



# CA FINAL

# HANDWRITTEN NOTES ADVANCED AUDITING

For MAY 24 & onwards

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## CHAPTER - 2

# General Auditing Principles and Auditor's Responsibilities

### ★ Overview of Chapter :

#### ▶ General auditing principles and Auditor's responsibilities

SA 200 establishes the independent auditor's overall responsibilities when conducting an audit of FS in accordance with SA's.

Audit has to be planned and performed with Professional Skepticism recognising circumstances may exist that cause the fin. statements to be materially misstated.

Misstatements can arise from errors or frauds.

#### ▶ SA's which are covered in this chapter :

→ SA 240 : The Auditor's Responsibilities Relating to Fraud in an Audit of FS.

→ SA 250 : Consideration of Laws & Regulations in an Audit of FS.

→ SA 260 : Communication with TCWG

→ SA 299 : Joint Audit of FS.

→ SA 402 : Audit Considerations Relating to an Entity Using a Service Organisation.

SA 240 : The Auditor's responsibilities relating to fraud in an audit of FS

Concept 1 : Objective of Auditor

Concept 2 : Meaning of Fraud & Types of Intentional Misstat.

Concept 3 : How FRF and Misappropriation of assets may be accomplished by Entities & Techniques.

Concept 4 : Whose primary responsibilities is to prevent and detect fraud.

Concept 5 : What are fraud risk factors & Examples.

Concept 6 : Requirement of SA 240

Concept 7 : → Responses to assessed risk of Material Misstat. due to fraud

At Fin. statement level

At Assertion level

→ Responses to risk related to Mgt. override of Controls.

Concept 8 : Evaluation of Audit Evidence

Concept 9 : Circumstances in which auditor is unable to continue the Engagement.

Concept 10 : Other Concept

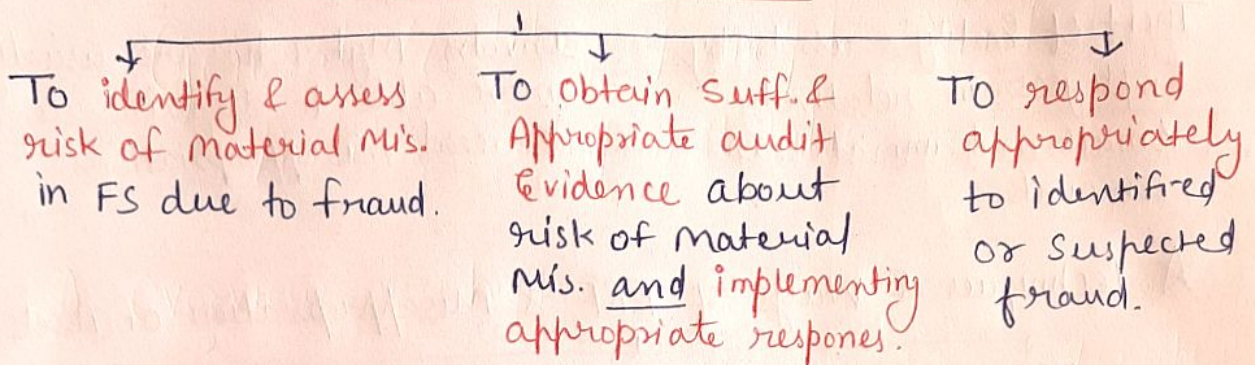
→ Management Representations

→ Communication to Mgt. and with TCWG

→ Communication to Regulatory and Enforcement Authorities

→ Documentation

## Concept 1 | Objective of Auditor

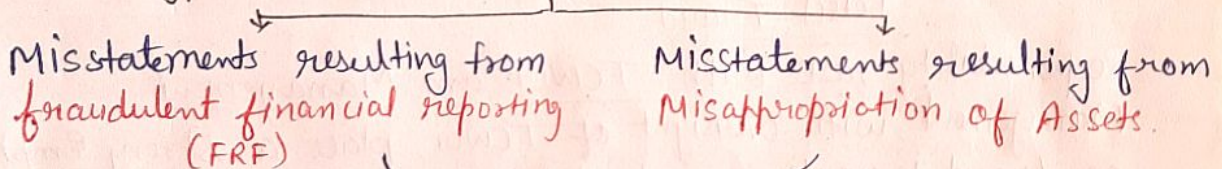


## Concept 2 | Meaning of Fraud & Types of intentional Misstatements

Fraud : Misstatements in FS can arise from either fraud or error. Fraud is intentional and error is unintentional.

Fraud is an intentional act by one or more individuals among Mgt., TCWG, Employees or third parties, involving use of deception to obtain an unjust or illegal advantage.

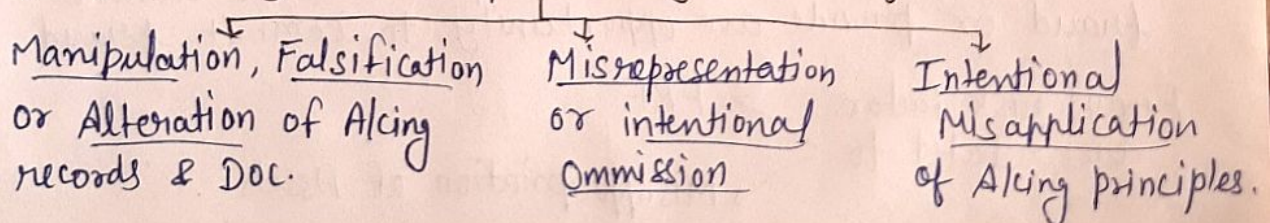
Two Type of intentional misstatement (Fraud) are relevant



Both involves incentive or pressure, a perceived opportunity to do so and some rationalization.

## Concept 3 | How FRF and Misappropriation of Assets may be accomplished & Techniques

★ FRF may be accomplished by followings



★ Misappropriation of Assets may be accomplished by

↓  
Theft of Entity's assets by Employees in relatively small and immaterial amounts.

↓  
Involve Mgt. who are usually more able to disguise or conceal misappropriations.

★ Techniques & Ways of FRF & Misappropriation of Assets

- |   |  |
|---|--|
| <p>FRF</p> <ul style="list-style-type: none"> <li>→ Record fictitious Journal Entries</li> <li>→ Inappropriately adjusting assumption</li> <li>→ Ommitting, advancing or delaying recognition of events &amp; trn.</li> <li>→ Concealing or not disclosing facts.</li> <li>→ Engaging in complex transactions.</li> <li>→ Altering records &amp; terms</li> </ul> | <p>Misappropriation of Asset</p> <ul style="list-style-type: none"> <li>→ Embezzling receipts</li> <li>→ Stealing physical assets or intellectual property</li> <li>→ Causing an Entity to pay for goods &amp; services not received.</li> <li>→ Using an Entity's assets for personal use.</li> </ul> |
|---|--|

**Concept 4** Whose primary responsibility is to Prevent & Detect Fraud

Responsibility rests with TCWG and Management.  
Management, with oversight of TCWG, place a strong emphasis on fraud prevention and deterrence.

