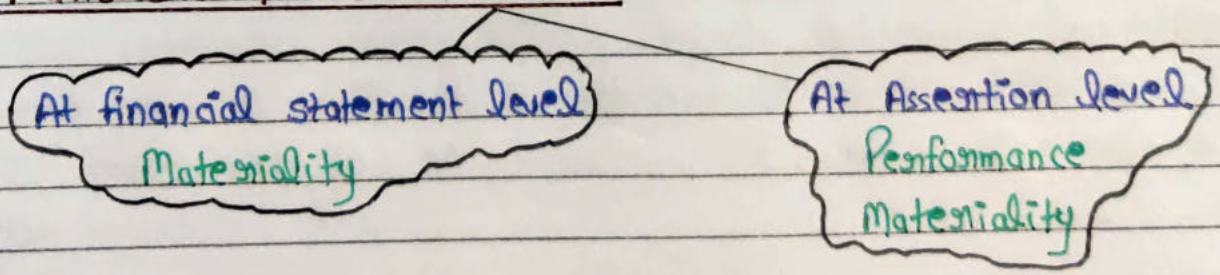
Materiality:

- Mis-statement, if they can influence the economic decisions of users
- It's affected by the size or nature of mis-statement
- Judgement its based on common financial information needs of users as a group.

In Determination of Materiality Auditor assume that uses,

- Have Knowledge of business and willing to study financial statement
- understand that Financial statements are prepared at level of materiality
- recognize uncertainty due to judgement and estimates
- he can make economic decision.

Materiality Determination



Materiality = Benchmark x % of Benchmark

e.g. Net Profit x 8%

Benchmark includes :

- elements of financial statements [i.e., assets, liabilities, equity]
- users of financial attention like profit
- Nature of the entity i.e, life cycle of entity
- ownership structure → Debt — High risk
  → Equity — less risk
- Volatility of benchmark

Revision in Materiality as and when Audit Progress

→ Revise materiality in the event of becoming aware of information during the audit that have caused the auditor to have determined a different amount initially.

→ Determine whether performance materiality needs to revise and whether NTE of further audit procedure is appropriate.

SA-330

The Auditor's Response to the Assessed Risks

The auditor shall design and implement overall response to address the assessed risks of material misstatement at the financial statement level.

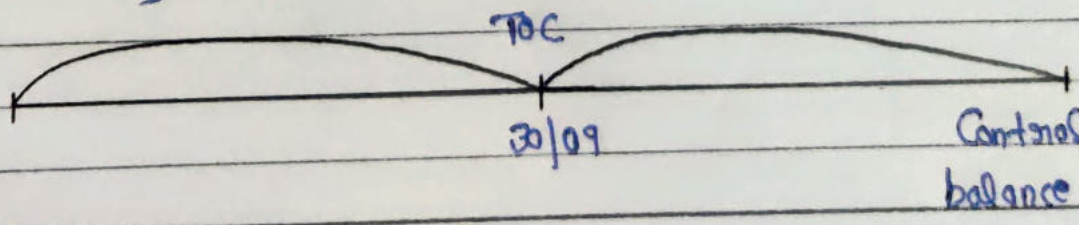
↓

Audit procedure are the responses to the assessed risks of material misstatement at the assertion level.

- Auditor shall design and perform further audit procedures whose NTE are based on and are responsive to the assessed risk of material misstatement.
- In design the further audit procedure to be performed, Consider material misstatement due to class of transactions and whether risk assessment takes consider the relevant Controls.

Step-I: Test of Control

- Auditor shall design and perform TOC, when he expects that the controls are operating effectively.
- Test controls when auditor expects substantive procedure do not provide sufficient & appropriate audit evidences.
- If controls tested at Interim stage, consider the change for the remaining period.



→ Using the audit evidence obtained in previous year.
a) If changes in control test in current year.
b) If no changes, test controls in every third year and test some significant control on each audit.

Evaluate the operating effectivess of controls and if Auditor identify weakness in Internal control, he should communicate to TCWG (SA 265).

STEP-II : SUBSTANTIVE AUDIT PROCEDURE

Irrespective of Ramm, Auditor shall design and perform substantive procedure for each material class of transaction, account balance and disclosures.

1. Substantive procedure related to financial statement closing process
   - Agreeing or reconciling the financial statement with the accounting records
   - examine journal entries

2. Substantive procedure responsive to significant risk → perform specific procedure responsive to that risk

3. Time of substantive procedures.

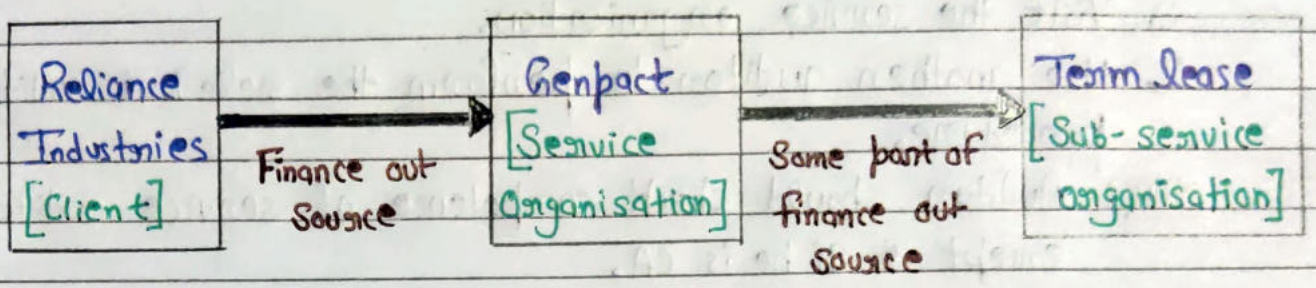
Evaluate the sufficiency and appropriateness of the audit evidences.

Step-III : Documentation

- Document overall response
- Linkage of procedure with assessed risks at assertion level
- Result

SA-402

Audit Consideration Relating to an Entity Using a Service Organisation



Auditor → KPMG (user Auditor) | Auditor → E&Y | Auditor → PWC
Reliance → user entity | Report → Type 1/2 | Report → Type 1/2

Read this standard considering yourself user entity Auditor

Step-1: We need to access RoMM of user entity for that the we need to understand the entity & its environment including Internal Control system [SA 315]

A. Obtain the understanding of the service provided by service organisation including,

1. Nature of service provided.
2. Materiality of the transaction processed.
3. The degree of interaction between user and service organisation.
4. Nature of relationship b/w user and service organisation including contractual terms.
5. Evaluate design of controls at user entity for service provided by service organisation.

