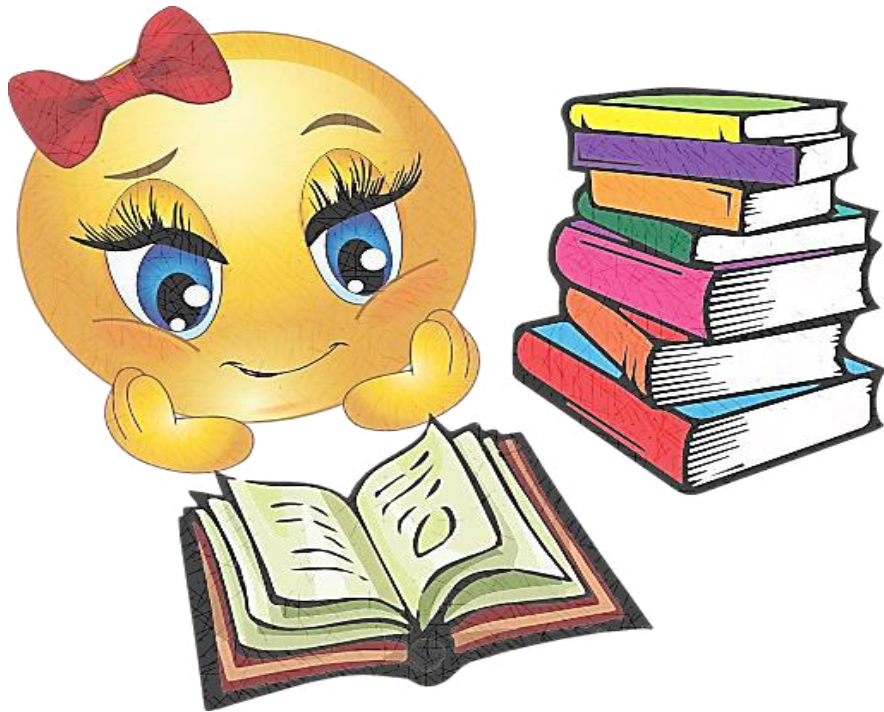


Standards on Auditing

Summary Charts



S. no	Particulars	Pg.no
1	SA 200	4
2	SA 210	8
3	SA 220	11
4	SA 230	13
5	SA 240	17
6	SA 250	22
7	SA 299	25
8	SA 300	28
9	SA 315	30
10	SA 320	36
11	SA 500	37
12	SA 501	39
13	SA 510	43
14	SA 520	45
15	SA 530	48

index

S. no	Particulars	Pg.no
16	SA 550	53
17	SA 560	55
18	SA 570	58
19	SA 580	61
20	SA 610	63
21	SA 700	66
22	SA 701	70
23	SA 705	72
24	SA 706	75
25	SA 710	77

SA 200 - Overall Objectives Of The Independent Auditor And Conduct Of An Audit In Accordance With Standards On Auditing

1. Objectives

- i. To Obtain Reasonable assurance
- ii. To Ensure that FS free from MMs whether due to fraud or error
- iii. To report on the FS
- iv. To communicate as required by SA'

2. Conduct of audit in accordance with SA 200

- i. Comply relevant requirement of SA only - Entire SA not needed
- ii. All SAs relevant to audit - identify the Circumstances
- iii. Determine any additional audit procedure is required by the SA
- iv. Use objective of SA to achieve overall objective

3. Ethical Requirements of an auditor

- i. Integrity
- ii. Objectivity
- iii. Professional Competence and Due Care
- iv. Confidentiality
- v. Professional Behaviour
- vi. Independence



SA 200 - Overall Objectives Of The Independent Auditor And Conduct Of An Audit In Accordance With Standards On Auditing

4. Misstatements (MS)

- i. MS = Required APCD - Reported APCD
 - i. A = Amounts
 - ii. P = Presentation
 - iii. C = Classification
 - iv. D = Disclosures
- ii. MS can arise due to fraud or error



5. Professional Judgement

- i. Application of
 - Knowledge
 - Experience
 - Training In context provided by auditing , accounting and ethical standards in making informed decisions
- ii. E.g. Determining
 - sample size
 - materiality level
 - Audit Risk
 - NTE of Audit Procedures

6. Independence of an Auditor

- i. Auditor not to perform as per the commands of the appointing authority
- ii. Independence of Mind
 - State of mind to allow provision of an opinion without being affected by any influence
- iii. Independence in appearance
 - Avoidance of facts
 - Third party would reasonably conclude
 - Objectivity has been Compromised

SA 200 - Overall Objectives Of The Independent Auditor And Conduct Of An Audit In Accordance With Standards On Auditing

7. Professional skepticism



- i. Professional skepticism is an attitude includes a questioning mind, being alert to condition which indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence obtained
- ii. It reduce the Risk of
 - Overlook Unusual Circumstances
 - Over generalizing when drawing conclusions from audit observations
 - Using inappropriate assumptions in determining NTE of audit procedures

8. Sufficient and Appropriate Audit Evidence (SAAE)

- i. Sufficiency is the measure of quantity of audit evidence
- ii. Appropriateness is the measure of quality of audit evidence
 - its relevance and reliability in providing support for conclusions to be drawn.
- iii. Higher Risk= more evidence needed
- iv. Higher quality = less evidence needed
- v. More Detailed in SA 500



SA 200 - Overall Objectives Of The Independent Auditor And Conduct Of An Audit In Accordance With Standards On Auditing

9. Aspects to be Covered in Audit

- i. Verify
 - Authenticity and Validity of transactions
 - Title, existence and value of the Assets
 - Liabilities
- ii. Comparison of items of FS with underlying records
- iii. Examination of system of accounting and internal Control
- iv. Check the results shown by P&L
- v. Report to the Appropriate Authority

10. Advantages of Audit

- i. Safeguard the Financial interest of the person who is not associated with the management
- ii. Act as Moral Check on employees
- iii. Helpful In
 - settling Liability for taxes
 - settling Trade disputes
 - Settlement of Accounts
 - Detection of wastages and losses
- iv. Govt. Required audited and certified statements

SA 200 - Overall Objectives Of The Independent Auditor And Conduct Of An Audit In Accordance With Standards On Auditing

11. Scope of Audit

- i. Audit covers the aspect of Accounting and Finance of the entity
- ii. Ensure Relevant info. Properly disclosed in FS
- iii. Auditor not to perform duties which falls outside the scope of his competence
- iv. Constraints the scope of audit that impair the auditor's ability to express modified opinion set out in his report



12. Inherent Limitations of Audit

- i. The Nature of Financial Reporting - Judgement by Mgmt.
- ii. The Nature of Audit Procedure
 - Practical and legal limitation
 - Fraud involve organised schemes
 - Mgmt. may not provide complete info
- iii. Timeliness of Financial Reporting - balance between benefit and Cost
- iv. Others
 - Fraud - collusion with Senior Mgmt.
 - Related party transactions
 - Non-Compliance of laws and regulations
 - Doubt about Going Concern

SA 210 - Agreeing The Terms Of Audit Engagements

1. Objectives

- i. Establishing whether the preconditions for an audit are present
- ii. Confirming - a common understanding between the auditor and Mgmt. /TCWG about the terms of the audit engagement



2. Preconditions for an Audit

- i. The use by Mgmt. of an AFRFW in the preparation of FS and
- ii. The agreement of management to the premise on which an audit is conducted

3. Steps to ensure Preconditions for an Audit

- i. Determine whether the FRF acceptable or not
- ii. Written agreement of Mgmt. Responsibility
 - In preparation of FS
 - Designing of IC to prevent MMs in FS
 - Access to auditor
 - » Info. , Records
 - » Additional info. Requested by auditor
 - » To persons within the entity

SA 210 - Agreeing The Terms Of Audit Engagements

4. General Contents of Audit Engagement letter

- i. Scope and Objective of the audit
- ii. Responsibilities of Auditor
- iii. Responsibilities of Mgmt.
- iv. Identified AFRFW
- v. Expected Form and Content of the Reports
- vi. Fee and Billing arrangements



5. Limitation on Scope prior to Audit engagement acceptance

- i. If Mgmt. Impose a limitation on the scope of auditor's work , then auditor shall evaluate the possible effect of such changes
- ii. If Such limitation leads to disclaiming an opinion then auditor shall not accept such limited engagement unless required by law or regulations

6. Recurring Audit - revised terms of engagement

- i. Entity misunderstood the objective and scope
- ii. Revised / special Terms
- iii. Change in Senior Mgmt.
- iv. Significant change in ownership
- v. Change in legal framework
- vi. Change in FRF
- vii. Change in reporting requirements
- viii. Change in nature and size of the entity

SA 210 - Agreeing The Terms Of Audit Engagements

7. Acceptance of Change in terms

- i. Entity may request Auditor to change terms
- A change in Circumstances
 - A misunderstanding the nature of an audit
 - A restriction on the scope of engagement imposed by the mgmt.

7A. Acceptance of Change in terms

Mgmt. Request change in terms

Will new terms convey low level of Assurance ?

↓ Yes

Is there a reasonable Justification in doing so ?

Yes →

Auditor should use professional Judgement and accept new terms and record new engagement letter

↓ No

↓ No

Whether Mgmt. permit Auditor to continue original Engagement ?

