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AUDIT-95

CA Final & CA Inter Audit

Abki Baar Audit Mei Exemption Paaar!



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AIR 5,6,32

*Free Revision
Videos &
Notes*

Brief about Author

- All India Ranker at all 3 levels of CA
- Scored 95 Marks in Audit - Highest marks in history of ICAI till Nov 23
- Articleship at KPMG, Mumbai in Statutory Audit Domain
- Industrial Training at DBS Bank

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Short Form	Full Form
SQC	Standard on Quality Control
SA	Standard on Auditing
Mgt	Management
Info	Information
Eg	Examples
EQCR	Engagement Quality Control Review
EP	Engagement Partner
TCWG	Those Charged With Governance
Diff	Difference / Different
B/w	Between
CG	Central Government
NFRA	National Financial Reporting Authority
Co	Companies
QCS	Quality Control System
PRL	Professional, Regulatory & Legal
FS	Financial Statements
ROMM	Risk of Material Misstatements
SAAE	Sufficient & Appropriate Audit Evidence
MM	Material Misstatements
FFR	Fraudulent Financial Reporting
AFRF	Applicable Financial Reporting Framework
FR	Financial Reporting
IC	Internal Control
NTE	Nature, Timing & Extent
A/c	Accounts / Accounting
FFR	Fraudulent Financial Reporting
ACPD	Amounts, Classification, Presentation & Disclosure
RP	Related Party
Docs	Documents
AP	Analytical Procedures
FAP	Further Audit Procedures
RAP	Risk Assessment Procedures
L&R	Laws & Regulations
WR	Written Representations
NOCLAR	Non-Compliance with L&R
IS	Info System
ICS	Internal Control System
GC	Going Concern
KAM	Key Audit Matters
EOM	Emphasis of Matter
OM	Other Matter
Org	Organisation
TOC	Tests of Controls
STD	Scope, Timing & Direction
Imp	Important
SOD	Segregation of Duties
P/L	Profit & Loss A/c

Short Forms

TOD	Test of Details
FV	Fair Value
AE	Accounting Estimate
BOA	Books of Accounts
IA	Internal Audit/Auditor
EA	External Auditor
IAF	Internal Audit Function
DSR	Direct, Supervise & Review
SFS	Single FS
SEFS	Specific Element of FS
SUMFS	Summary FS



Ch-1 SQC 1 & SA 220

<u>SQC 1 - Quality Control for Firms That Perform Audits & Reviews of Historical Financial Info & Other Assurance & Related Services Engagements</u>	<u>SA 220 - Quality Control For Audit of FS</u>
Applies to All types of Engagements	Applies to Audit engagements ONLY
Applies to entire FIRM	Applies to particular audit engagement
Objective: Firms should establish Quality Control System (QCS) for reasonable assurance that - <ul style="list-style-type: none"> Firm complies with Professional, Regulatory & Legal (PRL) requirements Reports issued are appropriate in circumstances 	
Elements of System of Quality Control - <ul style="list-style-type: none"> Leadership responsibilities for quality within firm Ethical requirements Acceptance and continuance of client relationships and specific engagements Human resources Engagement performance Monitoring 	Responsibilities of EP in relation to following - <ul style="list-style-type: none"> Leadership responsibilities for quality on audits. Relevant ethical requirements Acceptance and continuance of client relationships and audit engagements Assignment of engagement teams Engagement performance Monitoring
1. Leadership responsibilities for quality within firm - Firm's QCS should override its business strategy. It should be ensured that (considerations to uphold quality of firm) - <ul style="list-style-type: none"> Firm assigns mgt responsibilities so that commercial considerations do not override quality of work performed Firm's policies for its personnel demonstrates firm's overriding commitment to quality Before accepting engagement, firm should have vital info about client to decide about integrity of Client, competence & compliance with ethical requirements Firm devotes sufficient resources for development of QCS policies 	1. Leadership responsibilities for quality on audits - Leadership responsibility of EP is to take responsibility for overall quality on each audit engagement. Actions of EP shall emphasise - <ul style="list-style-type: none"> Fact that quality is essential in performing audit engagements Importance to audit quality of - <ul style="list-style-type: none"> Performing work that complies with PRL requirements Complying with firm's QCS policies & procedures Engagement team's ability to raise concerns without fear of reprisals (punishment) Issuing auditor's reports that are appropriate in circumstances &
2. Ethical requirements - "Independence" is basic requirement. Policies & procedures should enable firm to - <ul style="list-style-type: none"> Communicate its independence requirements to its personnel Identify & evaluate circumstances & relationships that create threats to independence Take appropriate action to eliminate those threats or reduce them to acceptable level by applying safeguards, or if appropriate, withdraw from engagement Independence breaches are promptly notified to firm for appropriate action 	
At least Annually , firm should obtain written confirmation of compliance with its policies & procedures on independence from all firm personnel	

Notes - Familiarity threat - Using **same** personnel over **prolonged period**.

- **Safeguards** - **rotating** personnel or **EQCR**
- **Listed entities** - **EP** should be **rotated** in **at-least 7 years** (except in case of **sole practitioner**)

3. **Acceptance & Continuance of Client Relationships & Specific Engagements** - Before accepting engagement, firm should acquire **vital info about client** about -

- **Integrity** of Client
- **Competence** (including capabilities, time & resources) to perform engagement
- Compliance with **ethical requirements**
- **Significant matters** arisen during current or previous audit engagement

If **issues** are **identified** & firm decides to accept relationship - **Document** how issues were **resolved**

Matters to be considered with regard to integrity of client -

- **Reasons for proposed appointment** of firm & non-reappointment of previous firm
- **Nature** of client's **operations**
- **Identity & business reputation** of client's principal owners, key mgt, & TCWG
- Info regarding **attitude of client's principal owners**, key mgt & TCWG
- Indications of **inappropriate limitation in scope** of work
- Whether client is aggressively concerned with maintaining firm's **fees as low as possible**
- Indications that client might be involved in **money laundering or other criminal activities**

Matters to be considered with regard to capabilities, competence, time & resources -

- Firm personnel have **knowledge** of relevant **industry**
- Firm personnel have **experience** of **PRL requirements**, or ability to gain necessary **skills & knowledge**
- Firm would be able to **complete** engagement **within reporting deadline**
- Firm has **sufficient personnel** with necessary capabilities & competence
- **Experts** are available, if needed
- Individuals meeting criteria & eligibility requirements to perform **EQCR are available**

Matters to consider when info causing to decline engagement has been received -

- **PRL responsibilities**, including whether firm should report to person who made appointment or, to **regulatory authorities**
- **Possibility of withdrawing** from engagement & client relationship
- **Policies on withdrawal** from engagement & client relationship address issues that include -
 - **Discussing** with client's **mgt** & TCWG regarding appropriate **action** that **firm** might take
 - If firm determines that it is **appropriate to withdraw**, **discussing** with client's mgt & TCWG withdrawal from engagement & client relationship, & **reasons** for withdrawal
 - Considering **PRL requirement** for firm to **remain** in place, or to **report** withdrawal with **reasons** to regulatory authorities
 - Documenting **significant issues**, conclusions & basis for conclusions

4. **Human resources** - Policies & procedures for Human Resources require that -

- EP has appropriate **capabilities, competence, authority & time** to perform role
- Responsibilities of EP are **clearly defined & communicated** to that partner
- Identity & role of EP are **communicated to client's mgt & TCWG**

5. **Engagement Performance** - Consultation takes place in **difficult or contentious** (controversial) matters with individuals **within or outside firm**.

EQCR

- **Member of ICAI or suitably qualified external person** (capabilities & competence to act as EP), or **team** made up of such individuals. For audit of **listed** entity, EQCR should have **sufficient & appropriate experience & authority** to act as **EP** on audits listed entities
- Reviews **Significant judgments** in engagement. It does **not reduce responsibilities** of EP.
- **Mandatory** for audits of **listed** entities. For others, firm should form **criteria for EQCR**

Consultations with EQCR -

- He should be **objective**. He should **not Participate** in engagement or **making decisions** for team
- EP **may consult** EQCR during engagement but not compromise his objectivity & eligibility for role
- If **consultations** become **significant**, EQCR should **remain objective**.
- If this is **not possible, another individual** should be appointed as **EQCR** or person to be **consulted**

Matters to be considered by EQCR for audits of listed entities -

- Team's evaluation of **firm's independence** for specific engagement
- **Significant risks** identified during engagement & **responses** to those risks
- **Judgments made**, particularly for materiality & significant risks
- Significance of **corrected & uncorrected misstatements** identified during engagement
- Whether appropriate **consultation** has taken place & **conclusions** arising from those consultation
- Whether **working papers selected** for review reflect work performed for significant judgments & support conclusions reached
- **Matters to be communicated** to mgt & TCWG & other parties such as regulatory bodies.
- **Appropriateness of report** to be issued

EQCR Documentation -

- **Procedures required** by firm's policies on EQCR have been **performed**
- EQCR has been **completed before report** is issued &
- Reviewer is **not aware of any unresolved matters** that would cause reviewer to

EP responsibility wrt EQCR -

- Determine that **EQCR** has been **appointed**
- **Discuss significant matters** arising during audit
- **Not date auditor's report** until **completion** of **EQCR**

EQCR's objective evaluation of significant judgments involves -

- Discussion of **significant matters** with EP
- **Review of selected documentation** relating to significant judgments made & conclusions reached
- Review of **FS** & proposed auditor's **report**
- **Evaluation of conclusions** reached & whether proposed auditor's report is **appropriate**

Additional Matters to be considered by EQCR for audits of listed entities -

- Team's evaluation of **firm's independence** in relation to audit engagement
- Whether appropriate **consultation** has taken place on matters involving **difference of opinion** or other **difficult or contentious** matters, & **conclusions** arising from those consultations
- Whether audit **documentation selected** for review reflects work performed in relation to **significant judgments** made & supports **conclusions** reached

EP Documentation -

- **Conclusions** on compliance with **independence requirements**
- **Issues** in compliance with **ethical requirements** & how they were **resolved**
- **Conclusions** regarding **acceptance & continuance** of client relationships

SA 200 - Overall Objectives of Independent Auditor & Conduct of Audit in accordance with SAs

Objectives of Audit

- To obtain **reasonable assurance**, whether **FS** are **free** from **MM**, whether due to fraud or error, to enable auditor to **express opinion**, whether FS are as per **Applicable Financial Reporting Framework (AFRF)**
- To **report** on FS as per **SAs**
- (Also to **enhance** degree of **confidence of users** in FS)

Inherent (Permanent) Limitations of Audit

Auditor **cannot obtain absolute assurance** that FS are free from MM, due to following limitations, but it is **not justification** for auditor to be satisfied with **less than persuasive (convincing)** audit **evidence**-

- **Nature of Financial Reporting (FR)** - Mgt Judgments, Limitations of Internal Control (IC)
- **Timeliness of FR & Balance between Benefit and Cost** - Matter of **difficulty, time or cost** is **not** in itself a **valid basis** for auditor to omit an audit procedure for which **there is no alternative** or to be satisfied with audit evidence that is **less than persuasive**
- **Nature of Audit procedures** - There are **practical & legal limitations** on ability of auditor to obtain SAAE

Professional Skepticism

Attitude that includes a **questioning mind**, being **alert to conditions** which may indicate **possible misstatement** due to error or fraud, and a **critical assessment** of audit **evidence**

Professional skepticism includes being alert to -

- Audit evidence that **contradicts other audit evidence** obtained
- **Info** that brings into **question reliability of docs** and responses to inquiries
- **Conditions** that may indicate **possible fraud**
- **Circumstances** that suggest need for **procedures in addition** to those required by **SAs**

Maintaining professional skepticism throughout audit is necessary if auditor is to reduce risks of

- **Overlooking unusual** circumstances
- **Over generalising** when drawing **conclusions** from audit observations
- Using **inappropriate assumptions** in determining NTE of audit procedures

Preconditions for audit

<p>To determine whether present? Auditor shall -</p> <ul style="list-style-type: none"> • Determine whether FRF is acceptable and • Obtain agreement of Mgt that it acknowledges and understands its responsibility - <ul style="list-style-type: none"> ○ For preparation of FS as per AFRF ○ For such IC as necessary to enable FS preparation free from MM ○ To provide auditor with - <ul style="list-style-type: none"> ▪ Access to all info of which mgt is aware that is relevant to preparation of FS ▪ Additional info that auditor may request from mgt for purpose of audit ▪ Unrestricted access to persons within entity to obtain audit evidence 	<p>Agreement on audit engagement terms</p> <p>Audit engagement letter is sent by auditor to his client to avoid misunderstanding. Such a letter includes -</p> <ul style="list-style-type: none"> • Responsibilities of Auditor • Responsibilities of Mgt • Objective and Scope of audit of FS • Identification of AFRF for FS preparation • Reference to expected form and content of report to be issued by auditor and a statement that there may be circumstances in which a report may differ from its expected form and content <p>If law or regulation prescribes in detail, terms of audit as above, auditor need not record them in written agreement, except for fact that such law or regulation applies and that Mgt acknowledges its responsibilities</p>
<p>If Preconditions for Audit are not present - Auditor shall discuss with mgt. Auditor shall not accept proposed audit unless required by law or regulation</p>	

Limitation on Scope - In **proposed audit**, such that limitation will result in **disclaiming opinion** on FS, auditor shall **not accept** such a limited engagement, unless required by law or regulation

Acceptance of Change in Terms of Audit Engagement

<p>If, before completing audit, auditor is requested to change to engagement that conveys lower level of assurance, auditor shall determine whether there is reasonable justification</p> <p>Before agreeing to change audit to review or related service, auditor may also need to assess any legal or contractual implications of change</p>	<p>If there is reasonable justification to change audit to review or related service, then to avoid confusion, report on related service would not include reference to -</p> <ul style="list-style-type: none"> • Original engagement • Any procedures that are performed in original audit (except agreed - upon procedures) 	<p>If there is non-agreement to change in terms and lack of permission from mgt to continue original engagement -</p> <ul style="list-style-type: none"> • Withdraw from audit if possible • Determine whether there is any obligation, to report circumstances to TCWG, owners or regulators
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Terms of Engagement in Recurring Audits

Factors to consider to revise terms of engagement or to remind entity of existing terms -

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

Audit **documentation** is **not substitute** for entity's **a/c records**. The auditor need **not include** in audit documentation **superseded** drafts of **working papers** and **FS**

Assembly of Final Audit File

It is **administrative process** that does **not** involve performance of **new audit procedures** or drawing of **new conclusions**

Changes may be **made if** they are **administrative** in nature. **Eg** of such changes -

- Documenting audit **evidence** that auditor has **obtained & discussed** with team members **before** date of **auditor's report**
- **Sorting**, collating and **cross-referencing** working papers
- **Signing off** on **completion checklists** relating to file assembly process
- **Deleting** or discarding **superseded documentation**

Completion Memorandum or Audit Documentation Summary

Auditor may find it helpful to prepare and retain, as part of audit documentation, a summary that describes -

- **Significant matters** identified during audit and
- **How** they were **addressed**

Such a summary may facilitate **effective and efficient review and inspection** of audit documentation, particularly for large and complex audits



SA 240 – Auditor's Responsibilities Relating to Fraud in Audit of FS

Primary Responsibility – **Mgt** and TCWG

Misstatements can arise from either **fraud** (intentional) or **error** (unintentional). Auditor is only concerned with 2 types of fraud that causes MM in FS –

<u>Fraudulent Financial Reporting (FFR) – Mgt Level</u>	<u>Misappropriation of Assets – Employee Level</u>
<ul style="list-style-type: none"> • Misrepresentation or intentional omission of events or transactions • Manipulation or alteration of A/c records • Intentional misapplication of A/c principles 	<ul style="list-style-type: none"> • Embezzling (steal) receipts • Causing entity to pay for goods not received • Stealing assets or intellectual property • Using entity's assets for personal use
<ul style="list-style-type: none"> • Risk of not detecting MM from fraud is higher than error because fraud may involve sophisticated (complicated) and organized schemes designed to conceal it • Risk of auditor not detecting MM from Mgt fraud is greater than employee fraud, because Mgt can manipulate A/c records or override control 	
<p>Responsibilities of Auditor</p> <ul style="list-style-type: none"> • Auditor is responsible for maintaining professional skepticism • Auditor may accept docs as genuine, unless auditor has reason to believe contrary • If auditor believes that docs may not be authentic auditor shall investigate further 	<p>Risk assessment procedures (RAP)</p> <ul style="list-style-type: none"> • Inquiries of Mgt & others within entity • Obtaining understanding as to how TCWG exercise oversight of Mgt's processes for – <ul style="list-style-type: none"> ○ Identifying & responding to risks of fraud ○ IC to mitigate risks ○ Evaluation of unexpected relationships when performing Analytical Procedure (AP)
<p>FFR can be committed by Mgt overriding controls using such techniques as</p> <ul style="list-style-type: none"> • Engaging in complex transactions • Omitting, advancing or delaying recognition of events & transactions • Concealing, or not disclosing, facts • Inappropriately adjusting assumptions & changing judgments • Altering terms of significant transactions • Recording fictitious journal entries 	<p>Written Representations</p> <ul style="list-style-type: none"> • Acknowledge their responsibility for implementation of IC to prevent fraud • They have disclosed to auditor – <ul style="list-style-type: none"> ○ Knowledge of suspected fraud which could have material effect on FS ○ Knowledge of allegations of suspected fraud communicated by others ○ Results of Mgt's assessment of ROMM due to fraud
<p>Responses to assessed ROMM due to fraud at FS Level</p> <ul style="list-style-type: none"> • Assign & supervise personnel as per knowledge, skill & ability • Evaluate whether selection of A/c policies are indicative of FFR • Incorporate element of unpredictability in NTE of procedures 	<p>Responses to risks of Mgt override of controls Irrespective of auditor's assessment of this risk, auditor shall –</p> <ul style="list-style-type: none"> • Review A/c estimates for biases • For significant transactions outside normal course of business, evaluate business rationale • Test appropriateness of journal entries & adjustments made in FS