6. Usen auditon shall obtain sufficient understanding of servie and effect on usen entity internal control.

If Auditon unable to obtain sufficient understanding than,

1. Obtain Type 1 Report on Type 2 Report.
2. Contact service organisation.
3. Visit the service organisation.
4. Use another auditon to perform the relevant audit procedure.

NOTE: Auditon should check competence of service auditon except → If he is CA.

7. In above steps auditon performed procedure relating and now auditon will perform TOC

Risk assessment includes that controls at service organisation are operating effectively for this usen auditon can do following activities,

→ Obtain Type 2 Report, if available
[Type 2 is required because in this report opinion given on design + effectiveness]
→ Performing appropriate TOC
→ using another auditon to perform TOC

Step-2: Responding to the assessed risk of material material

Usen auditon shall,

→ Determine whether sufficient and appropriate audit evidence available for relevant financial statement assertions from records held at usen entity.

→ Perform further audit procedure to obtain sufficient and appropriate audit evidence.
→ use another auditor to perform audit procedure.

General Points

1. Type 1/2 report exclude sub-service organisation
   → Auditor will perform same audit procedure as performed for service organisation.

2. Fraud / non-compliance at the service organisation
   Auditor will
   → Inquiry the management
   → Evaluate how matter NTE of further audit procedure
   → Evaluate effect on conclusion and audit report

3. Reporting by user auditor
   → Modify if sufficient and appropriate audit evidence not obtained
   → user auditor shall not refer the work of service auditor in case of unmodified opinion.
   → If reference to service auditor is relevant mention in report that user auditor responsibility does not diminish.

4. Type-1 Report

Description by management for service organisation system, objective and controls that have been designed and implemented on specified date.

A Report by auditor conveying reasonable assurance for →
System, control objective and
AND Suitability of design to achieve the control objective.

5. Type-2 Report

Same as type 1

⊕

Their operating effectiveness throughout a specified period

Same as type 1

⊕

(A) Operating effectiveness throughout a specified period.

(B) Service auditor test of control result

SA-450

Evaluation of Misstatement Identified During the Audit

Objective

- → Effect of identified mis-statement
- → Effect of unconnected mis-statement

Accumulation of Identified Mis-statement and Audit Consideration

- → Determine effect on audit as per SA 320
- → Nature of identified misstatement + Possibility of mis--statement in other account.
- → Perform additional audit procedure, if not possible qualify the opinion.

Must do when Identied Mis-statement

- → Communicate with mangment and TCWG
- → Evaluation of effect of unconnected mis-statement
- → Connection of mis-statement
- → Written representation
- → Documentation

Source of Mis-statement

- → In accuracy in data processing
- → Omission of amount / disclosure
- → Incorrect accounting estimates
- → Un-reasonable management judgement

SA-500

AUDIT EVIDENCE

MEANING

Audit evidence may be defined as the information used by auditor in arriving at the conclusions on which the auditor's opinion is based. Information may be financial or non-financial.

SUFFICIENT AND APPROPRIATENESS OF AUDIT EVIDENCE

Sufficiency = Quantity

How to decide sufficiency?

- Materiality as per SA 320
- RAMM (IR x CR)
- Size of account / population

Appropriateness = Quality

How to decide appropriateness?

- Source of Audit Evidence
- Nature of Audit Evidence
- Should be complete & Accurate (IPE)

TYPES OF AUDIT EVIDENCES

According to Nature:

→ Visual [e.g. Physical stock]
→ Document [e.g. Agreement]
→ Oral [e.g. discussion]

According to Source

INTERNAL
- Created internally
- e.g. sales invoice
- less reliable,
- more reliable if internal control system is good

EXTERNAL
- Created outside
- e.g. purchase invoice
- more reliable

RELIABILITY OF AUDIT EVIDENCE
- Independant source
- Internal evidence (if controls are effective)
- Directly obtain by the Auditor
- Written record rather than oral [original v/s photocopy]

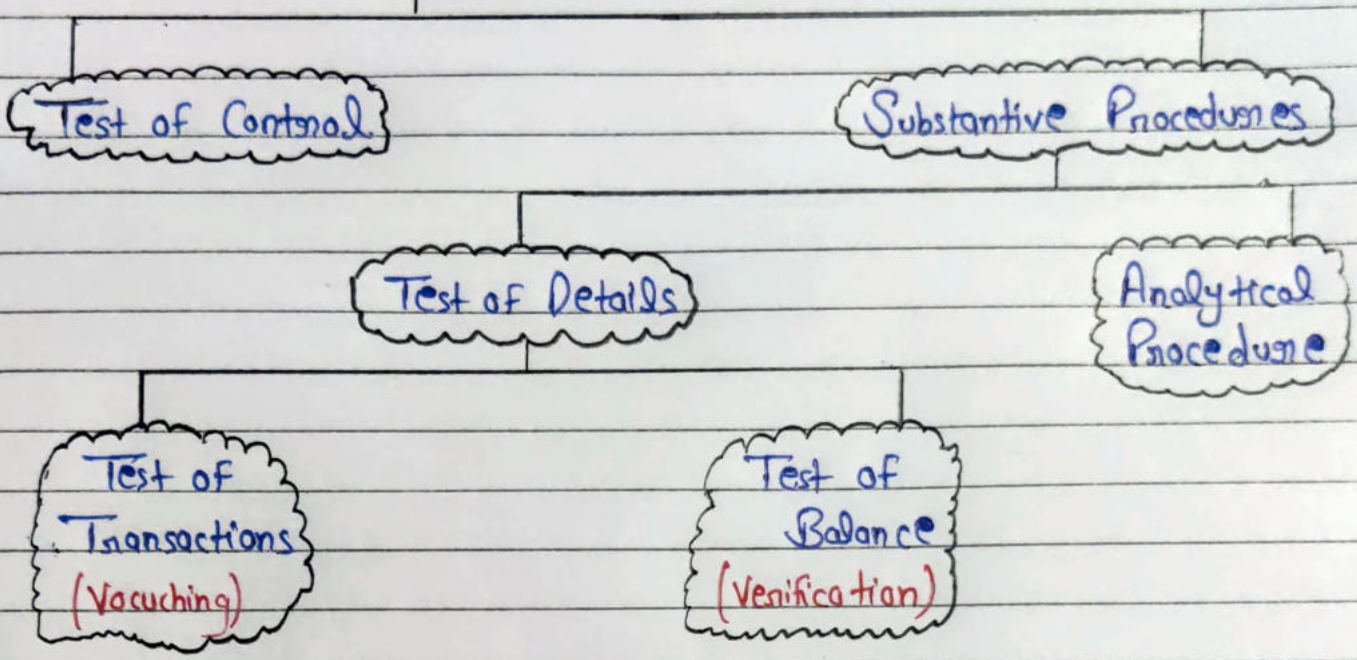
INFORMATION OBTAINED FROM MANAGEMENT EXPERT
Auditor needs to evaluate
- Competence
- Capability
- Objectivity
- Understanding of work
- Assertion satisfied