Yes →

Continue engagement as per original terms

↓ No

Withdraw from engagement and determine professional and legal obligations for reporting

SA 220 - Quality Control For An Audit Of Financial Statements

1. Objectives

To implement quality control procedures at the engagement level & it provide the reasonable assurance about

- The audit complies with professional standards, legal and regulatory requirements
- The auditor's report issued is appropriate in the circumstances

2. Engagement Quality Control Reviewer (EQCR)

EQCR is a partner or a suitably qualified external person with sufficient and appropriate experience to **objectively evaluate**

- i. The significant judgments made by the engagement team
- ii. The conclusions reached in formulating the report, before the report is issued

3. EQCR's Responsibilities

- i. Discuss significant matters with the Engagement Partner
- ii. Review FS and the proposed auditor's report
- iii. Review the audit documentation relating to significant judgments made by the engagement team
- iv. Evaluate conclusions reached in formulating the auditor's report and determining whether proposed auditor's report is appropriate



SA 220 - Quality Control For An Audit Of Financial Statements

4. EQCR's Additional Responsibilities

- i. The EQCR shall evaluate of the firm's independence in relation to the audit engagement.
- ii. He shall consider whether appropriate consultation has taken place on difficult matters.
- iii. He shall determine whether audit documentation selected for review reflects the work performed and supports the conclusions reached

5. Engagement partner's Responsibilities in relation to EQCR

- i. Determine that EQCR has been appointed
- ii. Discuss significant matters arising during the audit and Engagement Quality Control Review with the EQCR
- iii. Not date the auditor's report until the Engagement Quality Control Review is completed



SA 230 - Audit Documentation

1. Meaning

- i. Audit documentation is the record of
 - audit procedures performed
 - audit evidence obtained
 - Audit conclusions reached.
- ii. It is also called “**working papers**”

2. Objectives

- i. The Preparation of Audit Documentation provides
 - A sufficient and appropriate record of the **basis** for auditor's report
 - An Evidence that the **audit was planned and performed** in accordance with SAs, legal and regulatory requirements

3. Purpose of Audit Documentation

- i. It Assist/ Enables
 - Planning and perform
 - Direction , supervision and Review
 - Fix Accountability
 - Record for Future Audit
 - Quality Review
 - External Inspections



SA 230 - Audit Documentation

4. Factors Determining the form, content and Extent of Audit Documentation

- i. Matters that give rise to significant risk
- ii. Significance of Audit Evidence
- iii. Identified RMMs
- iv. Conclusion not readily determinable
- v. Exceptions
- vi. Audit Methodology
- vii. Nature of Audit Procedures

5. Audit File

- i. Folders or Storage media in Physical or electronic form of Records of Audit Documentation



6. Assembly of Final Audit File

- i. Assembly of Final Audit File is an **ADMINISTRATIVE PROCESS** and does not involve performance of new Aps or Drawing New Conclusion
- ii. It shall be assembled within 60 days from the date of Auditor's Report

SA 230 - Audit Documentation

7. Changes in Audit Documentation During Final Assembly

- i. Deleting Superseded Documents
- ii. Sorting , Collating and Cross reference of working papers
- iii. Signing of Completion Check lists
- iv. Documenting Audit Evidence that Auditor has obtained , discussed and agreed with relevant matters

8. Retention Period

- i. **7 years** from the date of Auditor's Report
- ii. No Documentation shall be deleted before the end of its retention period

9. Documentation of Significant matters

- i. Requires Analysis of facts and circumstances
 - Matters that gives rise to Significant Risk
 - Results of Aps
 - Difficulty in Applying Aps
 - Modification of AR



SA 230 - Audit Documentation

10. Documentation of Exercise of Professional Judgement

- i. Explain the Auditor's Conclusions improve the quality of judgement helps in reviewing documentation
 - Rationale for the auditor's Conclusion on Consideration of Various Factors
 - Basis and Reasonableness of auditor's Conclusion
 - Authentication of Documentation

11. Completion Memorandum

- i. Summary of
 - Significant matters addressed
 - How they were addressed
- ii. It helps auditor in
 - Effective and Efficient review of audit Documentation
 - Assists Auditor's Consideration of Significant Risk
 - To consider whether any objective of the Standard has been achieved or not

12. Ownership of Audit Documentation

- i. Property of Auditor
- ii. He may provide extracts to his client at his own discretion



SA 240 -The Auditor's Responsibilities Relating Fraud In An Audit Of Financial Statements

1. Meaning of Fraud

- i. It is an intentional act
- ii. by one or more individuals among
 - management
 - TCWG
 - employees or
 - third parties,
- iii. involving the use of deception
- iv. to obtain an unjust or illegal advantage

2. Objectives

- i. To identify and Assess the ROMMs due to Fraud
- ii. To Obtain SAAE about the assessed ROMMs due to fraud
- iii. To deal Appropriately with identified fraud

3. Characteristics

Fraud is Intentional MS of

- Fraudulent Financial Reporting - Intentional MS including omissions to deceive FS users
- Misappropriation of Assets - Theft of Assets



SA 240 -The Auditor's Responsibilities Relating Fraud In An Audit Of Financial Statements

4.Fraudulent Financial Reporting

- i. Manipulation , falsification and alteration of accounting records
- ii. Misrepresentation / Intentional Omission
- iii. Intentional Misapplication of accounting principles
- iv. Management Override Controls

5. Factors induce mgmt./employees to commit fraud

- i. Financial Obligation / Pressure
- ii. Mgmt.'s unrealistic Goals
- iii. Dissatisfied employees
- iv. Name game (mgmt. using power of authority by asking something illegal)
- v. Opportunity to Commit fraud

6.Misappropriation of Assets

- i. Theft of entity's Assets , perpetrated by Employees also Mgmt.
- ii. Misappropriation of goods
 - more difficult to detect
 - Periodic physical Verification
 - Rules and Procedures
 - External Security
- iii. Defalcation of cash
 - Inflating cash payment
 - i. Inflated Vouchers & Dummy workers
 - Suppressing Cash Receipts
 - i. Teeming and lading
 - ii. Fictitious discounts , sales
 - Casting Wrong totals in cash book

SA 240 -The Auditor's Responsibilities Relating Fraud In An Audit Of Financial Statements

7. Fraud Risk Factors

- i. It means Events or Conditions indicating incentive , pressure , opportunity to commit fraud
- ii. Fraud Risk Factors
 - Fraudulent Financial Reporting
 - Misappropriation of Assets

8. Incentives or pressures , opportunities and attitude of fraudulent Financial Reporting

- i. Incentives / Pressures
 - Operation loss
 - Recurring negative cash flow
 - Decline Customer trend
 - High Competition
 - New regulations
- ii. Opportunities
 - RPTs
 - Complex transactions
 - Dominant position in marketing
 - Components of tax heavens
- iii. Attitude
 - History of violation of laws
 - Increase in earning trends
 - Mgmt. fails to remedy deficiencies
 - Strained relations with auditors
 - No line between personal and business transactions

SA 240 -The Auditor's Responsibilities Relating Fraud In An Audit Of Financial Statements

8A. Incentives or pressures , opportunities and attitude of Misappropriation of Assets

- i. Incentives / Pressures
 - Personal Financial Obligations
 - Adverse employee relationship
- ii. Opportunities
 - Huge cash in hand
 - Inventory small size and high value
 - Inadequate IC
 - FA - small size and high value
- iii. Attitude
 - Tolerance of minor theft
 - Changed lifestyle
 - Displeasure among employees
 - Disregard for IC

9. Circumstances Relating Possibility of fraud

- i. Discrepancies in Accounting Records
- ii. Conflicting or Missing Evidence
- iii. Problematic relation between Mgmt. and Auditor
- iv. Others
 - Auditor not permit to meet TCWG
 - A/c Policy differ from industry norms
 - Frequent changes In A/c Estimate

SA 240 -The Auditor's Responsibilities Relating Fraud In An Audit Of Financial Statements

10.Others - Detection of Fraud

- i. Mgmt. Primarily responsible for detection of error and fraud
- ii. Auditor's Responsibility is obtaining reasonable assurance that the FS free from MMs due to fraud or error
- iii. Non detection of ROMMs due to fraud > Non detection of ROMMs due to Error
- iv. Non detection of ROMMs due to Mgmt.'s fraud > Non detection of ROMMs due to Employee Fraud (Mgmt. override of controls)

11.Audit Procedures for Fraud reporting

- i. Circumstances indicating MS in FS existing due to fraud → Perform APs to determine whether it results MMs → if it yes communicated to TCWG , Mgmt., Regulatory authority
- ii. Auditor identified MS → consider it is indicating the fraud → if yes 1. Consider the implications on other aspects of audit and consider the reliability of mgmt.'s representation letter → Communicated to TCWG , MGMT and regulatory authority if required
- iii. Reporting Sec 143(12) of Co. Act 2013

SA 250 -Consideration Of Laws And Regulations In An Audit Of Financial Statements

1.Objectives

- i. To obtain SAAE regarding compliance with provision of law or regulations
 - Affects Going concern
 - Results Ms in FS
 - Attracts heavy penalty



2.Mgmt's Responsibilities regarding law and regulations

- i. Primary Responsibility
 - i. Prevention of non compliance
 - ii. Detection of non compliance

3.Auditor's Responsibilities regarding law and regulations

- i. Type 1
 - Those L & R which have direct impact on determination of amount and disclosure → auditor has to obtain SAAE
- ii. Type 2
 - Those L & R which do not have direct impact on determination of amount and disclosure, but compliance is required
 - To avoid penalties
 - To continue the business (perform limited AP => inquiry with TCWG, In-house legal counsel)

SA 250 -Consideration Of Laws And Regulations In An Audit Of Financial Statements

4. Non - Compliance

- i. An act of omission / commission
 - Done intentionally / unintentionally
 - Which is contrary to prevailing laws and regulations
 - Such acts include transactions entered into by or in the name of an entity or on its behalf by TCWG , MGMT .
- ii. Non - compliance does not include personal misconduct by TCWG , mgmt. , employees which is unrelated to the entity

5. Indicators of Non - Compliance

- i. Investigation by authorities
- ii. Loan to related parties
- iii. Payment in cash
- iv. Payment to govt. employees
- v. Unusual payment of legal fee
- vi. Transactions with companies have tax heavens
- vii. Unauthorized transactions