<p>Communications to Mgt & TCWG</p> <ul style="list-style-type: none"> • Mgt - communicate about fraud on timely basis • TCWG - Unless all of TCWG are involved in Mgt, if auditor suspects fraud involving Mgt, or where fraud results in MM in FS, communicate to TCWG on timely basis & discuss NTE of procedures 	<p>Communications to Regulatory Authorities</p> <ul style="list-style-type: none"> • Auditor may have duty to report misstatements to authorities when Mgt & TCWG fail to take corrective action • Although auditor has duty to maintain confidentiality, legal responsibilities may override duty of confidentiality in some cases. For eg, Bank 	
<p>Circumstances in which auditor is unable to continue engagement If due to fraud, auditor encounters exceptional circumstances that questions auditor's ability to continue audit, auditor shall -</p>		
<p>Determine PRL responsibilities to report to persons who made appointment or, to regulatory authorities</p>	<p>Consider if it is appropriate to withdraw, where legally permitted</p>	<p>If auditor withdraws -</p> <ul style="list-style-type: none"> • Discuss with Mgt & TCWG, withdrawal and reasons • Same as 1st point
<p>Fraud Risk Factors</p>		
<ul style="list-style-type: none"> • They are events or conditions that indicate incentive or pressure or provide opportunity or rationalization/attitude to commit fraud 	<ul style="list-style-type: none"> • While Fraud risk factors does not mean existence of fraud, they are present in frauds & therefore may indicate ROMM due to fraud 	
<p>Fraud Risk Factors relating to misstatements from FFR</p>		
<p>Incentives/Pressures - Economic, Industry or Operating conditions</p> <ul style="list-style-type: none"> • High vulnerability to rapid changes • New A/c or regulatory requirements • High degree of competition or market saturation • Significant declines in customer demand & increasing business failures • Rapid growth compared to other companies • Operating losses causing threat of bankruptcy • Recurring negative/no operating cash flows 	<p>Attitudes/Rationalizations</p> <ul style="list-style-type: none"> • Communication of inappropriate values / ethics • Non-financial Mgt's excessive participation in selection of A/c policies • Known history of violation of law & regulations • Excessive interest by Mgt in increasing stock price or earnings • Practice by Mgt of committing to investors, creditors to achieve unrealistic forecasts • Mgt failing to remedy known significant deficiencies in IC • Interest by Mgt to minimize reported earnings for tax- reasons • Low morale among senior Mgt • Owner-manager makes no distinction between personal & business transactions • Dispute b/w shareholder in closely held entity • Recurring attempts by Mgt to justify inappropriate A/c on basis of materiality 	
<p>Opportunities</p> <ul style="list-style-type: none"> • Significant RP transactions outside ordinary course of business • Strong financial presence to dictate terms to suppliers or customers • Assets, liabilities, revenues, or expenses based on significant estimates • Significant or highly complex transactions close to period end 		

<ul style="list-style-type: none"> • Use of business intermediaries with no clear business justification • Significant operations in tax-haven jurisdictions with no clear business justification 	<p>Relationship b/w Mgt & auditor is strained</p> <ul style="list-style-type: none"> • Frequent disputes with auditor on A/c or auditing matters • Unreasonable demands on auditor, like unrealistic time for completion of audit • Restrictions on auditor to limit access to people or Info or to TCWG • Domineering Mgt behaviour, attempts to influence scope of auditor's work
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Fraud Risk Factors relating to Misappropriation of Assets

<p>Incentives/Pressures</p> <ul style="list-style-type: none"> • Personal financial obligations • Adverse relationships b/w entity & employees due to - <ul style="list-style-type: none"> ○ Known or anticipated future employee layoffs ○ Recent or anticipated changes to employee compensation ○ Promotions, compensation, inconsistent with expectations 	<p>Opportunities</p> <ul style="list-style-type: none"> • Large amounts of cash on hand • Inventory items that are small in size, of high value, or in high demand • Easily convertible assets • Fixed assets which are small in size, marketable, or lacking observable identification of ownership 	<p>Attitudes/Rationalizations</p> <ul style="list-style-type: none"> • Disregard for need to monitor risks of misappropriations of assets • Disregard for IC over misappropriation of assets by overriding or by failing to take appropriate remedial action on deficiencies • Behaviour indicating dissatisfaction with entity • Changes in behaviour that indicates assets have been misappropriated • Tolerance of petty theft
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SA 250 - Consideration of Laws & Regulations (L&R) in Audit of FS

<p>Responsibility of Mgt - Policies to assist in prevention & detection of non-compliance</p> <ul style="list-style-type: none"> • Instituting & operating ICS • Engaging legal advisor to monitor requirement • Monitoring legal requirements to meet them • Developing following code of conduct • Maintaining register of significant L&R • Ensure employee understand code of conduct • Monitoring compliance with code of conduct 	<p>Responsibility of Auditor</p> <p>Auditor is not responsible for preventing non-compliance & cannot be expected to detect non-compliance with all L&R</p> <p>For L&R, potential effects of inherent limitations of audit are greater because -</p> <ul style="list-style-type: none"> • There are many L&R that do not affect FS & are not captured by IS • Non-compliance are designed to conceal itself • Non-compliance is matter for legal determination by court of law
<p>Audit Procedures when Non-Compliance is Identified or Suspected</p> <ul style="list-style-type: none"> • Understanding of nature of act • Circumstances in which it has occurred • Further info to evaluate possible effect on FS • Auditor shall discuss with Mgt & TCWG - <ul style="list-style-type: none"> ○ If they do not provide sufficient info that entity has complied & effect of suspected non-compliance is material to FS, auditor shall consider need to <ul style="list-style-type: none"> ▪ Obtain legal advice ▪ Evaluate effect on opinion, risk assessment and reliability of WR ▪ Take appropriate action 	<p>Auditor's responsibilities for compliance is distinguished with 2 diff categories of L&R</p> <ul style="list-style-type: none"> • L&R having direct effect on amounts & disclosures in FS (whether complied/not complied) - Obtain SAAE about compliance • Other L&R whose compliance is fundamental to operating aspects or to avoid material penalties. Only Non-compliance have material effect on FS - Limited to specified procedures to help identify non-compliance - <ul style="list-style-type: none"> ○ Inquiring Mgt, TCWG if entity has complied ○ Inspecting correspondence with regulatory authorities • Maintaining professional skepticism is imp
<p align="center">Reporting of Identified or Suspected Non-Compliance</p>	
<p>1. TCWG</p> <ul style="list-style-type: none"> • Unless all TCWG is involved in Mgt, auditor shall communicate non-compliance other than when matter is clearly inconsequential (trivial) • If non-compliance is believed to be intentional & material, auditor shall communicate with TCWG as soon as practicable • If auditor suspects that Mgt or TCWG are involved in non-compliance, auditor shall communicate with next higher level of authority, if exists, like audit committee or supervisory board • Where no higher authority exists, or if auditor believes that communication may not be acted upon or is unsure as to person to report, auditor shall obtain legal advice 	<p>2. In Auditor's Report</p> <ul style="list-style-type: none"> • If non-compliance has material effect on FS & is not adequately reflected, auditor shall express qualified or adverse opinion (SA 705) • If auditor is precluded (prevented) by Mgt or TCWG from obtaining SAAE to evaluate if non-compliance is material, auditor shall express qualified or disclaim opinion on basis of limitation on scope • If auditor is unable to determine non-compliance due to limitations imposed by circumstances not by Mgt or TCWG, auditor shall evaluate effect on auditor's opinion <p>3. Regulatory and Enforcement authorities Auditor shall report if he has that responsibility</p>
<p>Documentation Identified or suspected non-compliance with L&R & results of discussion with Mgt & TCWG & other parties outside entity</p>	<p>Written Representations All known instances of non-compliance or suspected non-compliance with L&R which effects FS have been disclosed to auditor</p>

Indications of Non-Compliance with Laws and Regulations

When auditor becomes aware of existence of, or info about, following matters, it may be an indication of non-compliance with L&R -

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

Non-compliance means acts of omission or commission, **intentional or unintentional**, that are **contrary** to L&R committed by - **Client/Employing organization, TCWG, Mgt or employees**

Non-compliance does **not include** - **Personal** misconduct unrelated to business & non-compliance by **parties other than listed**

<p>As per IESBA, Eg covered in NOCLAR are</p> <ul style="list-style-type: none"> • Fraud, corruption and bribery • Money laundering, terrorist financing and proceeds of crime • Securities markets and trading • Banking and financial products and services • Data protection • Environmental protection • Public health and safety • Tax and pension liabilities and payments 	<p>Important Facts about NOCLAR -</p> <p>Expertise of Laws not Required Accountant is expected to apply knowledge & expertise, & exercise professional judgment. He is not expected to have knowledge of L&R greater than that is required for engagement</p> <p>Certain Matters Expressly out of Purview Clearly trivial or relating to personal misconduct</p> <p>Disclosure to Appropriate Authority that is Contrary to Law not Required</p>
<p>Applicability of NOCLAR in India</p> <ul style="list-style-type: none"> • Senior Professional Accountants (KMP) in service, being employees of listed entities • Practice - Audit engagement of Listed Entity (RSE) & Net Worth of Rs.250 crores or more 	<p>Providing Service to Client NOCLAR is applicable if professional accountant is made aware of non-compliance. He is not required to investigate, nor responsible for ensuring complete compliance</p>
<p>Steps to respond to NOCLAR</p> <ul style="list-style-type: none"> • Obtaining understanding of matter • Addressing matter • Seeking Advice • Determining if further action is needed • Documentation • Imminent Breach • Determining whether to disclose matter to Appropriate Authority 	<p>Documentation Requirements in NOCLAR</p> <ul style="list-style-type: none"> • How Mgt/TCWG have responded to matter • Course of action of accountant, judgments & decisions made • How accountant is satisfied that public interest is fulfilled

SA 250 vs NOCLAR

<u>SA 250</u>	<u>NOCLAR</u>
Applicable only on Audit (not other assurances)	Applicable both, in service & in practice
Covers laws having direct effect on amounts & disclosures in FS & other L&R whose compliance is fundamental to operating aspects of business	In addition to SA 250 , also covers non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms
Does not define stakeholders	Related to effect of non-compliance on investors, creditors, employees & also general public
No such provision for imminent breach of law	If accountant become aware of imminent breach of law that would cause substantial harm to investors, creditors, employees or general public, he shall determine whether to disclose matter immediately to appropriate authority to prevent or mitigate consequences of breach



SA 260 - Communication with TCWG

TCWG are one with responsibility for overseeing **strategic direction & accountability** of entity

<p>Effective two-way Communication b/w auditor & TCWG is important in assisting</p> <ul style="list-style-type: none"> • Them to understand matters of audit & develop constructive working relationship • Auditor to obtain info relevant to audit from TCWG • TCWG to fulfil responsibility to oversee FR, thereby reducing ROMM 	<p>Matter to be communicated by auditor to TCWG</p> <ul style="list-style-type: none"> • Planned scope & timing of audit - <ul style="list-style-type: none"> ○ Assist TCWG to understand consequences of auditor's work ○ Assist auditor to understand entity & its environment • Auditor's responsibilities for audit - <ul style="list-style-type: none"> ○ Forming & expressing opinion on FS ○ Audit of FS does not relieve Mgt or TCWG of their responsibilities
<p>Significant difficulties encountered during audit</p> <ul style="list-style-type: none"> • Extensive unexpected effort required to obtain SAAE • Unavailability of expected info • Mgt's unwillingness to extend its Going concern (GC) assessment • Significant delays by mgt, unavailability of personnel, unwillingness to provide info • Unreasonably brief time to complete audit • Restrictions imposed on auditor by Mgt <p>In some cases, such difficulties may be scope limitation leading to modification of opinion</p>	<ul style="list-style-type: none"> • Significant findings from audit - <ul style="list-style-type: none"> ○ Auditor's views about significant qualitative aspect of entity's a/c practices ○ Significant difficulty encountered in audit ○ Unless all of TCWG is involved in Mgt <ul style="list-style-type: none"> ▪ Significant matters discussed with Mgt ▪ WR auditor is requesting ○ Circumstances that affect form & content of auditor's report ○ Other significant matters relevant to oversight of FR
<p>Significant matters discussed with Mgt include</p> <ul style="list-style-type: none"> • Discussions about initial or recurring appointment of auditor • Significant events occurred during the year • Business conditions, plans & strategies that may affect ROMM • Mgt's consultations on A/c / Auditing matters • Significant matters on which there was disagreement with Mgt, except for initial diff of opinion that are later resolved by auditor 	<p>When auditor is required to include additional info in report & communicate with TCWG?</p> <ul style="list-style-type: none"> • Material uncertainty related to GC (SA 570) • Key audit matters (KAM) (SA 701) • Auditor expect to modify opinion (SA 705) • Emphasis of Matter (EOM) or Other Matter (OM) para is included as per SA 706 • There is uncorrected MM of other info as per SA 720 <p>Auditor to provide TCWG with draft report for discussion on how such matters will be addressed</p>
<p>Communication of auditor's independence to TCWG in case of listed entities</p> <ul style="list-style-type: none"> • Engagement team & network firms have complied with independence • All relationships that may be thought to bear on independence • Total fees charged for audit & non-audit services provided by firm & network firms to entity & its components - Allocated to categories to assist TCWG to assess effect of services on independence • Safeguards applied to eliminate or reduce threats to independence • Communicate in writing about significant (not all) findings, oral communication is not adequate <p>Documentation - Where above matters are communicated orally, auditor shall include them in audit documentation, & when & to whom they were communicated. If above matters are communicated in writing, auditor shall retain copy of communication</p>	

Deficiency in IC

- A **control necessary** to prevent, or detect and correct, misstatements in FS **is missing**
- A **control** is designed, implemented or operated so that it is **unable to prevent, or detect and correct**, misstatements in FS or

Significant deficiency in IC

- A deficiency in IC which is of sufficient **importance for attention of TCWG**
- Significance of deficiency in IC **depends** not only on whether **misstatement** has actually **occurred**, but **also** on **likelihood** of that **misstatement**
- Therefore, Significant **deficiency may exist** even though auditor has **not identified misstatements**

Communication of significant deficiencies in IC to Mgt

- In **writing**, significant deficiencies that auditor has **communicated to TCWG**, **unless** it is **inappropriate** to communicate directly to Mgt
- **Other deficiencies** in IC identified during audit that are **not communicated to Mgt** by other parties and are of **sufficient importance** for Mgt's attention

Auditor shall include in written communication of significant deficiencies in IC (Letter of Weakness)

- A **description** of deficiencies
- Their **potential effects**
- Sufficient **info** to enable TCWG and Mgt to **understand context** of communication.
In particular, auditor shall explain that -
 - **Purpose** of audit was to **express opinion** on FS
 - **Audit** included consideration of **IC** but **not** for purpose of expressing **opinion on effectiveness** of IC
 - Matters being reported are **limited** to those **deficiencies** that **auditor has identified** during audit



SA 299 - Joint Audit of FS

Audit **Planning & Strategy** shall be established by joint auditors **jointly**

<p>Before commencement of audit, joint auditors should discuss and develop joint audit plan</p> <p>In developing joint audit plan, joint auditors should</p> <ul style="list-style-type: none"> • Consider results of preliminary engagement activities & knowledge gained on other engagements • Identify division of audit areas and common audit areas • Consider and communicate among all joint auditors, factors that are significant in directing engagement team's efforts • Ascertain reporting objectives of engagement • Ascertain NTE of resources necessary to accomplish engagement <p>Each joint auditor should assess ROMM and communicate to other joint auditors</p> <p>Joint auditors should discuss and document NTE of audit procedures for common and specific allotted areas of audit to be performed</p> <p>Joint auditors should obtain common engagement letter and common Mgt representation letter</p> <p>Work allocation document should be signed by all joint auditors and communicated to TCWG</p>	<p>For audit work divided among joint auditors, each joint auditor shall be responsible only for work allocated to such joint auditor</p> <p>On other hand, all joint auditors shall be jointly and severally responsible for</p> <ul style="list-style-type: none"> • Audit work which is not divided among joint auditors and carried out by all of them • Decisions taken by all joint auditors under audit planning for common audit areas • Matters brought to notice of joint auditors by any one of them and there is agreement among joint auditors • Examining that FS comply with requirements of relevant statutes • Presentation and disclosure of FS as required by AFRF • Ensuring that audit report complies with requirements of relevant statutes <p>In respect of common areas, joint auditors are only responsible for appropriateness of NTE of audit procedures agreed among them. Responsibility of individual execution lies with concerned joint auditor</p> <p>In case joint auditor comes across matters which are relevant to other joint auditors, said joint auditor shall communicate same to all other joint auditors in writing prior to completion of audit</p>
<p>Reporting by Joint Auditors</p> <ul style="list-style-type: none"> • Joint auditors are required to issue common audit report • However, where joint auditors are in disagreement with regard to opinion or any matters to be covered by audit report, they shall express their opinion in separate audit report • In such circumstances, audit report issued by joint auditor shall make reference to each other's audit report under OM para (SA 706) 	<p>Each Joint Auditor is entitled to assume that</p> <ul style="list-style-type: none"> • Other joint auditors have carried out their work & work has actually been performed as per SAs. It is not necessary for joint auditor to review work performed by other joint auditors • Other joint auditors have brought to said joint auditor's notice any departure from AFRF or significant observations that are relevant to their responsibilities • Where FS of division/branch are audited by one joint auditor, other joint auditors are entitled to proceed on the basis that such FS comply with all L&R requirements



