

SA 700: Forming an Opinion &

Reporting on Financial Statements

SUKALA

Page _____
Date _____

pg 240

- To form an opinion
- To express clearly through written report

→ objective of SA 700

To form an opinion on FS. based on conclusions drawn from Audit evidence obtained.

To express clearly that opinion through a written report.

→ To form an opinion Auditor to obtain Reasonable Assurance

Auditor shall form opinion

FS are prepared in all material

Respects

Assurance with applicable

FRS

Auditor shall

conclude that

obtained

Reasonable

Assurance

+

FS as a whole

Free from M.M.

whether due

to fraud &

Error

Conclusion

↓

i) whether SAAE

have been obtained

ii) whether uncorrected Misstatements are Material (indi. / Aggregate)

iii) The evaluations

v) Specify the date or period covered by each F.S.

→

Basis for opinion:

Audit conducted
in accordance
with SA's
Sec of Audit
Report is
disclosed
responsibility
statement
Auditor is
fulfilling
Ethical Req.
Auditor
be believed
obtained
SAAE

- i) State the audit was conducted in accordance with SA's
- ii) The section of the auditor's report describes the auditor's responsibilities under SA's
- iii) Includes a statement, Auditor is independent of the entity in accordance with relevant ethical requirements & has fulfilled other's ethical responsibilities
- iv) State whether auditor believes that auditor obtained SAAE to provide basis for opinion section

→

Management's Responsibilities for F.S

Preparing FS accordance
with applicable financial
Reporting framework
+
for such internal control

Assessing the
entity's ability to
continue as a
going concern

Myt. determines F.S are
that free from
material misstatement
whether due to
fraud & error

whether a G.C basis of
Accounting is appropriate
as well as disclosing.

→ Specific Evaluations by the auditor

• Adequately disclose sign. Acc. Policy
• Applied consistently
• Acc. Estimate done by Mgt
• Info in FS
• Provide disclosures for better understanding the FS

- i) The FS adequately disclose the significant Accounting policies selected & Applied
- ii) That policies selected & Applied are consistent with applicable FRF
- iii) Accounting estimate made by Mgt. are reasonable
- iv) Info. Presented in FS
 - Relevant (CURE)
 - Reliable
 - comparable & Understandable
- v) FS provide adequate disclosures to enable intended users to understand effect of Material transactions
- vi) Terminology used in FS including title is appropriate

→ Qualitative Aspects of Entity's Accounting Practices

• Mgt make No. Judgements about Amt & Dis
• SA 260 cont
• Reasonable assurance by auditor
• Lack of Neutrality with Uncons. estimate which to be

- i) Mgt make No. of Judgements about Amts & disclosures in F.S
- ii) SA 260 contains a discussion of Qualitative aspects of Accounting practices
- iii) The auditor may become aware of possible bias Mgt's judgement.
 - Auditor conclude that lack of Neutrality together with uncorrected misstatement causes to be FS to be Materially misstated.

iv) Indicators of lack of Neutrality:

- Selective connection of Misstatements brought to Mgt's attention during the audit.
- Possible Mgt. bias in Making of Accounting estimate

v) SA 540 addresses possible Mgt. bias in making Accounting estimates

→ why Planning an audit is necessary?

• It helps in performing audit engagement effectively.

• Adequate planning benefits the audit of FS including the following:

i) Helping the auditor to devote appropriate attention to important areas of the audit.

ii) Helping the auditor identify & resolve potential problems on a timely basis.

iii) Helping the auditor properly organize & manage the audit engagement.

iv) Assisting in the selection of engagement team members with appropriate levels of capabilities & competence to respond to anticipated risks & the proper assignment of work to them.

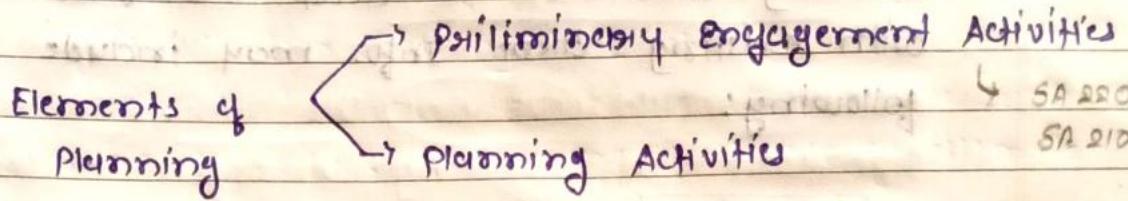
v) Facilitating the direction & supervision of engagement team members & the review of their work.

vi) Assisting where applicable, in co-ordination of work done by auditors of components & experts.

Note:

When audit work is appropriately planned it will reduce the risks of expressing & inappropriate opinion. In other words, it will reduce audit risk to an acceptably low level.

→ Elements of Planning:

SA 220 &
SA 210

→ Preliminary Engagement Activities:

It includes the following.

i) Performing procedures regarding the continuity of client relationship.

Regarding
the
continuity
of
client
relationship

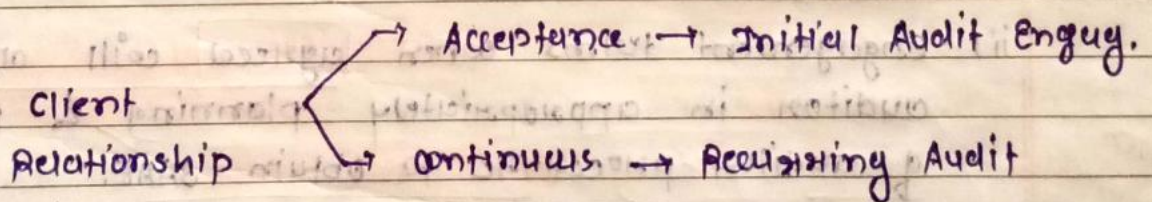
ii) Evaluating compliances with ethical requirements including independence.

Refer
from
Module

iii) Establishing an understanding of terms of Engage^{ment}.

Under
standing
of
terms

→ Performing procedures regarding the continuity of client relationship:



i) Auditor should ensure that appropriate procedures regarding acceptance & continuity of client relationship has been performed & conclusion reached are appropriate.

Ensure
that
Appropriate
procedures
regarding
A & C of
client
relationship

ii) Auditor should obtain necessary info to conclude whether to accept a new client, to continue an existing client or to accept a new engagement with existing client. Info. may include the following:

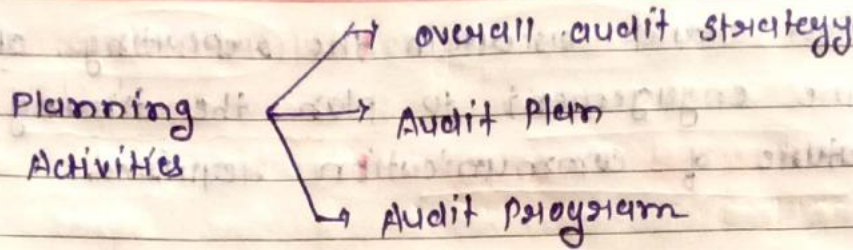
- Integrity of principal owner & key Mgt. people
- Competence of engagement team to perform the audit engagement
- Implications or effects of matters that have arisen during current & previous audit engagements

Establishing an understanding of terms of engagement:

i) Auditor should send an engagement letter to the client before commencement of audit to avoid misunderstanding or confusion relating to engagement terms

ii) Engagement terms when agreed will assist the auditor in appropriately planning & performing of auditor procedure to obtain SAAB.

- Audit Plan is more detailed than overall audit strategy that includes NTE of Audit procedures to be performed by ET members



→ Developing Audit Plan: Expdit LMR

Auditor shall develop an audit plan that shall include the description of

- i) Nature, timing & extent of planned risks assessment procedure as determined under SA 315.
- ii) Nature, timing & extent of planned further audit procedure as determined under SA 330.
- iii) Other planned audit procedure that are required to be carried out so that audit engagement complies all applicable SA's.

NTE of Planned RAR 315

NTE of RAR 330

Other Planned audit procedure

→ Establishing overall audit strategy:

Auditor shall establish & overall audit strategy that the scope, timing & direction of audit & also guides in the development of audit plan

The scope, timing & direction of audit also guide in development of audit plan

In establishing the overall audit strategy auditor shall consider the following:

- (a) Auditor should identify characteristics of engagement that defines its scope. (4 points)
 - Applicable FRF for Entity
 - Ind. specific Reporting Req.
 - Nature of Busi. (Req. need for sp know.)
 - Expected use of AE

- Timetable for supporting
- Discuss NTE of Audit ^{SUKALWA}
- with MAT timing ^{Page} ^{Date}
- Expected NT of ^{Company}

- b) Auditor should ascertain the reporting objectives of the engagement to plan the timing of audit & nature of communication required.
- c) Auditor should consider the factors that are significant in directing engagement terms efforts.
- d) Auditor should also consider the results of preliminary engagement activities & where applicable where knowledge gained on other engagements is relevant.
- e) Auditor should consider the nature, timing & extent of resources which are necessary to performed the engagement.