This involves commitment to creating a culture of honesty and ethical behaviour.

**Concept 5** what are Fraud Risk Factors & Examples

Fraud Risk factors : Events or Conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Fraud risk factors are related to

- FRF
- Misappropriation of Assets.

## ★ Fraud risk factors relating to FRF

### Incentives / Pressures

- 1) High degree of Competition or market saturation.
- 2) High vulnerability to rapid changes.
- 3) Significant decline in customer demand
- 4) operating losses
- 5) Recurring negative cash flows.
- 6) Rapid growth or unusual profitability.
- 7) New a/cing, statutory or regulatory require.
- 8) Profitability or trend level expectations.
- 9) Need to obtain addl. debt or Equity to stay competitive.
- 10) Significant fin. int.
- 11) Compensation being Contingent upon targets.
- 12) Personal guarantee of debts of Equity.

### Opportunities

- 1) Significant related party txn.
- 2) Strong fin. presence or ability to dominate certain industry sector.
- 3) Assets, liab., revenue or Exp. based on Estimates
- 4) Significant, unusual or highly complex txn.
- 5) Significant operations where differing business environments & cultures.
- 6) Use of business intermediary.
- 7) Significant bank A/c operation in tax-heaven jurisdictions.
- 8) Inadequate monitoring of controls.
- 9) High turnover rates.
- 10) A/cing & Info. system that are not effective.

### Attitudes / Rationalizations

- 1) Ineffective Communication, implementation, support of Entity's values or Ethical standards.
- 2) Excessive participation or preoccupation of Non-fin. mgt.
- 3) Known history of violation of laws.
- 4) Excessive interest by mgt. in fluctuation of stock prices.
- 5) Practice by mgt. to achieve aggressive or unrealistic forecasts.
- 6) Mgt. failing to remedy deficiencies in internal control on timely basis.
- 7) Low-morale among senior mgt.
- 8) Owner-manager makes no distinction b/w personal and business txn.
- 9) Dispute b/w shareholders in closely held Entity.
- 10) Relationship B/w mgt. & auditor is strained.

## \* Fraud risk factors relating to Misappropriation of Assets

### Incentives / Pressures

- 1) Known or anticipated future Employee layoffs.
- 2) Recent or anticipated changes to Employee Compensation or benefit plans.
- 3) Promotions, Compensation, or other reward inconsistent with Expectations.

### Opportunities

- 1) Large amounts of Cash on hand.
- 2) Inventory items small in size but high in value & demand.
- 3) Easily Convertible assets Eg. bearer bond, diamond, Computer chip.
- 4) Fixed Assets, small in size, marketable, or lacking observable identification of ownership.

### Attitudes / Rationalizations

- 1) Disregard for monitoring or reducing risks.
- 2) Disregard for internal control by overriding existing controls or by failing to take remedial actions.
- 3) Behaviour indicating displeasure or dissatisfaction with Entity.
- 4) Changes in lifestyle
- 5) Tolerance of Petty theft.

- 5) Inadequate segregation of duties.
- 6) Inadequate senior mgt. Expenditures oversight Eg. travel.
- 7) Inadequate mgt. oversight of Employees.
- 8) Inadequate record keeping with respect to assets.
- 9) System of authorization & approval of txn. is inadequate.
- 10) Physical safeguards of assets are inadequate.
- 11) Lack of Complete & timely reconciliation.
- 12) Lack of timely & appropriate documentation.
- 13) Lack of mandatory vacations for Employees.
- 14) Inadequate mgt. understanding of info. tech.
- 15) Inadequate job applicant screening of Employees.

## Concept 6 / Requirement of SA 240

(a) Maintaining Professional Skepticism

(b) Discussion among the Engagement team.

(c) Perform Risk Assessment Procedures & related activities.

(a) Maintaining Professional Skepticism

The auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist.

If conditions identified during the audit cause the auditor to believe that a document may not be authentic

or that terms in a document have been modified but not disclosed to ~~the~~ the auditor, the auditor shall investigate further.

(b) Discussion among the Engagement team

The discussion shall place particular emphasis on how & where the Entity's FS may be susceptible to material misstatement due to fraud.

(c) Risk Assessment Procedures and related activities

To obtain an understanding of Entity & Environment and internal control, the auditor shall perform procedures to obtain information of risk of material misstatement due to fraud like:

- Inquiry of Mgt. and others within Entity.
- Obtaining understanding as to how TCWG exercise oversight of Mgt.'s process for identifying & responding to risk of fraud.

**Concept 7** Responses to assessed Risk of Material Misstate. due to fraud at

- Financial statement level
- Assertion level

★ At FS level: In determining overall responses, Auditor shall

- (a) Assign & supervise Personnel through knowledge, skill & ability.
- (b) Evaluate whether the selection & application of a/cing policies may be indicative of FRF
- (c) Incorporate unpredictability in the selection of Nature, timing & Extent of Procedures

★ At Assertion level : The auditor shall design and perform further audit procedure (FAP) whose nature, timing & Extent (NTE) are responsive to the assessed risk of material misstatements (ROMM).

In doing so, auditor may change NTE of audit procedure to obtain audit evidence or additional corroborative information.

### Responses to risk related to Mgt. override of Controls

Mgt. is in unique position to perpetrate fraud bcoz of mgt's ability to manipulate accounting records and prepare fraudulent FS that otherwise appear to be operating effectively.

The auditor shall design & perform audit procedures to:

- 1) Test appropriateness of journal Entries.
- 2) Review accounting Estimates.
- 3) Auditor shall evaluate whether significant txn. that are outside the normal course of business which entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

### Concept 8 / Evaluation of Audit Evidence

- a) Auditor shall evaluate whether analytical procedures that are performed when forming an overall conclusion indicate previously unrecognized ROMM due to fraud.
- b) when auditor identifies a misstatement, he shall evaluate whether misstatement is indicative of fraud, if yes then evaluate implication of misstatement.
- c) If auditor identifies misstatements whether material or not but he has reason to believe that it may be result of fraud & Mgt. is involved then he shall reevaluate assessment of ROMM due to fraud & impact on NTE of audit procedures.