SA 300 - Planning an Audit of FS

<p>Benefits/Advantages of Planning in Audit</p> <ul style="list-style-type: none"> • Timely resolution of Potential Problems • Attention to Imp areas • Proper Org & Mgt of Audit Engagement • Proper Selection of Engagement Team • Direction & Supervision of Engagement Team • Easy Coordination of work done by auditors of components & experts <p>EP & other members of team shall be involved in planning audit to enhance effectiveness & efficiency of planning</p>	<p>Planning - A Continuous Process</p> <p>Planning is not a discrete (separate) phase of audit, but rather a continual and iterative (never ending) process. Prior to auditor's identification and assessment of ROMM, planning needs to consider -</p> <ul style="list-style-type: none"> • Obtaining general understanding of entity's legal framework • AP to be applied as RAP • Performance of other RAP • Determination of materiality • Involvement of experts
<p>Preliminary engagement activities</p> <ul style="list-style-type: none"> • Establishing understanding of terms of engagement (SA 210) • Performing procedures regarding continuance of client relationship & specific audit engagement (SA 220) • Evaluating compliance with ethical requirements (independence) (SA 220) 	<p>Overall Audit Strategy & Plan - Responsibility of Auditor</p> <ul style="list-style-type: none"> • Auditor is responsible for establishing audit strategy and plan • He cannot ask Mgt to prepare strategy • He may discuss elements of planning with Mgt without compromising effectiveness of audit
<p>Contents of Audit Plan</p> <p>Audit plan shall include description of -</p> <ul style="list-style-type: none"> • NTE of planned RAP (SA 315) • NTE of planned FAP (SA 330) • Other planned audit procedures to comply with SAs 	<p>Nature of Planning vary according to</p> <ul style="list-style-type: none"> • Size & Complexity of Auditee • Past Experience & Expertise • Change in Circumstances
<p>Overall Audit Strategy</p> <p>Audit strategy sets STD of audit & guides development of audit plan</p> <p>Factors while establishing Audit Strategy</p> <ul style="list-style-type: none"> • Considering results of preliminary engagement activities • Determination of Characteristics of Audit • Directing Engagement Team's Efforts • Reporting Objectives of Engagement • NTE of Resources 	<p>Benefits of Overall Audit Strategy</p> <ul style="list-style-type: none"> • Employment of Qualitative Resources • Timing of Deployment of Resources • Allocation of Quantity of Resources • Mgt of Resources <p>Documenting Audit Plan</p> <ul style="list-style-type: none"> • Overall audit strategy - Record of key decisions to properly plan audit • Plan - Record of planned NTE of RAP & FAP • Any significant changes made during audit & reasons for such changes

<p>Changes to Planning Decisions</p> <p>Auditor may need to modify Audit strategy and plan due to -</p> <ul style="list-style-type: none"> • Unexpected events • Changes in conditions • Audit evidence obtained from audit procedures • When info comes to auditor's attention that differs significantly from info available when auditor planned audit procedures 	<p>Relationship between Audit Strategy & Plan</p> <ul style="list-style-type: none"> • Audit strategy is prepared before audit plan • Audit plan contains more details than strategy & describe how it is going to be implemented • Audit strategy & plan are closely inter-related since changes in one result into changes to other • Audit strategy provides guidelines to develop audit plan
<p>Audit Programme</p> <p>It is prepared to allocate work to team members & include list of audit procedures</p> <p>Formulating Audit Programme</p> <ul style="list-style-type: none"> • Nature of business in which Org is engaged • Size of Org & structure of its Mgt • Info of Org of business • A/c & Mgt policies • ICS & A/c procedures • Overall plan 	<p>Audit programme is to be altered during audit</p> <ul style="list-style-type: none"> • If audit procedures were designed for certain volume of turnover & subsequently volume have substantially increased • If there is extraordinary increase in amount of book debts or stocks as compared to previous year • When suspicion has aroused during audit that assets are misappropriated • When during audit, it is discovered that IC are not as effective as assumed at time audit programme was framed
<p>Revision in Audit Programme</p> <p>At each subsequent engagement, programme should be modified due to -</p> <ul style="list-style-type: none"> • Experience during previous audits • Imp changes in business • Evaluation of IC for current year 	<p>Audit Execution</p> <p>Key phases in audit execution stage are -</p> <ul style="list-style-type: none"> • Execution Planning • Risk & Control Evaluation • Testing • Reporting



SA 315 - Identifying & Assessing ROMM through understanding entity & its environment

<p>Objective of auditor</p> <p>Identify & assess ROMM, whether due to fraud or error, at FS & assertion levels, through understanding entity & its environment, including entity’s IC (RAP), thereby providing basis for implementing responses to assessed ROMM</p> <p>Identifying & Assessing ROMM at –</p> <p>(a) FS level (b) Assertion level for transactions, A/c balances, & disclosures</p> <p>For this purpose, auditor shall –</p> <ul style="list-style-type: none"> • Identify risks throughout process of obtaining understanding of entity & its environment • Assess identified risks, & evaluate whether they relate more pervasively to FS as whole • Relate identified risks to what can go wrong at assertion level • Consider likelihood of misstatement, including possibility of multiple misstatements 	<p>Internal Control</p> <p>Process designed & implemented by TCWG & Mgt to provide reasonable assurance about achievement of entity’s objectives with regard to –</p> <ul style="list-style-type: none"> • Effectiveness & Efficiency of operations • Compliance with applicable L&R • Safeguarding of assets • Reliability of FR <p>Limitations of IC</p> <p>IC can provide entity with only reasonable assurance about achieving entity’s FR objectives</p> <p>Manual elements in IC may be more suitable where judgment is required such as</p> <ul style="list-style-type: none"> • Large, unusual or non-recurring transactions • In changing circumstances that require control response outside scope of existing automated control • In monitoring effectiveness of automated controls • Circumstances where errors are difficult to predict
<p>Assertions</p> <p>Representations by Mgt, explicit or otherwise, that are embodied in FS, as used by auditor to consider diff types of potential misstatements that may occur</p> <p>Assertions are of 3 categories</p> <ul style="list-style-type: none"> • Assertions about classes of transactions & events for audit period - Occurrence, Completeness, Accuracy, Cut-off & Classification • Assertions about A/c balances at period end - Existence, Rights & obligations, Completeness & Valuation & allocation • Assertions about presentation & disclosure - Occurrence & rights & obligations, Completeness, Classification & understandability & Accuracy & valuation 	<p>Risks that Require Special Audit Consideration</p> <p>In exercising judgment as to which risks are significant risks, auditor shall consider following -</p> <ul style="list-style-type: none"> • Whether risk is risk of fraud • Complexity of transactions • Degree of subjectivity in measurement of financial Info related to risk • Whether risk involves significant transactions with RP • Whether risk involves significant transactions that are outside normal course of business or unusual • Whether risk is related to recent significant economic, A/cing, or other developments

Misstatements are considered to be **material** if they, individually or in aggregate, could reasonably be expected to **influence economic decisions of users** taken on the basis of FS

Performance Materiality means **amount** set by auditor **at less than materiality** for FS as a whole to **reduce** to an appropriately low level, **probability** that aggregate of uncorrected and undetected **misstatements exceeds materiality** for FS as a whole. It also refers to amount set by auditor at less than materiality level for particular classes of transactions, A/c balances or disclosures

Use of Benchmarks in Determining Materiality for FS as a Whole

Determining materiality involves exercise of **professional judgment**. A **percentage** is often **applied** to a **chosen benchmark** as starting point in determining materiality. **Factors** that may **affect identification** of appropriate **benchmark** include

- **Nature of entity**, where entity is at in its life cycle, and industry & economic environment in which entity operates;
- Entity's **ownership structure** & way it is financed
- Elements of **FS**
- Whether there are items on which **attention of users** of particular entity's FS tends to be **focused**
- Relative **volatility of benchmark**

Eg of Benchmarks

- **PBT** from continuing operations for **profit-oriented** entities
- If **PBT is volatile** then gross **profit** or total **revenues**
- For **Public Utility Programs/Projects** – **Total Cost or Net Cost** (Expenses less revenues)
- If Entity has **custody of assets - Assets**

Revision as Audit Progresses

Materiality may need to be revised as a result of -

- **New info**
- **Change in circumstances** that occurred during audit
- **Change in auditor's understanding** of entity as a result of FAP

If auditor concludes that a **lower materiality** than that initially determined is **appropriate**, auditor shall determine whether it is necessary to **revise performance materiality**, and whether **NTE of FAP** remain appropriate

In designing FAP to be performed, auditor shall

- Consider **reasons for assessment** given to **ROMM** at assertion level for each class of transactions, account balance, and disclosure, including Inherent Risk and Control Risk
- Obtain **more persuasive** audit evidence, the **higher** the auditor's **assessment of risk**

FAP comprises of **TOC & Substantive Procedures**

Tests of Controls

Audit Procedure designed to evaluate **operating effectiveness** of controls in **preventing, detecting & correcting MM** at assertion level

Auditor shall design and perform TOC to obtain SAAE as to operating effectiveness of relevant controls when

- Auditor's assessment of ROMM at assertion level includes an **expectation** that **controls are operating effectively** (i.e., auditor **intends to rely on operating effectiveness** of controls in determining NTE of substantive procedures)
- **Substantive procedures** alone **cannot** provide **SAAE** at assertion level

In designing and performing TOC, auditor shall **obtain more persuasive** audit **evidence**, the **greater** the **reliance** auditor places **on effectiveness of a control**

Substantive Procedures

Audit Procedures designed to **detect MM** at assertion level

Irrespective of assessed **ROMM**, auditor shall design and **perform substantive procedures** for each material class of transactions, account balance, and disclosure



SA 402 - Audit Considerations relating to Entity using Service Org

<p>Service provided by Service Org are relevant to audit of user entity FS if those services & controls over them are part of user entity's FR IS</p> <p>Service Org's services are part of user entity's FR IS, if they affect</p> <ul style="list-style-type: none"> • How user entity IS captures significant event Transactions significant to user entity's FS • Procedures by which transactions are initiated & reported • Controls surrounding journal entries • Related A/c record use to report transaction • FR process used to prepare user entity's FS 	<p>There are 2 types of Report as below</p> <p>Type 1 report - which comprises</p> <ul style="list-style-type: none"> • Description of service org's system and related controls as at specified date • Report by service auditor to convey reasonable assurance on above <p>Type 2 report - which comprises</p> <ul style="list-style-type: none"> • Description of service org's system and related controls & operating effectiveness throughout period • Report by service auditor to convey reasonable assurance on above • Description of service auditor's Tests of Controls (TOC) and its results
<p>Obtaining understanding of services provided by Service Org (RAP)</p> <p>User auditor shall obtain understanding of how user entity uses service of service Org, including-</p> <ul style="list-style-type: none"> • Nature of services & significance of those services to user entity • Nature & materiality of transactions or FR affected by service Org • Degree of interaction b/w service Org & user entity. It refers to extent to which user entity is able to implement controls over processing performed by service Org • Nature of relationship b/w user entity & Service Org 	<p>Auditor's Considerations</p> <p>User auditor shall determine if sufficient understanding of services & their effect on user entity's IC has been obtained to assess ROMM</p> <p>If user auditor is unable to obtain sufficient understanding from user entity, he shall -</p> <ul style="list-style-type: none"> • Obtain Type 1 or Type 2 report, if available • Contact Service Org, through user entity, to obtain info • Visit Service Org & performing procedures to obtain info • Use another auditor to perform procedures to obtain info
<p>Using Type 1 or Type 2 Report</p> <p>In determining SAAE provided by Type 1 or Type 2 report, user auditor shall be satisfied about -</p> <ul style="list-style-type: none"> • Service auditor's professional competence (except if ICAI Member) & Independence • Adequacy of standards under which Type 1 or Type 2 report was issued 	<p>Responding to Assessed ROMM (FAP)</p> <p>User auditor shall -</p> <ul style="list-style-type: none"> • Determine whether SAAE is available from records held at user entity & if not • Perform FAP to obtain SAAE or use another auditor to perform FAP at service Org

<p>If user auditor plans to use Type 1 or Type 2 report to support his understanding of controls at service Org, he shall -</p> <ul style="list-style-type: none"> • Evaluate whether description of controls at service org is at date or period • Evaluate SAAE provided by report for understanding of user entity's IC • Determine if complementary user entity controls are relevant & user entity has designed and implemented such controls <p>Complementary user entity controls refer to controls that service Org assumes will be implemented by user entities</p>	<p>Tests of Controls</p> <p>When user auditor's risk assessment includes expectation that controls at Service Org are operating effectively, user auditor shall obtain audit evidence about operating effectiveness of those controls by -</p> <ul style="list-style-type: none"> • Obtaining Type 2 report, if available • Performing TOC at service org <p>Using another auditor to perform TOC at service org</p>
<p>Using Type 2 report as audit evidence</p> <p>If user auditor plans to use Type 2 report as audit evidence, user auditor shall determine whether service auditor's report provides SAAE about effectiveness of controls by -</p> <ul style="list-style-type: none"> • Evaluating whether description and operating effectiveness of controls at service org is at date or period • Determining whether complementary user entity controls are relevant and user entity has designed and implemented such controls &, if so, testing their operating effectiveness • Evaluating adequacy of time period covered by TOC & time elapsed since performed • Evaluating whether TOC performed by service auditor provide SAAE 	<p>Reporting by user auditor</p> <ul style="list-style-type: none"> • User auditor shall modify opinion in user auditor's report if user auditor is unable to obtain SAAE regarding services provided by Service Org • User auditor shall not refer to work of service auditor in user auditor's report containing unmodified opinion unless required by law or regulation • If such reference is required by law or regulation or If such reference is relevant to understanding of modification, user auditor's report shall indicate that such reference does not diminish user auditor's responsibility for that opinion
<p>Info regarding Sub-Service Organisation</p> <ul style="list-style-type: none"> • If service org uses sub-service org, service auditor's report may include (inclusive method) or exclude (carve out method) sub-service org controls in service org's description of its system • If Type 1 or Type 2 report excludes controls at sub-service org and services are relevant to user entity's FS, then apply this SA for sub-service org as well 	



SA 450 - Evaluation of Misstatements Identified during Audit

Misstatement is diff b/w ACPD of **reported FS item** & ACPD **required** for item as per **AFRF**

<p>Accumulation of misstatements</p> <ul style="list-style-type: none"> • Auditor shall accumulate misstatements identified during audit, other than those that are clearly trivial • When there is uncertainty about whether one or more items are clearly trivial, it is considered not to be clearly trivial <p>Auditor shall determine whether audit strategy and audit plan need to be revised if</p> <ul style="list-style-type: none"> • Nature of identified misstatements and circumstances of their occurrence indicate that other misstatements may exist that could be material or • Aggregate of misstatements accumulated during audit approaches materiality 	<p>Communication & correction of misstatements</p> <ul style="list-style-type: none"> • Auditor shall communicate on a timely basis all misstatements accumulated during audit with appropriate level of mgt, unless prohibited by law or regulation • Auditor shall request mgt to correct those misstatements • If Mgt corrects misstatements, auditor shall determine whether misstatements remains • If mgt refuses to correct some or all of misstatements communicated by auditor, auditor shall obtain understanding of mgt's reasons for not making corrections & shall take that understanding into a/c when evaluating whether FS are free from MM
<p>Evaluating effect of uncorrected misstatements</p> <ul style="list-style-type: none"> • Prior to evaluating effect of uncorrected misstatements, auditor shall reassess materiality to confirm whether it remains appropriate • Auditor shall determine whether uncorrected misstatements are material • In making this determination, auditor shall consider - <ul style="list-style-type: none"> • Size & Nature of misstatements • Effect of uncorrected misstatements related to prior periods 	<p>Communication with TCWG</p> <p>Auditor shall communicate with TCWG regarding uncorrected misstatements and effect that they may have on opinion in auditor's report and also effect of uncorrected misstatements related to prior periods</p> <p>Written Representation</p> <p>Auditor shall request WR from mgt and TCWG whether they believe effects of uncorrected misstatements are immaterial. A summary of such items shall be included in WR</p>

SA 500 - Audit Evidence

<p>Sufficiency (Quantity) & Appropriateness (Quality) of audit evidence</p> <p>Auditor's judgement as to sufficiency may be affected by factors such as -</p> <ul style="list-style-type: none"> • Materiality - Less evidence would be required in case assertions are less material to users of FS • ROMM - Less evidence would be required in case assertions that have a lower ROMM • Size & characteristics of population - Less evidence would be required in case of smaller, more homogeneous population • And vice versa for all 	<p>Appropriateness - Relevance and Reliability of audit evidence</p> <p>While there may be exceptions, following are generalisations about reliability of audit evidence, reliability of audit evidence increases when -</p> <ul style="list-style-type: none"> • It is obtained from independent sources outside entity • Generated internally, related controls imposed by entity are effective • It is obtained directly by auditor rather than evidence obtained indirectly • It is in documentary form, whether paper or electronic rather than evidence obtained orally • It is obtained as original docs rather than evidence obtained as photocopies
<p>Audit procedures to obtain audit evidence include</p> <ul style="list-style-type: none"> • Inquiry - It consists of seeking info of knowledgeable persons. Although inquiry may provide important audit evidence, inquiry alone does not provide SAAE of absence of MM at assertion level, nor of operating effectiveness of controls • Analytical Procedures - SA 520 • Observation - It consists of looking at process being performed by others • Reperformance - It involves auditor's independent execution of procedures that were originally performed as part of entity's IC • Inspection - It involves examining docs in detail for obtaining evidence • Recalculation - It consists of checking mathematical accuracy of docs or records • External Confirmation - SA 505 	<p>Mgt Expert</p> <p>Individual or organisation possessing expertise in field other than a/c or auditing, whose work is used by entity in preparing FS</p> <p>When info to be used as audit evidence has been prepared using work of Mgt's Expert & having regard to significance of expert's work for auditor's purposes, Auditor shall</p> <ul style="list-style-type: none"> • Evaluate competence, capabilities & objectivity of that expert • Obtain understanding of work of that expert • Evaluate appropriateness of that expert's work as audit evidence