NOTE: If Auditor expert — Apply SA 620
Management expert — Apply SA 500

Inconsistency of Audit Evidence

Perform additional audit procedures

Procedures to Obtain Audit Evidence



Methods to Obtain Audit Evidence

- Inquiry
- Inspection
- Observation
- External Confirmation
- Re-calculation
- Re-performance
- Analytical Procedures

SA-501

Audit Evidence - Specific Consideration for Selected Items

- Inventory
- Litigation and Claims
- Segment Reporting

Inventory

Planning
- Nature of Inventory
- Stage of Completion
- Risk
- Controals
- Materiality
- Location
- Timing
- Assistance of Expert

Attendance of Inventory Counting
- Management Instruction and procedure
- Observe the performance
- Inspect the inventory
- Perform test count
- Perform procedure for final inventory count
- Sheet to floor/ floor to sheet

Inventory held by third parties
- Confirmation (SA 505)
- Inspection
- Service Auditor Report
- Inspect Documents

If unable to Attend Physical inventory count

↓

Inventory count on some other day

31ST MARCH ——— 3RD APRIL

- Perform count on any other day
- Perform additional audit procedures
- Obtain Sufficient & appropriate audit evidences

} If not possible Modify the Report

If it is not possible to attend physical inventory count

↓

Perform alternative audit procedure [e.g. Bank Reconciliation, Material receiving etc.] ——— If not possible Modify the Report

LITIGATION AND CLAIMS

- → Listing / Schedule
- → Board minutes
- → Inquiry with
  - Management & others
  - Internal legal counsil
  - External legal council

If Significan Risk found

- → Confirmation
- → Obtain management Representation letter
- → If any restrictions apply by the Mgt.
  - Modify the Report

Segment Reporting

- Check presentation & disclosures
- Consistency of FRF
- Perform Analytical procedures (If required)

SA-505

External Confirmations

★ Direct Response from Third Party to Auditors

- Positive Confirmation
  ↳ Respond in ALL the situations

- Negative Confirmation
  ↳ Respond only if balance not agree

  When to send:
  - Risk is low
  - Internal Control is effective
  - Small amount

  NOTE: Not seen in real life

★ External Confirmation Procedure

- Information to be confirmed by third party
  [e.g., Bank, debtor, creditor, third party asset, agreement terms, legal etc]
- Determine confirming party
- Design confirmation request, address, return information
  (Address of Auditor)
- follow up if required

★ Factors To Be Considered While Designing Confirmation Request

- Risk of Material misstatement including fraud risk.
- Layout & presentation of confirmation request
- Prior experience of the Auditor
- Assertion addressed
- Method of communication ← E-mail, Visit, Post
- Management follow-up
- Balance v/s transaction confirmation

★ Reliability of Response

- Objectivity of Confirming party → Confirming party should not be related party of client.
- Knowledge of the matter → Whether client know about subject matter.
- Willingness of third party to respond → Third party may consider it time consuming & costly.

NOTE: If auditor has doubt on reliability, he should perform further audit procedures to resolve the doubt, if not possible consider fraud risk factor and consider effect of NTE of other procedure.

★ Management Refuse To Send Confirmation [Imp]

Auditor should ask

- Reason and evaluate reasonableness
- Implications of management refusal
- Perform Alternative Audit procedure
- Communicate with TCWG, if required
- Determine implication on Audit report (SA 705)

★ Non-Response to Positive Confirmation Request

- Perform alternative audit procedure
- Effect on audit report.

SA-510

Initial Audit Engagements - Opening Balances

An engagement in which either :

(i) The F.S. for the prior period were not audited, or

(ii) The F.S. for the prior period were audited by a predecessor auditor.

Audit Proedure for Opening Balances

if available

→ Read most recent F.S.

→ Read predecessor auditor report

→ Obtain sufficient & appropriate audit evidence to

- Determine whether previous year closing balances correctly brought forward to current year
- Check accounting policy
- Perform specific audit procedure

↓

If Auditor found any material misstatement in previous year, determine its impact in current year F.S.

↓

- If not able to obtain sufficient & appropriate audit evidences
  → Modify the Report
- If opening balances contains misstatement and effect current period financial statements.
  → Adverse/ Qualify the Opinion

Audit Procedure for Consistency of Accounting Policy

→ Obtain Sufficient & appropriate audit evidence

- whether accounting policies are consistently applied
- if there is any changes, reason of changes is adequately presented on disclosed.

↓

If Accounting policy not consistently applied on change not present on disclosed → Qualify / Adverse the opinion

NOTE: If previous year audit report is modified
→ Evaluate its impact on current year audit.

SA-520

Analytical Procedures

"Analytical Procedures" means evaluations of financial information through analysis of plausible relationships among financial and non-financial data.

Objectives of Auditors

- To obtain relevant & reliable audit evidence when using substantive analytical procedures.
- To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion.

When to Apply Anaytical Procedures

- At planning Stage
- At Execution Stage
- At reporting Stage

Auditor Should Consider Following Factors when using Substantive Audit Procedures

1. Suitability of substantive audit procedure
2. Reliability of data to be compared i.e, input
3. Development of expectation
4. Difference evaluation

THINKING ABOUT ANALYTICAL PROCEDURES?

RELATIONSHIP EXIST?

↓

YES

↓

Look for the reliable spot

↓

Develop expectation

↓

Perform Analytical Procedures

↓

Compare result with Expectation

↓

Difference?

↓

Yes

↓

Discuss with Management

↓

Resolved

NO

↓

Perform additional audit procedures to resolve the issue

YES

↓

SA-530

Audit Sampling

Audit Sampling is to provide a reasonable basis for the auditor to draw conclusions.

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:

1. In the case of a test of controls, that controls are more effective than they actually are, or in the case of test of details, that a material misstatement 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.

2. 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 material misstatement 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.

Sample Design

When designing an audit sampling, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose.
In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection is appropriate.

Sample Size

The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.
factors affecting size of samples : [Examples]

- Risk,
- Materiality,
- Expected Error,
- Tolerable Error, etc..

Selection of Items for Testing

The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.

Quality Aspects while Considering Error in Sample

- Evaluate the result of samples and effect on other areas of audit.
- Look for the common nature to evaluate the reason of misstatement.
- Consider the risk of fraud.