When auditor confirms that or unable to conclude whether FS are materially misstated by fraud, he shall evaluate implication of Audit.

## Concept 9 Circumstances in which auditor is unable to continue the Engagement

Auditor is unable to continue the Engagement, he shall :

- (a) Determine Professional & legal responsibilities including whether requirement for auditor to report to persons who made appointments or to regulatory authorities.
- (b) Consider whether it is appropriate to withdraw & legally permitted or not.
- (c) If auditor withdraws:
- 1. Discuss with Mgt. & TCWG about auditor's withdrawal & reason of withdrawal.
  - 2. Determine professional & legal requirements to persons who made appointments or regulatory authorities about withdrawal & reasons.

## Concept 10 Other Concepts

### ★ Management Representations

Auditor shall obtain written representations from Mgt. and where applicable TCWG that :

- a) They acknowledge their responsibility for design, implementation and maintenance of Internal Control to prevent & detect fraud.

They have disclosed to the auditor

- b) Result of Mgt.'s assessment of risk.
- c) Their knowledge of fraud or suspected fraud involving Mgt., Employees which affect on FS.
- d) Their knowledge of any allegations of fraud or suspected fraud affected FS Communicated by Empee, analyst, regulator etc.

## ★ Communications to Management and with TCWG

If auditor has identified fraud or has obtained info. that fraud may exist, he shall communicate on timely basis to appropriate level of mgt. to inform with primary responsibility for prevention & detection of fraud.

(कैसे ही fraud पता चलता है तो Auditor, mgt. को communicate करेगा कि Primary responsibility fraud को prevent & detect करने की मgt. की है)

If auditor identified or suspects fraud involving Mgt., Employees who have significant role in internal control or others where fraud affect FS materially, he shall communicate to TCWG on timely basis.

If auditor suspects fraud involving Mgt., he shall communicate these suspicions to TCWG and discuss NTE of audit procedures

(कैसे Mgt. & Employees involve है fraud में तो TCWG को communicate करेगा उस fraud के बारे में, या Suspensions के बारे में & NTE discuss करेगा)

The auditor shall communicate with TCWG any other matters related to fraud, in auditor's judgement, relevant to their responsibilities.

## ★ Communications to Regulatory and Enforcement Authorities

If auditor has identified or suspects fraud, auditor should decide whether it's responsibility to report to party outside Entity. Although Auditor's professional duty to maintain the confidentiality of client info. but auditor's legal responsibility may override duty of confidentiality in some cases.

In some Entities, auditor may have a duty to report to authorities where TCWG & Mgt. fail to take corrective action.

## ★ Documentation

- 1) Significant decisions reached during discussion among Engagement team.
- 2) Identified & assessed ROMM due to fraud at FS level & assertion level.
- 3) Overall responses & NTE of audit procedures.
- 4) Communication about fraud to Mgt., TCWG, regulators & others.

## SA 250 : Consideration of Laws & Regulations in an Audit of Financial Statements

- Concept 1 : Scope & Effect of Laws and Regulations on FS
- Concept 2 : Objective of Auditor in accordance with SA 250
- Concept 3 : Responsibility of Management
- Concept 4 : Responsibility of Auditors
- Concept 5 : Audit Procedures required by SA 250
- Concept 6 : Audit Procedures when Non-Compliance is identified or suspected
- Concept 7 : Reporting of identified or Suspected Non-Compliance
- Concept 8 : Documentation

### Concept 1] Scope & Effect of Laws & Regulations on FS

SA 250 deals with auditor's responsibility to consider laws & regulations when performing an audit of FS.

The requirement in this SA are designed to assist the auditor in identifying material misstatement of FS due to non-compliance with laws & regulations.

Non-compliance with laws & regulations may result in fines, litigation or other consequences.

This SA 250 does not apply to other assurance Engagements in which the auditor is specifically Engaged to test and report separately on compliance with specific laws or regulations.

### Concept 2] Objective of Auditor in accordance with SA 250

↓  
To obtain SAAE regarding compliance generally recognised to have a direct effect on determination of material amounts & disclosures in FS.

↓  
To perform specified audit procedures to help identify non-compliance that may have material effect on FS.

↓  
To respond appropriately to non-compliance or suspected non-compliance identified during audit.

### Concept 3 Responsibility of Management

It is responsibility of Mgt. with oversight of TCWC to ensure that Entity's operations are conducted in accordance with laws & regulations.

Following are Eg. of types of policies & procedures, an Entity may implement to assist in prevention & detection of Non-Compliance with laws & Regulations :-

- ▶ Monitoring legal requirements.
- ▶ Instituting & operating system of internal control.
- ▶ Developing, Publicising & following a code of conduct. [COC]
- ▶ Ensuring Employees are properly trained & understand Code of Conduct. [COC]
- ▶ Monitoring compliance with COC.
- ▶ Engaging legal advisor. to assist in monitoring legal requirement.

### Concept 4 Responsibility of Auditor

The auditor is not responsible for preventing non-compliance and can not be expected to detect non-compliance.

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

In context of laws & regulations, the potential effect of inherent limitations on auditor's ability to detect material misstatements for such following reasons :-

- Many laws & regulations to operating aspects that do not affect FS and are not captured by Entity's Info. system.
- Non-compliance may involve conduct designed to conceal like: collusion, forgery, deliberate failure, mgt. override of controls or intentional misrepresentations being made to auditor.
- Whether an act constitutes non-compliance is ultimately a matter for legal determination by court of law.