Inconsistency in or Doubts over Reliability of Audit Evidence

If Auditor finds any inconsistency in audit evidence or have doubts over their reliability, he shall

- Consider **effect** of matter
- **Modify** audit **procedures**

Inventory	Litigation and Claims
<p>When inventory is material to FS, auditor shall obtain SAAE regarding existence & condition of inventory by</p> <ul style="list-style-type: none"> • Attendance at physical inventory counting, unless impracticable, to – <ul style="list-style-type: none"> ○ Evaluate Mgt’s instructions & procedures for recording results of physical inventory counting like – <ul style="list-style-type: none"> ▪ Procedures used to estimate physical quantities ▪ Existence of appropriate control activities ▪ Control over movement of inventory b/w areas & shipping & receipt of inventory before & after cut-off date ▪ Accurate identification of stage of completion of WIP of slow moving, obsolete or damaged ○ Observe performance of Mgt’s count procedures ○ Perform test counts to obtain SAAE – <ul style="list-style-type: none"> ▪ By tracing items selected from physical inventory to Mgt’s count records ▪ By obtaining copies of Mgt’s completed physical inventory count records ○ Inspect inventory to identify obsolete/damaged • Performing audit procedures over entity’s final inventory records to determine whether they accurately reflect actual inventory count results <p>Physical Inventory Counting Conducted other than at Date of FS</p> <ul style="list-style-type: none"> • If auditor is unable to attend inventory counting due to unforeseen circumstances, Auditor shall observe count on alternative date • Auditor shall perform audit procedures to obtain audit evidence about whether changes in inventory b/w count date and date of FS are properly recorded <p>Attendance at Physical Inventory Counting becomes impractical</p> <ul style="list-style-type: none"> • This may be due to factors such as nature and location of inventory • Auditor shall perform alternative audit procedures to obtain SAAE regarding existence and condition of inventory • If it is not possible to do so, auditor shall modify opinion • Matter of general inconvenience to auditor is not a valid reason for decision by auditor that attendance is impracticable 	<p>Auditor shall design & perform audit procedures in order to identify litigation & claims involving entity by</p> <ul style="list-style-type: none"> • Inquiry of Mgt & in- house legal counsel • Reviewing minutes of meetings of TCWG & correspondence B/w entity & external legal counsel • Reviewing legal expense account <p>Communication with Entity’s External Legal Counsel</p> <ul style="list-style-type: none"> • If Auditor assesses ROMM regarding Litigation or Claims or • Co. has not disclosed all material litigation cases • Auditor shall communicate through letter of inquiry prepared by Mgt & sent by auditor requesting entity’s external legal counsel to communicate directly with auditor • If L&R or legal professional body prohibits entity’s external legal counsel from communicating directly with auditor, auditor shall perform alternative audit procedures • If it is unlikely that external legal counsel will respond appropriately to letter of general inquiry, auditor may seek direct communication through letter of specific inquiry. Letter of specific inquiry includes – <ul style="list-style-type: none"> • A list of litigation & claims • Mgt’s assessment of outcome of each litigation & claims & its estimate of financial implications • A request that entity’s external legal counsel confirm reasonableness of mgt’s assessments & provide info if list is incomplete or incorrect <p>Meeting with Entity’s External Legal Counsel</p> <ul style="list-style-type: none"> • In certain circumstances, auditor may judge it necessary to meet with entity’s external legal counsel to discuss likely outcome of litigation or claims. This may be case, for e.g. where – <ul style="list-style-type: none"> ○ Matter is complex ○ Matter is a significant risk ○ There is disagreement b/w mgt & entity’s external legal counsel • Such meetings require mgt’s permission and are held with representative of mgt in attendance • Further if – <ul style="list-style-type: none"> ○ Mgt refuses to give auditor permission to communicate or meet with entity’s external legal counsel or ○ Entity’s external legal counsel refuses to respond appropriately to letter of inquiry, or is prohibited from responding &

<ul style="list-style-type: none"> • Matter of difficulty, time or cost involved is not itself a valid basis for auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive <p>When inventory under custody and control of third party</p> <p>If inventory is material to FS, auditor shall -</p> <ul style="list-style-type: none"> • Request confirmation from third party as to quantities and condition of inventory held on behalf of entity • Perform inspection or other procedures as appropriate in circumstances <p>If doubt is raised about integrity & objectivity of 3rd party, Auditor may perform following audit procedures -</p> <ul style="list-style-type: none"> • Requesting confirmation from other parties when inventory has been pledged as collateral • Inspecting documentation regarding inventory held by 3rd parties • Attending, or arranging for another auditor to attend, 3rd party's physical counting of inventory • Obtaining another auditor's report on adequacy of 3rd party's IC for inventory 	<ul style="list-style-type: none"> ○ Auditor is unable to obtain SAAE by performing alternative audit procedures ○ Auditor shall modify opinion in auditor's report as per SA 705 <p>Written representation from Mgt & TCWG</p> <ul style="list-style-type: none"> • All known actual or possible litigation & claims whose effects should be considered when preparing FS have been disclosed to auditor & • Appropriately accounted for & disclosed as per AFRF
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Segment Information

Auditor shall obtain SAAE regarding **presentation & disclosure** of segment info as per AFRF by -

- Obtaining **understanding of methods used by Mgt** in determining segment info, and –
 - Evaluating whether such methods are likely to result in **disclosure as per AFRF**
 - Where appropriate, **testing application** of such methods
 - **Eg of matters** relevant when obtaining above understanding include –
 - **Sales, transfers & charges** b/w segments, & elimination of inter segment amounts
 - **Comparisons with budgets** & expected results
 - **Consistency with prior periods**, & adequacy of disclosures for inconsistencies
 - **Allocation of assets** & costs among segments
- **Performing AP** or other procedures appropriate in circumstances

Audit Evidence obtained as **Direct Written Response** to Auditor from a **3rd Party**

<p>Positive confirmation request</p> <ul style="list-style-type: none"> • A request that confirming party respond directly to auditor indicating whether confirming party agrees or disagrees with info in request, or providing requested info • A response to positive confirmation request is expected to provide reliable audit evidence • However, there is a risk that confirming party may reply to confirmation request without verifying that info is correct • Auditor may reduce this risk by not stating amount on confirmation request, & ask confirming party to fill in amount • However, it may result in lower response rates because additional effort is required by confirming parties <p>Non-response</p> <p>A failure of confirming party to respond, to a positive confirmation request, or a confirmation request returned undelivered</p> <p>Exception</p> <p>Response that indicates a diff b/w info requested to be confirmed and info provided by confirming party</p>	<p>Negative confirmation request</p> <ul style="list-style-type: none"> • A request that confirming party respond directly to auditor only if confirming party disagrees with info provided in request • They provide less persuasive audit evidence than positive confirmations • Failure to receive response to negative confirmation request does not explicitly indicate receipt by intended confirming party of confirmation request or verification of accuracy of info contained in request • Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when info in request is not in their favour, and less likely to respond otherwise • Accordingly, auditor shall not use negative confirmation requests as sole substantive audit procedure to address an assessed ROMM unless ALL of following are present – <ul style="list-style-type: none"> ○ Auditor has assessed ROMM as low and has obtained SAAE regarding operating effectiveness of controls ○ A very low exception rate is expected ○ Population comprises a large number of small & homogeneous items ○ Auditor is not aware of circumstances that would cause recipients of negative confirmation to disregard such requests
<p>Mgt’s refusal to allow auditor to send confirmation request</p> <p>If mgt refuses to allow auditor to send a confirmation request, auditor shall -</p> <ul style="list-style-type: none"> • Inquire as to mgt’s reasons for refusal, and seek audit evidence as to their validity and reasonableness • Evaluate implications of mgt’s refusal on auditor’s assessment of ROMM, including risk of fraud • Perform alternative audit procedures designed to obtain relevant and reliable audit evidence • If auditor concludes that mgt’s refusal to allow auditor to send confirmation request is unreasonable, or • Auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures • Auditor shall communicate with TCWG as per SA 260 • Auditor also shall determine implications for auditor’s opinion as per SA 705 	<p>Results of External Confirmation procedures</p> <ul style="list-style-type: none"> • Reliability of responses to confirmation requests - If auditor has doubt about reliability of response, auditor to obtain further audit evidence. If auditor determines response is not reliable, auditor to evaluate implications on assessment of ROMM Factors that may indicate doubts about reliability <ul style="list-style-type: none"> ○ It was received by auditor indirectly or ○ It appears not to come from originally intended confirming party • Non-Response - Auditor shall perform alternative audit procedures • When a response to positive confirmation is necessary and same is not received - Determine implications on audit and auditor’s opinion • Exception - Auditor shall investigate exceptions to determine whether or not they are indicative of misstatement

Opening Balances include **FS amounts** & **disclosure** at beginning of period, such as contingencies and commitments

<p>Initial audit engagement</p> <p>It refers to engagement in which either -</p> <ul style="list-style-type: none"> • FS for prior period were not audited or • FS for prior period were audited by predecessor auditor <p>Predecessor Auditor</p> <p>Auditor from a diff audit firm, who audited FS of entity in prior period</p> <p>Objective of Auditor with respect to Opening Balances</p> <p>In conducting initial audit engagement, objective of auditor is to obtain SAAE about whether -</p> <ul style="list-style-type: none"> • Opening balances contain misstatements that materially affect current period’s FS • Appropriate A/c policies reflected in opening balances have been consistently applied in current period’s FS, or changes thereto are accounted and disclosed as per AFRF 	<p>Obtaining SAAE about opening balances by Auditor by</p> <ul style="list-style-type: none"> • Determining whether opening balances reflect application of appropriate A/c policies • Determining whether prior period’s closing balances have been correctly brought forward to current period or any adjustments have been disclosed as prior period items in current year’s P/L • Performing one or more of following – <ul style="list-style-type: none"> ○ Where prior year FS were audited, reading audited FS ○ Evaluating whether audit performed in current period provide evidence about opening balances ○ Performing specific audit procedures to obtain evidence regarding opening balances ○ Eg Procedures for Opening Inventory – <ul style="list-style-type: none"> ▪ Observing current physical inventory count & reconciling it to opening inventory quantities ▪ Performing procedure on gross profit & cut-off ▪ Performing procedures on valuation of opening inventory items
<p>Prior Period FS audited by Predecessor Auditor</p> <ul style="list-style-type: none"> • When FS for preceding period were audited by predecessor auditor, current auditor may be able to obtain SAAE regarding opening balances by perusing copies of audited FS of prior period • Current auditor can place reliance on closing balances contained in FS for preceding period, except when during current period, possibility of misstatements in opening balances is indicated 	<p>Modification in Predecessor Auditor’s Report</p> <ul style="list-style-type: none"> • If there was Modification in Predecessor Auditor’s Report, auditor shall evaluate effect of matter giving rise to modification wrt current period’s FS • If modification is relevant & material to current period’s FS, auditor shall modify auditor’s opinion on current period’s FS as per SA 705
<p>Communication with Mgt & TCWG</p> <ul style="list-style-type: none"> • If auditor obtains audit evidence that opening balances contain misstatements • Auditor shall perform additional procedures to determine effect on current period’s FS. • If auditor concludes that such misstatements exist in current period’s FS, auditor shall communicate misstatements with Mgt & TCWG 	<p>Consistency of A/c Policies relating to opening balances</p> <p>If auditor concludes that -</p> <ul style="list-style-type: none"> • Current period’s a/c policies are not consistently applied in opening balances as per AFRF • Change in a/c policies is not properly accounted or disclosed as per AFRF, • Auditor shall express a qualified or adverse opinion as per SA 705
<p>Reporting by auditor with regard to opening balances</p> <ul style="list-style-type: none"> • If auditor is unable to obtain SAAE regarding opening balances, auditor shall express a qualified or disclaimer of opinion, as per SA 705 • If auditor concludes that opening balances contain a misstatement that materially affects current period’s FS, and effect of misstatement is not properly accounted or not disclosed, auditor shall express a qualified or adverse opinion as per SA 705 	

AP means evaluations of financial info through **analysis of plausible (logical) relationships** among both financial and non-financial data

<p>AP used as Substantive Tests</p> <p>When designing & performing AP as substantive procedures as per SA 330, auditor shall -</p> <ul style="list-style-type: none"> • Determine suitability of particular AP taking a/c of ROMM & TOD • Evaluate reliability of data from which auditor’s expectation is developed • Develop expectation of recorded amounts & evaluate whether expectation is sufficiently precise to identify MM • Determine amount of any diff of recorded amounts from expected values that is acceptable without further investigation 	<p>Suitability of Particular AP for Given Assertions</p> <ul style="list-style-type: none"> • AP are generally more applicable to large volumes of transactions that tend to be predictable over time • It also depends upon auditor’s assessment of how effective it will be in detecting MM • Different types of AP provide different levels of assurance • It is also influenced by nature of assertion & auditor’s assessment of ROMM • Particular AP may also be considered suitable when TODs are performed on same assertion
<p>Reliability of Data</p> <p>When determining whether data is reliable for purposes of designing AP, Factor determining extent of reliance are -</p> <ul style="list-style-type: none"> • Nature & relevance of info available • Source of info available. For e.g., more reliable when obtained from independent sources • Controls over preparation of info that are designed to ensure its completeness, accuracy & validity • Comparability of info available 	<p>Investigating results of AP</p> <p>If AP identify fluctuations or relationships that are inconsistent with other info or that differ from expected values by a significant amount, auditor shall investigate such differences by -</p> <ul style="list-style-type: none"> • Inquiring of mgt & obtaining appropriate audit evidence relevant to mgt’s responses • Performing other audit procedures as necessary in circumstances – <ul style="list-style-type: none"> ○ When mgt is unable to provide explanation or ○ Explanation, together with audit evidence obtained relevant to Mgt’s response, is not considered adequate

Audit Sampling - It refers to application of audit **procedures to less than 100%** of items within a population such that all sampling units have an **equal chance of selection** to provide reasonable basis for conclusion about entire population

Tolerable misstatement – Monetary amount set by auditor in respect of which auditor seeks to obtain appropriate level of **assurance that monetary amount is not exceeded by actual misstatement** in population

Tolerable rate of deviation – Rate of deviation from prescribed IC set by auditor in respect of which auditor seeks to obtain appropriate level of **assurance that it is not exceeded by actual rate of deviation** in population

Anomaly is **misstatement or deviation** that is **not representative** of misstatements or deviations in **population**

<p>Approaches to Sampling (Types of Sampling)</p> <ul style="list-style-type: none"> • Statistical sampling is approach to sampling that has random selection of sample units; and use of probability theory to evaluate sample results. • In larger organisations, with huge transactions, statistical sampling is always recommended as it is unbiased, and samples selected are not prejudged • Non-Statistical Sampling - Sampling on the basis of personal experience and knowledge of auditor <p>Sample must be representative</p> <ul style="list-style-type: none"> • Whatever is the approach, non-statistical or statistical, sample must be representative • This means that it must be closely similar to whole population although not necessarily exactly same 	<p>Types of Risks in Sampling</p> <ul style="list-style-type: none"> • Sampling risk - is risk that auditor's conclusion based on sample may be diff from conclusion if entire population were subjected to same audit procedure. • It means that sample was not representative of population. It leads to 2 types of erroneous conclusions – <ul style="list-style-type: none"> ○ In case of TOC, that controls are more effective than they actually are, or in case of TOD, that MM does not exists when in fact it does ○ Auditor is concerned with this type of erroneous conclusion because it affects audit effectiveness & is more likely to lead to inappropriate audit opinion ○ In case of TOC, controls are less effective than they actually are, or in case of TOD, that MM exists when in fact it does not ○ This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect • Non-sampling risk - is risk that auditor reaches an erroneous (wrong) conclusion for any reason not related to sampling risk
<p>Sample Size</p> <p>Auditor shall determine sample size sufficient to reduce sampling risk to an acceptably low level. The lower the risk the auditor is willing to accept, the greater the sample size will need to be</p> <p>Eg of Factors Influencing Sample Size –</p> <ul style="list-style-type: none"> • Greater the reliance, auditor places on operating effectiveness of controls, greater is the extent of auditor’s TOC or Higher the auditor’s assessment of ROMM, larger the sample size needs to be • When stratification of population is appropriate then sample size will decrease 	<p>Sample Selection Methods</p> <ul style="list-style-type: none"> • Random Sampling - Random selection ensures that all items in population have a known chance of selection. It includes two methods which are – <ul style="list-style-type: none"> ○ Simple Random Sampling - Under this method each unit of whole population has an equal chance of being selected. It is suitable for a homogeneous population having a similar range ○ Stratified Sampling - Dividing heterogeneous population into homogeneous sub population, where samples are drawn from each sub population. Each sub-population is called stratum and units under those sub-population are called strata • Interval or Systematic Sampling – In this, number of sampling units in population is divided by sample