SA-540

Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures

Why we do Estimation in Accounting?

Some financial statement items cannot be measured precisely but can only be estimated.

Example of Accounting Estimates:

- Provisions
- Contingent liability
- Future forecasting

Example of fair value accounting estimates:

- Assets value during disposal
- Financial instrument value at year end

How this is Relevant for Audit?

The Degree of uncertainity affects risk of material misstatement of accounting estimates.

Audit Procedure

Step-I: Risk Assessment Procedures [SA-315]

1. Auditor shall obtain the understanding of,
   - Requirement of applicable FRF
   - How management identify that event/ condition need for accounting estimates
   - How management makes accounting estimates
     - Method / Assumption / Expert

To assess the RoMM as per SA 315.

2. Auditor shall review the outcome of accounting estimates including in the period (prior) financial statements.

Step-II : Responses to the Assessed Risk / Significant Risk [SA 330]

1. Based on the ROMM/ Risk assessment, the auditor determines that management apply applicable FRF and methods appropriately

2. Accounting estimates that gives rise to significant risk, the auditor shall evaluate
   - → Management alternative assumption
   - → Outcome and if management rejected the reason
   - → Whether assumption are appropriate ?
   - → If assumption are not reasonable, the auditor will develop a range of reasonableness of the accounting estimates.

Step-III : Reporting Stage [SA 700 & SA 705]

Disclouse in financials related to accounting estimates.

Auditor shall evaluate,

- → Sufficient & appropriate audit evidence for accounting estimate
- → Proper disclosure for significant risk of accounting estimate

General Points

- → Auditor shall review the management biasness using judgements
- → Obtain written representation for significant assumptions used for accounting estimates are reasonable.

SA-550

Related Parties

Step-I: Understanding the Entity's Related Party Relation--ships and Transactions

1. Auditor will inquire with management and understand controls regarding,
   - → Identification of related party
   - → Nature of relationship
   - → Whether any transaction entered, if Yes → Relationship & purpose
   - → Auditor will also understand control for
     - Disclosure as per FRF
     - Authorize and approval controls for transactions & agreements

2. Auditor will maintain alertness for related party information during documents review
   - → Maintain alertness
   - → If Auditor identify related party transactions, discuss with management
   - → Share the relevant information with engagement team

Step-II: Identify & Assess the Risk of Material Misstatement [and] Response to the Assessed Risk of Material Misstatent Associated with Related Party Relationship and Transactions

If Auditor identify any significant risk, consider SA-240 as well [fraud risk factors].

CASE-I: IDENTIFICATION OF PREVIOUSLY UNIDENTIFIED OR UNDISCLOSED RELATED PARTIES OR SIGNIFICANT RELATED PARTY TRANSACTIONS

[More dangerous situation for the Auditor]

Auditor shall

- Communicate with other team members
- Request management to identify all related parties and do evaluation.
- Inquiry with management, how internal controls failed to identify the related party / related party transactions.
- Perform substantive audit procedure on new related parties / related party transactions..
- Re-consider the risk
- If non-disclosure appears intentional, evaluate implications in the Audit.

CASE-II: IDENTIFIED SIGNIFICANT RELATED PARTY TRANSACTIONS OUTSIDE THE ENTITY'S NORMAL COURSE OF BUSINESS

[Less dangerous situation for the Auditor]

The Auditor shall,

- Inspect the contract / Agreement for
  - Business Rationale
  - Terms of the transaction
  - Accounting & disclosure of transaction
- Obtain sufficient & appropriate audit evidence that transactions
  - Have been appropriately authorised and approved
  - transactions are conducted at Arm's length price.

STEP-III : REPORTING STAGE - FORMING OPINION

Evaluate whether

- Related party relationships / transactions are appropriately accounted / disclosed
- Effects are not preventing from True & fair view on financial statements.

UNMODIFIED OPINION, if cause the material misstatement
QUALIFY / ADVERSE THE OPINION as per SA-705.

GENERAL POINTS

- Obtain management representation letter the management disclosed all related party relationship / transactions
- Communicate with TCWG related to all significant matters in relation to related parties.
- documentation.

SA-560

Subsequent Events

31/03 | 30/05 | 05/06 | 15/06

Financial Statement Date

- Adjust significant event as per FRF
- Discuss with Mgt. and adjust according to AS-4 & AS-29

NO TENSION

Audit Sign F.S.

No responsibility of the Auditor still if material,

→ Discuss with Mgt.

→ Amend the opinion, if required.

NO TENSION

Audit Report issue to management

1. If mgt. Agrees
   → Issue amended audit report.
   → by second date if law & regulation allowed to mgt.
   → or new audit report
2. If mgt Disagrees
   Take action to prevent reliance

TENSION

Financial Issue to Public

1. If Mgt. Agrees
   → Ask to amend the F.S.
   → Issue new audit report
   → Confirm each one receives amended report.
2. If mgt. dis-agrees
   Take action to prevent reliance.

HIGH TENSION

EXAMPLES:

- Going Concern → Maggi
- Stock obsolete on balance sheet date
- Legal case decision if contingent at B/s Date
- Expenses not recognised.

HOW THE AUDITOR WILL IDENTIFY THE SIGNIFICANT EVENTS

- Inquiry
- Board minutes
- Interim financials
- Market news

SA-570

GOING CONCERN

STEP-I: RISK ASSESSMENT PROCEDURE AND RELATED ACTIVITIES

Auditor will consider whether there are event or condition which may cast significant doubt on the entity's ability to continue as a going concern:

EVENT / CONDITION OR INDICATORS

FINANCIAL INDICATORS
- Negative net worth
- Arrear / discontinuance of dividend
- Adverse financial ratios
- Operating losses
- Borrowing matured but no re-payment
- Non-compliance with loan terms
- Negative Cash Flow

OPERATING INDICATORS
- Loss of Key management
- Loss of major market / Supplier
- Labour unrest, strikes etc..
- Loss of major licence

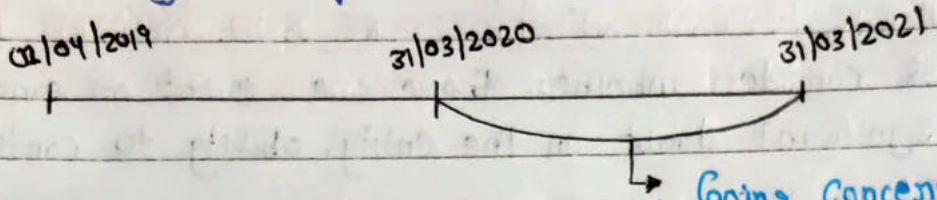
OTHER INDICATORS
- Pending legal proceedings
- Changes in Government policies
- Non-compliance with Statutory requirements.