SA 250 -Consideration Of Laws And Regulations In An Audit Of Financial Statements



```
graph TD; A[SA 250 -Consideration Of Laws And Regulations In An Audit Of Financial Statements] --> B[6. Reporting Requirements]; B --> C[i. Reporting with TCWG]; C --> D["• Auditor shall communicate the non-compliance of laws and regulations<br/>• If MGMT / TCWG themselves are involved - report to next high level authority<br/>• If no high level authority exists - obtain legal advice"]; C --> E[ii. Reporting through audit report]; E --> F["• Auditor obtain SAAE that there is non-compliance with L & R<br/>• Adequate Disclosure given in FS - Unmodified opinion<br/>• No Adequate Disclosure given in FS - Modified Opinion<br/>• Auditor unable to obtain SAAE that there is non-compliance with L & R<br/>• Possible effect of undetected MS - Modified Opinion"]
```

6. Reporting Requirements

- i. Reporting with TCWG
 - Auditor shall communicate the non-compliance of laws and regulations
 - If MGMT / TCWG themselves are involved - report to next high level authority
 - If no high level authority exists - obtain legal advice
- ii. Reporting through audit report
 - Auditor obtain SAAE that there is non-compliance with L & R
 - Adequate Disclosure given in FS - Unmodified opinion
 - No Adequate Disclosure given in FS - Modified Opinion
 - Auditor unable to obtain SAAE that there is non-compliance with L & R
 - Possible effect of undetected MS - Modified Opinion

SA 299 - Joint Audit Of Financial Statements

1. Meaning

Pooling resources and expertise of more than one auditor or firm to provide an expert service In a limited period of time



2. Objectives

- i. To lay down broad principles for joint auditors in conducting joint audit
- ii. To provide a uniform approach to the process of joint audit
- iii. To identify the distinct areas of work and coverage by each joint auditor
- iv. To identify individual responsibility and joint responsibility of the joint auditors

3. Scope of Joint Audit

- i. The practice of appointing more than one auditor to conduct the audit of large entities due to requirements of laws or regulations.
- ii. Such auditors are known as joint auditors. .
- iii. SA 299 lays down the principles for the effective conduct of Joint Audit.
- iv. This standard does **NOT** deal with the relationship between a principal auditor who is appointed to report on the FS of an entity and another auditor who is to report on the FS of the component.

SA 299 - Joint Audit Of Financial Statements

4. Development of Joint Audit plan

- i. Identify **division of audit areas** & defines the **scope of work** of each joint auditor
- ii. Based on reporting objective - plan the timing of the audit and **nature of communications** required
- iii. Communicate to all - the factors that are significant in **directing the engagement team's** efforts
- iv. Consider the results of **preliminary engagement** activities
- v. Ascertain the nature, timing and extent of resources necessary to perform the engagement

5. Responsibilities of Joint Auditor

- i. All Joint Auditor are Joint and Severally liable for
 - The audit work which is not divided is carried out by all of them
 - In Audit planning all joint auditors take decisions for common area
 - Examine the FS comply with the relevant statutes
 - To confirm that Presentation and disclosure of FS as per AFRFW
 - Ensuring audit report complies with relevant statutes, applicable SAs

SA 299 - Joint Audit Of Financial Statements

6. Allocation of work among joint auditors

- i. Work is divided between the joint auditors by mutual discussion
- ii. When work is not able to divided - it shall be performed by all joint auditors
- iii. Division of work may be with references to items of assets, liabilities, income or expenditure.
- iv. The documentation of allocation of work helps in avoiding any dispute or confusion between joint auditors

7. Reporting Under Joint audit

- i. Joint Auditors agree on a common opinion
 - Issue Common Audit Report
- ii. Disagreement with regard to the opinion or any other matter
 - Not bound by the view of majority of auditors
 - Express opinion in a separate audit report
 - If separate audit reports are issued, the audit report issued by joint auditors should make a reference to separate audit report issued by any joint auditor
 - Make reference to the audit report issued by the other joint auditor in Other Matter Paragraph

SA 300 - Planning In An Audit Of Financial Statements

1. Objective

The Objective of an auditor is to plan the audit so that it will be performed in an effective manner



2. Preliminary Engagement activities

- i. Performing procedures required by SA 220 related to Quality Control
- ii. Evaluating compliance with ethical requirements including independence as per SA 220
- iii. Establishing an understanding of the terms of the engagement as per SA 210

3. Planning Activities

The auditor shall establish an overall audit strategy that sets the scope, timing, direction of the audit and guides the development of the audit plan

4. Benefits of audit Planning Activities

- i. To devote appropriate attention to important areas of the audit
- ii. Identify and resolve potential problems on a timely basis
- iii. Properly organize and manage the audit engagement
- iv. Assisting in selection of engagement team members
- v. Facilitating the direction and supervision of engagement team members

SA 300 - Planning In An Audit Of Financial Statements

4. Establishing Overall Audit Strategy

- i. Identify the Characteristics and Scope of the engagement
- ii. Reporting objectives of the engagement
- iii. Consider the significant factors directing the team's efforts
- iv. Determine the NTE of Resources
- v. Consider the Results of preliminary engagement activities

5. Inclusion of Audit Plan

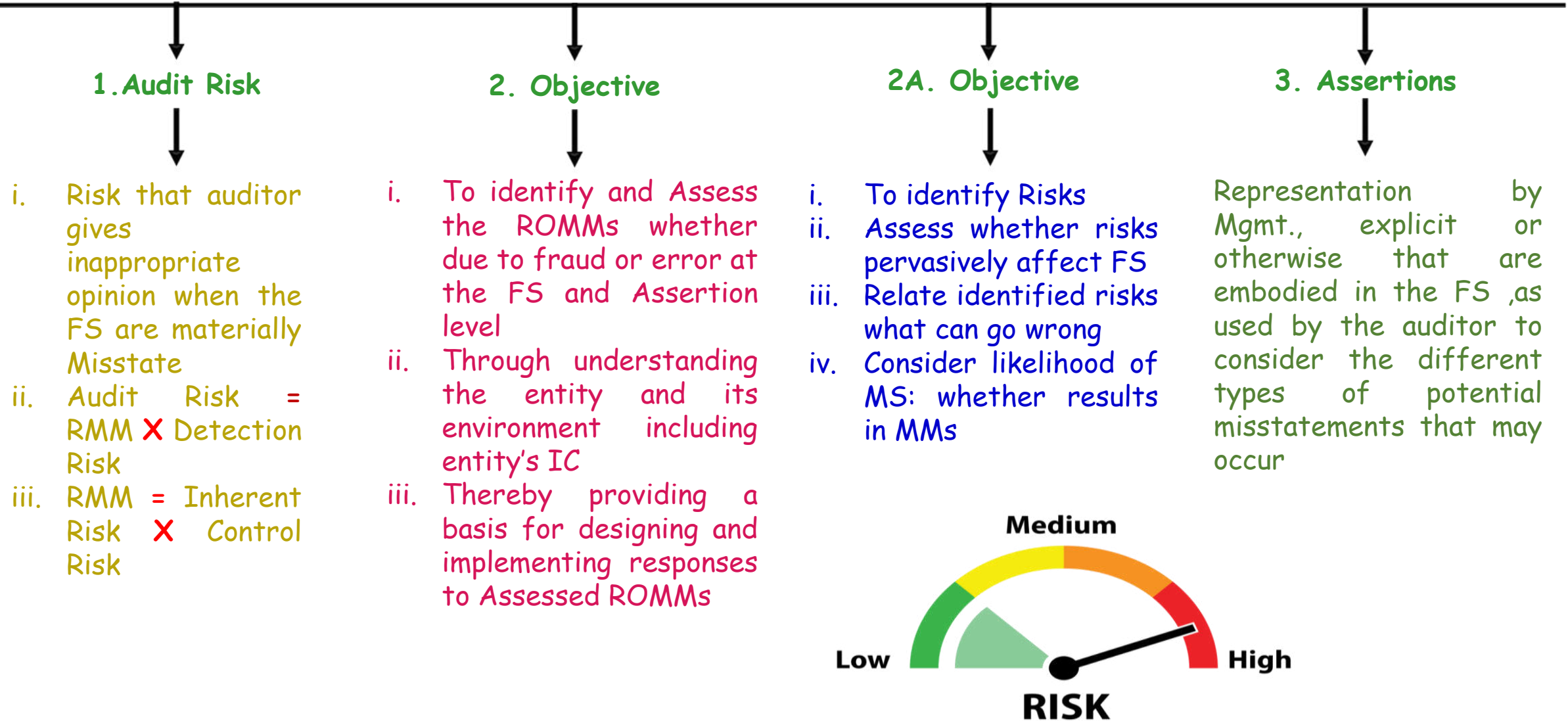
- i. The nature, timing and extent of planned risk assessment procedures as per SA 315
- ii. The nature, timing and extent of planned further audit procedures as per SA 330
- iii. Other planned audit procedures that are required to be carried out as per other SAs

6. Documentation as per SA 300

- i. The overall audit strategy
- ii. The audit plan
- iii. Any significant changes made to the overall audit strategy or audit plan, and the reasons for such changes



SA 315 - Identifying & Assessment Of Risk Of Material Misstatements Through Understanding Entity & Its Environment



SA 315 - Identifying & Assessment Of Risk Of Material Misstatements Through Understanding Entity & Its Environment

4. Risk of Material Misstatement

- i. MMs prior to audit
- ii. Inherent Risk = Amounts, presentation, classification, Disclosure misstated before considering related Controls
- iii. Control Risk = IC unable to prevent MMs on timely basis

5. Detection Risk

- i. Audit procedures performed is failed to detect Misstatements



6. Techniques to Perform Risk Assessment Procedure

- i. Inquires of management and others
 - TCWG
 - Employees
 - In-House legal Counsel
- ii. Analytical Procedures
 - i. Financial and non financial information
- iii. Observation and Inspection
 - Entity's Operations
 - Documents

SA 315 - Identifying & Assessment Of Risk Of Material Misstatements Through Understanding Entity & Its Environment