→ Audit Program:

Series of verification
Applied to a specific AS of FS
to obtain SAAR

- Audit programme includes series of verification steps to be applied to a specific account balance of the FS to obtain SAAR, so that auditor can express an informed opinion on these FS.

Advantages:

Clear set of instruction
selection of assistance
Principle
control
the progress

- i) Total & clear set of instruction for assistants
- ii) Selection of assistance for the easier
- iii) Engagement partner & principle can control the progress of various audit.

iv) It will serve as a guide for audit of succeeding years.

v) It will serve as a evidence in the event of any change of negligence brought against the auditor.

vi) Audit staff can be made accountable for the work carried by them.

Disadvantage:

i) work may become mechanical mechanical & assistance may follow the steps without under- standing object of audit.

ii) Program may become rigid & inflexible.
∴ if there any change in business operation,
staff may carry out the audit with old programme itself.

iii) Inefficient assistance may take shelter behind the programme to defend their deficiency.

iv) A rust audit programme may kill the initiative of efficient assistant assistance.

All these disadvantages may be eliminated by imaginative supervision of the work carried out by assistance, also auditor must have a receptive attitude regarding the assistance.

Encourage
the assistance
to observe
matters
objectively
& bring
significant
matters

i.e. we should encourage the assistance to observe the matters objectively & bring significant matters to the notice of engagement partners.

* Business may vary in terms of size, nature, efficiency of internal control etc. ∴ it is not possible to evolve one audit programme applicable for all business.

→

Periodic Review of the audit programme:

To assess
whether
it is
appropriate
to continue
old AP or
may to revise

i) Auditor should periodically review the audit programme to assess whether it is appropriate to continue with the old audit programme or it is required to be revised.

If periodic
not performed
AP may be
outdated
& overall quality
control may
be affected

ii) If periodic review not performed, auditor may carry out his audit procedure on the basis of obsolete (old) programme & the overall audit may be negligently conducted & auditor may face legal consequence for it.

Utility of
AP can
be enhanced
by periodic
revision
to remove
irrelevant
provisions
from
programme

iii) The utility of audit programme can be retained & enhanced by periodical review, i.e. removing the inadequacies or redundancies from the programme on the basis of changes in entities business operations & internal control.

→ Nature, Timing & Extent of Resources / Benefits of overall audit strategy:

1) Employment of Qualitative Resources:

- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas

2) Allocation of Quantity of Resources:

- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations the extent of review of other auditors work in the case of group audits or the audit budget in hours to allocate to high risk areas.

3) Timing of Deployment of Resources:

- When these resources are to be deployed such as whether at an interim audit stage or at key cut off dates, eg: case to report date.

4) Management of Resources:

- How much resources are managed, directed & supervised, such as when team briefing & debriefing meeting are expected to be held. How engagement partners & manager reviews are expected to take place & whether to complete implementation of internal reviews.

Compliance with SOEs

→ Relation Between Overall Audit Strategy & Audit Plan:

- i) Overall audit strategy guides the broad approach to the audit by indicating the scope, time & direction of audit engagement.
- ii) Audit strategy will help in developing the plan to address various matters identified during the stratigizing phase.
- iii) Audit plan is more detailed than the overall audit strategy since it includes the nature, timing & extent of audit procedure to be performed.
- iv) The establishment of overall audit strategy & audit plan are not necessarily discrete or sequential processes but are closely inter-related ∴ change in one will also impact the other.

→ For the purpose of construction of audit programme following points should be kept in mind: (Factors)

- i) Stay within the scope & limitation.
- ii) Prepare a written audit programme.
- iii) Determine what audit evidence can be reasonably obtained & planned the procedure to obtain the reasonable assurance same.
- iv) Consider the possibilities of error, i.e. ROMM items.
- v) Co-ordinate the procedure to be applied to selected items.

- ✓ unexpected event
- ✓ change in condition
- ✓ AE obtained from results of AP performed

→ Changes to planning decision during course of Audit:

- Auditor shall update & change overall audit strategy & audit plan if the come ~~or~~ arise unexpected ~~or~~ event / changes in condition, on the audit evidence obtained from results of audit procedure performed.

eg: Audit evidence for substantive procedure may contradict with audit evidence from test of control.

→ Nature, Timing & extent of directions of supervision of engagement team member & review their works:

Factors

- a) size & complexity of Business ✓
- b) Assessed ROMM ✓
- c) Capability & competence of individual team member ✓
- d) Area of Audit. ✓

→ The Assistant to keep an open mind:

i) An auditor having regard to the nature, size & composition of the business & dependability of the internal control & the given scope of works.

ii) They should frame a programme which should aim at providing for a minimum essential works which may be termed as a stakeholder programme.

Experience is gained by actually carrying out the work. It may be changed by the nature of the situation of which it is concerned.

iii) As experience is gained by actually carrying out the work, the programme may be altered to take care of situations which were left out originally, but are found relevant for the particular concern.

→ Evolving one audit programme - Not practicable for all Business.

vi) Business vary in nature, size & composition, work which is suitable to one business may not be suitable to others.

ii) Efficiency & operations of internal controls & the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment.

iii) On account of such variations, evolving one audit programme applicable to all business under all circumstances is not applicable.

→ Evaluating compliance with ethical requirements including independence:

- The auditor shall continuously evaluate compliance with ethical requirements including independence.

Independence means that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him.

- EP shall remain alert, through observation & making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the ET.
- If matters come to the engagement partner's attention that indicate that members of the engagement team have not complied with relevant ethical requirements, the EP in consultation with others in the firm shall determine the appropriate action.
- The engagement partner shall:
 - i) Obtain relevant info. from the firm to identify & evaluate circumstance & relationship the create threats to independence.
 - ii) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards or if considered appropriate to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The EP shall promptly report to the firm any inability to resolve the matter for appropriate action.

Besides, consideration for client continuance & compliance with ethical requirements, preliminary engagement activities also include establishing an understanding of terms of engagement.

SA 580 Written Representations

Introduction:

It is a auditor responsibility to obtain written representation from the Mgt. & where appropriate TCWG,

Meaning:

Written statement by Mgt. provided to Auditor to confirm certain matters & support AE

- It can be defined as written statement by the Mgt. provided to the auditor to confirm certain matters or to support another audit evidence.

- WR provides audit evidence but do not provide SAAE on their own. do not provide SAAE on their own

Provide reliable WR does not affect the NTE of AP to AE

- The fact that Mgt has provided reliable WR, does not affect the nature, timing & extent of normal audit procedures to be performed to obtain required audit evidence.

date of WR shall be as near as practicable to date of Auditor's report

- The date of WR shall be as near as practicable to the date of auditor's report. The date WR should not be after the date of auditor's report.

↳ Because WR provides necessary audit evidence & auditor can not express his opinion before obtaining SAAE to form his opinion

Requested WR not provided by Mgt: SP

i) Discuss the matter with management.

ii) AE Evaluate the integrity of mgt. &

AE evaluate the effect on reliability of representation & audit evidence.

iii) Take appropriate actions, including possible effect on the opinion as per SA 705.

Doubt about the reliability of WR: SP

i) When WR are inconsistent with other AE, then the auditor may have concern about the competence, integrity, ethical values or diligence of Mgt. or about Mgt commitment to its responsibility.

ii) Auditor should perform additional & alternative procedure to resolve the matter. If the matter unresolved the auditor should reconsider his assessment of Mgt's competence, integrity, ethical values or diligence etc.

iii) If auditor concludes that the WR are not reliable then he should take appropriate action. He should consider its possible effect on his opinion as per SA 705.

- Auditor should obtain COR in form of a representation letter addressed to the auditor,

~ Disclaimer of Opinion in following cases:

Does not provide requested or requested fulfillment of Mgt. Responsibility

i) When Mgt does not provide the requested COR to the auditor regarding fulfillment of Mgt. responsibility for preparation of FS & other info. to be provided to the auditor & completeness of transaction in FS.

concludes that there is sufficient doubt about integrity of Mgt. provided by Mgt. is not reliable

ii) When auditor concludes that there is sufficient doubt about integrity of Mgt. that COR provided by Mgt. about responsibility for FS, Info. to be provided & completeness for transactions is not reliable.

~ Objectives of COR:

1/11

a) Obtain written representation:

- To obtain COR from the Mgt, COR may include a statement that Mgt has fulfilled its responsibility to prepare & present FS & they have provided required info. to the auditor.

b) To support other evidence:

- COR can act as a support evidence for other AE. i.e. obtained during course for FS audit.

c) To Respond Appropriately:

- Auditor should respond appropriately when Mgt. provides the requested COR & also when Mgt. does not provide requested COR

Responsibility of Mgt in CAR: ^{So}

A) For Preparation of FS:

Auditor shall request the Mgt to provide CAR for FS.

i) Auditor shall request the Mgt to provide a CAR that it has fulfilled its responsibilities to prepare FS as per applicable FRF, as agreed in the terms of engagement.