The Auditor should ask management for preliminary assessment of entity for going concern.

CASE-I: ASSESSMENT PERFORMED BY MANAGEMENT

→ Whether management identify any significant event ?

→ If Yes, management plans to address them.



→ **AUDITOR RESPONSIBILITY:**

- Evaluate management assessment for 12 months,
- If management did it for less than 12 months ask management to extend the period till 12 months.
- Inquire period beyond 12 months.

→ **AUDIT PROCEDURE WHEN EVENT OR CONDITION IDENTIFIED:**

- Auditor should obtain sufficient and appropriate audit evidence to determine whether a significant doubt exist.
- Consider mitigating factors
- Ask management to perfor risk assessment.
- Evaluate management future plans
- Evaluate assumptions, base data for management forecast of future cash flow.
- Requrest written representation for future actions.

CASE-II: IF ASSESSMENT NOT PERFORMED BY THE MANAGEMENT

→ How / On what basis management intented to use going concern.
→ Inquire of management for significant risk.
→ Ask management to perform its assessment.

STEP-II: AUDITOR CONCLUSION IN RELATION TO FINANCIAL STATEMENT

→ Evaluate sufficient & appropriate audit evidence obtained
→ Whether a material uncertainity exist.

Situation-I: DISCLOSURE IN F.S. → Condition identified and material uncertainity exist

→ Disclose in financial statement with management plans.
→ Disclose that company may be unable to realize its assets and discharge its liabilities in the normal course of business.

Situation-I: DISCLOSURE IN F.S. → Condition identified and no material uncertainity exist

Auditor should check applicable FRF requirement and check that financial statement provide adequate disclosure about the events or conditions.

STEP-III: IMPLICATION IN AUDIT REPORT

Case-I: Going concern accounting is inappropriate
→ Adverse opinion.

Case-II: Going concern accounting is appropriate but material uncertainity exists

→ Adequate disclosures made in the financial statements
  - Unmodified opinion
  - Mention in Going concern paragraph in Audit report.

→ Adequate disclosures not made in the financial statements
  - Qualify / Adverse opinion
  - Basis for Qualified / Adverse opinion for details.

Case-III: Management unwillingness to make assessment
check Implications on audit opinion.

GENERAL POINTS:

→ Communicate with TCWG
→ Significant delay in approving of financial statements
→ SA-701 linking
→ Management responsibility
→ Auditor responsibility / objectives

SA-580

Written Re-presenatation

Why ??

- To support other audit evidences
- Covers all period of financial statements

Written Representation are from Management and TCWG for matters effecting Financial Statements

Examples:

- WR for going concern
- WR for uncorrected misstatements
- WR for responsibility of management

Important Note

Written representation does not include financial, supporting documents and assertions.

General Points

- Written representation should be obtain before or on the audit report date
- If is just an additional evidence, not sufficient & appropriate audit evidence.
- It should be addressed to the Auditor.
- For public statement, WR not required.
- Only WR never provide sufficient & appropriate audit evidence.
- If WR is inconsistent – perform additional audit procedures.

Auditor Responsibility if WR not Provided by the Management

- Discuss the matter with management
- Re-evaluate the integrity of management
- Re-evaluate the Risk of Material misstatement
- Effect on other audit areas.
- Effect on Audit Report/ opinion.

SA-600

Using the Work of Another Auditor

Reliance Industries Ltd. (Our Client) → Jio Telecom [Subsidiary Co.]

KPMG [Principal Auditor] → EY [Another Auditor]

Consideration by Principal Auditor

1. Principal Auditor is entitled to rely upon another auditor, provided he exercised due skill and care and there is nothing to doubt.

2. Principal auditor should advise another auditor regarding -
   - → Use to be made of his report
   - → Areas requiring special consideration
   - → Time table for completion of audit
   - → Significant accounting, auditing and reporting requirements.

3. Principal auditor should ask another auditor regarding any limitation on his work.

Reporting by Principal Auditor

- Auditor should consider his findings. He may discuss them with him and branch officials.
- Principal auditor may require another auditor to submit questionnaire w.r.t work performed by him.
- Principal auditor may require supplement tests to be performed by another auditor or by himself.
- In case of foreign component, he should consider another auditor's qualification and experience.
- If there is modification in another auditors report then, Principal auditor should consider whether modification in his report is required.

Principal Auditor should Qualify / Disclaim his Audit Report

If he

- Can't use another auditors work procedures
- Can't be able to perform sufficient additional procedures

Important Note:

There should be statement of division of responsibility in Principal Auditor's Audit report by showing extent to which F.S. of component audited by another auditor has been included in F.S. of entity.

SA-610

Using the Work of Internal Auditors

Client - Reliance
Statutory → KPMG
Auditor

Client - Reliance
Internal Auditor → EY
Inhouse Internal → EY
Auditor

REMARK	Determining whether, in which areas, and to what extent the work of the Internal Audit functions can be used	Determining whether, in which areas, and to what extent internal auditors can be used to provide direct assistance
1. Evaluating the Internal Audit function [Kya Internal Auditor Ka Kaam use Kare/ Kya Internal Auditor Ko use Kare]	The external auditor shall determine, 1. Organizational status and relevant policies and procedures support the objectivity of the internal auditors. 2. Level of competence of the Internal Audit function. 3. Whether the internal audit function applies a systematic and disciplined approach, including quality control	ALL THE POINTS ARE SAME NOTE: If they are not competent than external auditor should not use Internal Auditor for his direct assistance.

2. Determining the nature and extent of work of the Internal Audit function that can be used [Konsa Kaam use Kar sakte hai/ Kis Kaam mai use Le sakte hai]	1. The external auditor shall consider, a) Nature and scope of the work of Internal Audit function. b) Work relevant to external Auditor. 2. The external auditor shall make all significant judgements, a) To prevent undue use of the work of Internal Auditor. b) Shall plan to use less of the work of the function and perform more of the work directly 3. Communicate with Internal Auditor how the external auditor has planned to use the work of the Internal Audit functions.	1. The external auditor shall consider, a) The amount of judgement involved b) Evaluate the evidence gathered. c) Ramm. d) Independance 2. The external auditor shall make all significant judgements, a) To prevent undue use of the Internal Auditor. b) Shall plan to use less Internal Auditor and perform more of the work directly. 3. Communicate with Internal Auditor how the external auditor has planned to use the direct assistance of the internal audit function.