<ul style="list-style-type: none"> • If there is an increase in tolerable rate of deviation/ tolerable misstatement, then sample size will decrease • Higher the expected rate of deviation/ expected misstatements, larger the sample size needs to be • An increase in auditor's desired level of assurance that tolerable rate of deviation/ tolerable misstatements is not exceeded by actual rate of deviation/ actual misstatements, will increase the sample size • There will be negligible effect on sample size due to increase in number of sampling units in population 	<p>size to give a sampling interval, for e.g. 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Auditor would need to determine that sampling interval does not correspond with a particular pattern in population. To minimise such risk, more than 1 starting points may be taken</p> <ul style="list-style-type: none"> • Monetary Unit Sampling - It is a type of value-weighted selection. It identifies sampling unit as individual monetary units that make up population. Audit effort is directed to larger value items because they have a greater chance of selection, and can result in smaller sample sizes • Haphazard sampling - In this, auditor selects sample without following a structured technique. It is not appropriate when using statistical sampling • Block Sampling - It involves selection of a block(s) of contiguous (adjacent) items from population. It cannot ordinarily be used because a sequence in population can be expected to have similar characteristics to each other, but diff characteristics from items elsewhere in population
<p>Performing Audit Procedures</p> <ul style="list-style-type: none"> • Auditor shall perform audit procedures on each item selected • If audit procedure is not applicable to selected item, auditor shall perform procedure on a replacement item • If auditor is unable to apply audit procedures or alternative procedures to a selected item, auditor shall treat that item as deviation from prescribed control, in case of TOC or misstatement in case of TOD 	<p>Projecting Misstatements</p> <ul style="list-style-type: none"> • Auditor is required to project misstatements to obtain a broad view of scale of misstatement • When a misstatement has been established as anomaly, it may be excluded when projecting misstatements. However, if uncorrected, still need to be considered in addition to projection of non-anomalous misstatements • For TOD, auditor shall project misstatements found in sample to population whereas for TOC, no explicit projection of deviations is necessary since sample deviation rate is also projected deviation rate for population as a whole
<p>Nature & Cause of Deviations & Misstatements –</p> <ul style="list-style-type: none"> • Auditor shall investigate nature & cause of deviations or misstatements & evaluate their possible effect • In extremely rare circumstances, when auditor considers misstatement or deviation to be an anomaly, auditor shall obtain high degree of certainty that such misstatement or deviation is not representative of population 	<p>Evaluating Results of Audit Sampling - Auditor shall evaluate</p> <ul style="list-style-type: none"> • Results of sample • Whether use of audit sampling has provided a reasonable basis for conclusions about population <p>If auditor concludes that sampling has not provided reasonable basis for conclusions about population that has been tested, auditor may -</p> <ul style="list-style-type: none"> • Request Mgt to investigate misstatements that have been identified & potential for further misstatements or • Tailor NTE of FAP to achieve required assurance

<p>Related Party</p> <p>A party that is either -</p> <ul style="list-style-type: none"> • A RP as defined in AFRF or • Where AFRF establishes minimal or no RP requirements – <ul style="list-style-type: none"> ○ A person or entity that has control or significant influence, directly or indirectly through one or more intermediaries, over reporting entity ○ Another entity over which reporting entity has control or significant influence, directly or indirectly through one or more intermediaries ○ Another entity that is under common control with reporting entity through having – <ul style="list-style-type: none"> ▪ Common controlling ownership ▪ Owners who are close family members ▪ Common Key Mgt <p>However, entities that are under common control by a state (i.e. national, regional or local Govt) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another</p>	<p>Meaning of control and significant influence</p> <ul style="list-style-type: none"> • Control is power to govern financial and operating policies of an entity • Significant influence is power to participate in financial and operating policy decisions of entity, but is not control over those policies <p>Whether FRF establishes A/c & Disclosure requirements for RP relationships, transactions & balances</p> <ul style="list-style-type: none"> • If Yes, Auditor shall perform audit procedures to identify, assess & respond to ROMM from entity's failure to appropriately account for or disclose RP relationships, transactions & balances • If No, Auditor should obtain understanding of RP relationships and transactions to conclude whether FS give true & fair view & are not misleading
<p>Engagement team discussion while understanding Entity's RP Relationships shall include susceptibility of FS to MM</p> <ul style="list-style-type: none"> • Nature & extent of entity's relationships & transactions with RP • Records that may indicate existence of RP relationships or transactions • Circumstances that may indicate existence of RP that Mgt has not disclosed to auditor • An emphasis on importance of maintaining professional skepticism • Importance that Mgt & TCWG attach to appropriate A/cing for of RP relationships & transactions 	
<p>Identification of previously unidentified or undisclosed RP transactions</p> <ul style="list-style-type: none"> • Auditor shall determine whether circumstances confirm existence of such transactions • Communicate within team • Reconsider risks with respect to other related parties • Request Mgt to identify all transactions with newly identified RP • Perform more substantive procedures • If non-disclosure by Mgt appears intentional, evaluate implications for audit 	<p>Identified significant RP transactions outside entity's normal course of business</p> <ul style="list-style-type: none"> • Inspect underlying contracts & evaluate – <ul style="list-style-type: none"> ○ Business rationale of transactions ○ Whether terms of transactions are consistent with Mgt's explanations ○ Whether such transactions have been properly accounted for • Obtain audit evidence that transactions have been appropriately authorised & approved
<p>Written Representation</p> <ul style="list-style-type: none"> • All RP & transactions have been disclosed to auditor • All such transactions have been properly accounted for and disclosed in FS 	<p>Communication with TCWG</p> <p>Auditor shall communicate with TCWG significant matters arising during audit in connection with entity's RP</p>
<p>Documentation - Names of RP & Nature of RP transactions</p>	

SA 540 - Auditing Accounting Estimates (AE), Including Fair Value (FV) AE & Related Disclosures

<p>RAP for AE (Minimizing ROMM)</p> <p>Auditor shall obtain below understanding -</p> <ul style="list-style-type: none"> • How Mgt identify those transactions, events or conditions that give rise to need for AE <p>Inquiries of Mgt about changes in circumstances that may give rise to need for AE may include inquiries about whether -</p> <ul style="list-style-type: none"> ○ Entity has new types of transactions ○ Terms of transactions have changed ○ A/c policies for A/c AE have changed ○ Regulatory changes outside control of Mgt ○ New conditions or events have occurred <ul style="list-style-type: none"> • How Mgt makes AE - Including - <ul style="list-style-type: none"> ○ Method & model, used in making AE ○ Whether there is change from prior period in methods for making AE & if so, why ○ Whether Mgt has used expert ○ Relevant controls ○ Assumptions underlying AE ○ Whether & how Mgt has assessed effect of estimation uncertainty • Requirements of AFRF relevant to AE 	<p>Responses to Assessed ROMM (FAP)</p> <ul style="list-style-type: none"> • Auditor shall determine - <ul style="list-style-type: none"> ○ Whether Mgt has applied AFRF for AE ○ Whether methods for making AE are appropriate & are applied consistently ○ Changes in AE or methods from prior period, are appropriate in circumstances • In response to assessed ROMM, auditor shall undertake following - <ul style="list-style-type: none"> ○ Test check data used for making AE ○ Determine if events occurring up to date of auditor's report provide SAAE for AE ○ Evaluate if method used for measurement is appropriate & assumptions made by Mgt are reasonable ○ This can be achieved by - <ul style="list-style-type: none"> ▪ Testing control effectiveness over AE ▪ Testing whether data on which AE is based is accurate, complete & relevant ▪ Considering source, relevance & reliability of external data ▪ Recalculating & reviewing Info about AE
<p>AE that give rise to Significant Risks</p> <p>In addition to SA 330, auditor shall evaluate -</p> <ul style="list-style-type: none"> • How Mgt has considered alternative assumptions & why it has rejected them • If significant assumptions are reasonable • Mgt's intent for specific action & its ability • If Mgt has not adequately addressed effects of estimation uncertainty on AE of significant risks, auditor shall develop range with which to evaluate reasonableness of AE 	<p>Degree of Estimation Uncertainty - Varies Based on</p> <ul style="list-style-type: none"> • Nature of AE • Extent of generally accepted method • Subjectivity of assumptions used to make AE <p>Evaluation of Outcome of AE</p> <ul style="list-style-type: none"> • Diff B/w outcome of AE & amount originally disclosed in FS does not necessarily represent misstatement in FS • Particularly for FV AE, as outcome is affected by subsequent events
<p>AE of Prior Period</p> <ul style="list-style-type: none"> • Auditor shall review AE of prior period, or, their re-estimation for current period, taking A/c of nature of AE & whether Info 	<p>Disclosures Related to AE</p> <ul style="list-style-type: none"> • Auditor shall obtain SAAE about whether disclosures in FS are as per AFRF

<p>obtained from review is relevant to identify & assess ROMM of AE made in current period</p> <ul style="list-style-type: none"> • Outcome of AE will differ from AE recognised in prior period. By performing RAP to identify & understand reasons for such differences, auditor may obtain - <ul style="list-style-type: none"> ○ Info of effectiveness of Mgt's prior period estimation process to judge likely effectiveness of current process ○ Audit evidence for re-estimation, in current period, of prior period AE ○ Audit evidence of matters, such as estimation uncertainty to disclose in FS • Review of prior period AE may also assist auditor, to identify situations that increase susceptibility of AE to possible Mgt bias • Auditor's professional skepticism assist to identify circumstances & assess NTE of FAP • However, review does not question judgments made in prior periods that were based on Info available at that time 	<ul style="list-style-type: none"> • For AE having significant risk, also about disclosure of its estimation uncertainty in FS <p>Presentation of FS includes below disclosure</p> <ul style="list-style-type: none"> • Method & Model of estimation used • Any changes in method of estimation from prior period & its subsequent effect • Assumptions used • Basis for selection of estimation • Sources of estimation uncertainty • For AE having significant risk, even if disclosures are as per AFRF, auditor may conclude that disclosure of estimation uncertainty is inadequate <p>Written Representations Whether Mgt & TCWG believe significant assumptions used in making AE are reasonable</p> <p>Documentation of AE</p> <ul style="list-style-type: none"> • Basis for conclusions for reasonableness of AE & disclosure giving rise to significant risks • Indicators of possible Mgt bias, if any
<p>Low estimation uncertainty & lower ROMM AE</p> <ul style="list-style-type: none"> • Entities not having complex business activity • FV AE where method is simple & easy • AE from data that is readily available • FV AE where model is well-known/generally accepted • AE are frequently made & updated as they relate to routine transactions 	<p>High estimation uncertainty AE</p> <ul style="list-style-type: none"> • AE relating to outcome of litigation • FV AE for derivative financial instruments not publicly traded • FV AE for which highly specialised entity-developed model is used or assumptions or inputs that cannot be observed in marketplace
<p>Eg of AE, other than FV AE are</p> <ul style="list-style-type: none"> • Warranty obligations • Outcome of long-term contracts • Inventory obsolescence • Allowance for doubtful A/c • Provision against carrying amount of investment • Depreciation method or asset useful life • Financial Obligation/Cost from litigation 	<p>Eg of FV AE are (IND AS)</p> <ul style="list-style-type: none"> • Share-based payments (102) • Asset/liability in business combination (103) • Property or equipment held for disposal (105) • Complex financial instruments, which are not traded in active & open market (109) • Transactions involving exchange of assets or liabilities b/w independent parties without monetary consideration (16)



SA 560 – Subsequent Events

Subsequent Events - Events occurring **b/w date of FS & date of report & facts** that become known to auditor **after date of report**

FRFs identify two types of such events

- Events providing evidence of **conditions that existed at date of FS**. Eg. Insurance Claim Settled
- Events providing evidence of conditions that **arose after date of FS**. Eg. Dividend

<p>Objectives of Auditor</p> <ul style="list-style-type: none"> • To Obtain SAAE about whether subsequent events that require adjustment or disclosure in FS are appropriately reflected in FS • To Respond appropriately to facts that become known to auditor after date of report, that, had they been known to auditor at that date, may have caused auditor to amend report 	<p>Procedures for Events B/w FS & Report Date</p> <ul style="list-style-type: none"> • Inquiring Mgt & TCWG if subsequent events have occurred affecting FS • Obtain understanding of Mgt procedures to ensure that subsequent event are identified • Reading minutes of meetings, of owners, Mgt & TCWG held after date of FS • Reading entity's latest subsequent interim FS • Requesting Mgt & TCWG to provide WR that all subsequent event are adjusted or disclosed
<p>Facts that is known to auditor after date of report but before date FS are issued (Case 1)</p>	<p>Facts which become known to auditor after FS have been issued (Case 2)</p>
<p>Auditor has no obligation to perform any procedures after date of report. When after date of report, fact is known to auditor that may have caused him to amend report, auditor shall -</p> <ul style="list-style-type: none"> • Discuss matter with Mgt & TCWG • Determine if FS need amendment &, if so • Inquire how Mgt intends to address matter in FS <p>Situation 1 - If Mgt amends FS, auditor shall -</p> <ul style="list-style-type: none"> • Carry out procedures on amendment • Extend procedures to date of new report • Provide new report on amended FS not dated earlier than date of approval of amended FS • Review Mgt steps that anyone in receipt of FS & report is informed of situation (Case 2 only) • Include in new or amended report EOM or OM para for reason for amendment (Case 2 only) <p>Situation 2 - When L&R or FRF does not prohibit (allows) Mgt from restricting amendment to subsequent events, auditor is permitted to restrict procedures to amendment. Auditor shall either -</p> <ul style="list-style-type: none"> • Amend report to include additional date that indicates procedures are restricted solely to amendment of FS described in note to FS or • Provide new or amended report that includes EOM or OM para that procedures on subsequent events are restricted solely to amendment of FS as described in note to FS 	
<p>If Mgt does not amend FS when auditor requires</p> <ul style="list-style-type: none"> • If report is not provided to entity, auditor shall modify opinion & then provide report or • If report is provided, notify Mgt & TCWG, not to issue FS & If issued without amendments, auditor shall take appropriate action to prevent reliance on report 	<ul style="list-style-type: none"> • If Mgt does not take necessary steps to ensure that anyone in receipt of previously issued FS is informed & does not amend FS when auditor requires • Auditor shall notify Mgt & TCWG, that auditor will seek to prevent future reliance on report

Going Concern is **fundamental a/c assumption**. FS are prepared on basis that entity is GC & will continue its **operations for foreseeable future**, Unless Mgt intends to **liquidate** entity or to **cease operations** or has **no realistic alternative** but to do so (in which case, **FS** are prepared on **liquidation basis**)

<p>Responsibility for assessment of entity's ability to continue as GC</p> <ul style="list-style-type: none"> • Mgt has to assess entity's ability to continue as GC even if FRF does not include explicit requirement. Mgt's assessment involves making judgment, about uncertain future outcomes of events <p>Responsibilities/Objectives of auditor</p> <ul style="list-style-type: none"> • To obtain SAAE for appropriateness of Mgt's use of GC • To conclude if material uncertainty exists about entity's ability to continue as GC • These responsibilities exist even if FRF does not include explicit requirement for Mgt to make assessment of GC • However, absence of reference to material uncertainty in report cannot be viewed as guarantee as to entity's ability to continue as GC 	<p>Risk assessment procedures</p> <p>Auditor shall determine if Mgt has already performed assessment of GC & -</p> <ul style="list-style-type: none"> • If such assessment is performed, auditor shall discuss it with Mgt & how Mgt plans to address such events or conditions • If such assessment is not yet performed, auditor shall discuss with Mgt, basis for use of GC & whether events or conditions exists <p>Evaluating Mgt's Assessment</p> <p>It is not auditor's responsibility to rectify lack of analysis by Mgt. Lack of assessment by Mgt may not, in some cases, prevent auditor from concluding whether Mgt's use of GC is appropriate. Evaluating Mgt's assessment may include -</p> <ul style="list-style-type: none"> • Mgt's plans for future action & if its feasible • Evaluating Mgt process to make assessment • Assumptions on which assessment is based • If Mgt's assessment covers < 12 months from date of FS, auditor shall request Mgt to extend its assessment to at least 12 months
<p>Additional procedures when events or conditions are identified</p> <p>Auditor shall obtain SAAE to determine if material uncertainty exist that cast significant doubt on entity ability to continue as GC including-</p> <ul style="list-style-type: none"> • Where Mgt has not yet performed assessment, requesting Mgt to assess • Evaluating Mgt's future plans & if its feasible • Where entity has prepared cash flow forecast & analysis of forecast is significant- <ul style="list-style-type: none"> ○ Evaluating reliability of underlying data ○ Determine adequate support for assumption • Considering if additional info are available since date when Mgt made its assessment • Requesting WR from Mgt & TCWG, regarding their plans for future actions 	<p>Disclosures when events or conditions have been identified & material uncertainty exists</p> <p>Auditor shall determine whether FS -</p> <ul style="list-style-type: none"> • Adequately disclose such events or conditions & Mgt's plans to deal with them • Disclose clearly that there is material uncertainty related to events or conditions • Above Disclosures include - <ul style="list-style-type: none"> ○ Mgt's evaluation of significance of events of entity's ability to meet its obligations ○ Significant judgments by Mgt as part of assessment of ability to continue as GC ○ Magnitude of potential impact of event or condition, likelihood & timing of occurrence <p>Disclosures when events or conditions have been identified but no material uncertainty exists</p> <p>Auditor shall evaluate if FS provide adequate disclosures about these events or conditions</p>