Mgt is responsible for prep of FS. Expecting to sufficient evidence.

ii) Generally Mgt has responsible for preparation & conducting the entities Business. They are expected to sufficient knowledge about the process that was followed for preparation for FS.

Can make inquiry with other persons.

iii) Sometimes Mgt may include decide inquiries with others i.e. Actuary, entities internal legal counsel.

Mgt may incl. qualifying language in CAR. Auditor may accept such wordings if he believes that the representation made by Mgt & language included is appropriate.

iv) Sometimes Mgt may include Qualifying language in the CAR. Auditor may accept such wordings if he believes that the representation made by Mgt & language included is appropriate.

B) Info provided & completeness of transactions:

Real the Mgt provide CAR that all relevant info & access to the people as agreed in FT.

i) Auditor shall request the Mgt to provide a CAR that it has provided the auditor with all relevant info & access to the people as agreed in engagement terms.

Incl in CAR record all transactions in FS.

ii) Auditor should ask Mgt to include in CAR that they have recorded all transactions in FS that have taken place during the period.

59

Why CAR about Mgt responsibility is necessary?

i) AE obtain the during audit that Mgt has fulfilled its responsibilities for FS & completeness of transactions is not sufficient without obtaining confirmation from Mgt in a CAR that they have fulfilled it.

Car is a
AE that
Mgt has
fulfilled their
responsibilities
for
FS

Auditor
will not
able to
conclude
Mgt has
provided all
required info

ii) Auditor will not able to conclude that Mgt. has provided all required information as agreed to the auditor unless he obtains a confirmation from in CAR regarding the same.

• In exceptional circumstances auditor may also ask Mgt. to acknowledge & understanding of responsibilities in CAR:

i) Those who signed terms on behalf of company are no longer in charge.

ii) The terms were prepared in PY

iii) There is a indication that Mgt misunderstands its responsibilities

SA 570 : Going concern

Meaning:

General purpose FS are prepared using going concern of Accounting unless either intends to liquidate the business or to cease the operations or they have realistic alternative but to do so,

Objective of the auditors regarding GC includes the following:

- Obtain SAAE & conclude on appropriateness of mat. use of GC basis of Accounting
- i) Auditor should obtain SAAE regarding & conclude on the appropriateness of mat. use of GC basis of accounting in preparation of FS.
 - ii) To conclude based on audit evidence obtain that whether a material uncertainty exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a GC.
 - iii) To report in accordance with this SA i.e. consider its implication on the auditor report.
- conclude based on AE whether a material uncertainty

Responsibility of Auditor: scj

- i) It is the auditor's responsibility (obj. point (i) & (ii))
 - ii) As per SA 200 (inherent limitation of audit), There will be a chance that auditor may not be able to detect certain material misstatement due to future events or conditions that may cause an entity to cease to continue as a GC.
- Inherent limit: chance may not be able to detect certain M.M.

iii) Auditor cannot predict future events or condition. If auditor does not include any reference of material uncertainty in his audit report then it can not be viewed as a QC about the entity's ability to continue QC.

4 Risk Assessment procedure & Related Activity: 39

i) Auditor should determine whether mgt. has already performed a preliminary assessment of the entity's ability to continued as a QC.

ii) If mgt. has performed such as assessment then auditor shall discuss about the same with the mgt & also determined whether mgt. has identified such events or conditions which may cast significant doubt on the entity's ability to continue as a QC.

iii) If mgt. has not performed such as assessment the auditor should ascertain the mgt. that what is year basis for intended use of QC basis of Accounting.

iv) Auditor should remain alert throughout the audit for those audit evidence which may indicate company may have QC issue.

v) Auditor should also consider the impact of these matter on his assessment of ROMM under SA 315.

eg: Sometime auditor may come across certain matters which may requested the auditor to revise his assessment of ROMM as well as revision in existing planned in further audit procedure.

~ Evaluating Mgt Assessment:

i) Auditor should evaluate mgt assessment of entity's ability to continue as a going concern

ii) It is not the auditor responsibility to rectify lack of analysis of mgt

iii) Auditor should evaluate the processes followed by mgt, to make such assessment of GC. He should also consider the assumption used for such assessment are feasible or not.

iv) While evaluating the mgt. assessment auditor should cover the same period for which assessment has made, if mgt has not covered at least 12 months from the date of FS then auditor should request the mgt to extend there assessment.

~
Examples
Events | conditions that may exist significant doubt on the entity's ability to continue as a GC 89

2) Financial:

- Net liability or Net current liability position

- Indications of withdrawal of financial support by ^
- Adverse key financial ratios
- Inability to pay creditors on due to dates, inability to comply with the terms of loan agreements
- Change from credit to cash on delivery transactions with suppliers

2) Operating:

- Mgt intentions to liquidate the entity or to cease operations.
- loss of a major market, key customer, franchise licence or principal suppliers.
- loss of key Mgt without replacement
- Labour difficulties
- Emergence of a highly successful competitor.

3) Other:

- Non compliance with other statutory or regulatory requirements
- Pending legal or regulatory proceedings against the entity.

• changes in law / regulation or Govt. policy expected to adversely affect the entity

• Uninsured / underinsured catastrophes when they occur

→ Additional audit procedure when events or conditions are identified: sp

a) If auditor comes across any events or conditions are identified the he should performed additional procedure to understand & evaluate the impact of these events

b) These additional procedure may include the following

i) Discuss & analyse future cash flows & other relevant forecast with the Mgt.

ii) confirm the existence, terms & adequacy of borrowing facilities

iii) Read the minutes of meeting of shareholder & review for reference to financing difficulties

iv) obtain & analyse entities latest available interim financial statements

v) Inquire with entity's legal counsel regarding pending claims & litigation, also whether mgmt assessment regarding these outcomes is reasonable or not.

vi) Adequacy of support for any planned disposal of assets.

Evaluate
Mgt's plan
for future
actions
in relation
to the
outcomes
of GC
assessment

c) Evaluate Mgt's plan for future actions in relation to the outcomes of GC assessment.

Evaluate
Mgt's plan
for future
actions
in relation
to the
outcomes
of GC
assessment

d) where entity has prepared a cash flow forecast then auditor should evaluate the reliability of underlying data on the basis of which forecast is prepared.

Request
for WR
from Mgt
regarding
feasibility
of these
plans

e) Request for WR from the Mgt, regarding these future action plans & feasibility of these plans.

Implementation for the auditor's report. (Module) ~~39~~

Auditor's conclusion on GC:

conclude
on
appropriateness
of Mgt
use
of GC

a) Auditor should conclude on appropriateness of Mgt use on GC basis

Situation
that
material
uncertainty
exists

b) Auditor should conclude on a situation that whether material uncertainty exist.

if Mgt
assess
its
potential
impact
&
likelihood
of occurrence

c) if material uncertainty exists then assess its potential impact & likelihood of occurrence.

SA 260: Communication with TCWG

~> Meaning of TCWG:

responsibility for overseeing strategic direction & obligation related to accountability

i) The persons or organisations with **responsibility for overseeing the strategic direction** of the entity & **obligation related to accountability** of the entity.

Gov. structure varies from entity to entity

ii) Governance structure will **vary from entity to entity**. eg: In some entity's a supervisory board may exist separate from executive board. In other entities board supervisory & executive functions can be performed by a single board.

iii) In some cases, All of TCWG may also **be involved in managing the entity**. However as per Co. Act. for certain company's a separate audit committee is required to be constituted other than management.

iv) Therefore Auditor should **discuss & agree with** engaging party about **relevant persons with whom to communicate**.

~> Matters to be communicated by auditor: 59

Responsible to form opinion prepared by Mgt. even sight of TCWG

i) Auditor shall communicate with TCWG, that they **are responsible to form & opinion on FS** which are prepared by management with the oversight of TCWG & such opinion **does not relieve mgt / TCWG of their responsibilities**.

Communicate with TCEQ, about his planned scope & timing of audit. He should also discuss significant risks identified for the purpose of audit.

→ Significant findings from the Audit: ~~SP~~

i) Significant difficulties if any encountered during audit

ii) Circumstances that may affect the form & content of auditor's report. Eg: matter to be included as per SA 701, 705 & 706

iii) Auditor's views about significant qualitative aspects of entity's accounting policies, disclosures or accounting estimates

iv) Unless all of TCEQ involved in managing the entity auditor should communicate all significant matters that were discussed with management during the course of audit & also written representation requested from management.

v) Any other significant matter which in auditor's professional judgement, is relevant to be discussed with TCEQ.