3. Using the work of the internal audit function. [Kitna Kaam use Kare / Kitna Internal Auditor Ko use Kare for Direct assistance]	1. Discuss the planned use of its work with the function as a basis for coordinating their respective activities. 2. Read the reports of Internal Audit function to obtain an understanding of the nature and extent of audit procedures its performed and the related findings. 3. Perform sufficient audit procedures on the body of work of the internal audit function, a. Internal Audit properly planned, performed, super-vised, reviewed and documented. b. Sufficient & appropriate evidence had been obtained to enable the function to draw reasonable conclusions. c. Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed.	The external auditor shall, A. Obtain written agreement from an authorized represent-ative of the entity that the internal auditors will be allowed to follow the external auditor's instructions. B. Obtain written agreement from the Internal auditors that they will keep confidential specific matters as instructed by the external auditor. C. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with SA 220. D. Obtained sufficient and appropriate audit evidence to support the conclusions based on that work.

OR

STEP-I: EVALUATING INTERNAL AUDIT FUNCTION

A. OBJECTIVITY

→ Organizational status support Internal Audit function,
- Accountability
- Ability to function free from bias
- Conflict of Interest
- Undue Influence

→ Internal Auditor employment → Involvement of TCWG

→ Any restriction of Internal Auditor functions.
[e.g. Restriction on communication with external auditor]

B. COMPETENCE AND ITS EVALUATION

→ Internal Audit function resources are according to size & nature.

→ Policies for hiring, training and assingment to engagement.

→ Whether Internal Audit team have knowledge about the financial reporting & applicable FRF.

C. APPLICATION OF SYSTEMATIC AND DISCIPLINED APPROACH

Application of a systematic and disciplined approach to
- Planning
- Performing
- Supervision
- Review
- Documentation
- Quality control Policy

The Internal Auditor activities are different from other monitoring Control by entity.

NOTE: If above factors do not present than external auditor should not use the Internal Audit function.

STEP-II: DETERMINING NATURE AND EXTENT OF WORK OF THE INTERNAL AUDIT FUNCTION THAT CAN BE USED

Follow above table

STEP-III: USING THE WORK OF THE INTERNAL AUDIT FUNCTION - AUDITOR RESPONSIBILITY

Follow above table

SA-620

Using the Work of an Auditor Expert

Client – Reliance
Auditor → KPMG → Auditor Expert
Boston Consulting Group

Auditor taking help of BCG for valuation related matter
SA 620 will Apply

Note: If Auditor refer management Expert report than SA-620 will not apply.

Auditor's Responsibility

→ Sole responsibility for his opinion.
→ He can use expert work as Audit Evidence.
→ He should consider Romm in the area.

→ He should consider the following:
- Competence, capability and objectivity
- Field of expertise
- Agreement with auditor expert
- Need for Auditor expert

→ Evaluate the expert work by,
- Considering reasonableness of assumption & data.
- Perform further audit procedure if required.

Reference in Audit Report

- In case of unmodified opinion → No
- In case of modified opinion → Yes, only if reference is require to understand the modification. Auditor Responsibility will not be reduce by this reference.

SA-700

Forming an Opinion and Reporting on Finacial Statement

Objective of Auditor

Forming an opinion on the financial statements based on conclusions drawn from evidences obtained and expressing clearly that opinion through a written report.

General Purpose Framework

This FRF meets the common financial information needs of many users. It may be of two types :

★ Fair Presentation framework

FRF that requires compliance with the requirement of FRF and acknowledges that :

- Management may provide disclosures beyond those specifically required by the framework.
- Management may depart from a requirement of framework to achieve fair presentation of F.S. (in very rare case).

Example : F.S. of a company.

★ Compliance Framework

FRF requiring compliance with requirements of the framework but does not contain acknowledgement as above.

FORMING AN OPINION

OPINION	Fair Presentation Framework	Compliance Framework
1. Consider sufficient & appropriate audit evidences.	✓	✓
2. Materiality of unconnected misstatements.	✓	✓
3. Adequacy of disclosures in F.S.	✓	✓
4. Consistency of Accounting policies	✓	✓
5. Reasonableness of Accounting Estimates.	✓	✓
6. Reliability & relevance of financial information.	✓	✓
7. Appropriatness of Terminology used.	✓	✓
8. Overall presentation, structure and content of the F.S.	✓	✗
9. F.S. represent the underlying transactions & events	✓	✗

EXPRESSION OF OPINION

- Unmodified Opinion — SA-700
- Modified Opinion — SA-705

Content of Auditor's Report

1. Title → "Independent Auditor's Report"

2. Addresses → To the members of the company

3. Auditor's Opinion

3.1 The opinion section of the auditor's report shall also:

a. Identify the entity whose F.S. have been audited,
b. State that the F.S. have been audited,
c. Identify the title of each statement comprising the F.S.,
d. Refer to the notes, including the summary of significant accounting policies,
e. specify the date of, or period covered by, each F.S.

3.2 While expressing unmodified opinion he shall use the following:

a. In case of fair presentation framework

In our opinion, the accompanying F.S. present fairly, in all material respects, [...] in accordance with [the applicable FRF]

OR

In our opinion, the accompanying F.S. give a true and fair view of [....] in accordance with [applicable FRF]

b. In case of compliance framework

The accompanying F.S. are prepared in all material respects in accordance with [applicable FRF].

4. Basis for Opinion
   a. State that the audit was conducted in accordance with SA.
   b. Refers to the section of the auditor's report that describes the auditor's responsibility.
   c. Ethical requirements like independance.
   d. Sufficient and appropriate audit evidence obtained.

5. Going Concern

6. Key Audit Matters

7. Responsibilities for the Financial Statements [SA-210 SAME]
   a. Preparing the f.s. in accordance with the applicable FRF.
   b. Internal controls as management determines is necessary.
   c. Assessing the entity's ability to continue as a going concern.
   d. F.S. giving a true & fair view.

8. Auditor's Responsibilities for the Audit of the Financial Statements
   a. Objectives as per SA 200
   b. Resonable Assurance
   c. State that misstatements can arise from fraud or error

In addition to above, further discription of the auditor's responsibilities shall also be made:
i) Within the body of auditor's report
ii) Within an appendix
iii) On a website of an appropriate authority

9. Other Reporting Responsibilities → e.g. CARO 2020

10. Signature of the Auditor

11. Place of Signature

12. Date of the Audit Report

SUPPLEMENTARY INFORMATION PRESENTED WITH FINANCIALS

Integral Part of F.S.

Information should be covered under opinion

Not the Integral Part of F.S.