7. Understanding the entity and its environment

- i. Relevant Industry , regulatory framework
- ii. Nature of entity's operations , Ownerships structure
- iii. Selection and application of policies
 - Appropriateness
 - Consistency
 - Need to involve experts
- iv. Entity's objectives and strategies
- v. Entity's Financial performance

8. Internal Control

- i. It is a process (Policies and Procedures)
 - Designed
 - Implemented
 - Maintained by
- ii. MGMT , TCWG to provide
- iii. Reasonable Assurance about achievement of entity's objectives with regards to
 - Compliance of laws and Regulation
 - Safeguarding the Assets
 - Reliability of Financial Reporting
 - Efficiency and Effectiveness of Operations

9. Benefits of understanding the Internal Control

- i. Identify the factors affecting RMM
- ii. Identifying Potential MS
- iii. Designing NET of FAP



SA 315 - Identifying & Assessment Of Risk Of Material Misstatements Through Understanding Entity & Its Environment

10. Limitations of Internal Control

- i. Reasonable Assurance only
- ii. Human Judgment
- iii. Lack of understanding the purpose of IC
- iv. Collusion among People
- v. Judgment by MGMT
- vi. Not useful in Small Entity

11. Components of Internal Control

- i. Control Environment
- ii. Entity's RAP
- iii. Information System
- iv. Control Activities
- v. Monitoring of Controls

11A. Control Environment

- i. It sets the tone of organization
- ii. Attitude and awareness of TCWG , Mgmt.
- iii. Honesty and Ethical Behavior
- iv. Governance and Mgmt. Functions
- v. **COMPONENTS OF CONTROL ENVIRONMENT**
 - Communication and enforcement of integrity and ethical Values
 - Commitment to competence
 - Participation By TCWG
 - Mgmt.'s Philosophy and operating style
 - Organizational structure
 - HR policies and Procedures

SA 315 - Identifying & Assessment Of Risk Of Material Misstatements Through Understanding Entity & Its Environment

11B. Entity's RAP

- i. Entity's Process for
 - Identification of Risks
 - Estimate the significance of Risk
 - Assess the likelihood of Occurrence
 - Deciding actions to address the risks

11C. Information Systems (IS)

- i. The Auditor shall obtain understanding IS including Business process , relevant to FR
 - The Significant COT
 - The process of initiation , recording, processing the transaction
 - How IS captures significant events
 - FR process

11D. Control Activities

- i. Policies and Procedures to ensure Mgmt. directives are carried out
- ii. Control Activities relevant to audit
 - Those necessary to assess RMM
 - Related to Significant ABCD
 - Related to Significant Risk where SAPs are not sufficient
 - Relevant in auditor's Judgments



SA 315 - Identifying & Assessment Of Risk Of Material Misstatements Through Understanding Entity & Its Environment

11E. Monitoring of Controls

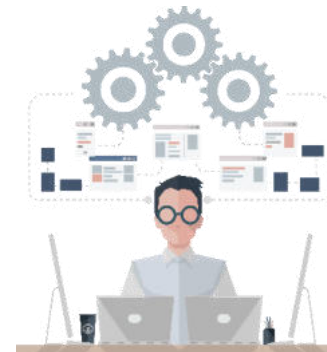
- i. Process to assess effectiveness of IC performance on a timely basis
- ii. Management accomplish monitoring through
 - Ongoing activities - of Routine nature
 - Separate Evaluation - Using Info. From external sources

12. Risk that require special audit consideration

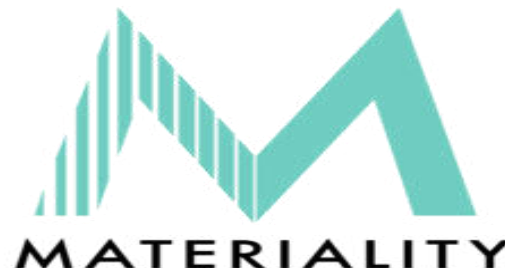
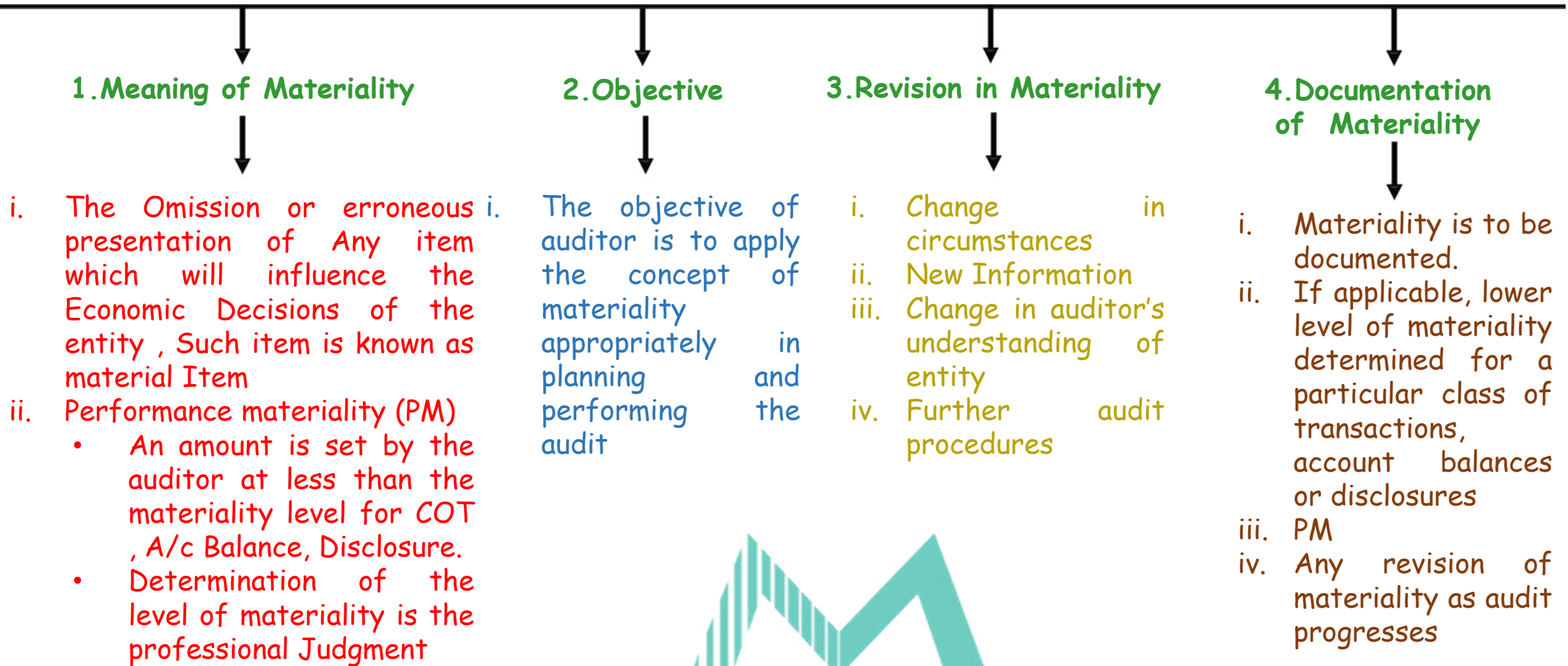
- i. Risk of fraud.
- ii. Complexity of transactions.
- iii. Risk of unusual transactions with related person.
- iv. Degree of subjectivity in the measurement of financial statements.
- v. Risk due to involvement of uncertainty.
- vi. Risk relating to recent significant economic, accounting or other developments

13. IT related Risk

- i. Inaccurate data processing
- ii. Unauthorized access of data
- iii. Unauthorized changes to data, systems or programs
- iv. Failure to make necessary changes in systems
- v. Inappropriate manual intervention
- vi. Potential loss of data



SA 320 -Materiality In Planning And Performing An Audit



SA 500 - Audit Evidence (AE)

1. Meaning

- i. Audit evidence is information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.
- ii. It includes both information contained in the accounting records underlying the financial statements and other information

2. Objective

- i. Auditor must form his audit opinion on the basis of sufficient and appropriate audit evidence which are obtained by performing RAP and FAP



3. Sufficiency and Appropriateness

- i. Sufficiency refers to quantum of Audit evidence
 - Materiality
 - Size and Characteristics of populations
 - RMMs
- ii. Appropriateness refers quality of Audit evidence
 - Relevance
 - Reliability

SA 500 - Audit Evidence (AE)

4. Reliability of Audit evidence increases when

- i. Obtain from Independent Sources
- ii. Related Controls are Effective
- iii. Directly obtained by auditor
- iv. Obtained in documentary form
- v. Provide Original Documents



5. Audit Techniques to obtain AE

- i. Inspection - Examine Records
- ii. Observation - Witness the others performance
- iii. External Confirmation - Direct response by third party
- iv. Recalculation - check mathematical accuracy
- v. Re-performance - independent execution of procedures
- vi. Analytical Procedures - Evaluate plausible relationship between data
- vii. Inquiry - Seek Information from knowledgeable persons

6. Types of Audit Evidence

- i. Depending on nature
 - i. Visual
 - ii. Oral
 - iii. Documentary
- ii. Depending on Source
 - i. Internal
 - ii. External

SA 501 - Audit Evidence - Specific Considerations for Selected Items

1. Objectives

- i. The objective of the auditor is to obtain SAAE regarding:
- Existence and condition of inventory
 - Completeness of litigation and claim involving the entity
 - Presentation and disclosure of segment information in accordance with applicable FRF

2. Selected Items

- i. Inventory
ii. Litigation and Claims
iii. Segment Information



3. Inventory

- i. Attendance at Physical Inventory Counting (PIC)
- Evaluate management procedures
 - Observation Inspection
 - Test Count
- ii. Perform other APs Relevant matters in planning PIC
- Nature of inventory
 - Stage of WIP
 - RMM
 - Nature of IC
 - Need for expert
 - Location of inventories
- iii. Date other than FS Date - Changes recorded or not
- iv. Attendance at PIC impracticable
- Perform alternative APs to obtain SAAE
 - If not possible, issue modified report
- v. Inventories lying with third parties
- Obtain confirmation - Inspection and Other APs