59 In case of listed companies:

- i) Auditor shall also communicate with TCCo. A statement that audit firm & the engagement team have complied with relevant ethical requirements regarding independence

Complied with ethical requirements

Note: All relationship & matters between the firm, network firm & the entity which may impact independence should be communicated to TCCo.

eg: Total fees charged for audit & non audit services if any provided by the firm or network firm to the entity or components controlled by the entity.

- ii) Sometimes threats to independence arise auditor may implement safeguards to eliminate or reduce such threats then these matters should also be communicated.

Also communicate threat to independence & implement safeguards to eliminate

→ Significance of communication with TCCo:

- i) Auditor & TCCo will be able to develop a constructive working relationship while maintaining auditor's independence & objectivity.

Able to develop a constructive working relationship

- ii) This will help the auditor in obtaining relevant info from TCCo.

Help in obtaining relevant info from TCCo

- iii) TCCo will be able to fulfil their responsibility to oversight financial reporting process appropriately.

TCCo will be able to fulfil their

Objective of SA 260: 59

- i) To communicate clearly to TCWG the responsibilities of auditor in relation to FS.
- ii) To obtain from TCWG info. relevant to audit.
- iii) To promote effective two way communication between TCWG & auditor.
- iv) To provide TCWG with timely observations arising from the audit that significant & relevant to responsibility to oversee the financial reporting process.

SA 265: Communicating Deficiency in Internal Control to TCWG & Mgt.

Meaning of Deficiency in Internal Control:

- a) when a control is designed & implemented in such a way that it is not able to prevent, or detect & correct material misstatement on timely basis.
- b) A control that is necessary to prevent or detect & correct a misstatement is missing.

• Significant Deficiency:

A deficiency or combination of deficiencies which in auditor's professional judgement is of sufficient importance to merit the attention of TCWG.

→ 59 Process to communicate significant deficiency to TCOG:

a) Auditor shall communicate in writing to TCOG on timely basis

b) written communication should include the following

• Description of deficiency along with explanation with potential effects

• Sufficient information, i.e., so that TCOG & Mgt can understand context of communication

Note:

Auditor should explain the purpose of audit to express opinion on FS. & His audit included consideration of internal controls, not for expressing opinion on effectiveness of internal control.

• Now a days, we are required to express our opinion on IFCs which are relevant for financial reporting.

→ Examples of indicators of significant deficiencies in internal controls: 59

i) Absence of Risk assessment process in the entity

ii) Evidence of ineffective risk assessment process

iii) Evidence of Mgt's inability to oversee the preparation of the FS

SA 450: Evaluation of Misstatement identified during Audit

→ Meaning:

Responsibility to evaluate effect of identified & uncorrected misstatement on FS

Deals with the auditor's responsibility to evaluate the effect of identified & uncorrected misstatement on financial statements.

→ Objective of SA 450: SA

Effect of identified misstatement on audit

i) The effect of identified misstatement on the audit &

Effect of uncorrected misstatement on FS

ii) the effect of uncorrected, if any on the financial statements.

(1) → Accumulation of misstatement identified during the audit

Accumulation of all misstatement identified during course of audit

Auditor should accumulate all the misstatement identified during the course of audit, (other than those that are clearly trivial) extremely small misstatement.

ex: an inaccuracy in gathering or processing data from which financial statements are prepared or an omission of an amount or disclosure can result into misstatement.

(ii) → Consideration of identified misstatement as the audit progresses

If identified misstatement could be material individually or aggregated.

i) Auditor shall determine whether overall audit strategy & audit plan needs to be revised if the effect of identified misstatement could be material either

individually or it may indicate that there can be other misstatement which may prove to the material if when aggregated.

ii) Auditor should request the mgt. to examine transaction or A/c balance in detail to understand the actual course of misstatement identified by the auditor. Auditor may be required to perform additional procedure to conclude whether the identified misstatement actually represents a misstatement in the FS.

(iii) Communication & correction of Misstatement: SA

i) Auditor shall communicate on a timely basis about all the misstatement identified during the audit to the appropriate level of mgt.

ii) Auditor should request the mgt. to correct all communicated misstatement. If mgt. refuses the request the same auditor should understand the reasons & consider its effect on his opinion as per

SA #05

(iv) Evaluating the effect of uncorrected Misstatement: SA

i) Before evaluating the effect of uncorrected misstatement auditor should assess that whether materiality level determined under SA 320 are still appropriate

ii) Auditor should considered the following while determined that whether a misstatement is material either individual or when aggregated with others

Consider size & Nature of Misstatement

• Consider the size & Nature of misstatement

Effect of uncorrected misstatement relating to prior period in C/Ps

• Consider the effect of uncorrected misstatement is relating to prior period in the C/Ps.

Conclude the identified & uncorrected misstatement exceeds the materiality level

iii) If auditor concludes that the aggregate of the identified & uncorrected misstatement exceeds the materiality level defined under SA 920,

→ It should communicate & request the mgmt. to correct the same. If they refuse the correct he can consider its effect on his opinion as per SA 705.

It should communicate & request the mgmt. to correct the same. If they refuse the correct he can consider its effect on his opinion as per SA 705.

(v) Written Representation from Mgt. regarding effects of uncorrected statements:

Obtain WR from Mgt that they believe the effects of uncorrected misstatement are not material in aggregate

• Auditor should also obtain a WR from the mgmt. stating that they believe the effects of uncorrected misstatement are not material either individually or when aggregated with other. A summary of such item should be included on attached with WR.

Particulars of Engagement

SA 220: Quality control for an audit of financial statements

1) As per SA 220, the objective of the auditor is to implement Quality control procedure at the engagement level that provides the auditor with Reasonable assurance regarding following:

To implement Quality control procedure at Engagement level & provide Reasonable assurance

Compliance with all PRL req.

- The audit complies with all professional & Technical standard & legal & regulatory requirement.
- The audit report issued is appropriate in circumstances.

Report issued appropriate in circumstances

2) Engagement Partner is responsible for following matter:

- a) Leadership responsibility for Quality of Audit
- b) Compliance with applicable ethical requirement including independence
- a) Acceptance & continuous of Client Relationship
- d) Assignment of Appropriate engagement team members
- e) For overall engagement performance
- f) Monitoring

a) Leadership Responsibility for Quality of Audit:

Take respons. for overall Quality of Audit

- Engagement partner (EP) should take responsibility for overall quality on each audit engagement.
- EP should emphasis for following aspect to ensure audit quality.

Compliance with applicable PRL

- Performing works that complies with applicable professional standards & legal requirements.

Appropriate circumstances

- Issuing audit report, i.e. Appropriate in circumstances

Complying with firm's QCP

- Complying with firm's quality control policies & procedures.

b) Relevant Ethical Requirement:

Ensure all team members ethical

• EP should ensure that all team members complies with applicable independence & ethical requirement.

If any threat to independence

- In case of any threat to independence engagement partner should take safeguard to independence so that such threats can be eliminated / reduce

Extreme circumstances could arise

- In case of extreme circumstance engagement partner may consider withdrawal.

c) Acceptance & continuance of client relationship:

Obtain relevant info for decision

• EP should perform acceptance & continuance analysis to obtain such information which will be necessary to decide whether to accept an initial audit engagement or to continue an existing engagement with client.

• Information may include following:

- i) Integrity of principal owners / top level mgt.
- ii) Competence & capabilities of ET members incl. availability of time & resources

- iii) compliance of ethical requirements by ET members
- iv) significant matters that have arisen during current & previous years audit engagement.

d) Assignment of Engagement Team:

Ensure the competence & capability of team members

- It is a responsibility of EP to ensure that competent & capable team members are assigned the audit engagement, so that overall engagement can be performed accordance with PRL.

e) Engagement performance:

Responsibility of direction, review, supervision with PRL

- EP has the responsibility for direction, supervision & review, so that audit engagement is performed in accordance with PRL.

Review the Audit Doc before AR issued

- It is the responsibility of EP, to review the audit documentation before Audit Report is issued. EP should ensure that SARE has been obtained to support the conclusion reached & opinion issued in audit report.

Responsible for undertaking in app. consult on difficult matters

- EP is also responsible for undertaking appropriate consultation on difficult / contentious matters.

Determine that QCR exist, such as engagement

- In case of listed co, or certain other engagement for which A firm may determine that a Quality Control Review required then for such engagement partner should consider following.

Determine QCR Appoint

- i) Determine the QCR has been appointed

Discuss all significant matters with QCA
 ii) EP should discuss all significant matters identified during with QCA. (Quality control reviewer)

Don't put date before completion of QCA
 iii) EP should not put date on the auditor's report until completion QCA.

Any conflict on opinion follow firm's policies & procedures
 • If there is a difference of opinion between EP & QCA or within the ET or with those consulted by auditor then they should follow firm's policies & procedures to resolve such difference of opinion.

b) Monitoring:

Evaluate an effective system of QC incl. monitoring process
 • EP should evaluate whether an effective system of QC including monitoring process is designed & implemented to achieve the objective of SA 220.