- Information should be differentiated from F.S.
- If not discuss with Mgt.
- Mention in Audit Report

SA-701

Communicating Key Audit Matters In The Independent Auditor's Report

Meaning of Key Audit Matters

Those matters that, in the auditor's professional judgement, were of most significance in the audit of F.s. of the current period. KAM are selected from matters communicated with TCWG.

Applicability

This SA Applies to:

- Listed entities
- Circumstances when audit wants to apply
- Required by laws & regulations

Purpose of KAM

- Enhance communicative value and provide greater transparency.
- Provide additional information to intended users
- Assit the users for understanding the entity & significant management judgements.

KAM is not a Substitute for

- Disclosures in the F.s. relating to applicable FRF
- Unmodified opinion [SA 705]
- Reporting under SA 570
- A separate opinion on individual matters

NOTE: Only a reference can be given in KAM Section.

NOTE: Howeve SA-705 prohibits the auditon form communicating KAM when the auditon doclaims an opinion.

DETERMINATION OF KAM

Matters that communicated to TCWG and consider,

- Risk of Material Misstatement as per SA 315
- Significant Judgement & estimates
- Significant event & transactions

DESCRIPTION OF INDIVIDUAL KAM

- Why the matter consider to be a KAM ?
- How the matter was addressed in the Audit ?

MATTERS DETERMINED TO BE A KAM BUT STILL NOT COMMUNICATED IN THE AUDIT REPORT

- Law or regulation precludes public disclosure about the matter
- Auditor determine adverse consequences.

Auditor should document the rational in his work paper if not disclosing KAM in Audit Report.

DOCUMENTATION

- Why the matter is KAM ?
- Why the matter not considered as KAM ?
- If KAM available but not disclosed – Why ?

SA-705

Modifications to the Opinion in the Independent Auditor's Report

Objective of the Auditor

To express clearly an appropriately modified opinion on the F.S. when the auditor:

a) Concludes, based on the evidences obtained that the financial statements as a whole are not free from material misstatement.

b) is unable to obtain sufficient & appropriate evidences to conclude that financial statements as a whole are free from material misstatements.

Types of Modified Opinion

1. A Qualified Opinion

a. The auditor, having obtained sufficient and appropriate audit evidence, concludes that misstatements are material but not pervasive.

b. The auditor shall qualify his opinion when he is unable to obtain sufficient and appropriate audit evidence and he concludes that possible effects on the F.S. of undetected misstatements could be [redacted] material not pervasive.

2. An Adverse Opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient & appropriate audit evidence, concludes the mis-statements, individually or in the aggregate, are both material and pervasive.

3. Disclaimer of Opinion

a) The auditor shall disclaim an opinion when he is unable to obtain sufficient & appropriate audit evidence and he concludes that the possible effects on the F.S. of undetected misstatements could be both material and pervasive.

b) The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainities, the auditor concludes that, notwithstanding having obtained sufficient and appropriate audit evidence regarding each of the individual uncertainities, it is not possible to form an opinion on the F.S. due to the potential interaction of the uncertainties and their possible cumulative effect on the F.S.

Determining Type of Modification

Nature of Matters giving rise to the modification	Auditor's Judgement about the pervasiveness of the effects on possible effects on the financial statements	
	Material but not Pervasive	Material and Pervasive
1. Financial statements are materially misstated	Qualified	Adverse
2. Inability to obtain sufficient & appropriate audit evidence	Qualified	Disclaimer

What is Pervasive?

Definition of Pervasive – A term used, in the context of misstatements, to describe the effects on the F.S. of misstatements or the possible effects on the F.S. of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.

Pervasive effects on the F.S. are those that, in the auditor's judgement:

i) Are not confined to specific elements, accounts or items of the F.S.

ii) If so confined, represent or could represent a substantial proportion of the F.S.

iii) In relation to disclosures, are fundamental to users understanding of the F.S.

SA-706

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

Emphasis of matter paragraph	Other matter paragraph
1. Para which refers to a matter appropriately incorporated in the F.S. that is of such importance that it is fundamental to user's understanding of F.S.	Para relating to matter other than those in F.S. which is relevant to user's understanding [on] auditor's responsibility [on] his report.
2. Don't Include EoM Para if, → Opinion modified because of the matter → Matter covered in SA 701	Don't include OM Para if, matter covered in SA 701
3. Examples of EoM: → Uncertainity relating to future outcome of litigation → Subsequent Event [SA-560] → Early adoption of AS and material effect in F.S. → Major Catastrophe that have effect on F.S.	Examples of OM: → Reporting on more than one set of F.S. [e.g. Ind AS / IFRS / US GAAP] → SA 560 → If not covered in F.S. → Specific purpose financial statements → SA 710 → SA 720

SA-710

Comparative Information – Corresponding Figures and Comparative Financial Statements/ Information

Comparative Financial Information	Corresponding Figures
1. Information of prior period are included for comparsion and if audited, are reffered in the auditor's opinion.	Information of prior period are included as Integral Part of the current financial statements.
2. Opinion refer for each period. [e.g., Idea and vodafone mergers filling 5 years financial]	• Opinion refer only for current year period.
3. Auditor will determine → Information agree with prior yr. → Consistent Accounting policies → Changes in accounting policies accounted properly and disclosed. → Obtain written representation.	Note in AM Para if, → Prior period financial statements are not audited, or → Audited by other auditor → Communicate to TCWG, if Auditor find any mis-statement in previous year balance
4. Reporting → Opinion are referred for each period for which financial statements presented and opinion expressed	Reporting → Opinion not referred for corresponding figures → If previous year opinion is modified and material misstatement still unresolved – Modify

→ If opinion is different from previous year opinion, give reason for difference in other matter para.	current year opinion. → In previous year opinion on financial statements is unmodified, In current year obtain evidence of material misstatements in previous year → Modify opinion in current year in relation to corresponding figures.

SA-720

The Auditor's Responsibilities Relating to Other Information

1. Objective

a. To consider whether there is a material inconsistency between other information ← Financial statement
Auditor Knowledge

b. To respond if material inconsistency exists.

c. To report accordance with SA's.

2. Obtain the other information

a. Through discuss with management.

b. Obtain prior to Audit Report, if possible

c. Obtain MRL if not possible before the Date of Audit report.
[MRL that management will provide it later on]

3. Auditor Responsibility

Read the other information and link to the objective as discussed.

4. Respond

a. Discuss with management regarding
- other information materially misstated
- Financial Statements is materially misstated

b. If necessary, perform other audit procedure.

c. Update Auditor's understanding of the entity and its environment [SA 315].

If Auditor concludes that a material misstatement of the other information exists. Auditor should request the management to correct the other information.