SA 250 distinguishes the auditor's responsibilities in Two different Categories

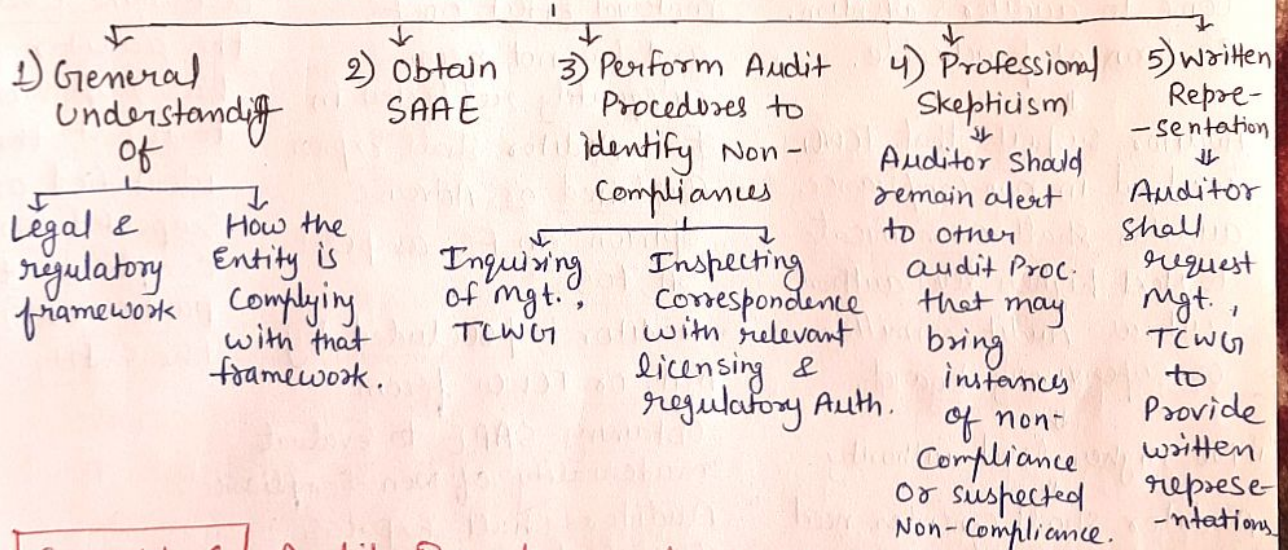
Responsibilities relating to Compliance of laws & regulation to have a direct effect on determination of material amount & disclosure in FS.

↓  
Auditor's responsibility is to obtain sufficient appropriate audit Evidence (SAAE).

Responsibilities relating to laws & regulations that do not have direct effect but their compliance may be fundamental to operating aspects of business.

↓  
Auditor's responsibility is to be limited to undertaking specified audit procedures to help identifying Non-Compliance.

### Concept 5 Audit Procedures required by SA 250



### Concept 6 Audit Procedures when Non-Compliance is identified or Suspected

If auditor becomes aware of information of instances of concerning non-compliance or suspected Non-Compliance then auditor shall obtain :

- An understanding of nature of act & circumstances.
- Further information to evaluate possible effect on FS.

Auditor shall discuss the matter with Mgt. & TCWG

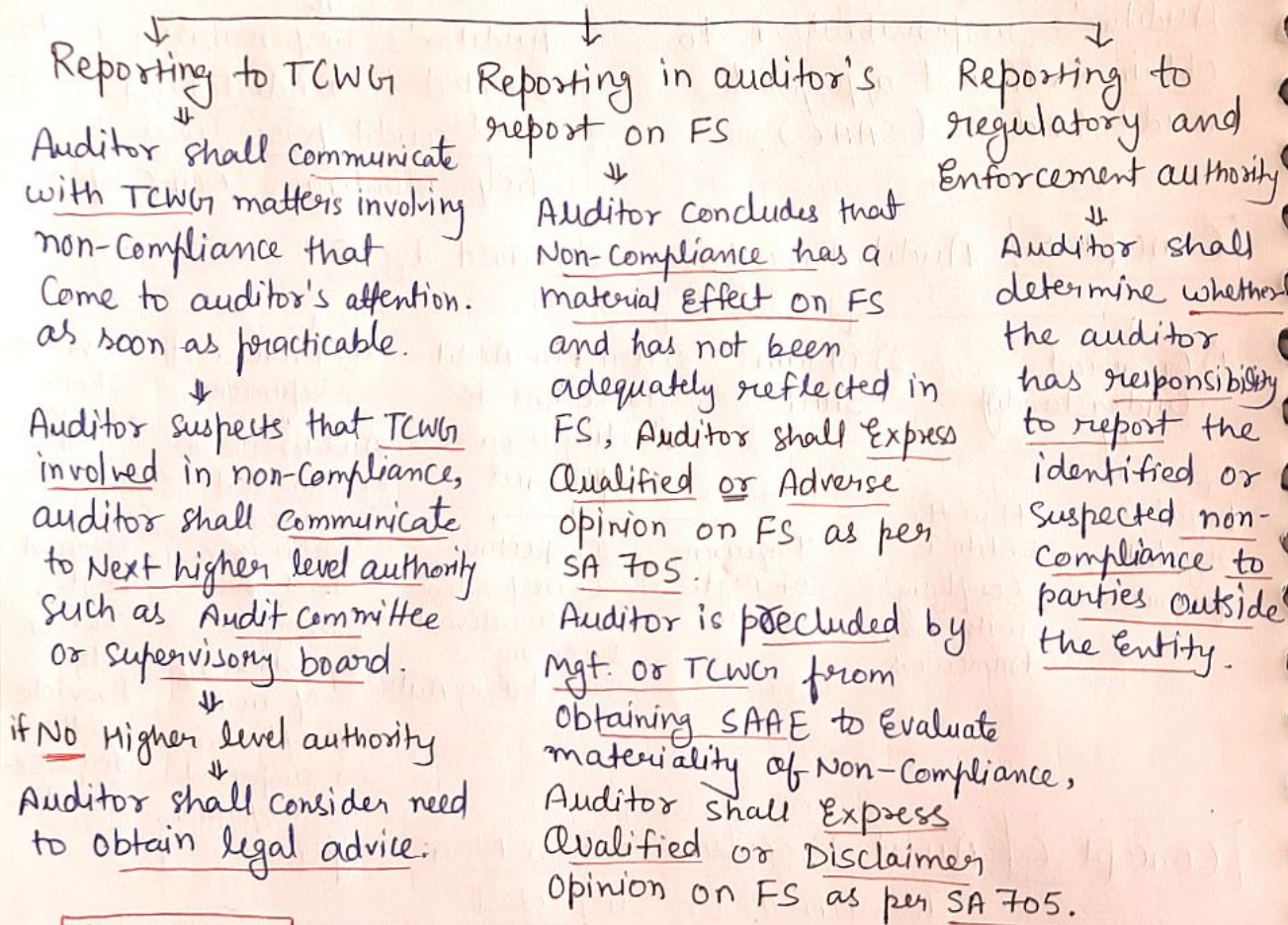
↓  
If they do not provide sufficient information

↓  
Auditor shall need to obtain legal advice.

If sufficient info. about suspected non-compliance can't be obtained, the auditor shall evaluate lack of SAAE effect on auditor's opinion.

The auditor shall evaluate implications of non-compliance for other aspects of audit like risk assessment, reliability of written repres. and take appropriate action.

### Concept 7 Reporting of Identified or Suspected Non-Comp.



### Concept 8 Documentation

The auditor shall document identified or suspected non-compliance with laws & regulation and result of discussion with Mgt., TCWG and other parties outside the Entity.