SA 501 - Audit Evidence - Specific Considerations for Selected Items

4. Litigations and Claims



- i. Perform APs to identify RMM
 - Inquiry of management
 - Inquiry of in-house legal counsel
 - Minutes of TCWG meeting
 - Correspondence
 - Reviewing legal expense account
- ii. If RMM identified
 - Direct communication with legal counsel
 - Alternative Aps
- iii. Meet legal counsel
 - Determine significant risk
 - Complex matter
 - Disagreement between management and legal counsel

5. Segment Reporting

- i. SAAE about presentation and disclosure
- ii. Methods used in determining segment information
- iii. Understanding the method
- iv. Testing application of the method

SA 505 - External Confirmations

1. Meaning & Suitability

- i. Direct written response from a third party in paper or electronic form
- ii. Suitability of External Confirmations
 - Account Balances and their elements
 - Terms of contracts, agreements
- iii. E.g. External confirmations provide relevant audit evidence for existence of inventories but less relevant audit evidence for their completeness and valuation

2. Important Terms

- i. **Positive Confirmation Request** - Respond whether agrees or disagrees
- ii. **Negative Confirmation Request** - Respond only in case of disagreement
- iii. **Non Response** -
 - Failure of confirming party to respond
 - Request return undelivered
- iv. **Exception**
 - Difference between information requested and information provided by the confirming party

3. Factors determining whether External Confirmation to be performed

- i. Confirming party's knowledge of subject matter
- ii. Ability or willingness of third party to respond
- iii. Objectivity and reliability of the third party



SA 505 - External Confirmations

4. Performing External Confirmation Procedures

- i. Determine information to be confirmed
- ii. Selecting appropriate confirming party
- iii. Designing the ECR
- iv. Sending the ECR

5. Factors to consider while designing ECRs

- i. Identified RMM
- ii. Layout and presentation
- iii. Assertions being addressed
- iv. Method of communication
- v. Prior experience with client or similar industry
- vi. Management authorization or encouragement
- vii. Ability of third party

6. If management refuses auditor to send ECRs

- Inquire as to reason for refusal
- Evaluate implications on RMM assessment
- Perform alternative APs
- If refusal considered unreasonable, Communicate with TCWG
- Consider implications on Audit opinion

SA 510 – Initial Audit Engagements – Opening Balances

1. Application of SA 510

- i. Prior period FS unaudited
- ii. Prior period FS audited by predecessor auditor



2. Objective

- i. Obtain SAAE
 - Opening balance containing MS
 - Appropriate accounting policy consistently applied in current period FS

3. Audit Procedures as per SA 510

- i. The auditor should read the most recent FS and the predecessor auditor's report regarding the Opening balance
- ii. Obtain SAAE to confirm
 - Brought forward of prior period's Closing balance
 - opening balances reflect application of appropriate A/c Policy
 - Perform specific audit procedures to obtain evidence on opening balances
- iii. If prior period's audit report was modified, the auditor shall evaluate its effect on the assessment of Risk of Material Misstatement

SA 510 – Initial Audit Engagements – Opening Balances

4. Auditor's Opinion w.r.to Opening Balances contain MS affecting current period FS

- i. Perform APs to obtain SAAE
- ii. Prior period closing balance correctly brought forward
- iii. Application of appropriate accounting policies
- iv. Perusing copies of audited FS
- v. APs for current year provide AE for prior period
- vi. Specific APs
- vii. If MS identified
- viii. Perform additional APs
- ix. Communicate to management and TCWG

5. Auditor's Opinion w.r.to Consistent application of accounting policies

- i. Obtain SAAE
- ii. Whether accounting policies consistently applied in current period FS
- iii. Changes are adequately presented

6. Reporting

- i. Unable to obtain SAAE
 - Qualified Opinion
 - Disclaimer of Opinion
- ii. Concludes that Opening balance contain MS
 - Qualified Opinion
 - Adverse Opinion

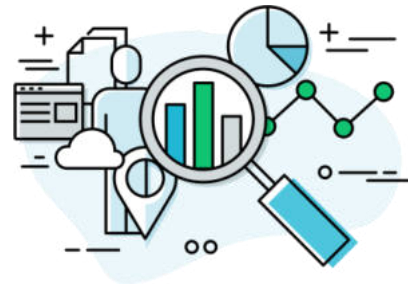
SA 520 – Analytical Procedures

1. Meaning

- i. Analytical Procedures means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
- ii. The choice of procedures, methods is a matter of professional judgement

2. Objectives

- i. To obtain relevant and reliable audit evidence when using substantive analytical procedures
- ii. To design and perform SAP towards the end of the audit to form an overall conclusion as to whether the FS are consistent with auditor's understanding of the entity



3. Nature Of Analytical Procedure

- i. Analytical procedures include comparison of entity's financial information with:
 - Comparable information for prior period
 - Anticipated results of the entity, based on budgets or forecasts
 - Similar industry information
 - Relationships Among elements of financial information
 - Between financial and non-financial information

SA 520 - Analytical Procedures

4. Investigate the results of analytical procedures

- i. The auditor shall:
 - Inquire of management and obtain SAAE relevant to management's response
 - Perform other audit procedures as necessary in the circumstances

5. Application of SAP

- i. Determine suitability of SAP for particular assertions while considering ROMM
- ii. Evaluate the reliability of data from which auditor will build expectations
- iii. Develop an expectation of recorded amounts or ratios and evaluate whether expectation is sufficiently precise to identify misstatements
- iv. Determine fluctuations between expectation and amounts actually recorded

6. Determine reliability of data

- i. Source of the information available
- ii. Comparability of the information available
- iii. Nature and relevance of the information available
- iv. Controls over the preparation of the information that are designed to ensure its completeness, accuracy

SA 520 - Analytical Procedures



7. Evaluate whether the auditor's expectation is sufficiently precise Or not



- i. The accuracy with which results can be predicted
- ii. The degree to which information can be disaggregated (broken up)
- iii. The availability of financial and non-financial information

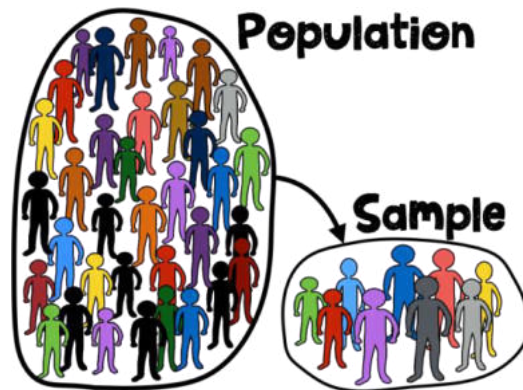
SA 530 - Audit Sampling

1. Meaning

- i. Application of audit procedures to
- ii. Less than 100% population where
- iii. Each unit has an equal chance of selection
Such that
- iv. conclusion on population is based on the conclusion on sample

2. Objectives

The objective of the auditor is to provide a reasonable basis when using audit sampling to draw conclusions about the population from which the sample is selected



3. Population

- i. Entire data set about which conclusion is to be drawn and from which sample is selected
- ii. Characteristics
 - Appropriateness with regard to audit objective
 - Completeness- should include all relevant items
 - Reliable-Complete and accurate information

4. Anomaly

Deviations and MS identified -
Evaluate whether it represent the population or not

SA 530 - Audit Sampling

5. Tolerable error

Tolerable error refers to deviation between sample result and population result which auditor is willing to accept & still conclude that sample result & population result are same

6. Expected error

Expected error is the deviation expected by auditor to remain between sample result & population result. Higher the sample size lowers the expected error and it should always lie within the arms of the tolerable error

Expected error < tolerable error → Sampling objective achieved

Expected error > tolerable error → Sampling objective not yet achieved, so increase the sample size to make E.E. < T.E.

SA 530 - Audit Sampling

7. Approaches to Sampling

i. Statistical Sampling

- i. Random selection of the sample items.
- ii. Use of probability theory
- iii. Measurement of sampling risk
- iv. More scientific

ii. Non-statistical Sampling

- i. Sample size determined as per personal experience
- ii. Traditional approach
- iii. Neither objective, nor subjective
- iv. Less time consuming

8. Sampling Risk

- i. Risk that auditor's conclusion based on sample May be different If APs were applied to entire population
- ii. Two types of erroneous conclusion will occur
- iii. Type 1
 - TOC -Controls more effective than actually are
 - TOD-MS does not exist when in fact it does
 - Affects-Audit effectiveness
 - Results-Inappropriate audit opinion
- iv. Type 2
 - TOC-Controls less effective than actually are
 - TOD-MS exists when in fact it does not
 - Affects-Audit efficiency
 - Results Additional workload

9. Non-Sampling Risk

Auditor reaches an erroneous conclusion for any reason not related to sampling risk

- i. Human Mistakes
- ii. Misinterpreting the sample results
- iii. Applying inappropriate APs
- iv. Relying on erroneous conclusions

SA 530 - Audit Sampling

10. Stratification & Value Weighted selection

Stratification:

Entire population
Divided into stratum
or sub-populations
having identifying
characteristics

Value-weighted selection

Identify sampling
units as
Monetary units

- Focus on high value items
- Reduce sample size

11. Sample design, size and selection of item

Factors to be considered while designing sample

- **Specific purpose to be achieved by AP**
 - i. Nature of AE
 - ii. Possible deviation or misstatement
- **Characteristics of population**
 - i. Stratification
 - ii. Value-weighted selection

12. Performing audit procedures

- Perform APs on each item selected
 - Unable to apply AP on selected item / AP unsuitable
 - Perform AP on replacement item
 - Unable to apply designed AP
 - Treat item as deviation (TOC) or MS (TOD)