<p>Communication with TCWG Events or conditions identified that may cast significant doubt on entity's ability to continue as GC</p> <p>Significant Delay in Approval of FS</p> <ul style="list-style-type: none"> • If there is delay in approval of FS after date of FS, auditor shall inquire as to reasons for delay. • If auditor believes that delay is related to events or conditions of GC assessment, auditor shall perform above additional procedures & consider effect on auditor's conclusion 	
<p><u>Implications for auditor's report</u></p>	
<ul style="list-style-type: none"> • Mgt unwilling to make or extend its assessment - Qualified or Disclaimer of opinion • If use of GC basis is inappropriate - If FS have been prepared using GC but, in auditor's judgment, Mgt's use of GC is inappropriate, auditor shall express adverse opinion (irrespective of whether Mgt has itself disclosed about this inappropriateness) • If use of GC is appropriate but material uncertainty exists - (2 Cases as Below) 	
<p>Case 1 - Adequate Disclosure of Material Uncertainty is made in FS Express unmodified opinion & report shall include separate section under heading "Material Uncertainty Related to GC" to -</p> <ul style="list-style-type: none"> • Draw attention to note in FS that discloses such matters • State that these events or conditions indicate that material uncertainty exists & auditor's opinion is not modified for matter 	<p>Case 2 - Adequate Disclosure of Material Uncertainty is Not Made in FS</p> <ul style="list-style-type: none"> • Express qualified opinion or adverse opinion • In Basis for Qualified (Adverse) Opinion section, state that material uncertainty exists & that FS do not adequately disclose this matter
<p><u>Eg of events or conditions that may cast significant doubt on entity's ability to continue as GC</u></p>	
<p>Financial events or conditions</p> <ul style="list-style-type: none"> • Net liability or net current liability position • Fixed-term borrowings approaching maturity without prospects of renewal or reliance on short-term borrowings for long-term assets • Inability to comply with terms of loan • Indications of withdrawal of financial support by creditors • Inability to pay creditors on due dates • Inability to obtain financing for new product development or other essential investments • Negative operating cash flows indicated by historical or prospective FS • Adverse key financial ratios 	<p>Operating events or conditions</p> <ul style="list-style-type: none"> • Mgt intention to liquidate/to cease operations • Loss of key mgt without replacement • Labour difficulties • Shortages of important supplies • Loss of major market, key customer(s), franchise, license, or principal supplier(s) • Emergence of a highly successful competitor <p>Other events or conditions</p> <ul style="list-style-type: none"> • Changes in law or regulation expected to adversely affect entity • Non-compliance with regulatory requirements • Pending legal proceedings that may result in claims, entity is unlikely to be able to satisfy • Uninsured or underinsured catastrophes

WR is **written statement** by Mgt provided to auditor to **confirm certain matters** or to **support** other audit evidence. It do not include FS, assertions or supporting books

WR as audit evidence

- WR is **necessary evidence**. If auditor has **obtained WR** about a specific assertion **during audit**, it may be necessary to **request updated WR**
- Although WR provide audit evidence, they **do not provide SAAE on their own**. Fact that Mgt has provided reliable WR **does not affect nature of audit evidence** that auditor obtains

<p>WR about Mgt's responsibilities - involves -</p> <ul style="list-style-type: none"> • Preparation of FS - Mgt may include qualifying language that WR is to best of its knowledge & belief. Auditor may accept, if he is satisfied that WR is made by those with appropriate responsibilities & knowledge • Info provided & completeness of transactions - Auditor shall WR that - <ul style="list-style-type: none"> ○ Mgt has provided auditor with all info & access as agreed in terms of engagement ○ All transactions have been recorded & are reflected in FS <p>Why WR for Mgt responsibilities are necessary? Evidence obtained during audit is not sufficient without confirmation from Mgt. Because auditor is not able to judge solely on other evidence if Mgt has fulfilled its responsibility Auditor may ask Mgt to reconfirm acknowledgement & understanding of those responsibilities in WR in subsequent years when -</p> <ul style="list-style-type: none"> • Terms were prepared in previous year • Changes in circumstances • Those who signed terms of engagement no longer have relevant responsibilities • There is any indication that Mgt misunderstands those responsibilities <p>Description of Mgt's responsibilities in WR It should be in manner same as these are described in terms of engagement</p>	<p>Date of WR</p> <ul style="list-style-type: none"> • Date shall be as near as practicable to, but not after, date of report on FS • Because WR is necessary evidence, report cannot be dated, before date of WR • Because auditor is concerned with events occurring up to date of report <p>Period covered by WR</p> <ul style="list-style-type: none"> • WR shall be for all FS period as Mgt needs to reaffirm that WR it made remain appropriate • When current Mgt was not present during all periods. This fact does not diminish responsibilities for FS as a whole • Accordingly, above requirement still applies <p>Form of WR</p> <ul style="list-style-type: none"> • WR shall be rep letter addressed to auditor • If L&R requires Mgt to make written public statements & auditor determines that such statements provide WR required for Mgt responsibilities, then they need not be included in representation letter <p>Doubt as to reliability of WR</p> <ul style="list-style-type: none"> • If WR is inconsistent with other evidence, auditor shall attempt to resolve matter • If matter remains unresolved, auditor shall reconsider assessment of competence, integrity, ethical values of Mgt & effect on reliability of WR & audit evidence in general • If auditor conclude that WR is not reliable, auditor shall take appropriate actions, including Disclaimer of opinion
<p>Requested WR not provided - Auditor shall -</p> <ul style="list-style-type: none"> • Discuss matter with Mgt • Re-evaluate integrity of Mgt & effect on reliability of WR & audit evidence in general • Take appropriate actions, including requirement of disclaimer of opinion 	

SA 600 – Using Work of Another Auditor

- When auditor uses work performed by other auditors, he is **responsible for opinion on FS**
- However, he is entitled to **rely on work** performed by others, provided he **exercises skill & care** & is not aware of any reason to believe that he should not have so relied
- Joint auditor (**SA 299**) & Predecessor auditor (**SA 510**) **not included** in SA 600

<p>Principal Auditor's Procedures Procedures to obtain SAAE that work of other auditor is adequate for purposes -</p> <ul style="list-style-type: none"> • Advise other auditor for use of his work & make arrangements for co-ordination at planning stage of audit. Inform below matters <ul style="list-style-type: none"> ○ Procedures for identification of inter-component transaction for disclosure ○ Areas requiring special consideration ○ Time-table for completion of audit • Advise other auditor of significant A/cing, auditing & reporting requirements & obtain representation as to compliance with them <p>Other Procedures</p> <ul style="list-style-type: none"> • Right to visit & examine BOA of component • Consider professional competence of other auditor, unless he is member of ICAI • Review written summary of his procedures • Consider significant findings of other auditor <p>Documentation</p> <ul style="list-style-type: none"> • Components whose FS audited by other auditors, procedures performed & conclusions • Results of discussions with other auditor & review of written summary of his procedures • When other auditor's report is modified, principal auditor should document how he has dealt with qualifications in framing his report • Principal auditor need not document reasons for limiting procedure when SAAE is obtained that QCS is complied by other auditor 	<p>Acceptance as Principal Auditor - consider -</p> <ul style="list-style-type: none"> • Principal auditor's knowledge of business of components • ROMM in financial info of components • Materiality of portion of financial info which principal auditor audits • Performance of additional procedures for components resulting in principal auditor having significant participation in such audit <p>Division of Responsibility</p> <ul style="list-style-type: none"> • Principal auditor is not responsible for work of other auditor, except when situations should have aroused his suspicion • When principal auditor has to base his opinion relying upon reports of other auditors, his report should state clearly division of responsibility by indicating extent to which FS of components is included in FS of entity • If Principal Auditor notices any material discrepancy, it should be brought to knowledge of other Auditor <p>Reporting Considerations</p> <ul style="list-style-type: none"> • When work of other auditor cannot be used & principal auditor cannot perform additional procedures on component then he should express qualified or disclaimer of opinion due to limitation on scope of audit • If other auditor issues Modified Report - Principal auditor should consider if modification is of nature & significance for FS of entity that it requires modification of principal auditor's report
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<p>Co-ordination Between Auditors</p> <ul style="list-style-type: none"> • Sufficient liaison B/w principal auditor & other auditor • Principal auditor should advise other auditor of matters having important bearing on his work • Other auditor should co-ordinate with principal auditor • Principal auditor may require other auditor to answer detailed questionnaire • Other auditor should respond to such questionnaire on timely basis
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SA 610- Using work of Internal Auditors (IA)

<p>External Auditor’s (EA) Responsibility for Audit</p> <ul style="list-style-type: none"> EA has sole responsibility for audit opinion & it is not reduced by using Internal Audit Function (IAF) or IAs to provide direct assistance, as they are not independent of entity 	<p>Objectives of EA, where entity has IAF</p> <ul style="list-style-type: none"> To determine whether work of IAF or Direct Assistance from IAs can be used If using work of IAF, to determine whether that work is adequate for purposes of audit If using IAs to provide direct assistance, appropriately Direct, Supervise & Review (DSR) their work
<p>Evaluating whether work of IAF can be used for Audit (Cannot be used – Vice Versa)</p> <ul style="list-style-type: none"> Extent to which IAF’s organizational status & policies & procedures support objectivity of IAs Level of competence of IAF Whether IAF apply systematic & discipline approach 	<p>Nature & Extent of Work of IAF that can be used</p> <ul style="list-style-type: none"> EA shall consider nature & scope of work performed by IAF. Work of IAF that can be used include - <ul style="list-style-type: none"> Testing of operating effectiveness of controls Substantive procedures having limited judgment Tracing transactions through FR IS Observations of inventory counts Testing compliance with regulatory requirements Audits of subsidiaries that are not significant EA shall make all significant judgments & plan to use less of work of IAF & perform more work directly - <ul style="list-style-type: none"> Less IAF’s organizational status & policies & procedures supporting objectivity of IAs Lower level of competence of IAF Higher assessed ROMM More judgment is involved in – <ul style="list-style-type: none"> Planning & performing audit procedures Evaluating audit evidence gathered
<p>Using Work of IAF</p> <ul style="list-style-type: none"> Discussion & Coordination with IAF EA shall read reports of IAF of work that EA plans to use to obtain understanding of nature & extent of procedures it performed & findings Determining adequacy of IAF, evaluating whether - <ul style="list-style-type: none"> Work of IAF is properly planned, reviewed & documented SAAE is obtained by IAF to draw conclusions Conclusions are appropriate in circumstances 	<p>Nature & Extent of Work for using Direct Assistance</p> <p>EA shall consider -</p> <ul style="list-style-type: none"> Evaluation of existence & significance of threats Assessed ROMM Amount of judgement wrt – <ul style="list-style-type: none"> Planning & performing audit procedures Evaluation of audit evidence gathered <p>EA shall not use Direct Assistance for below work -</p> <ul style="list-style-type: none"> Making significant judgements Relate to higher ROMM Relate to work reported to Mgt or TCWG by IAF Relate to decisions EA makes as per SA 610 <p>Review of work performed by IAs</p> <ul style="list-style-type: none"> NTE of review shall recognize that IAs are not independent of entity Review shall include EA checking underlying audit evidence for some work performed by IAs Sufficient DSR to be satisfied that IAs have obtained SAAE to support conclusions based on that work
<p>Whether IA can be used to provide Direct Assistance</p> <ul style="list-style-type: none"> L&R may prohibit EA from obtaining direct assistance If not prohibited - <ul style="list-style-type: none"> Evaluation of significance of threats to objectivity & level of competence of IAs Evaluation of significance of threats shall include inquiry of IAs for interests & relationships <p>In evaluating significance of threats to objectivity of IA, following factors are relevant -</p> <ul style="list-style-type: none"> Extent of IAF’s organizational status & policies & procedures supporting objectivity of IAs Family & Personal relationships with individuals working in entity to which work relates Association with department to which work relates Significant financial interest other than remuneration <p>EA shall not use IA to provide direct assistance if -</p> <ul style="list-style-type: none"> There are significant threats to objectivity of IA, or IA lacks sufficient competence to perform proposed work 	<p>Communication to TCWG - How EA has planned to use work of IAF</p>



SA 620 - Using Work of Auditor's Expert

Auditor has **sole responsibility** for audit opinion & that responsibility is **not reduced** by auditor's **use of work of auditor's expert**

<p>Auditor's Expert</p> <p>Same as Mgt Expert. He is internal expert (including temporary staff of network firm) or external expert with expertise in</p> <ul style="list-style-type: none"> Valuation of complex financial instruments Actuarial calculation of liabilities Interpretation of contracts, L&R Analysis of complex tax compliance issues Estimation of oil & gas reserves <p>SA-620 does not deal with</p> <ul style="list-style-type: none"> Situations where engagement team includes member with expertise in A/cing or Auditing Auditor's use of work of Mgt's expert 	<p>Determining Need for Auditor's Expert</p> <ul style="list-style-type: none"> Obtaining understanding of entity & its IC Identifying & assessing ROMM Implementing responses to assessed risks Designing FAP to respond to assessed risks Evaluating SAAE obtained in forming opinion <p>Whether to use Auditor's Expert? Consider</p> <ul style="list-style-type: none"> Nature & significance of matter ROMM in matter Expected nature of procedures to respond to identified risks Whether Mgt has used Mgt's expert
<p>When Mgt has used Mgt's expert</p> <p>Auditor's decision may be influenced by -</p> <ul style="list-style-type: none"> Whether Mgt's expert is employed by entity, or is party engaged by it Any control in entity over Mgt's expert's work Mgt's expert's competence & capabilities Whether Mgt's expert is subject to technical performance standards Nature Scope & Objective of expert work Extent to which Mgt can exercise control over work of Mgt's expert 	<p>Considerations for NTE of Audit Procedures</p> <ul style="list-style-type: none"> Nature of matter of expert's work Significance of that expert's work ROMM in that matter Auditor's experience with previous work performed by that expert Whether that expert is subject to auditor's firm's QCS
<p>Need for more extensive procedures exist when</p> <ul style="list-style-type: none"> Auditor has not previously used work of that expert & has no knowledge of expert's competence, capabilities & objectivity Expert is external expert & is not subject to auditor firm's QCS Expert's work relates to significant matter involving subjective & complex judgments Auditor's expert is performing procedures that are integral to audit 	<p>Evaluating objectivity of auditor's expert</p> <ul style="list-style-type: none"> Inquire entity for interests or relationships with auditor's external expert including - <ul style="list-style-type: none"> Financial interests Business & personal relationships Provision of other services by expert It is appropriate to obtain WR from auditor expert for interest or relationship Discuss with expert whether safeguards are adequate to reduce threat to acceptable level

<p>Agreement with Auditor’s Expert in Writing</p> <ul style="list-style-type: none"> • Nature, Scope & Objectives of expert’s work • Respective roles & responsibilities of auditor & expert • NTE of communication B/w auditor & expert, including form of report of expert • Need to observe confidentiality requirements 	<p>Need for detailed agreement is required when</p> <ul style="list-style-type: none"> • Expert will have access to confidential info • Auditor has not previously used work performed by that expert • Greater extent of auditor’s expert’s work, & its significance in context of audit • Matter of expert’s work is highly complex
<p>Evaluating Adequacy of Auditor’s Expert Work</p> <p>1. Relevance & Reasonableness of expert’s conclusions & consistency with other evidence</p> <p>Specific procedures to evaluate adequacy</p> <ul style="list-style-type: none"> • Inquiries of auditor’s expert • Reviewing expert’s working papers & reports • Discussion with another expert when conclusions of auditor’s expert are not consistent with other audit evidence • Discussing auditor’s expert’s report with Mgt • Corroborative procedures, such as - <ul style="list-style-type: none"> ○ Observing auditor’s expert’s work ○ Examining published data ○ Confirming matters with 3rd parties ○ Re-performing calculations ○ Performing AP to see whether materiality is considered <p>2. If expert’s work uses significant assumptions & methods, relevance & reasonableness of those assumptions & methods</p> <p>Factors relevant to such evaluation include whether assumptions & methods are</p> <ul style="list-style-type: none"> • Generally accepted in auditor’s expert’s field • Dependent on use of specialised models • Consistent with requirements of AFRF • Consistent with Mgt & if not, reason for diff <p>3. If expert uses source data that is significant to expert’s work, Relevance, Completeness, & Accuracy of that data</p>	<p>When Work of Expert is not adequate</p> <p>Auditor shall -</p> <ul style="list-style-type: none"> • Agree with expert on nature & extent of further work to be performed by expert or • Perform FAP as appropriate • If auditor cannot resolve matter by additional procedure, express modified opinion <p>Reference to Auditor’s Expert in Report (Same as Service Auditor)</p> <ul style="list-style-type: none"> • Auditor shall not refer to auditor’s expert in report containing unmodified opinion unless required by L&R • If required by L&R, indicate that reference does not reduce auditor’s responsibility • If auditor makes reference to expert because it is relevant to understand modification to opinion, indicate that such reference does not reduce auditor’s responsibility



SA-700 Forming Opinion & Reporting on FS

Basic Elements of Auditor's Report

- **Title** - That clearly **indicates** that it is report of **independent auditor**
- **Addressee** - As **required by circumstances** of engagement. Eg - **Members** (**General** purpose FS) & **BOD** (**Special** purpose FS)
- **Auditor's Opinion** - **First section** of Report & shall have heading "Opinion" -
 - **Identify entity** whose FS is audited
 - State that **FS** have been **audited**
 - **Identify title** of each statement in FS
 - **Specify date** or period of FS
 - **Refer to notes**, including A/cing policies
- **Basis for Opinion** - Directly following Opinion section, with heading "Basis for Opinion" -
 - States whether auditor believes that **SAAE is obtained** for opinion
 - Refers to **auditor's responsibilities** section
 - State that **audit** was conducted **as per SAs**
 - Includes statement that **auditor is independent** of entity
- **Going Concern** - Report as per **SA 570**
- **Key Audit Matters** - Report as per **SA 701**
- **Other Info** - Report as per **SA 720**
- **Responsibilities of Mgt for FS** - Describes Mgt Responsibility (**SA 210**)
- **Auditor's Responsibilities for Audit of FS** - Describes Auditor's Responsibility
- **Location of description of auditor's responsibilities for audit** - shall be included -
 - Within auditor's **report**
 - Within **appendix** to report
 - On **website** of appropriate authority, where L&R **expressly permit auditor** to do so
- **Other Reporting Responsibilities** - Separate section with heading "**Report on Other L&R Requirements**" Eg. **CARO**
- **Sign of Auditor** - By auditor in his **personal name** & name of **firm**, mentioning **membership & registration** number of **firm & UDIN**
- **Place of Sign** - **City** where report is signed
- **Date of Report** - **Not earlier than** date on which auditor has obtained **SAAE** & -
 - All statements in **FS are prepared**
 - Those with authority have taken **responsibility for FS**