SA 260 : Communication with TCWGConcept 1 : Who are TCWG ?Concept 2 : Significance of Communication with TCWGConcept 3 : Objectives of Auditor in accordance with SA 260Concept 4 : Matters to be Communicated by Auditor.Concept 5 : Communication of Auditor's Independence in Case of Listed Entities

Concept 6 : Documentation

- oral comm<sup>n</sup>. : Auditor include in audit documentation and when & to whom communicated
- written comm<sup>n</sup>. : Auditor shall retain a copy of comm<sup>n</sup> as part of audit doc.

Concept 1 Who are TCWG ?

TCWG denote persons or organisations with responsibility for overseeing the strategic direction of the entity and Obligations related to accountability of the Entity.

Governance structure vary by Entities, reflecting influence such as different cultures and legal backgrounds, size & ownership characteristics.

In most Entities, governance is the collective responsibility of governing body such as a board of directors, supervisory board, partners, proprietors, a Committee of Mgt., trustees or Equivalent persons.

In some smaller Entities, however one person may be charged with governance, for example, the owner-manager where there are no other owners.

In some cases, the auditor may need to discuss and agree with engaging party the relevant persons with whom to communicate.

The appropriate persons with whom to communicate may vary depending on matter to be communicated.

## Concept 2] Significance of Communication with TCWG

An Effective two-way Communication is important in :

Understanding matters related to audit & in developing Constructive working relationship with maintaining auditor's independence and Objectivity.

obtaining information relevant to audit.  
Eg.: Understanding of Entity & Environment, identifying source of audit evidence, info. about specific txn. or events.

Helps in fulfilling their responsibility to oversee the financial reporting process, thereby reducing risk of material misstatements of FS.

## Concept 3] Objectives of Auditors in accordance with SA 260

To communicate with TCWG  
→ responsibility of auditor in FS audit  
→ overview of planned scope & timing of audit.

To obtain from TCWG  
→ Information relevant to audit.

To provide TCWG  
→ Timely observations from audit which are significant to oversee financial reporting process.

To promote Effective 2 way Communication B/w TCWG & auditor.

## Concept 4] Matters to be Communicated by the Auditor

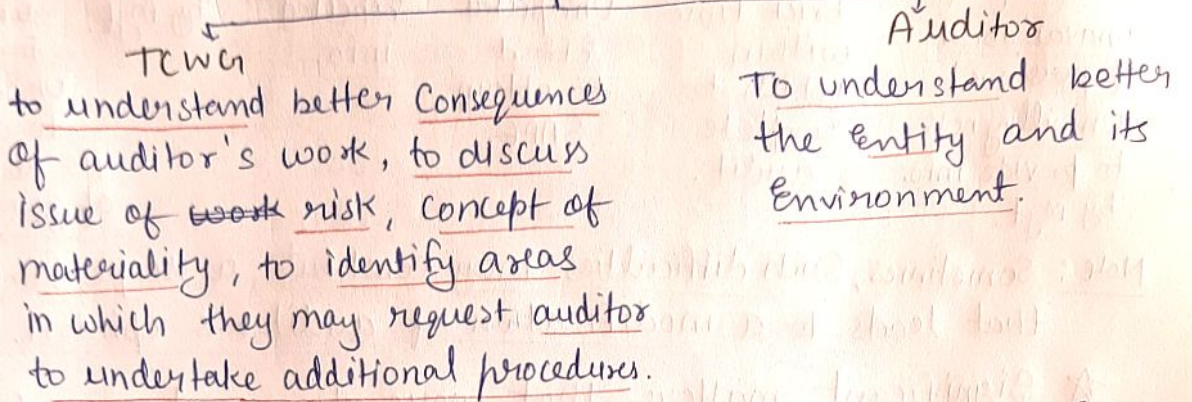
- (a) Auditor's responsibility in relation to Fin. stat. Audit
- (b) Planned scope and timing of Audit.
- (c) Significant finding from audit.

(a) Auditor's responsibilities in relation to FS Audit

- Forming and Expressing an opinion on FS prepared by Mgt. with oversight of TCWG.
- Audit of FS doesn't relieve Mgt. or TCWG responsibilities.
- Auditor's responsibility often included in Engagement letter or other suitable form of written agreement.

(b) Planned scope & timing of audit

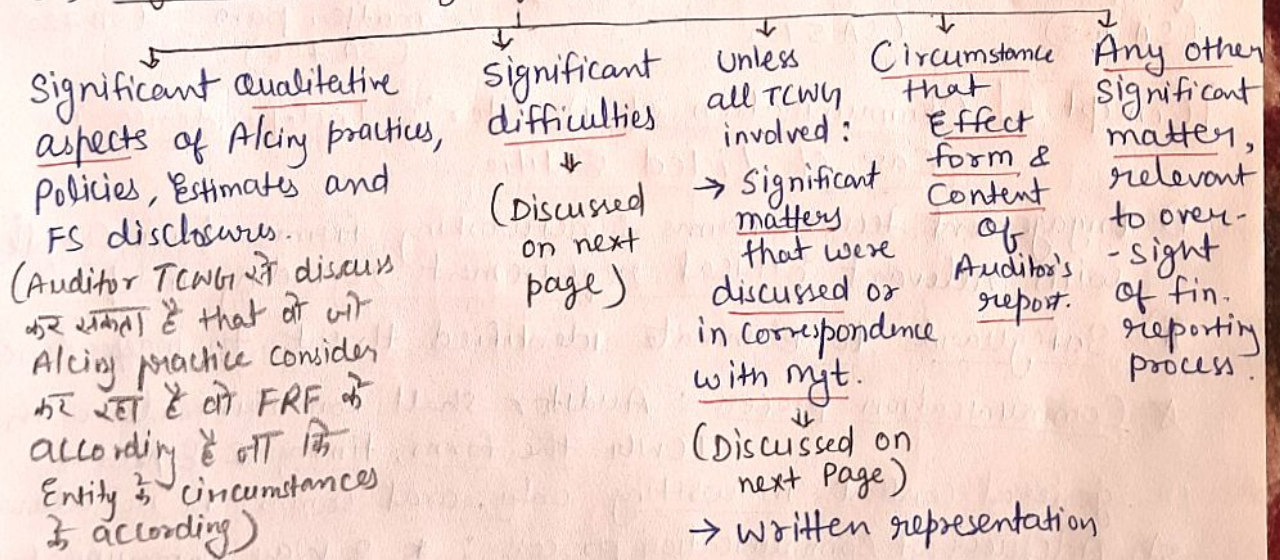
→ Communication regarding planned scope & timing may assist



→ Auditor shall communicate overview of planned scope & timing which includes significant risk identified by auditor. and it helps TCWG understand those matters and why they require special audit consideration.