• EP should document the following compliance with ethical requirements:

Issue regarding compliance & ethical req.
 i) Issue identified regarding compliance with ethical requirement

ii) conclusion reach th. regarding the continuance & acceptance analysis

iii) Nature, scope & conclusions drawn by undertaking consultation by using the works of expert during the audit.

Issue related independence
 iv) Issue related to independence requirement if Any

Professional Skepticism:

Attitude of
Being alert
to conditions

a) It refers to the attitude of being alert to the conditions, i.e., maintaining the attitude of Questioning mind,

Help in critical
assessment
of AE

b) Professional skepticism will help in critical assessment of audit evidence obtained by the auditor,

More
consciously
in following

c) Auditor should maintain professional skepticism throughout the audit but more consciously under following circumstances,

Come
across
contradictory
AE

i) If he comes across contradictory audit evidence

Indicate
possible
fraud

ii) Conditions that indicate a possible fraud

Question on
reliability
of Doc AE

iii) Inquiries brings into Question the reliability of documents or audit evidences

Reduce
following
Risk

d) Maintaining Professional skepticism throughout the audit is necessary if the auditor wants to reduce the following risks,

Overlooking
unusual
circ

i) Risk of overlooking unusual circumstances

Overgeneralizing
while drawing
conclusion

ii) Risk of over generalising while drawing conclusion from audit evidence,

Risk of
using inappropriate
assumption

iii) Risk of using inappropriate assumptions while determining NTE of audit procedure & while evaluating result of such audit procedures

Short Note on Independence:

a) Independence implies that the judgement of person is not subordinate to the wishes or direction of another person who might have engaged the auditor.

b) There are two interlinked perspectives for independence of auditor i.e. i) Independence of Mind
ii) Independence of Appearance

Independence of Mind

Independence of Appearance

- It refers to the state of mind that permits or allows the auditor to express his opinion without being influenced or affected by anyone.

- The avoidance of fact or circumstances that are so significant that a reasonable well informed third party will conclude that the audit firm & its team members integrity, objectivity & professional skepticism.

i.e. Nothing should compromise his professional judgement which will not allow him to act with integrity, exercise objectivity & professional skepticism.

Threats to Independence:

1) Self Interest Threat:

Occurs when
audit firm &
partner could
benefit from
fin. interest

• These threats will occur when an audit firm, its partner or associate could benefit a financial interest either directly or indirectly in audit client.

- Examples:
 - Loan / Guarantee ✓
 - Contingent fees (in%) ✓
 - Potential employment ✓
 - Undue dependence on client fees. (Major) ✓

2) Self Review Threat:

Reviewing
any judgement
which will
depend on
auditor himself

• These threats may occur when an auditor is reviewing any judgement / conclusion which will be obtained by auditor himself in previous audit.

- Sometimes a member of audit team can be previously a director or senior employee of the client.
- If audit firm has performed certain non-audit engagements, then he should not audit FS of same co. since will be self review threat.

3) Advocacy Threats:

Auditor
Promote &
Perceived to
Promote

- These threats occur when the auditor promotes, or is perceived to promote a client's opinion to a point where people may believe that objectivity is getting compromised.

eg: An auditor deals with shares of the qualified co,
or becomes the client's advocate in litigation
and party disputes

4) Familiarity Threats:

Auditor from
relationship with
client can
end up being
too sympathetic

• These threats arise self evident & occur when auditors
from relationship with the client where they end up
being too sympathetic to the client interest. This
can occur in many ways including:

- Close relative of audit team working in a senior
position in the client Co.

- Acceptance of significant gifts or Hospitality from
client company.

- Long association between specific auditors & their
specific client counterparts.

5) Intimidation Threats:

Auditor
not allowed
act
objectively

• These will occur when auditors are not allowed to
act objectively, i.e. Not allowed to apply professional
scepticism.

• Examples of intimidation can be

- Threat of Replacement due to disagreement about
Accounting principles, or

- A significant pressure to reduce scope of work else
audit fees will be reduced or

- Being threatened with litigation

- Not in such cases of threats to independence if no safeguards are possible then auditor should consider withdrawal from the engagement.

~> Safeguards to Independence:

a) Safeguards are the actions which either individually or in combination an auditor can take to reduce the impact of threats.

Action either individually or in combination to take reduce the impact of threat

b) To address the independence issue, following guiding principles are provided for the audit firms:

i) For public to have confidence in the quality of audit should make sincere efforts to identify if there can be any threats to independence.

ii) Before accepting any new engagement auditor should make

Public to have confidence in quality of audit & auditor always be appear to independent

i) For public to have confidence in the quality of audit auditor should always be & appears to be independent.

Put sincere effort before accepting the audit

ii) Before accepting any new engagement auditor should make sincere effort to identify if there can be any threats to independence.

iii) If any such threats to independence exists then auditor should try to implement adequate safeguards to reduce the impact / eliminate such threat.

iv) If (reasonable safeguards) can not be implemented then auditor should not accept such an audit engagement

Note:

If any such threats to his independence are identified after the acceptance of such engagement then similar procedure should be performed & auditor should also keep TCOG well informed about such circumstances

→ Principal Based Approach vs Rules Based Approach.

• ethical guidance may follow principle based approach or Rules based approach.

→ Principle Based approach to ethics that is :

- It requires compliance with spirit of ethics *compliance with spirit of ethics*
- It requires to exercise professional judgement in every situation with use of skills & expertise *to exercise the PJ in every situation*
- It requires that accountant should use P.J. to evaluate every situation to arrive at conclusion *Accountant use PJ in every situation*

However

→ Rule Based Approach to ethics:

- Strictly follows clearly established rules *Strictly follows established rules*
- It may lead to a narrow outlook & spirit of ethics may be overlooked, while strictly adhering to rules *lead to narrow outlook*

→ Meaning of Ethics & Fundamental Principles:

Principles of
conduct
governing an
individual or
group

- Ethics are the principles of conduct governing an individual or group.

①

Integrity:

materially false, misleading info.

Required
to be honest
& straight
forward

- Professional accountant required to be straight forward & honest in all business relationship.

fair dealing
& truth full.

- Integrity implies fair dealing & truthfulness.

not knowingly
associated
with AP
fraud etc.

- Professional Accountant shall not knowingly be associated with reports, returns, communication that contains materially false or misleading statement.

②

Objectivity:

Not compromise
p.s. because
of bias,
conflict of int.
influence of
others

- An auditor not to compromise professional judgement because of bias, conflict of interest or undue influence of others.

- Accountant shall not undertake a professional activity if a circumstances / relationship, undue influence.

③

Professional Competence & Due Care:

to attain &
maintain
prof. knowl-
edge to ser-
vice client.

- Accountant required to attain & maintain professional knowledge & skills at that level required to ensure the client.

incl. steps to
act carefully
on their
part

- Diligence includes responsibility to act carefully on timely basis in accordance with requirement of assignment.

④ Confidentiality

To respect
the confidentiality
of info.
disclosed

• Professional Accountant to respect the confidentiality of
confidential information acquired as result of busi. relationship

• Such confidential info. may be disclosed, when it is
required by law, & it is permitted by client.

⑤ Professional Behaviour

Complies
with relevant
law & Regn.
avoid
conduct
which
the public

Accountant complies with relevant laws, regulations &
avoid any conduct that accountant might discredit
the profession.

Accountant shall not knowingly engage in any employment
that impairs the integrity, objectivity or reputation of
the profession.

→

Audit Trail :

- i) It is a documented flow of transaction. It is used to investigate how a source document was transferred into an account entry & from there it was inserted into financial statement of an entity.
- ii) It is used as AE to establish authentication & integrity of transaction & also help in maintaining record of system & user activity
- iii) It act as secondary source of document evidence of certain events, procedure, because their purpose to reduce fraud, material errors & unauthorized use
- iv) It help to enhance internal controls & data security
- v) It can help in fixing responsibility, rebuilding events & in thorough analysis of problem areas.

→

Auditor's judgement as to sufficiency may be affected by the factors such as:

① Materiality:significance

- It may be defined as AB, C, D to the users of FS
- less evidence would be required in case assertions are less material to users. on the other hand more evidence would be required in case assertion are more material to users

② Risk of Material Misstatements

- This consists of two components which are inherent risks & control risks
- **Less evidence** is required in case assertions that have **lower risk of M.M.**, on other hand **more evidence** is required in case assertions that have **more / Higher ROMM**

③ Size & characteristics of Population

- It refers to the **No. of items included in population**
- **Less evidence** is required in case of **smaller, more homogeneous population**, on other hand **more evidence** is required in case of **larger, more heterogeneous populations**

Meaning & Nature of Auditing:

- i) An audit is an independent examination of financial information of any entity whether profit oriented or not, & irrespective of its size or legal form, where such an examination is conducted with a view to expressing an opinion thereon.
- ii) Auditor should be independent. He should form his opinion without being affected by an influence.
- iii) Financial statements audit are performed for all types of organisation.
- iv) Mgt. is responsible to prepare & present of FS.