Report Prescribed by L&R

- If auditor is required by L&R to use **specific layout, or wording** of Report, Report shall **refer to SAs ONLY** if Report includes, at **minimum** -
 - **ALL Elements** listed above
 - **Except** - Other Info (**SA 720**), Location of Auditor's **Responsibility & Other Reporting Responsibility**

Report for Audits Conducted as per Both SAs & International SAs or Auditing Standards of Any Other Jurisdiction

In this case, Report **may refer to SAs** in addition to ISAs or Other standards **ONLY if** -

- There is **no conflict** b/w ISAs/Other standards & SAs that would lead auditor -
 - to form **diff opinion** or
 - **not include EOM/OM** para required by SA
- Report includes **ALL minimum elements** discussed in just above para

When Report refers to both ISAs/Other standards & SAs, it shall **clearly identify** same including **jurisdiction of other standards**

Supplementary Info presented with FS

If supplementary Info, **not required by AFRF**, is presented with audited FS, auditor shall evaluate whether **it is integral part** of FS due to its **nature or how it is presented** -

- **If Integral Part** - It shall be **covered by auditor's opinion**
- **If not Integral Part** -
 - Auditor shall evaluate whether such supplementary Info is **presented** in way that sufficiently & clearly **differentiates it from audited FS**
 - If this is **not the case**, then auditor shall **ask Mgt to change** how unaudited supplementary Info is presented
 - If **Mgt refuses**, auditor shall **explain** in Report that such supplementary **Info has not been audited**

<p>KAM are those, in auditor judgment, were of most significance in audit of current period. They are selected from matters communicated with TCWG</p> <p>Objective</p> <ul style="list-style-type: none"> To assist user in understanding matters that were of most significance To enhance communicative value of Report by providing greater transparency about audit 	<p>Applicability of SA 701</p> <p>Audit of complete set of general-purpose FS of -</p> <ul style="list-style-type: none"> Listed entities & Otherwise, when auditor decides to communicate KAM Required by L&R to communicate KAM <p>SA 705 prohibits auditor from communicating KAM when auditor disclaims opinion, unless It is required by L&R</p>
<p>Scope</p> <p>Communicating KAM in Report is NOT -</p> <ul style="list-style-type: none"> Substitute for disclosures in FS as per AFRF Substitute for reporting as per SA 570 Substitute for expressing modified opinion required by circumstances as per SA 705 Separate opinion on individual matters 	<p>Placement of KAM section in Report</p> <ul style="list-style-type: none"> After Basis for Opinion & Material Uncertainty section & before Mgt Responsibility section EOM may be either directly before or after KAM, as per auditor's judgment
<p>Communicating KAM</p> <p>Introductory language of this section shall state -</p> <ul style="list-style-type: none"> KAM are those matters that were of most significance in audit of current period These matters were addressed in context of audit of FS & auditor does not provide separate opinion on these matters <p>If there is no KAM, report must have Paragraph mentioning that there are no KAM as below -</p> <p>"Except for matter described in Basis for Qualified (Adverse) Opinion or Material Uncertainty Related to GC section, We have determined that there are no other KAM to communicate"</p>	<p>Determining KAM</p> <p>Auditor shall determine KAM, from matters communicated with TCWG considering -</p> <ul style="list-style-type: none"> Effect on audit of significant events or transactions Significant auditor judgments for areas involving significant Mgt judgment Areas of higher assessed ROMM <p>KAM may also be those matters that are not disclosed in FS, such as New IT system, which are areas of significant auditor attention</p>

<p>Objective of Auditor To express appropriately modified opinion when -</p> <ul style="list-style-type: none"> • Auditor concludes, FS are not free from MM • Auditor is unable to obtain SAAE to conclude that FS are free from MM <p>Decision regarding which type of modified opinion is appropriate depends upon -</p> <ul style="list-style-type: none"> • Nature of matter giving rise to modification • Auditor's judgement about pervasiveness of effects of matter on FS 	<p>Definition of Pervasive A term used to describe effects on FS of misstatements or possible effects on FS of misstatements that are undetected due to inability to obtain SAAE. Pervasive effects on FS are those that, in auditor's judgement -</p> <ul style="list-style-type: none"> • Are not confined to specific a/c of FS • If so confined, represent a substantial proportion of FS • For disclosures, are fundamental to users' understanding of FS 								
<p>Types of Modifications/Modified Opinion</p>									
<p>Qualified Opinion</p>	<ul style="list-style-type: none"> • When auditor obtains SAAE to conclude that misstatements are material, but not pervasive to FS or • Auditor is unable to obtain SAAE, but he concludes that possible effects on FS of undetected misstatements could be material but not pervasive 								
<p>Adverse Opinion</p>	<p>Auditor shall express adverse opinion when he obtained SAAE, concludes that misstatements are both material and pervasive to FS</p>								
<p>Disclaimer of Opinion</p>	<p>Auditor shall disclaim an opinion when he is unable to obtain SAAE and he concludes that possible effects on FS of undetected misstatements could be both material & pervasive</p>								
<p>Nature of Matter Giving Rise to Modification</p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" data-bbox="656 1041 1469 1075" style="text-align: center;">Auditor's Judgement about Pervasiveness of Effects on FS</th> </tr> <tr> <th data-bbox="656 1083 1097 1117" style="text-align: center;">Material but not Pervasive</th> <th data-bbox="1104 1083 1469 1117" style="text-align: center;">Material and Pervasive</th> </tr> </thead> <tbody> <tr> <td data-bbox="142 1125 649 1159" style="color: red;">FS are materially misstated</td> <td data-bbox="656 1125 1097 1159" style="text-align: center;">Qualified opinion</td> </tr> <tr> <td data-bbox="142 1167 649 1201" style="color: red;">Inability to obtain SAAE</td> <td data-bbox="656 1167 1097 1201" style="text-align: center;">Qualified opinion</td> </tr> </tbody> </table>	Auditor's Judgement about Pervasiveness of Effects on FS		Material but not Pervasive	Material and Pervasive	FS are materially misstated	Qualified opinion	Inability to obtain SAAE	Qualified opinion
Auditor's Judgement about Pervasiveness of Effects on FS									
Material but not Pervasive	Material and Pervasive								
FS are materially misstated	Qualified opinion								
Inability to obtain SAAE	Qualified opinion								
<p>Inability to Obtain SAAE Due to Mgt Imposed Limitation after Auditor Has Accepted Engagement</p> <ul style="list-style-type: none"> • If, after accepting engagement, Mgt has imposed limitation on scope of audit, auditor shall request Mgt to remove limitation • If Mgt refuses, auditor shall communicate to TCWG & determine if it is possible to perform alternative procedures to obtain SAAE • If auditor concludes that possible effects of undetected misstatements could be material but not pervasive, he shall qualify opinion or • If auditor concludes that possible effects of undetected misstatements could be both material & pervasive, he shall - <ul style="list-style-type: none"> ○ Withdraw, if possible, under L&R ○ If withdrawal is not possible before issuing report, disclaim opinion on FS 	<p>Where Auditors' withdrawal is not permitted - As per SEBI, If auditor proposes to resign -</p> <ul style="list-style-type: none"> • Within 45 days from end of quarter - issue report for such quarter • After 45 days from end of quarter - issue report for such quarter as well as next quarter • If report is issued for all 3 quarters - issue report for full year before resigning <p>Other Considerations for Adverse or Disclaimer of Opinion</p> <ul style="list-style-type: none"> • When auditor expresses adverse or disclaimer of opinion, Report shall not include unmodified opinion for same FRF on single FS or specific items of FS 								

<ul style="list-style-type: none"> If auditor withdraw, before withdrawing, communicate to TCWG any misstatement identified during audit that would have given rise to modification of opinion 	<ul style="list-style-type: none"> To include unmodified opinion in same report, would contradict adverse or disclaimer of opinion on FS
<p>Form & Content of Report When Opinion is Modified</p> <p>Auditor's Opinion When auditor modifies opinion, he shall use heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," for Opinion section</p> <p>Qualified Opinion</p> <ul style="list-style-type: none"> Auditor shall state that, "except for effects of matter described in Basis for Qualified Opinion" When modification arises from inability to obtain SAAE, auditor shall use corresponding phrase "except for possible effects of matter(s) ..." for modified opinion <p>Adverse Opinion When auditor expresses adverse opinion, auditor shall state that, "Because of significance of matters described in Basis for Adverse Opinion -</p> <ul style="list-style-type: none"> When fair presentation framework - FS do not present fairly (or give true & fair view of) When compliance framework - FS are not prepared, in all material respects <p>Disclaimer of Opinion When auditor disclaims opinion, auditor shall -</p> <ul style="list-style-type: none"> State that auditor does not express opinion State that auditor is not able to obtain SAAE to provide basis for opinion Amend statement which indicates that FS have been audited, to state that auditor was engaged to audit FS 	<p>Basis for Opinion When auditor modifies opinion, auditor shall -</p> <ul style="list-style-type: none"> Amend heading "Basis for Opinion" to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion" Include a description of matter giving rise to modification Auditor shall also include quantification of financial effects of misstatement. If not practicable, auditor shall so state <p>If there is MM of disclosures, auditor shall include explanation of how disclosures are misstated. If there is MM for non-disclosure of info required to be disclosed, auditor shall -</p> <ul style="list-style-type: none"> Discuss non-disclosure with TCWG Describe in Basis for Opinion section, nature of omitted info Unless prohibited by law, include omitted disclosures, if it is practicable & auditor has obtained SAAE for omitted info <p>If modification results from inability to obtain SAAE, auditor shall include reasons for that inability. When auditor disclaims opinion, report shall not include -</p> <ul style="list-style-type: none"> Statement about whether SAAE is obtained Reference to auditor's responsibilities section <p>Even if auditor has expressed adverse or disclaimer of opinion, he shall describe other matters of which he is aware that would have required modification to opinion & its effects</p>
<p>Description of Auditor's Responsibilities When Auditor Disclaims Opinion - to include only -</p> <ul style="list-style-type: none"> Statement that auditor's responsibility is to conduct audit of FS as per SAs Statement that auditor was not able to obtain SAAE to provide basis for opinion Statement for independence & other ethical responsibilities 	
<p>Communication with TCWG When auditor expects to modify opinion, auditor shall communicate with TCWG, circumstances that led to expected modification & wording of modification</p>	

<p>Objective of auditor</p> <p>To draw users' attention, when in auditor's judgement it is necessary, by way of clear additional communication in report, to -</p> <ul style="list-style-type: none"> • A matter, although appropriately disclosed in FS, of such importance that it is fundamental to users' understanding of FS or • Any other matter that is relevant to users' understanding of audit or report <p>EOM Paragraph</p> <p>A Para included in report that refers to matter appropriately presented in FS that is fundamental to users' understanding of FS</p> <p>Auditor shall include EOM Para in report provided</p> <ul style="list-style-type: none"> • He is not required to modify opinion as result of matter • Matter is not determined to be KAM <p>These circumstances include</p> <ul style="list-style-type: none"> • When fact is known to auditor after date of report & he provides new or amended report • When FRF would be unacceptable but for fact that it is prescribed by L&R • To alert users that FS are prepared as per special purpose framework 	<p>When auditor includes EOM Para, he shall</p> <ul style="list-style-type: none"> • Include Para in separate section with heading "Emphasis of Matter" • Include reference to matter being emphasized & where disclosures can be found in FS • Indicate that auditor's opinion is not modified for matter <p>Examples of circumstances where EOM Para may be necessary</p> <ul style="list-style-type: none"> • Early application of new a/c standard having material effect on FS • Major catastrophe having significant effect on financial position • Significant subsequent event that occurs b/w date of FS & date of report • Uncertainty relating to future outcome of litigation <p>EOM Para is not a substitute for</p> <ul style="list-style-type: none"> • Disclosures in FS required by AFRF • Reporting as per SA 570 • Modified opinion as per SA 705
<p>OM Para</p> <p>A Para included in report that refers to matter other than those presented in FS that is relevant to users' understanding of audit or report</p> <p>Auditor shall include OM Para in report, if necessary, provided</p> <ul style="list-style-type: none"> • This is not prohibited by L&R • Matter is not determined to be KAM • There should be Separate section for OM Para 	<p>Communication with TCWG</p> <p>If auditor expects to include EOM or OM Para, he shall communicate with TCWG regarding this expectation & wording of this Para</p> <p>Report vs Certificate</p> <p>'Report' is used where expression of opinion is involved, 'Certificate' is preferable where auditor verifies facts</p>

<p>There are 2 broad approaches</p> <p>Corresponding figures & Comparative FS. Approach to be adopted is specified by L&R & may also be in terms of engagement. Diff b/w approaches are -</p> <ul style="list-style-type: none"> • Corresponding figures - Auditor's opinion refers to current period only • Comparative FS - Auditor's opinion refers to each period for which FS are presented <p>Audit Procedures regarding comparative info</p> <ul style="list-style-type: none"> • Perform Specific Procedure - To Determine if FS include comparative info as per AFRF, auditor shall ensure - <ul style="list-style-type: none"> ○ Comparative info agrees with amounts & disclosures presented in prior period ○ A/c policies are consistent with those applied in current period ○ If there are changes, whether those changes are properly disclosed • Evaluating Impact on FS - If auditor becomes aware of MM in comparative info then - <ul style="list-style-type: none"> ○ He shall perform procedure to obtain SAAE ○ If auditor had audited prior period's FS then he should follow requirements of SA 560 (Subsequent Events) • WR - Auditor shall request WR for all periods. He shall also obtain specific WR regarding any prior period item that is separately disclosed in current year's P/L 	<p>Audit Reporting</p> <p>For Corresponding Figures</p> <p>Auditor's opinion shall not refer to Corresponding Figures except -</p> <ul style="list-style-type: none"> • If auditor's report of previous period contains modified opinion & matter which gave rise to modification is still unresolved, auditor shall modify opinion on current period's FS • If auditor has obtained evidence that MM exists in FS of prior period on which unmodified opinion has been issued, auditor shall verify whether misstatement has been dealt as per AFRF & if not, auditor shall express qualified or adverse opinion in report on current period FS <p>For Comparative FS</p> <ul style="list-style-type: none"> • Auditor's opinion - to refer each period • If auditor's opinion on prior period FS differs from opinion auditor previously expressed, auditor shall disclose reasons for diff opinion in OM paragraph • If auditor concludes that MM exists on which predecessor auditor had reported unmodified opinion, he shall communicate misstatement with Mgt & TCWG & request that predecessor auditor be informed. If prior period FS are amended & predecessor auditor agrees to issue new auditor's report, auditor shall report only on current period
<p>Reporting Treatment common to both</p> <p>If FS of prior period were audited by predecessor auditor, auditor (if permitted by L&R to refer to predecessor audit report) shall state in his report -</p> <ul style="list-style-type: none"> • That FS of prior period were audited by predecessor auditor • Type of opinion expressed by predecessor auditor • Date of that audit report <p>If prior period FS were not audited then he shall report same in OM para in his report that comparative info is unaudited. However, disclosure does not relieve him from his responsibility of obtaining SAAE that opening balances do not contain MM affecting current period's FS</p>	

<ul style="list-style-type: none"> • This SA deals with auditor's responsibilities relating to Other info, whether financial or non-financial (other than FS & audit report) included in entity's annual report • This SA requires auditor to read other info as other info which is materially inconsistent with FS or auditor's knowledge obtained in audit may indicate that there is MM of FS or that MM of other info exists. Such MM may inappropriately influence economic decisions of users • This SA does not apply to preliminary announcements of financial info or securities offering docs, including prospectus 	<p>Obtaining Other info - Auditor shall</p> <ul style="list-style-type: none"> • Determine from Mgt, which docs is annual report & timing of its issuance • Make arrangements to obtain final version of annual report, prior to date of Report, if possible • When Annual Report will not be available at date of Report, request Mgt to provide WR that final version of annual report will be provided to auditor prior to its issuance by entity, such that auditor can complete procedures required by this SA
<p>Reading & Considering Other info</p> <p>Auditor shall read other info & -</p> <ul style="list-style-type: none"> • Consider if there is material inconsistency b/w other info & FS, by comparing amounts in other info with such amounts in FS • Consider if there is material inconsistency b/w other info & auditor's knowledge obtained in audit • While reading other info, auditor shall remain alert for indications that other info not related to FS or auditor's knowledge appears to be materially misstated 	<p>Responding When Material Inconsistency Appears to Exist or Other info Appears to Be Materially Misstated</p> <p>Auditor shall discuss with Mgt & perform other procedures to conclude whether -</p> <ul style="list-style-type: none"> • MM of other info exists • MM of FS exists or • Auditor's understanding of entity needs to be updated
<p>Responding When Auditor Concludes That MM of Other info Exists</p> <p>Auditor shall request Mgt to correct other info. If Mgt -</p> <ul style="list-style-type: none"> • Agrees to make correction, auditor shall determine that correction is made • Refuses to make correction, auditor shall communicate with TCWG & request for correction <p>If auditor concludes that MM exists in other info obtained prior to date of Report & other info is not corrected after communicating with TCWG, auditor shall take appropriate action, including -</p>	<p>Reporting</p> <p>Report shall include separate section with heading "Other info", when, at date of Report -</p> <ul style="list-style-type: none"> • For audit of FS of listed entity, auditor has obtained, or expects to obtain, other info or • For audit of FS of unlisted entity, auditor has obtained some or all of other info <p>When Report is required to include Other info section, this section shall include -</p> <ul style="list-style-type: none"> • Identification of - <ul style="list-style-type: none"> ○ Other info obtained by auditor prior to date of Report ○ For audit of listed entity, other info expected to be obtained after date of Report