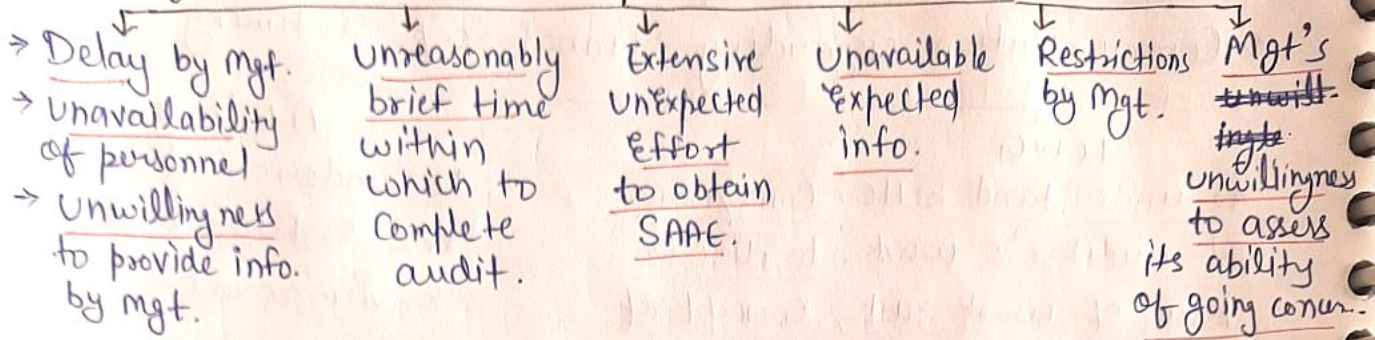
→ While communication may assist auditor to plan the scope & timing of audit, it doesn't change auditor's sole responsibility to establish overall strategy & audit plan & NTE of procedures to obtain SAAE.

(c) Significant findings from audit : Auditor shall communicate



(Conclusion : overall हर significant aspect, difficulty, matter or circumstance TCWG से communicate करनी है जिनका Effect था वो FS पर है या Auditor's report पर है।)

★ Significant difficulties may include such matters as :

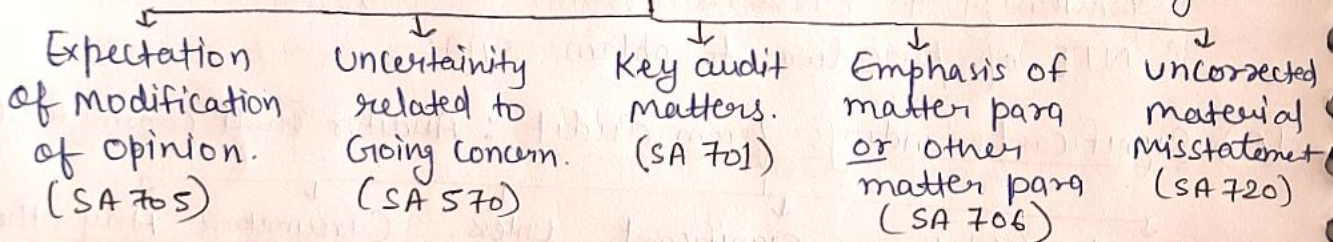


Note: Sometimes, Such difficulties may constitute a scope limitation that leads to a modification of auditor's opinion.

★ Significant matters that were discussed or subject to correspondence with mgt. :

- Significant Event or txn.
- Business Condition affecting Entity, plan & strategy.
- Concerns about mgt's Consultation.
- Discussion of initial or recurring appointment of auditor.
- Matters where disagreement with mgt.

★ Circumstances where additional info. required by auditor



### Concept 5 Communication of Auditor's Independence in Case of Listed Entities

- Engagement team, firms & networking firms have complied with relevant ethical requirements regarding independence.
- Safeguards to eliminate identified threats to independence

★ Communication process : Auditor shall communicate with TCWG the form, timing & expected general content in writing only. oral comm? is not allowed.

★ Adequacy of communication process : \* 2 way communication between Auditor & TCWG.

\* If it is not adequate then Auditor assess Romm & ability to obtain SAAE & shall take appropriate action.

## SA 299 : Joint Audit of Financial Statements

Concept 1 : Introduction of SA 299 & What is Joint Audit

Concept 2 : Objectives in accordance with SA 299

Concept 3 : Audit Planning, Risk Assessment & Allocation of work.

Concept 4 : Responsibility & Co-ordination among joint Auditors

Concept 5 : Audit Conclusion and Reporting

Concept 6 : Communication with TCWG

### Concept 1 Introduction of SA 299 & what is joint audit

SA 299 lays down principles for effective conduct of joint audit to achieve overall objectives.

It does not deal with relationship b/w Principal auditor and another auditor of 1 or more Component (Division, branch, Subsidiary, joint venture, associates etc.)

Joint Audit : An audit of FS of an Entity by 2 or more auditors appointed with objective of issuing the audit report. They are called Joint auditors.

Sometimes voluntarily by shareholders or sometimes due to law & regulation, joint auditors are appointed.

### Concept 2 Objectives in accordance with SA 299

- |   |   |  |   |
|---|---|--|---|
| ↓   | ↓   | ↓  | ↓   |
| i) To <u>lay down</u> broad <u>principles</u> for auditors in conducting joint audit. | ii) To <u>provide a</u> <u>uniform approach</u> for joint audit | iii) To <u>identify</u> <u>area of work and</u> <u>Coverage of</u> <u>audit.</u> | iv) To <u>identify</u> <u>individual &amp; joint</u> <u>responsibility</u> of auditors. |

### Concept 3 Audit Planning, Risk Assessment & Allocation of work

Engagement partner and other key members from each of joint auditor shall be involved in Planning of audit. (ER aur jointly aur) like scope, timing and direction of audit & development of audit plan etc.)

★ Prior to Commencement of audit, joint auditors shall discuss & develop a joint audit plan. In developing plan, joint auditor shall :-

- Identify division of audit areas **AND** Common audit areas. Division of work usually be audit of identifiable units or specified areas **but** in some cases it may not be possible by this criteria **then** it may be on basis of items of assets or liab. or income or expenditure. Some work would be covered by all joint auditors.
- Ascertain reporting objectives to plan timing of audit & nature of communication required.
- Consider & communicate factors that are significant in their judgement.
- Consider result of preliminary activities.
- Ascertain NTE of resources necessary to perform engagement.