Following points should be kept in mind while Auditing FS, so that they don't mislead anyone:

- i) **No omission** of entries while compilation of accounts.
- ii) All entries are **supported by SAAR**.
- iii) **FS** presents a true & fair picture of entity.
- iv) Amounts are **properly** classified, described & disclosed in compliance with AS.
- v) Info. conveyed in FS is **clear & unambiguous**.

Objective of Audit:

Objective
of
SA 200

i) To obtain reasonable assurance about whether FS are whole free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether FS are prepared in all material respects, in accordance with applicable FFR.

To report on the FS & communicate as required by SAs in accordance with auditor's findings

High level
Assurance
not absolute
assurance

ii) Reasonable assurance is High level assurance but it is not absolute assurance. Therefore, auditor can not give guarantee that FS are free from misstatement

Perform
procedures
in accordance
with SA
to accept
level

iii) Auditor performs his audit procedure in accordance with SAs, to obtain SATs so that he can reduce his audit risk to an acceptably low level.

iv) Misstatement can occur due to fraud & error on both

v) Auditor should express an opinion, that whether FS are free from material misstatement or not, through a written report.

Qualities of Auditor:

- ✓ Tact
- ✓ Good temper
- ✓ Integrity
- ✓ Patience
- ✓ Position of Trust
- ✓ Reliability
- ✓ Judgement
- ✓ Exhaustive knowledge

d. Accounting

→ Benefits of Audit : why audit is needed :

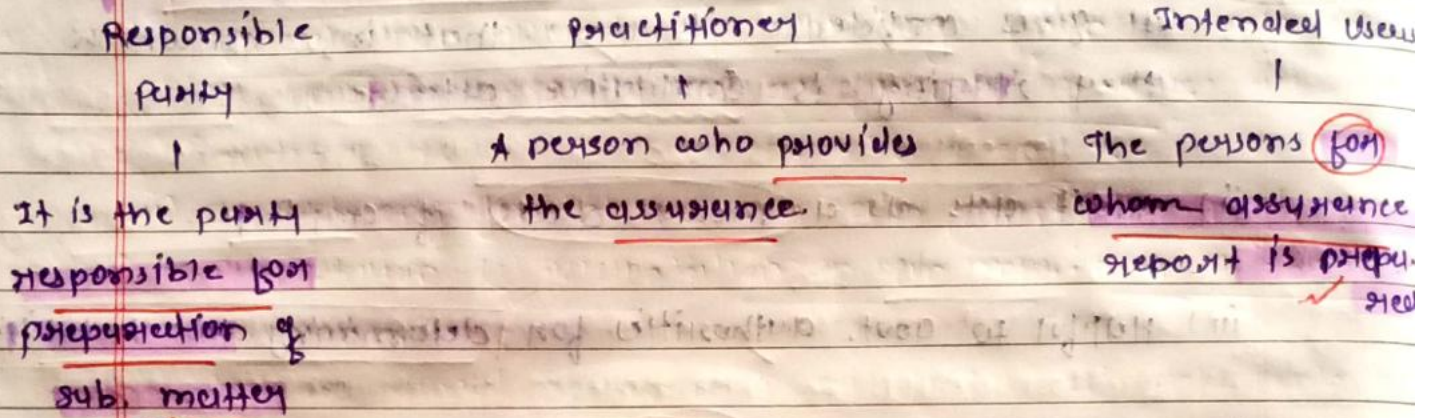
- Provide High Quality info. gives confi. to users
- Moral check of emp.
- Determine tax for Govt.
- Audit FS checked by bank for credit
- detect fraud
- For SH work as safeguard by audit
- i) Audited accounts provide High Quality information. It gives confidence to users that info. on which they relying is Qualitative outcome
 - ii) Audit acts as a moral check of employees
 - iii) Helpful to Govt. authorities for determining tax liabilities
 - iv) Audited FS can be relied upon by lenders, banks for making their credit
 - v) Audit may also detect fraud or error or both
 - vi) In case of co. Shareholders are owners of co. & co. manage by directors. Need the independent mechanism, so that financial info is Qualitative & reliable. Hence, int of SH is supervised by audit.

→ Meaning & Elements of Assurance Engagement:

- To enhance degree of confi. other than responsible parties about outcome of the evaluation of subj matter against criteria
- It means an engagement in which practitioner express a conclusion designed
 - To enhance the degree of confidence of intended users other than responsible parties
 - About the outcome of the evaluation of subject matter against criteria

Elements of Assurance

① A three party relationship



② Subject Matter: As an info. that should be prepared by responsible party, & examined by the practitioner

③ Suitable criteria: It refers to benchmark used to evaluate the subject matter.
like: laws, rules, standards, ...

④ Sufficient & Appropriate Evidence:

- Sufficient related to Quantity of evidence obtain by auditor
- Appropriate " Quality "

⑤ A written assurance report in appropriate form:

- It is provided containing conclusion that conveys assurance about subject matter

Reasonable Assurance Engagement (SA)

- It provides high level of assurance
- It performs elaborate & extensive procedure to obtain SAAB
- It draws reasonable conclusions on the basis of sufficient & App. evi.
- Ex: Audit Engagement

SAs

Limited Assurance Engagement (SRE)

- It provides lower level of assurance than reasonable assurance engagement
- It performs fewer procedure as compare to reasonable assurance engagement.
- It involves obtaining sufficient conclusions, appropriate evidence to draw limited conclusion
- Ex: Review engagement

SRE 2400: to Review Historical FS
SRE 2410: to Review Interim FS
performed by Incl. Aud.

Historical Financial: It refers to events, transactions or information conditions which have occurred in past events

Prospective Financial: It refers to future events & possible events by the entity, these info. based on assumptions

Standards on Related Services (SRS)

- To perform agreed procedure
• Performing compilation of Fin info.
- i) It will apply in case of engagements either to perform agreed upon procedure regarding financial info, or to perform compilation of financial info.
- Assist the mgt in P&P without obtaining assurance
- ii) In such engagement we can also assist the mgt. in preparation & presentation of Fin. info. without obtaining assurance.
- Foot compilation state that it is not assurance & no opinion is being expressed
- iii) Therefore while issuing report for compilation engagement practitioners should clearly state it is not an assurance engagement & no opinion is being expressed.
- iv) Example: SRS 4400: to perform agreed upon procedure
SRS 4410: compilation engagements

Standards on Assurance Engagements (SAEs):

- Dealing the sub. matter other than his. FS info.
• do not incl. Audit or review
- i) It is another set of standards, dealing with subject matters other than historical financial info.
- ↳ such assurance engagement do not include 'review' of historical financial info. These standards are known as Standards on Assurance Eng.
- To examine of prospective Fin info.
- ii) An assurance engagement relating to evaluation of prospective financial info. It may relate to such as non financial matters like design & operation of internal control in an entity.

iii) Example:

< SAE 3400 : Examination of Prospective Fin. Info

< SAE 3420 : to report on the compilation of Prospective financial info, incl. a prospectus

→ Standards on Auditing (SAs)

done by independent auditor on His info

i) It is apply in context of an audit of financial statements by independent auditor on historical information

establish High Quality benchmark for audit

ii) These establish High Quality benchmarks for audit of financial statements

Issued on wide spectrum of issue in field of auditing

iii) It have been issued on wide spectrum of issues in field of auditing ranging from overall objectives of independent auditor, audit documentation, planning etc.

iv) Ex: SA 200, 315, 700, 315, 500

→ why standards needed!

Structure every audit according to benchmark at global

i) It ensure consistency out of audit against established benchmark at global with global standards

Improve Quality

ii) It improve Quality of financial reporting

Promote uniformity

iii) It promote uniformity of audit of fs

Equip the Prof with skills

iv) It equip professional accountants with prof. know. & skills

Ensure quality

v) It ensure audit quality

→ Scope of Audit: (included)

1) Coverage of all aspects of entity:

Audit is organized adequately to cover all aspects

It should be organized adequately to cover all aspects of entity.

2) Reliability & Sufficiency of Financial info.:

Personnel satisfied
Acc. records is reliable & suff. basis

Auditor should reasonably satisfied that info. contained in accounting records is reliable & sufficient basis for preparation of FS.

Auditor makes judgement of reliability & sufficiency of Fin. info. by making assessment of accounting systems & internal controls

Auditor makes a judgement of reliability & sufficiency of Fin. info. by making assessment of accounting systems & internal controls.

3) Proper Disclosure of Financial info.:

Info properly disclosed

Auditor should decide whether relevant info. is properly disclosed in FS.