SA 530 - Audit Sampling

13. Sample Selection methods

Simple Random Sampling

- Each unit has equal chance of selection
- Items chosen using random number generators
- Simple, easy and unbiased
- Appropriate for similar units in population

Stratified Random Sampling

- Dividing population into strata
- Taking random sample from each strata
- Appropriate for diversified population

Interval / Systematic Sampling

- Determination of an interval
- Dividing number of sampling units by sample size
- Determine that sampling units are not in a structured pattern

Monetary Unit Sampling

- Type of value-weighted selection
- Sample size in monetary amounts

Haphazard Sampling

- Selecting sample without structured technique
- Auditor should avoid conscious bias

Block Sampling

- Selection of block of contiguous items
- Suitable for heterogeneous sampling units

SA 550 - Related parties

1. Meaning

- i. Entity over which reporting entity has significant control
- ii. Entities under Common control
- iii. Person or entity that has control or significant influence, directly or indirectly
 - **Exception** : Entities under common control by Government are not considered related unless they share resources or transactions significantly

2. Related Party transactions posing high RMM

- i. RPs operating through complex relationships and structures
- ii. Ineffective information systems for identifying transactions
- iii. Transactions with no or inadequate consideration

3. Auditor's duties

- i. Perform APs to identify and assess RMM of failure to account/disclosure RPTs
- ii. Obtain an understanding of the entity's RP relationships and transactions
- iii. Whether FS achieve true and fair presentation or are not misleading
- iv. Evaluate whether RP is a fraud risk factor



SA 550 – Related parties

4. Verify existence of related parties

Inspect the following documents

- i. Income tax returns
- ii. Shareholder registers
- iii. Investment register
- iv. Internal Audit report
- v. Statement of conflict
- vi. Contracts not in ordinary Course of Business

5. Responsibilities of Auditor

- i. Obtain AE regarding accounting and Disclosures
- ii. Identify the fraud risk factors (especially fraud can happen Through RP)
- iii. Inherent limitations arising out of RP transactions (mgmt. may not aware the existence RPT)
- iv. Maintain Professional Skepticism

SA 560 - Subsequent Events

1. Meaning

- i. Events Occurring between the
 - Date of FS
 - Date of Auditor's Report
- ii. And the fact came to auditor's knowledge after the Date of Auditor's Report

2. Objective

- i. Obtain SAAE about whether events occurring between the date of the FS and the date of the auditor's report that require adjustment or disclosure are appropriate reflected in the FS
- ii. Responds appropriately to the facts that become known to the auditor after the date of Auditor's Report

3. Audit Procedures

- i. Understanding of mgmt. responsibilities to identify subsequent events
- ii. Inquiring of Mgmt. & TCWG
- iii. Reading Minutes of BOD and SH meetings
- iv. Reading Interim FS
- v. Obtain WR



SA 560 - Subsequent Events

4. Auditor's Responsibilities

1. Facts came to auditor's knowledge before the FS issued

- Discuss the matter with Mgmt.
- Determine whether the FS need Amendment
- inquire whether mgmt. amends the FS

Mgmt. Amends the FS

- Perform AP related to amendment
- Obtain SAAE

NO IMPACT ON
OPINION (No need to
modify the Opinion)

Audit Report not yet
given to Mgmt.

Modify the Opinion & Give
the Audit Report

Mgmt. does not Amends the FS

Audit Report already
given to Mgmt.

Instruct mgmt. Not to
Circulate Audit Report
If Circulated take
Appropriate action
Give modified Opinion

SA 560 - Subsequent Events

4A. Auditor's Responsibilities



2. Facts came to auditor's knowledge after the FS issued

- Discuss the matter with Mgmt.
- Determine whether the FS need Amendment
- inquire whether mgmt. amends the FS
- If FS need amendment first ask mgmt. to take appropriate action to stop , if mgmt. doesn't auditor himself take action

Mgmt. Amends the FS



- Perform AP related to amendment
- Obtain SAAE



Give New Audit Report containing
Unmodified opinion & EOM , OM
para to highlight

Mgmt. does not Amends the FS



Auditor shall give a new
Audit Report containing

- Modified Opinion
(Qualified /
Adverse)
- Explain the reason in
basis for Modified
Opinion para

SA 570 - Going Concern

1. Meaning

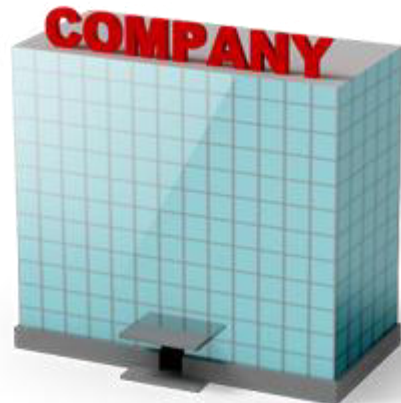
- i. Entity will continue its operations for foreseeable future
- ii. Realize its assets in the normal course
- iii. Discharge its liabilities in the normal course

2. Objective

- i. Obtain SAAE from management and TCWG regarding their use of GCA
- ii. To conclude based on evidence whether material uncertainty regarding GCA exists
- iii. Report as per SA 570

3. Auditor's Responsibilities

- i. to obtain SAAE regarding the appropriateness of management's use of the GCA in the preparation of FS
- ii. Determine whether a material uncertainty casting doubt on GCA exists



SA 570 – Going Concern

4. Conditions casting doubt on entity's ability to continue as a Going Concern

Financial

- Net liability position
- Borrowings approaching maturity but no scope for renewal
- Withdrawal of financial support by creditors etc.
- Adverse financial ratios
- Negative operating cash flow

Operating

- Management intention for liquidation
- Loss of key management without replacement
- Loss of market
- Labor difficulties
- Shortage of supplies

Other

- Non-compliance with regulatory requirements
- Pending legal proceedings
- Adverse effect of changes in government policies
- Uninsured catastrophes

SA 570 – Going Concern

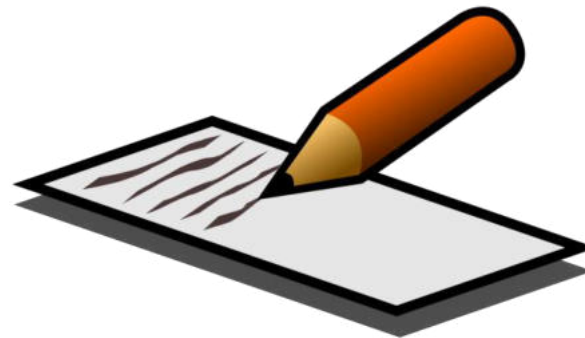
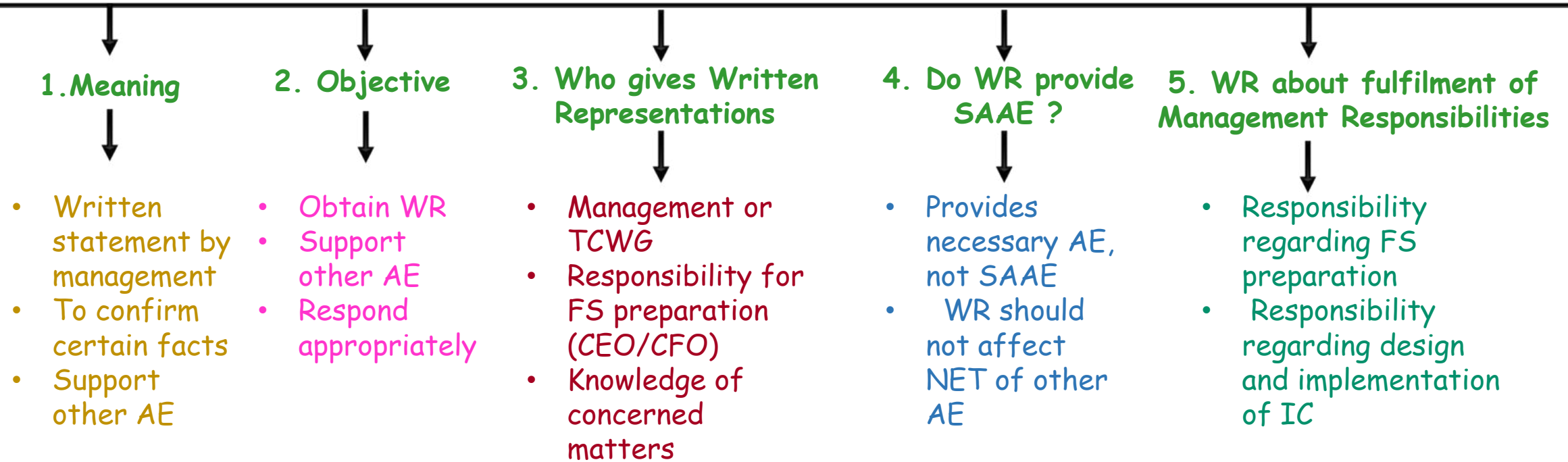
5. When Events/ Conditions casting significant doubt on entity's going concern identified

- i. Requesting management to make GC assessment, if not already made
- ii. Evaluating future plans of management in relation to its going concern
- iii. Evaluating reliability of cash flow forecast and its analysis
- iv. Considering additional facts since management's assessment
- v. Requesting written representations regarding future plans

6. Relevant Audit Procedures

- i. Analysing and discussing cash flows
- ii. Analysing and discussing latest interim FS
- iii. Obtaining and reviewing reports of regulatory actions
- iv. Reading terms of loan agreements
- v. Reading minutes of meetings
- vi. Inquiring legal counsel
- vii. Planned disposal of assets

SA 580 - Written Representations (WR)



SA 580 – Written Representations (WR)

6. Circumstances requiring reconfirmation of management's understanding of its responsibilities

- Those who signed the terms of engagement are no longer responsible
- Terms of engagement prepared in previous year
- Misunderstanding responsibilities
- Change in circumstances