Notes : \* ROMM need to be considered, assessed, communicated and documented by each of joint auditor.

\* Joint auditor shall discuss & document NTE of audit procedure & communicated to TCWG.

\* Joint auditor shall obtain common engagement letter & management representation letter.

\* After identification & allocation of work :

Document shall be signed by all the joint auditors.

**AND**

It shall be communicated to TCWG.

It helps in avoiding any dispute or confusion among joint auditors.

It helps in avoiding any dispute or confusion b/w Entity & joint auditors.

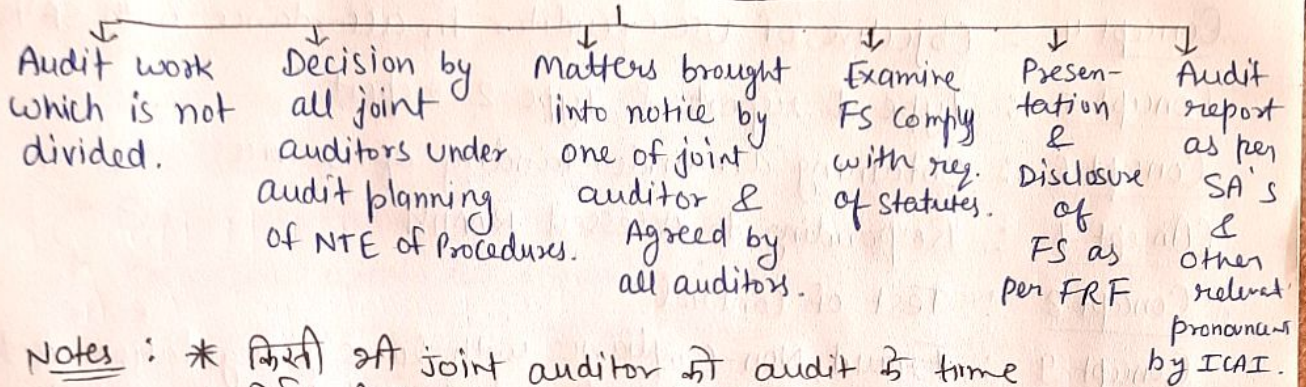
#### **Concept 4** Responsibility and co-ordination among joint auditors

Audit process involves obtaining & evaluating info. and explanations from Mgt. Responsibility is shared by all auditors unless agree upon specific pattern of distribution of responsibility.

Each joint auditor shall be responsible only for work allocated including proper execution of procedures.

(जब हर auditor को specific division, zones या units allocate होते हैं तो उसकी responsibility है info. obtain करना & explanation लेना म्यु. से & उसको evaluate करना।)

All joint auditors shall be jointly & severally responsible:



Notes : \* किसी भी joint auditor को audit के time कोई भी ऐसा matter मिला है जो other joint auditors को पता होना चाहिए for disclosure, discussion or application of judgement के लिए तो वो audit completion से पहले written में communicate करेगा।

\* Responsibility of Each joint auditor to determine NTE of audit procedures and to study & Evaluate prevailing system of internal control & assessment of risk.

### Concept 5 / Audit Conclusion & Reporting

\* Joint auditors are required to issue common audit report, where any disagreement, then express opinion in separate audit report. (Common & separate audit reports में एक-दूसरे की report का reference देना पड़ेगा) under heading of "other matter para" (SA 706).

\* Each Joint auditor assume that

\* Before finalizing Audit report, all auditor shall discuss & communicate with each other their conclusions for audit report.

→ दूसरे auditor ने सब काम SA's के according किया है & ये जरूरी नहीं है कि joint auditor उसके work को review करें।  
→ दूसरे auditor ने significant observation उसके Notice में लाई है।

### Concept 6 / Communication with TCWG

When joint Auditor expects to

→ Modify opinion in report : shall communicate with TCWG the expected modification & proposed wording of modification as per SA 705.  
→ Include in Emphasis or other matter para : Communicate with TCWG the proposed wording as per SA 706.

## SA 402 : Audit Considerations relating to an Entity using a Service Organisation.

Concept 1 : Introduction to SA 402

Concept 2 : What is service organisation & who is service auditor?

Concept 3 : When services provided by service org. are relevant.

Concept 4 : Objective of user auditor in accordance with SA 402

Concept 5 : Type 1 report & Type 2 report.

Concept 6 : Obtaining an understanding of services

Concept 7 : Responding to Assessed ROMM

Concept 8 : Test of Control

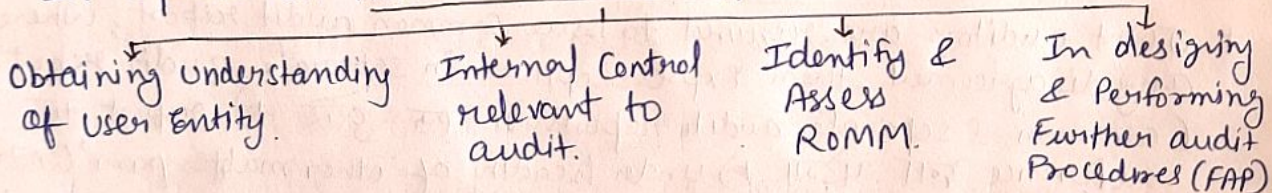
Concept 9 : Fraud, Non-compliance with laws & regulations and uncorrected misstatement in relation to activities at service organisation.

Concept 10 : Reporting by user auditor.

### Concept 1 Introduction to SA 402

SA 402 deals with auditor's responsibility to obtain SAAE when user entity uses services of 1 or more service org.

It expands on how user auditor applies SA 315 & SA 330 in



### Concept 2 What is service org. & who is service auditor??

Service organisation : It is a 3<sup>rd</sup> Party or segment of 3<sup>rd</sup> Party org. that provides services to user Entities that are part of Entities' info. system relevant to financial reporting.

User Entity is Entity that uses services & whose FS are being audited.

Service Auditor : who provides assurance of report on controls of service org. on request of service org.

User Auditor who audits & report on FS of user Entity.

### Concept 3 When services provided by service org. are relevant

ऐसे सभी Entities अपना कुछ काम outsource करती हैं service org. को under direction of the Entity.

Many of services provided by org. are integral to Entities's business operations ; However, not all those services are relevant to audit.

A service org.'s services are part of user Entity's Info. system relevant to financial reporting, if these services affect any of the following :

- ▶ Classes of transactions
- ▶ Procedures within IT & Manual system.
- ▶ How user Entity's Info. system Captures Events & Condition.
- ▶ Related A/cing records
- ▶ Financial Reporting Process
- ▶ Controls surrounding journal entries.