Mgt responsible for selection of FS

Mgt responsible for preparation & presentation of financial statements makes many judgements for process of preparing & presenting FS.

evaluate the selection of policies

Auditor evaluates selection & consistent application of accounting policies by mgt. such selection is proper & applied consistently on period to period basis.

(Not included)

not expected to perform duties fall outside the domain of competence

i) Auditor is not expected to perform duties which fall outside domain of his competence

ii) Auditor is not an expert of authentication of Doc.

iii) Auditor is not an official investigation

↳ He does not have any specific legal powers of search

iv) Preparation & presentation of FS is not responsibility of auditor

Inherent Limitation:

1) Nature of Reporting:

• Preparation of FS involves many judgements by mgt. These judgements involve subjective decision on a degree of uncertainty. Therefore Auditor may not be able to obtain absolute assurance that FS are free from material misstatement, due to fraud & errors

2) Nature of Audit Procedures:

• Auditor carries out his work by obtaining AE through performance of Audit procedures. However there are practical & legal limitation on ability to obtain audit evidence.

• Mgt may not provide complete info, as requested by auditor. There is no way by which auditor can force mgt. to provide complete info.

Mgt may consist of dishonest & unscrupulous people & may be it self, involved in fraud. It may be engaged in concealing fraud by designing sophisticated & carefully org. schemes which may hinder to detect by the auditor

3) Not in Nature of investigation:

Audit is not an official investigation, Hence, auditor cannot obtain absolute assurance that FS are free from MM due to fraud & errors

4) Timeliness of financial reporting & Decrease in relevance of info. over time:

The relevance of info. decrease over time & auditor cannot verify each & every matter, therefore a balance has to be struck between reliability of info. & cost of obtaining it.

5) Future events:

Future events or conditions may affect an entity adversely. Adverse events may seriously affect ability of an entity to continue its business

Therefore, it is in view of above factors, that an auditor cannot provide a guarantee that FS are free from MM due to fraud & errors.

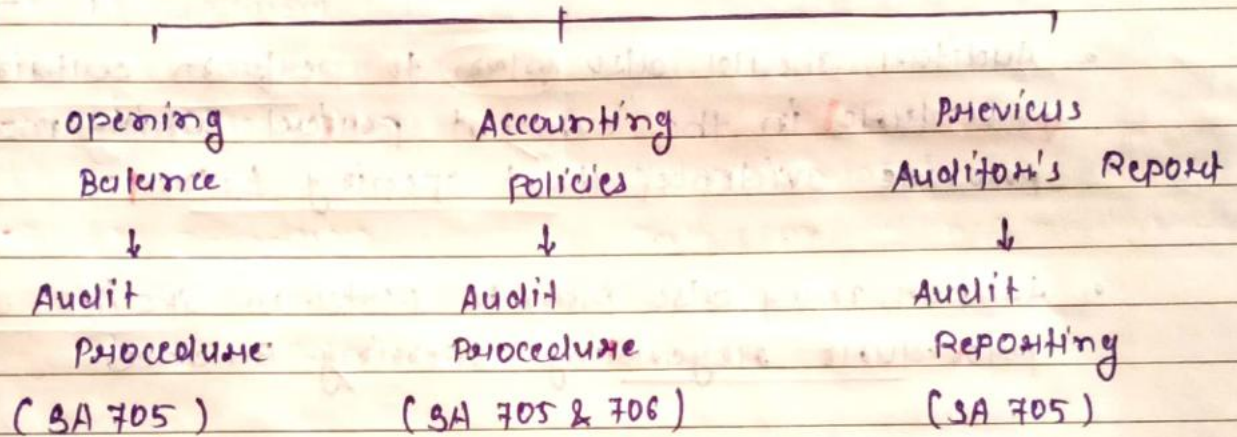
Audit Procedures

- Risks Assessment Procedures
- 1) Inquiry
 - 2) Observation
 - &
 - 3) Inspection
 - 4) Reperformance
 - 5) Recalculation / Recomputation
 - 6) External confirmation
 - 7) Analytical procedures
- } Nature of TOC,
Testing method in Automated Env.

1 to 7 : Audit Procedures / Methods
to obtain Audit Evidence

SA 510 : Initial Audit Engagement

Initial Audit Engagement



Opening Balance:

A) Audit Procedure regarding Opening Balance:

i) Auditor shall obtain SABE that opening balance are free from material misstatement or not, i.e. whether there are any misstatement in opening balance that may materially affect in CY FS.

ii) Auditor may also following procedure regarding

- Determine whether prior period closing balance are correctly brought forward to current period.

- Determine whether opening Bal. reflect appropriate Accounting policies which are consistency followed in current period also.

Obtain SABE the OP Bal. P.P.M.

Prior period Bal. correctly to CY

Op. Bal. reflected acc policies

If the prior period numbers were audited then auditor should obtain & evaluate the copies of audited FS & other relevant documents, which are available such as WR, communication by previous auditor to Mgt & TCWG.

Auditor should also plan to perform certain audit procedure in the current period which may provide evidence about opening balance.

Auditor may also plan to perform specific audit procedure regarding opening balance.

B) Reporting Requirement :

i) If the auditor is unable to obtain SAAE regarding the opening balances, the auditor shall express a Qualified or Disclaimer of opinion as appropriate in accordance with SA 705.

ii) If the auditor conclude that the opening balances contain a misstatement that materially affects the current period FS & that effect of the misstatement is not properly accounted, presented or disclosed. Then auditor shall express a Qualified or Adverse Opinion (SA 705).

Consistency of Accounting Policies:

A) Audit Procedure:

Auditor shall obtain SAAE that whether Accounting policies reflected reflected in opening balances are consistency & followed in consistent years

↳ If there are any changes in accounting policies then auditor should evaluate whether it is appropriately accounted & disclosed as per applicable FRF.

B) Reporting Requirement:

i) The current period's accounting policies are not consistently applied in relation to opening balance in accordance with applicable FRF.

ii) A change in Accounting policies is not properly accounted for or not presented or disclosed in accordance with applicable FRF. (Accom. SA 705)

Predecessor Auditor's Report:

i) If the PF FS were audited by a predecessor auditor & there was a modification in their report then auditor should evaluate the effect of such matter in the current period FS considering SA 315.

ii) If auditor concludes that the modification in the PY auditor's report is relevant & material in the current period FS, then he should modified his audit opinion As per SA 705, 081 & 10.

→ The Nature & Extent of Audit Procedure to be performed to obtain SAAE regarding opening Balances depends the following factors:

i) The accounting policies shall followed by entity

ii) Nature of Transaction, A/c Balance, & disclosure (assertions) & ROMM in current period FS.

iii) Significance of opening balance in relation to current period FS.

iv) Whether prior period FS were audited & whether modified opinion was given by predecessor auditors

→ Objectives: obtain SAAE about whether:

i) opening Bal. contain misstatement that materially & affect the current period's FS.

ii) Appropriate Accounting policies reflected in op. Bal. have been consistently applied in cy. period of FS. or change thereto properly accounted for adequately presented & disclosed accordance with appl. FRs

SA 501: Specific consideration for selected items

Inventory:

a) Auditor should obtain SAAE regarding the existence & condition of inventory.

b) when inventory is immaterial to FS for obtaining SAAE auditor should attend physical inventory counting. It may involve following:

i) Auditor should evaluate mgt instruction & procedure for inventory counting & also see whether employees are compliance with such instruction & procedure.

ii) Observe the performance mgt. count process.

iii) Auditor should inspect the inventory by performing test count. This will help in obtaining reliable audit evidence regarding existence & condition of inventory.

c) If physical inventory counting is conducted by mgt. on a date other than the date of FS.

i) If inventory counting is conducted at a date other than the date of FS, then auditor should perform additional procedure to evidence about changes in inventory between date of count & date of FS.

iii) Auditor may consider the following aspects while performing these additional procedures:

Perpetual records date and property

Records are reliable

Reason for diff. between info. obtain from & Perpetual

- whether perpetual inventory records are properly adjusted.
- whether these records are reliable
- Reasons for diff. between info. obtain during physical count & perpetual inventory records.

d) If auditor is unable to attend physical inventory counting due to unforeseen circumstances:

When unable to obtain phy. inv. → Perform Alt. audit pro. regarding

- Auditor should perform an & alternative date & perform audit procedure on intervening transaction. (i.e. transaction b/w inventory count date & auditor inventory inspection date.)

e) If attendance of physical inventory counting is impracticable:

i) If attendance of physical inventory counting is impracticable, then auditor shall perform alternative procedure to obtain SAAE regarding existing & condition of inventory.

ii) If auditor is not able to obtain SAAE, He should consider its effect on his audit opinion as per SA 705.

iii) In some cases attendance may be impracticable due to factors such as nature & location of inventory. eg: uncertain mining sites there can be risk / threat of safety for auditors.

iv) Matter of general inconvenience to the auditor is not sufficient to support the decision that attendance is impracticable as per SA 200. Auditor cannot use time constraint, cost involved as valid excuse for not performing an auditor procedures for which there is no alternative procedures.