- Considering **implications for Report** & communicating with TCWG about how auditor plans to address MM in Report
- **Withdrawing**, where possible under L&R

If auditor concludes that **MM exists** in other info obtained **after date of Report**, auditor shall -

- If other info is **corrected**, perform procedures as necessary
- If other info is **not corrected** after **communicating with TCWG**, take appropriate action considering auditor's **legal rights & obligations**, to have uncorrected MM appropriately **brought to attention of users**

Responding When MM in FS Exists or Auditor's Understanding of Entity Needs to Be Updated

Auditor shall respond as per **other SAs (705)**

- Statement that **Mgt is responsible** for other info
- Statement that auditor's **opinion does not cover** other info
- Description of **auditor's responsibilities** for **reading, considering** & reporting on other info
- When other info has been **obtained prior to date** of Report, either -
 - Statement that auditor has **nothing to report** or
 - If auditor has concluded that there is **uncorrected MM** of other info, statement that **describes** uncorrected MM of other info

Reporting Prescribed by L&R

If auditor is required by L&R to refer to other info in Report **using specific layout or wording**, Report shall **refer to SA only if** Report includes, at **minimum** -

- **Identification of other info** obtained by auditor prior to date of Report
- Description of **auditor's responsibilities** for other info
- Explicit statement addressing **outcome of auditor's work** for this purpose



SA 800 – Special Considerations – Audit of FS Prepared as per Special Purpose Framework

<ul style="list-style-type: none"> • General Purpose Framework is designed to meet common financial info needs of wide users • Special Purpose Framework is designed to meet financial info needs of specific users <p>Eg of Special purpose framework</p> <ul style="list-style-type: none"> • Cash receipts & disbursements basis of A/cing for creditors • FR provision established by regulator • FR provisions of a contract 	<p>When Accepting Engagement - Acceptability of FRF</p> <ul style="list-style-type: none"> • Financial info needs of users is key factor • FRF established by authorised org is presumed acceptable if org follows established & transparent process • FRF prescribed by L&R is presumed acceptable in absence of indication to contrary • FRF as per provisions of contract is acceptable if it exhibits attributes normally exhibited by Acceptable FRF
<p>When Planning & Performing Audit</p> <p>SA 200 requires auditor to comply with -</p> <ul style="list-style-type: none"> • Relevant ethical requirements, including independence & • All SAs relevant to audit. If particular SA or requirement not applicable, perform alternative procedures (Same for 805 & 810) <p>SA 260 - requires auditor to determine appropriate person with whom to communicate. Those responsible for oversight of preparation of Special Purpose FS may not be same as TCWG responsible for oversight of preparation of General Purpose FS</p> <p>SA 320 - Mgt may agree with users on threshold below which misstatements identified will not be corrected. Existence of such threshold does not relieve auditor to determine materiality as per SA 320</p>	<p>Description of AFRF</p> <ul style="list-style-type: none"> • Auditor's Report shall describe purpose of preparing FS & intended users or refer to note in FS that contain that info • If Mgt has choice of multiple FRFs, explain Mgt's responsibility to determine that AFRF is acceptable <p>Alerting Readers that FS Are Prepared as per Special Purpose Framework</p> <ul style="list-style-type: none"> • Special Purpose FS may be used for purposes other than those for which they were intended • To avoid misunderstandings, auditor alerts users of report through EOM Para that FS are prepared as per Special Purpose framework & therefore, may not be suitable for another purpose
<p>Restriction on Distribution or Use (As extension of Alert para)</p> <p>Auditor indicates that report is intended solely for specific users. Depending on L&R, this is achieved by restricting distribution or use of report</p>	
<p>Include OM Para, if auditor has also audited FS of same entity prepared using General Purpose Framework</p>	

- Single FS (SFS) or Specific Element of FS (SEFS) may be prepared as per **General or Special Purpose** Framework (SA 800)
- **SA 805 does not apply** to component auditor's report on financial **info of component** at **request of group engagement team** for audit of Group FS
- **SFS** is to be distinguished from complete set of FS. Eg. CFS. **SEFS** Eg Cash, Trade Receivable
- SFS or SEFS **includes notes** of summary of **significant A/cing policies** & other info

When Accepting Such Engagement

1. Application of SAs

- SA 200 requires auditor to comply with all SAs relevant to audit. If **auditor is not** also engaged to **audit complete set of FS**, auditor shall **determine whether audit** of SFS or of SEFS **as per SAs is practicable**
- **Compliance with SAs** in audit of SFS or of SEFS may **not be practicable** when auditor is **not** also engaged to **audit complete set of FS**, because -
 - Auditor does **not** have same **understanding of entity** & its IC
 - He also does **not** have **evidence** about **general quality** of A/cing records or info
 - He may **need further evidence** to corroborate (support) evidence from A/cing records
 - In case of audit of SEFS, audit **work** may be **disproportionate to SEFS** being audited
 - If auditor concludes that **audit** of SFS or of SEFS **as per SAs** may **not be practicable**, auditor may **discuss with Mgt** whether **another type of engagement** might be more practicable

2. Acceptability of FRF

- Whether **FRF** will provide **adequate disclosures** to users to **understand info** conveyed in FS or SEFS & **effect** of material **transactions** & events
- **FRF** established by **authorised standards setting org** for preparation of **complete set** of FS is **acceptable** if it includes **all requirements of General purpose** framework that are relevant to SFS or of SEFS

When planning & performing Audit

- **Audit Evidence** - When auditing SFS or SEFS along with complete set of FS, **auditor** may be able to **use evidence** obtained **from audit of complete set** of FS in audit of FS or SEFS. However, **SAs require** auditor to **obtain SAAE** on SFS or SEFS
- **Inter-Relation** - When auditing SFS or SEFS, **auditor** may **not** be able to **consider them in isolation** & may need to perform **procedures** for **interrelated items**
- **Materiality** - determined **for SFS** or for SEFS may be **lower than** for **complete set** of FS; This will affect NTE of procedures & evaluation of uncorrected misstatements

Form of Opinion

AFRF may **not** explicitly provide **presentation** of SFS or of SEFS, when **based on FRF established by authorised org** for preparation of **complete set** of FS. Therefore, Auditor considers if expected form of opinion is appropriate as per AFRF

Factors affecting whether to use phrases "**presents fairly**, in all material respects", or "**gives true & fair view**" in auditor's **opinion** include -

- Whether **AFRF** is explicitly or implicitly **restricted to preparation of complete set** of FS
- Whether **SFS or SEFS** will -
 - **Comply fully** with requirements of **framework** for SFS or SEFS
 - If necessary to achieve **fair presentation**, provide **disclosures beyond** those specifically **required by framework** or, in exceptional circumstances, **depart from** requirement of **framework**

Auditor's decision as to **expected form of opinion** is matter of **professional judgment**

Forming Opinion & Reporting Considerations

- If **auditor** of SFS or SEFS **is same** as auditor of complete set of FS, auditor shall **express separate opinion** for each engagement
- Audited SFS or SEFS may be **published together with** complete set of FS. If **presentation** of SFS or of SEFS does **not differentiate** it sufficiently from complete set of FS, auditor shall **ask Mgt to rectify** situation. Auditor shall **not issue** auditor's **report** containing opinion on SFS or on SEFS **until satisfied** with differentiation
- If **opinion on complete set** of FS is **qualified**, or includes **EOM or OM** para, if appropriate, auditor shall **qualify opinion on SFS or on SEFS**, or include EOM or OM para
- If **opinion on complete set** of FS is **adverse or disclaimer**, SA 705 does **not** permit auditor to include an **unmodified opinion on SFS or on SEFS** as such unmodified opinion would contradict adverse or disclaimer of opinion on complete set of FS

- If **opinion on complete set** of FS is **adverse or disclaimer**, but due to separate audit of **SEFS**, auditor considers it **appropriate to express unmodified** opinion, he shall do so **ONLY** if -
 - **Not prohibited** by L&R
 - That **opinion** is expressed in **report** which is **not published together** with report **containing adverse or disclaimer** of opinion **AND**
 - **SEFS** does **not** constitute **major portion** of complete set of FS

Above exception is **not for SFS** as it is **deemed** to **constitute major portion** of complete set of FS

- Even when **modified** opinion or **EOM or OM** para on **complete set** of FS does **not relate to SFS or SEFS**, auditor **may refer** to modification in **OM para** in report on SFS or on SEFS if relevant to **users' understanding**
- In report on **complete set** of FS, **disclaimer** of opinion for **results of operations & cash flows** & **unmodified** opinion for **state of affairs** is **permitted** since disclaimer of opinion is issued for results of operations & cash flows only & not for FS as a whole

- SA 810 is for **report on SUMFS** derived from **FS audited** as per SAs by that **SAME auditor**
- SUMFS reflects info derived from FS, but **contains less detail than FS** providing structured representation consistent with FS

Engagement Acceptance

Auditor shall accept engagement **ONLY when** he is engaged to conduct **audit of FS** as if this **not** the case, he will **not** have **necessary knowledge** to discharge his responsibilities for SUMFS as per this SA

Before accepting engagement, auditor shall

1. Determine whether applied criteria (FRF) is acceptable

- **Mgt** is **responsible** for applying criteria on SUMFS so that they are **consistent with** or represent **fair summary** of **audited FS**. Because SUMFS, contain aggregated info & limited disclosure, there is increased risk that they may not contain **info necessary** so as **not to be misleading**. This risk increases when criteria for preparation of SUMFS do not exist. **Factors affecting** auditor's determination of **acceptability of applied criteria** -
 - **Nature** of entity
 - **Purpose** of SUMFS
 - **Info needs** of intended **users** of SUMFS
 - Whether applied criteria will result in **SUMFS that are not misleading**
- **Criteria** established by **authorised** standards setting **org** or **L&R** is presumed to be **acceptable**. Where established criteria do not exist, it **may be developed by Mgt**
- **If** applied criteria is **unacceptable** or auditor is **unable** to obtain **agreement of Mgt** as discussed above, auditor shall **not accept** engagement, **unless** required by **L&R**. Engagement conducted as per such L&R **does not comply with this SA**, so such non-compliance shall be **indicated in report**. Auditor shall include this fact in **terms of engagement**
- **Adequate disclosure** of SUMFS & **identity** of audited FS, may be provided by title such as **"SUMFS prepared from audited FS"**

Nature of Procedures to be Performed by Auditor

- Evaluate if **SUMFS adequately disclose** their **summarised nature** & identify audited FS
- Evaluate whether SUMFS **disclose criteria**
- Evaluate if **SUMFS** are **prepared as per criteria**
- Evaluate if SUMFS **contain info necessary** so as **not to be misleading**
- Evaluate if **audited FS are available** to users of SUMFS, **unless L&R** provides otherwise
- When SUMFS are **not accompanied by audited FS**, evaluate if they **describe** -
 - From **whom or where** audited FS are **available** or
 - **L&R** that specifies that audited FS **need not be made available**
- **Compare** SUMFS with **info in audited FS** to determine if they **agree**

Form of Opinion

When **unmodified opinion** on SUMFS is appropriate, auditor's opinion shall **use** one of following **phrases** -

- SUMFS are **consistent**, in **all material respects**, with **audited FS** as per applied criteria or
- SUMFS are **fair summary of audited FS** as per applied criteria

If **L&R prescribes** wording of opinion **diff from above**, auditor shall -

- Apply procedures discussed earlier & **further procedures necessary** to express prescribed opinion &
- Evaluate if **users** of SUMFS might **misunderstand opinion** & if so, additional **explanation can mitigate** possible misunderstanding, & if **cannot**, he shall **not accept engagement**, unless required by L&R. Also report shall **not indicate** that engagement was conducted **as per this SA**

<p>2. Obtain agreement of Mgt that it understands its responsibility</p> <ul style="list-style-type: none"> • For preparation of SUMFS as per criteria • To include report on SUMFS in doc that contains SUMFS & indicate that auditor has reported on them • To make audited FS available to intended users of SUMFS without undue difficulty (or, if L&R provides that audited FS need not be made available, to describe that L&R in SUMFS) • Factors affecting whether audited FS are available to users of SUMFS - <ul style="list-style-type: none"> ○ SUMFS describe clearly from whom or where audited FS are available ○ Audited FS are on public record or ○ Mgt has established process by which users of SUMFS can access audited FS <p>3. Agree with Mgt on form of opinion to be expressed on SUMFS</p>	<p>Restriction on Distribution or Use or Alerting Readers to Basis of A/cing</p> <p>When above paras are included in report on audited FS, auditor shall include similar restriction or alert in report on SUMFS</p> <p>Comparatives (SA 710)</p> <ul style="list-style-type: none"> • If audited FS contain comparatives, but SUMFS do not, auditor shall determine if such omission is reasonable. If unreasonable, determine its effect on report on SUMFS • If SUMFS contain comparatives that were reported by another auditor, report on SUMFS shall also contain matters that SA 710 requires auditor to include in report on audited FS
<p>Elements of Report on SUMFS</p> <ul style="list-style-type: none"> • Title indicating report of independent auditor • Addressee - If addressee of SUMFS is not same as addressee of report on audited FS, evaluate appropriateness of using diff addressee. Factors affecting such evaluation include terms of engagement, nature of entity & purpose of SUMFS • Introductory para <ul style="list-style-type: none"> ○ Identifies SUMFS, including title of each statement. If SUMFS is included in doc containing other info, auditor may identify page numbers on which SUMFS are presented ○ Identifies audited FS ○ If date of report on SUMFS is later than report on audited FS, State that SUMFS & audited FS do not reflect events occurring subsequent to date of report on audited FS ○ Refers to report on audited FS, date of report, & fact that unmodified opinion is expressed on audited FS when it does not contain modified opinion, EOM & OM para ○ Statement that SUMFS do not contain all disclosures as in audited FS & that 	<p>Modifications to Opinion, EOM or OM Para in Report on Audited FS</p> <p>When report on audited FS contains qualified opinion, EOM or OM para, but auditor is satisfied that SUMFS are consistent with audited FS, report on SUMFS shall -</p> <ul style="list-style-type: none"> • State that report on audited FS contains qualified opinion, EOM or OM para • Describe - <ul style="list-style-type: none"> ○ Basis for qualified opinion on audited FS & that qualified opinion or EOM or OM para in report on audited FS ○ Effect on SUMFS <p>When report on audited FS contains adverse or disclaimer of opinion, report on SUMFS shall, additionally -</p> <ul style="list-style-type: none"> • State that report on audited FS contains adverse or disclaimer of opinion • Describe basis for that adverse or disclaimer of opinion • State that, as result of adverse or disclaimer of opinion, it is inappropriate to express opinion on SUMFS

<p>reading SUMFS is not substitute for reading audited FS</p> <ul style="list-style-type: none"> • Description of Mgt's responsibility for SUMFS • Statement that auditor is responsible for expressing opinion on SUMFS • Para expressing opinion • Auditor's sign along with firm registration number & membership number & UDIN • Date of report - not earlier than date of obtaining SAAE, including evidence that SUMFS are prepared & those with recognised authority have taken responsibility for them • Date of report on audited FS • Place of signature 	<p>Modified Opinion on SUMFS</p> <p>If SUMFS are not consistent with audited FS & Mgt does not agree to make necessary changes, auditor shall express adverse opinion on SUMFS</p>
<p>Unaudited Supplementary Info Presented With SUMFS</p> <p>Auditor shall evaluate if it is clearly differentiated from SUMFS. If not, he shall ask Mgt to change presentation of unaudited supplementary info. If Mgt refuses, auditor shall explain in report on SUMFS that such info is not covered by report</p> <p>Other Info in Docs Containing SUMFS</p> <p>Auditor shall read other info included in doc containing SUMFS to consider if there is material inconsistency b/w other info & SUMFS. If auditor identifies material inconsistency, determine if SUMFS or other info needs to be revised. If other info needs to be revised, auditor shall discuss matter with Mgt</p> <p>Timing of Work & Events Subsequent to Report on Audited FS</p> <p>When auditor reports on SUMFS after completion of audit of FS, auditor is not required to obtain additional evidence on audited FS, or report on effects of events that occurred subsequent to date of report on audited FS</p>	<p>Auditor Association</p> <p>If entity plans to state that auditor has reported on SUMFS in doc containing SUMFS, but does not plan to include related report, auditor shall request Mgt to include report in doc. If Mgt does not do so, auditor shall carry out appropriate actions to prevent Mgt from inappropriately associating auditor with SUMFS in that doc</p> <p>Auditor may be engaged to report on FS of entity, while not engaged to report on SUMFS. If entity plans to make statement in doc referring to auditor & fact that SUMFS are derived from FS audited by auditor, auditor shall be satisfied that -</p> <ol style="list-style-type: none"> Reference to auditor is made for report on audited FS only & Statement does not give impression that auditor has reported on SUMFS <p>If (a) or (b) are not met, auditor shall request Mgt to change statement, or not to refer to auditor in doc. Alternatively, entity may engage auditor to report on SUMFS & include related report in doc. If Mgt does not change statement, delete reference to auditor, or include report on SUMFS in doc containing SUMFS, auditor shall carry out appropriate actions to prevent Mgt from inappropriately referring to auditor</p>