### Concept 4 Objectives of user Auditor in accordance with SA 402

To obtain understanding of nature & significance of services provided by org. and their effect on internal Control, identify & assess ROMM.

To Design & Perform audit Procedures.

### Concept 5 Type 1 Report & Type 2 Report

Type 1 report comprises → A description prepared by Mgt. of service org. about system, control objectives & related controls which have designed & implemented as specified date AND → A report by service auditor with reasonable assurance that includes opinion on above description & suitability of design of controls.

[Conclusion : Type 1 report में service org. का Mgt. बताता है कि जो क्या-क्या करने वाला है & service auditor 1 assurance report देता है कि हाँ Mgt. मेरे opinion में सही कर रहा है। ]

Type 2 report comprises → A description prepared by Mgt. of service org. on specified date or throughout the period & operating effectiveness throughout specified period. AND → A report by service auditor of conveying reasonable assurance of above description and auditor's test of control & results thereof.

## Concept 6 / Obtaining an understanding of the Services

### ★ Using internal control

- 1.) Obtaining an understanding of services including Internal Control.
  - ↓
  - User auditor shall obtain understanding of how user Entity uses services of org<sup>n</sup> in Entity's operations, including :
- 2.) While understanding, user auditor shall evaluate design & implementation of relevant controls.
- 3.) User auditor shall determine understanding of Nature & Significant of services & Effect on IC and identify & assess Romm.
- 4.) If user auditor unable to obtain understanding from user Entity, he shall obtain from 1 or more procedures:-

- (a) Nature & Significant of services, including their Effect on internal control (IC).
  - ↓
  - Obtaining Type 1 or Type 2 report, if available.
- (b) Nature & Materiality of transactions.
  - ↓
  - Contact with Service org<sup>n</sup> to obtain Specific info.
- (c) Degree of interaction b/w activities of service org<sup>n</sup> & user Entity.
  - ↓
  - visiting the service org<sup>n</sup> and Performing procedures.
- (d) Nature of relationship B/w Service org<sup>n</sup> & user Entity.
  - ↓
  - Using another auditor to perform procedures.

\* degree of interaction refers to Extent to which a use Entity is able to and Elects to implement Effective control over processing performed by Service organisations.

### ★ Using Type 1 or Type 2 report

In determining sufficiency & appropriateness of audit Evidence provided by type 1 or type 2 report, the user auditor shall be satisfied as to :

Service auditor are Professional Competent & independent from Service org<sup>n</sup>. (Except auditor is member of ICAI in case of Prof. Competence)

Adequacy of Std. Under which report of type 1 or 2 issued.

If user auditor plans to use Type 1 or Type 2 report as audit evidence to support the understanding of controls at service org<sup>n</sup>, the user auditor shall:

- Evaluate whether description & design of control is appropriate.
- Evaluate sufficiency & appropriateness of evidence.
- Determine whether complementary user entity controls which are identified by service org<sup>n</sup> are relevant to user entity. (किसी दूसरी Entity के control अपनी Entity में काम आ सके तो it determine करेगा user auditor)

### Concept 7] Responding to the Assessed Risk of material Misstatement (ROMM)

In responding to assessed risks as per SA 330, the user auditor shall: Determine whether SAAE concerning FS assertions is available from records held at user entity

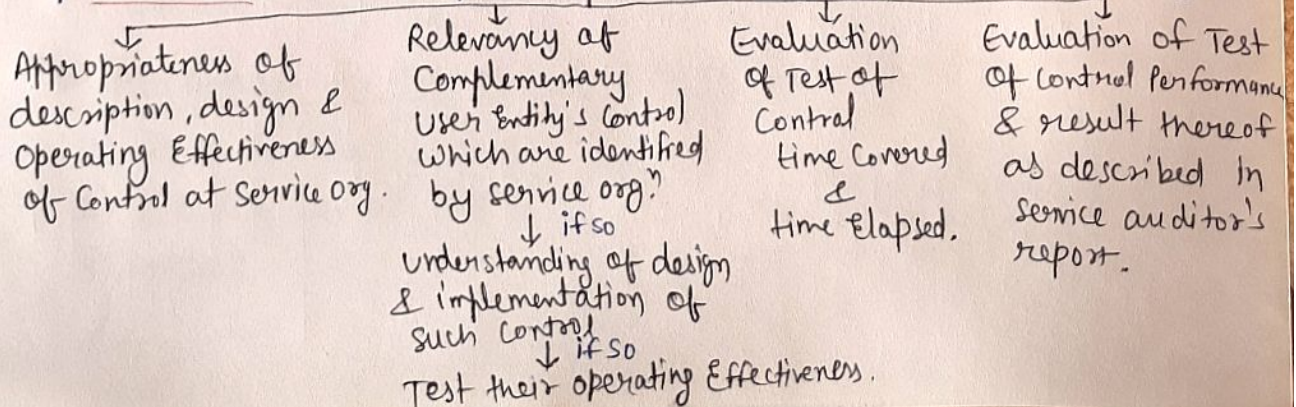
↓ If not  
Perform further audit procedure to obtain SAAE or use another auditor to perform at service org<sup>n</sup> on behalf of user auditor.

### Concept 8] Tests of Controls

When user auditor expects that controls at service org<sup>n</sup> are operating effectively then he shall obtain audit evidence about that controls from 1 or more of following procedures :-

- obtaining Type 2 report, if available
- Performing appropriate test of control at org<sup>n</sup>
- using another auditor to perform procedures on his behalf.

If user auditor plans to use Type 2 report as audit evidence then he shall determine whether service auditor's report provides SAAE to support user auditor's risk assessment by:



### Concept 9 Fraud, Non-Compliance and uncorrected Misstatements in relation to activities at the service organisation

- ★ User auditor shall inquire Mgt. of user Entity whether service org<sup>n</sup> has reported or otherwise aware of any fraud, non-compliance with laws & regulations or uncorrected misstatements affecting FS of user Entity.
- ★ User auditor shall evaluate how such matters affect
 

↓	↓	↓
NTE of user auditor's further audit procedures	on user auditor's Conclusions.	on user auditor's report.

### Concept 10 Reporting by user auditor

- ★ If user auditor is unable to obtain SAAE
  - ↓
  - User auditor shall modify opinion in audit report as per SA 705
- ★ User auditor shall not refer work of service auditor in his report unless required by law or regulation.
- ★ If required by law & regulation, user auditor's report shall indicate such requirement does not diminish user auditor's ~~not~~ responsibility for that opinion.

THE END