7. Doubts over reliability of WR

- If concerns regarding competence, integrity and diligence of management
- If WR inconsistent with other AE, perform APs to resolve
- If WR not reliable, consider effect on opinion as per SA 705
- If management does not provide requested WR - discuss with management, re-evaluate integrity, consider possible effect on audit opinion

SA 610 – Using the Work of Internal Auditors

1. Objective

- Determine whether the work of direct assistance from internal auditors can be used
- Determine whether such work is adequate
- Appropriate direction, supervision and review in case of direct assistance
- External auditor has the sole responsibility for the audit opinion expressed and it is not reduced if he uses the work of internal auditor

2. External Auditor's procedures w.r.to evaluation of IA Function

- Determine adequacy of work of IAF for use by external auditor
- Evaluate
 - Objectivity of IA
 - Application of systematic and disciplined approach
- Determine nature and extent of work of IAF to be used
- Using the work of IAF
 - Discuss planned use of IAF's work for consideration
 - Read reports of IAFs relating to area of work external auditor plans to use
 - Perform sufficient APs on work of IA
 - Determine appropriations of use of work of IAF



SA 610 – Using the Work of Internal Auditors

3. Determining whether IA can be used to provide direct assistance

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

- No significant threats to objectivity of IA are present
- IA is sufficiently competent to perform proposed work

4. Determining Nature & Extent of Work that can be assigned to IA

- Involve making significant judgments in the audit
- Relate to higher assessed RMM
- Relate to work with which internal auditors have been involved
- Relate to decisions, external auditor makes in accordance with this SA w.r.t. internal audit function and use of its work or direct assistance

SA 610 – Using the Work of Internal Auditors

5. Using Direct Assistance of Internal Auditor

- Prior to using internal auditors to provide direct assistance, the external auditor shall
 - Obtain written agreement from entity that IA will be allowed to follow the external auditor's instructions
 - Obtain written agreement from the IA that they will keep confidential specific matters
 - The external auditor shall DSR the work performed by IA on the engagement in accordance with SA 220.

6. Audit Documentation

- Evaluation of the existence and significance of threats to the objectivity of the IA
- Level of competence of IA
- Nature and extent of work performed by IA
- Review of work of IA
- Written agreements of entity and IA
- Working papers prepared by IA in case of direct assistance

SA 700 -Forming An Opinion And Reporting On Financial Statements

1. Objectives

- To form an opinion on FS
- Based on conclusions from AE
- and express opinion through a written report
 - To form an opinion, the auditor shall conclude whether he has obtained reasonable assurance about whether the FS as a whole are free from MMS, whether due to fraud or error

2. Qualitative aspects of entity's accounting practices

- Management makes a number of judgments about the amounts and disclosures in the FS
- Possible management bias in the making of accounting estimates
- Selective correction of MS brought to management's attention



3. Specific evaluations by auditor as per SA 700

- FS adequately discloses significant accounting policies applied
- Accounting policies applied are consistent with applicable FRF
- Accounting estimates made are reasonable
- Information presented in FS is relevant, reliable and comparable
- FS provide adequate disclosures of significant transactions and events
- Terminology used in FS is appropriate

SA 700 -Forming An Opinion And Reporting On Financial Statements

4. Basic Elements in the Audit Report

Title -
Independent
Auditor's
Report

Addressee -
To the
members of
the Company

Opinion Paragraph

- Identify the Name of the entity whose FS audited
- Identify the Title of each FS
- Reference to the Notes
- State the FS is Audited
- Specify the Period or date covered by the audit

Basis for Opinion

- State the audit was conducted in accordance with SA
- Reference to the auditor's Responsibilities section
- Statement that the auditor is follow up Independent and ethical requirement
- State whether SAAE has obtained or not

Going Concern
Paragraph
(SA 570)
(Material
Uncertainty)



SA 700 -Forming An Opinion And Reporting On Financial Statements

4. Basic Elements in the Audit Report

Key Audit
Matters (SA
701)

Other
Information
Paragraph

Mgmt.'s. Responsibilities for the FS

- State the responsibilities of management or TCWG (if management and TCWG is different)
- Preparing the financial statements as per FRF
- Design, implementation and maintenance of IC
- Assessing the entity's ability to continue as a going concern

Auditor's responsibilities for the audit of FS- Obtain Reasonable Assurance

- To maintain attitude of Professional Skepticism and Professional Judgement
- To identify and Assess RMMS
- To obtain understanding the Internal Control
- To check the Accounting Policies and Estimates
- To check the Ability to continue as Going Concern
- To Check the Structure and Presentation of contents of FS
- To determine matters communicated with TCWG

SA 700 -Forming An Opinion And Reporting On Financial Statements

4. Basic Elements in the Audit Report

Location of description of auditor's responsibilities

- Body of the auditor's report
- Within an appendix to the auditor's report
- By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, if permitted by law or regulation

Signature of the auditor

- Firms Registration number
- Membership Number
- Unique Documentation Identification Number

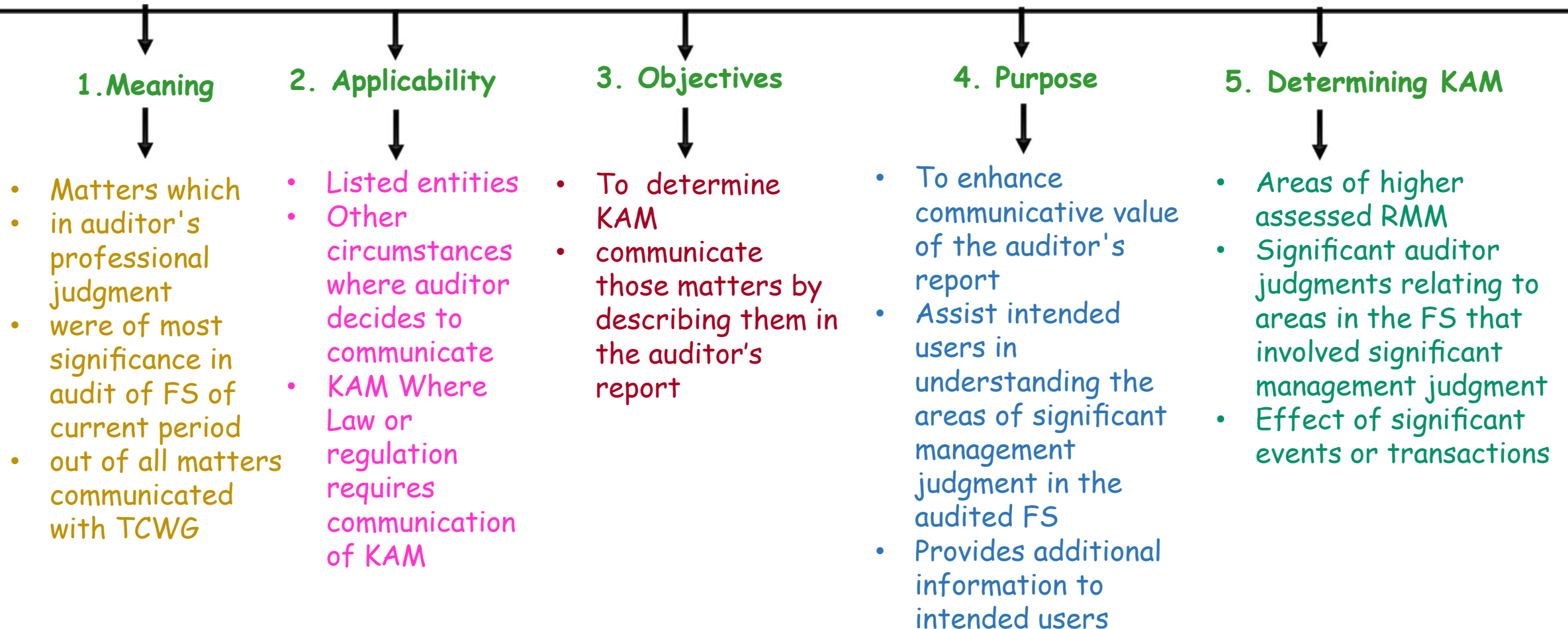
Auditor's address - "Place"

- Name of city where audit report is signed

Date of the Auditor's Report - "Date"

- Date of signing audit report
- Should not be date earlier than date of obtaining SAAE on which opinion is based
- This date informs the users that the auditor has considered the effect of events and transactions of which he became aware and that occurred up to that date

SA 701 - Communicating Key Audit Matters (KAM) In The Auditor's Report



KEY POINTS

SA 701 - Communicating Key Audit Matters (KAM) In The Auditor's Report

6. Communicating KAM is not

- Substitute for disclosures in the FS
- Substitute for reporting as per SA 570 regarding material uncertainty of Going Concern approach
- Substitute for a modified opinion as per SA 705
- Separate opinion on individual matters

7. Circumstances in which KAM is not communicated in Audit report

- When Law or regulation precludes public disclosure of such matters
- If adverse consequences of the communication would outweigh the public interest benefit

8. Communication with TCWG

Auditor shall communicate the following with TCWG:

- Matters determined as KAM by the auditor
- If no KAM determined, communicate auditor's determination that there are no KAM

9. Audit Documentation

- Matters that required significant attention for determination of KAM
- If no KAM determined, auditor's rationale for the same
- If KAM not communicated, auditor's rationale for not communicating the same

SA 705 - Modifications To The Opinion In The Independent Auditor's Report

1. Scope

- To issue an appropriate report with a modified opinion
- Form and content of modified opinion

2. Objective

- To express clearly an appropriately modified opinion on the FS that is necessary when
- The auditor concludes, based on AE obtained that FS as whole are not free from MMS
- The auditor is unable to obtain SAAE to conclude that the FS as a whole are free from MMS