Management Agrees to make the correction

Auditor will check

OK

Management refuses to make the correction

Talk to TCWG and request for correction

Other information obtained prior to the date of Audit report and TCWG not corrected.

Auditor shall take action:

- → Implication in Audit Report
- → Communicate TCWG about wording in Audit Report
- → Withdraw from engagement if possible

Material misstatement exists and information obtained after the date of Audit report.

Auditor shall discuss with TCWG:

a. Other Information corrected perform audit procedure necessary in the circumstance.

b. Other information not corrected

Take legal action and appropriately brought this attention to user of the F.S.

5. AUDIT REPORTING

→ Auditor's Report will include a separate section

Heading → 'Other Information'
'Other Appropriate Heading'

LISTED ENTITIES

Auditor obtained, OR
expected to obtain
the other information

UNLISTED ENTITIES

Auditor obtained the
other information

→ Other component of 'Other Information' section

a. Management Responsibility
b. An Identification of
- Other information obtained prior to the date of Audit Report.
- In case of listed Co.,
  (i) Obtain prior to the date of Audit Report.
  (ii) Expected to obtain after the date of Audit Report.

[V. Imp] c. Auditor opinion does not cover the other information.
d. Auditor responsibility related to reading.
e. If information obtain prior to the date of Audit Report
→ Statement that auditor has nothing to report
[Consider SA 705 effect]
→ Statement of uncorrected misstatements

6. REPORTING PRESCRIBED BY LAW AND REGULATION

Reference of SA's only if
→ Auditor obtain other Information
→ Auditor responsibility
→ Statement of outcome

7. DOCUMENTATION

- Procedure performed
- final version of other information.

8. This SA Does not apply to,

- Preliminary Announcements.
- Securities offering documents.

SA-800

Special Consideration – Audits of Financial Statements Prepared in Accordance with Special Purpose Framework

Examples of Special Purpose Financial Statement

- Regulator requirement
- Creditors requirement
- Contract requirement
- Listed in other countries
- Bank requirement

Objective of Auditor

A. Engagement acceptance
B. Engagement planning & performance
C. Forming opinion and Reporting

Engagement Acceptance

- Purpose of financial statements
- Intended users
- Acceptability of FRF

Engagement Planning and Performance

- Follow SA (100-799) if required
- Apply SA 315 – Risk Assessment Procedures
- SA-200 – Ethical Requirements
- Follow SA's unless not applicable
- Apply relevant audit procedures

→ SA 320 - Special consideration as per special purpose F.s.
Example:
General Purpose FS - SA 320 - Needs are common
Specific Purpose FS - SA 320 - Specific users
In special purpose follow SA 320 and all other along with specific requirement.

→ SA 260 - Identify relevant person to communicate
Example:
General Purpose F.S. → TCWG involve
Special Purpose F.S. → TCWG may not be involved

FORMING OPINION AND REPORTING

Auditor evaluate
→ Financial statement Adequacy
→ Describe applicable FRF
→ Terms of Contract

Form & Content of Audit Report
[Follow SA 700 & Additional points]
→ Purpose
→ Intented user
→ Note in Report [on Para]
↳ Alert the user that F.s. are prepared for special purpose and may not be suitable for another purpose.

IMP NOTE: If law & regulations allow restrict the distribution of Report.

SA-805

Special Consideration – Audits of Single Financial Statements and Specific Elements, Accounts, Items of Financial Statements

Acceptance [TOP]

- SA 200 – Requirements
- SA 210 – Acceptability
- Follow other SA's, it may not be possible if Auditor is not engage in full financials due to
  - → Understanding of Entity & its environment
  - → Quality of Accounting Record
  - → Some SA's may require work disproportionate to the element being audit (SA 510).

Planning and Performance

- → Apply all relevant SA's
- → Apply further audit procedures to get Audit Evidences

Opinion

- → Expected form & content
- → Factors to use word 'Present fairly' or 'True & fair view'
  - Whether FRF required to prepare full financial
  - Comply with relevant FRF
  - Relevant notes & disclosures
  - Fair presentation
    - → beyond requirement
    - → Depart – In exceptional cases

REPORTING

* Auditor doing Single + Full financial
  Seperate opinion on each engagement

* Single F.S. + Full F.S. ⇒ Publish together
  → Differentiate the F.S., if not ask management to rectify it
  → Differentiate the opinion

* Main F.S. Audit Report
  Opinion → Modified / Eom / om
  → Adverse

* Single F.S. Audit Report
  → Modify
  → True & fair
  → Eom/om Modified Report

Appropriate to give unmodified opinion only in below situation:
→ Auditor not prohibited by law
→ Audit report not published together
→ Specific element does not constitute a major portion of entity full F.S.

SA-810

Engagements to Report on Summary Financial Statements

Summary financial statements derived from financial statements.
Auditor must be same as appointed for financial statements.

1. Engagement Activities

→ Auditor must be same as appointed for F.S.
→ Before accepting, Auditor shall
- Determine applied criteria are acceptable
- Agreement from management for its responsibility
  a. Prepare summary F.S. as per applied criteria
  b. Available Audited F.S. to intended user of summary F.S. without any difficulty
  c. Include Auditor Report on summary financial statements in any document.
- Form of opinion → Agree with management

Factors for Applied Criteria

→ Nature of Entity
→ Purpose of Summary F.S.
→ Information needs of Summary F.S.
→ Applied criteria (Summary FS) not result in misleading.

Factors for Availability

→ Summary F.S. describe from where or whom Audited FS are available.
→ Audited F.S. are on Public record
→ Management has established a process by which intented user can obtain ready access to the audited F.S.

2. Audit Procedure

- Summary F.S. adequately disclosed their Summary notes and identify the audited F.S.
- If Summary F.S. not accompanied by Audited F.S. - From whom & where audited F.S. are available.
- Summary F.S disclosed the applied criteria prepared as per Audit Committee.
- Summary F.S. agree with Audited F.S.
- Audited Fs. are available to users without any difficulty.
- Summary F.S. Contain necessary information which is not misleading.

3. Opinion Wording

1. Unmodified opinion on Summary F.S.
   - Summary F.S. consistent with Audited F.S.
   - Summary F.S. are fair summary of Audited F.S.

2. Law prescribe the wording of opinion
   a. Apply further audit procedure.
   b. Additional explanation in Auditor Report to mitigate mis-understanding.
   c. If additional explanation do not mitigate the misunderstanding Auditor shall not accept the engagement unless require by law.

3. Subsequent Event
   - Summary F.S. may be dated later than date of Report on Audited F.S.
   - Mention that subsequent event after the date of Auditor report on Audited F.S.

4. Element of Auditor's Report → Refer Book

5. Opinion → Refer Book