3. Types of Modified opinion

Qualified Opinion
Adverse Opinion
Disclaimer of opinion

4. Qualified Opinion

- SAAE OBTAINED → MMs existed in the FS → Not Pervasive = QUALIFIED OPINION
- SAAE NOT OBTAINED → Possible effect of MMs → Not Pervasive = QUALIFIED OPINION

SA 705 - Modifications To The Opinion In The Independent Auditor's Report

5. Adverse Opinion

- **SAAE OBTAINED** →
MMs existed
in the FS &
It is Pervasive
= **ADVERSE
OPINION**

6. Disclaimer of Opinion

- **SAAE NOT
OBTAINED** →
Possible
effect of MMs
& Pervasive =
**DISCLAIMER
OF OPINION**

7. Pervasive

- Are not confined
(Restricted to certain
extent) to specific
elements of FS
- If so confined, it
represent a substantial
proportion of FS or
- In relation to
disclosure, that are
fundamental to user's
understanding of the
FS

8. Circumstances when modification is required

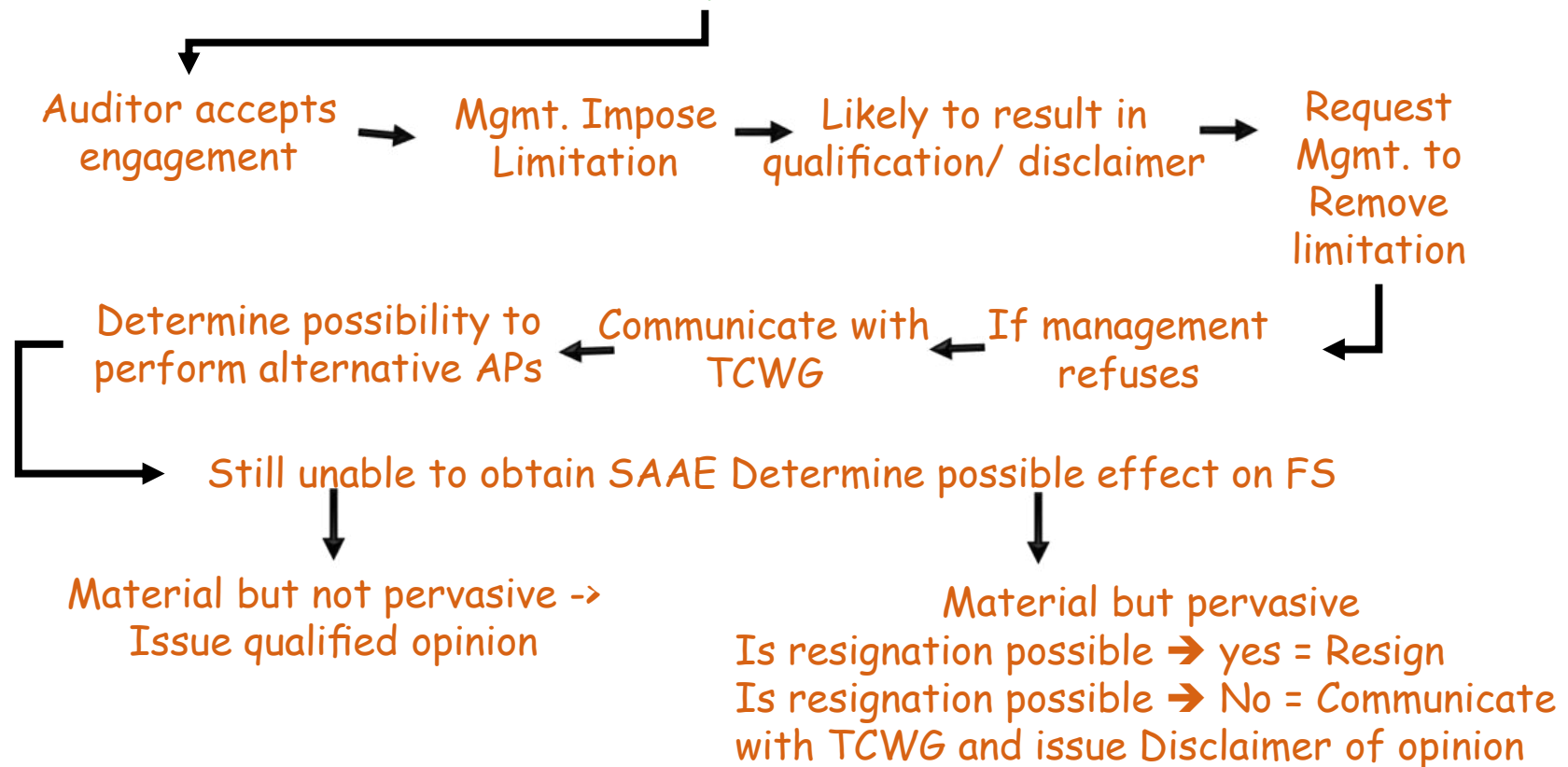
- When auditor
concludes that FS are
not free from MMS
 - Inappropriate
accounting policies
- When auditor unable to
obtain SAAE to form a
conclusion on the FS
 - Limitations
imposed by
management
 - Circumstances
beyond control

SA 705 - Modifications To The Opinion In The Independent Auditor's Report

9. Auditor's Responsibility in case of Disclaimer of Opinion

- Statement regarding responsibility to conduct audit of FS as per SAs and issue a report
- Statement that because of matters described in Basis for Disclaimer of Opinion, auditor unable to obtain SAAE
- Statement about auditor's independence and ethical responsibilities

10. Limitation imposed by management after engagement is accepted



SA 706 - Emphasis Of Matter Paragraphs (EOM) And Other Matter Paragraphs (OM) In The Independent Auditor's Report

1. Objective

- To draw users' attention to significant matters by way of communication in:
- Emphasis of Matter paragraph
- Other Matter paragraph

2. EOM

- EOM is a paragraph included in the auditor's report that refers to a matter appropriately presented and disclosed in the FS that in the auditor's judgment is of such importance that is fundamental to users' understanding of the FS
- The auditor shall include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter"
- The auditor shall indicate that the auditor's opinion is not modified in respect of the matter emphasized
- The auditor shall include an EOM provided:
 - The auditor is not required to modify the opinion as per SA 705
 - The matter is not determined as a Key Audit Matter as per SA 701

3. OM

- OM is a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the FS that in the auditor's judgment is relevant to user's understand of the audit the auditor's responsibilities or the auditor's report.
- The auditor shall include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Other Matter" or other appropriate heading.
- The auditor shall include an OM provided:
 - This is not prohibited by law or regulation.
 - The matter is not determined as a Key Audit Matter as per SA 701

SA 706 - Emphasis Of Matter Paragraphs (EOM) And Other Matter Paragraphs (OM) In The Independent Auditor's Report

4. Others

- EOM is not a substitute for a modified opinion as per SA 705.
- EOM is not a substitute for disclosures in the FS.
- EOM is not a substitute for reporting responsibilities as per SA 570



5. EOM included

- To alert users that FS are prepared in accordance with a special purpose framework
- When facts become known to the auditor after the date of auditor's report and the auditor provided a new auditor's report
- An uncertainty relating to future outcome of litigation or regulatory action
- A significant subsequent event between date of financial statements and date of auditor's report
- Early application of a new accounting standard that has a material impact on FS
- A major catastrophe that has a significant effect on the entity's financial position

SA 710 – Comparative Information–corresponding Figures And Comparative FS

1. Comparative Information

Amounts and Disclosures included in the FS in respect of one or more prior periods in accordance with the applicable FRF

- Corresponding Figures
- Comparative FS

2. Corresponding Figures

- Amounts and disclosures for the prior period, are as an included integral part of only to be read current period F.S in relation to current figures
Not referred to in auditor's opinion

3. Comparative FS

- Amounts and disclosures for the prior period, are included for comparison with the FS of the current period
Referred to in auditor's opinion, if audited

4. Audit Procedures

- Determine
 - Whether FS includes comparative information as required by FRF
 - Whether such information is appropriately classified
- Evaluate
 - Whether it agrees with amounts and disclosures in prior period
 - Whether accounting policies are consistently applied; changes, if any properly disclosed and accounted for
- Other procedures
 - Whether possible MMS in comparative information exists
 - If yes, perform additional procedures
 - Obtain WR for all periods covered in audit opinion



SA 710 – Comparative Information–corresponding Figures And Comparative FS

5. Audit Reporting

Comparative FS:

- Audit opinion to refer to each period for which FS are presented and on which opinion is expressed.
- If opinion on prior period FS expressed in current period differs from opinion expressed in the relevant prior period, give substantive reason for difference in Other Matter Para

Corresponding Figures

- Audit opinion not to refer the corresponding Figures except in the following case:
 - i. Auditor's report in prior period FS was modified and the subject matter is still unresolved: Modify current audit report also.
 - ii. Auditor obtains AE w.r.t. existence of MMS in prior period FS on which unmodified opinion was issued: Express qualified/ adverse opinion on current FS w.r.t. corresponding figures if misstatement has not been dealt as required by applicable FR

SA 710 – Comparative Information–corresponding Figures And Comparative FS

6. Prior Period FS Audited/ Unaudited

- When prior period FS audited by predecessor auditor
- **Comparative FS**
- If MMS exists in prior period FS on which unmodified opinion was issued
 - Communicate to TCWG
 - Request that predecessor auditor is informed
- **Comparative FS & Corresponding Figures**
 - If permitted, state in report that:
 - i. Prior period FS audited by predecessor auditor
 - ii. Type of opinion expressed
 - iii. Type of opinion expressed
 - iv. Date of report

When prior period FS are unaudited

- **Comparative FS**

Include Other Matter para:

 - i. That comparative information is unaudited
 - ii. However, auditor not to be relieved from obtaining SAAE on opening balances
- **Corresponding Figures**

Include Other Matter para:

 - i. That corresponding figures are unaudited
 - ii. However, auditor not to be relieved from obtaining SAAE on opening balances

GREAT
THINGS
TAKE
TIME



ALL THE BEST