General inconvenience is not sufficient for att. is impracticable

Cannot use time constraint & cost involved

App incl doc. received sub sales purchase bill log docs

v) Alternative procedure may include inspection of documentary evidence such as subsequent sales invoiced, purchase invoices date before inventory counting date, logistic documents supporting goods inward & outward date etc.

SA
f) when inventory under the custody & control of a 3rd party:

i) Auditor may perform the following procedure:

- Request confirmation for 3rd party regarding qty & condition of inventory
- perform inspection i.e. physical verification of inv.
- other audit procedure such as
 - inspecting documentation regarding inventory held by 3rd party

- Request confirmation from other parties if inventory has been pledge & given as collateral

- Attend or arrange another auditor to attend physical inventory counting performed by 3rd party.

- Obtain another auditor's report, i.e., whether 3rd party has adequate controls for inventory recording & safeguard.

sa

g) Matters relevant in planning attendance at physical inventory counting:

- < i) Nature of inventory
- < ii) stages of completion of work in progress
- < iii) the ROMM related to inventory
- < iv) the nature of internal control related to inventory
- < v) whether proper instructions issued for physical inventory counting
- < vi) The timing of physical inventory counting.
- vii) whether the entity maintains a perpetual inventory system.
- < viii) whether the assistance of an auditor's experts is needed.

Litigation & Claims :

- scg
- a) Auditor shall design & perform audit procedure to identify litigation & claims which may give rise to ROMM. These procedure may include as following
- i) Inquiry with Mgt & with other within the entity.
 - (if Appli) ii) Auditor can also inquiry in House legal counsel,
 - iii) Review minutes of meetings of TOW & BOD
 - iv) Auditor should also review the correspondence or communication between the entity & their external legal counsel.
 - v) Review legal exp. Accounts (sampling is not Allowed)

Note:

Above mentioned procedure will help the auditor in examining the completeness of claims & litigation involving the entity.

b) When there are indication that material claim & litigation exist & Mgt is trying to hide the same from auditor:

- i) If auditor assesses a ROMM regarding claims & litigations & believes that material litigation may exist which is not impaird by the mgt then auditor should plan to obtain a direct confirmation on communication with entity's external legal counsel.

obtain
Direct
confirmation
from external
legal
counsel

Send a letter
of inquiry
to external
counsel

ii) Auditor can send a letter of inquiry to the entity's external legal counsel & request them to respond directly with auditor.

External
counsel may
not be able to
respond because
it is prohibited
by law

iii) sometimes entities' external legal counsel may not be able to respond because it's prohibited by law or regulation or professional body may not permit or recommend reply to general letter of inquiries.

perform
alternative
audit
procedures
if sending
specific
letter
of inquiry

iv) In such cases, Auditor should consider performing alternative audit procedure or may be sending a specific letter of inquiry which may include the following.

- A list of claims & litigation
- Mgt assessment of outcome for each litigation & estimate financial implication i.e., cost involved.
- A request that external legal counsel to confirm whether mgt assessment is reasonable or not.

Notes:

In certain circumstances auditor may conclude that it is necessary to meet the entity's external legal counsel to discuss about likely outcome of the litigation. Generally following matters or factors are responsible for such conclusion.

- The matter is complex
- There is significant risk is involved
- Disagreement between & entitled external legal counsel
Management

* Mgt. permission will be needed & these representatives should be present during such meetings.

- Auditor should obtain a WR from the mgt. that all known or possible litigation has been disclosed to the auditor & the same appropriately accounted for (previous one made) & disclosed in the FS as per applicable FRF.

Segment Information:

design & perform
 AP write
 over seg

- Auditor should design & perform audit procedure to evaluate whether entity has presented & disclosed segment info in the FS as per applicable FRF. (AS 17. & incl AS 108)

not req.
 perform AP
 for segment
 info. on
 standalone
 basis

- Auditor is not required to perform audit procedure for segment info presented on standalone basis since SA 501 requires auditor's responsibility for FS entirely.

SA 500 : Audit evidence

→ Meaning:

Audit evidence can be defined as any info. used by the auditor to arrive at his conclusion i.e., on the basis of which audit opinion is expressed.

→ Types:

①

Depending
Upon Nature

- Oral (Inquiry)
- Visual (observation)
- Documentary (Inspection)

Depending
Upon Sources

waysheet, sales invoice,

- Internal Evidence
- External evidence

purchase invoice,
Bank statement

• AE includes both information contained in accounting records & other information that authenticates the accounting records

Accounting entries, sub ledger

• Info. contained in accounting records may include different invoices, contracts, agreements, internal work sheets such as attendance sheet, leave record etc.

It authenticates the accounting records & also support auditor's rationale behind A&F present.

Other information may include summary of BOD, SH's minutes of the meetings, written representation, external confirmation, internal control manual describing the process, etc.

Relevance: deals with the logical connection with / bearing upon the purpose of the audit procedure.

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Page

Date

→ Inconsistency in or Doubt over Reliability of AE:

↳ For Doubt over the reliability of AE also refer SA 580.

→ Reliability of Audit Evidence:

②

A) General Assumption / Generalisation about reliability of Audit evidence may include the following:

i) Reliability increased when AE is obtained from independent sources outside the entity

ii) AE obtained directly by the auditor is more reliable.

iii) AE in documentary form is more reliable than oral.

iv) AE provided by original documents is more reliable than fax, zerox copy, photocopies

B) Generalisation of about reliability of Audit evidence are also subject to important exceptions:

When obtaining information from an independent external sources may not be reliable if the source is not knowledgeable or colludes with mgt some times a mgt. expert may also lack of objectivity.

vi) Reliability of AE is more i.e. generated internally is increased when related controls imposed by entity are effective

→ Audit Procedure or Methods to obtain Audit Evidence

a) Inquiry:

It can be written / Inquiry consists of seeking information from a knowledge person, information can be either financial or non financial & person can be within the entity or outside the entity.

Note:

All though inquiry may provide important audit evidences. However inquiry alone ordinarily does not provide sufficient & appropriate audit evidence; ∴ Auditor may use a combination of inquiry & observation or inquiry & inspection.

b) Observation:

Observation consists of looking at a process or procedure being performed by others.

Ex: Auditor may observe a physical verification of inventory conducted by mgt. generally at period end date.

c) Inspection:

Inspection involves examination of records or documents. It also covers physical verification of an entity's assets.

d) External Confirmation (SA 505)

e) Analytical Procedure (SA 520)

f) Recalculation & Recomputation:

Recalculation consists of checking Mathematical accuracy.

g) Reperformance:

Reperformance involves auditor independent execution of procedure, that were originally performed by the entity. eg: Reperforming the reconciliation of Bank Statement.

→ Types of Experts:

Management Expert
(SA 500)

Auditor Expert
(SA 620)

Using the work of Management Expert (KAM):

As per SA 500, AE, Before using the work on report of Management expert as an audit evidence auditor should consider the following aspects

A) Auditor should evaluate the competence, capability & objectivity of Mgt. expert:

i) whether expert are employed / engaged by the entity.

ob) iii) extent of influence on control over expert by management

clg } iii) expert Qualification, Membership of a professional body or an industry association.

iv) Auditor's previous experience with mgmt expert.

B) Auditor should obtain an understanding of the work of that expert:

i) whether auditor has expertise to evaluate the work of management experts

ii) whether any professional or other standard & regulatory / legal requirement apply.

iii) evaluate the nature of internal / external data used by mgmt expert data used should be relevant, complete & accurate.

iv) evaluate the methods & assumption used by mgmt experts.

a) Auditor should evaluate the appropriateness of mgmt experts work to be used as an audit evidence for relevant assertion. (CH:5)

i) experts findings & conclusions should be relevant & reasonable.

If auditor decides not to relay / used mgmt expert report as an AE then he should perform alternative / additional procedure to obtain SAAC. Sometime auditor can also use the work of auditor expert as per SA 620.

- AE should be sufficient & appropriate.
Sufficiency is measure of Qty. &
Appropriate is measure of Quality.

SA 505: External Confirmation

~ Meaning:

It can be defined as an audit evidence that is obtained as a direct ^{written} response to the auditor from a 3rd party. i.e. confirming party in the form of paper or electronic mode.

~ Determining info to be confirmed or requested:

As per SA 505 auditor may ask 3rd party to confirm the following information:

i) outstanding Balances (B/R, B/P, Loans & Adv.)

ii) Transaction between the entity & 3rd party.

iii) Terms of agreement or contracts

iv) sometimes 505 can be used to confirm absence of certain condition such as side agreement / vendor ✓ Side Buare

External confirmation procedure:

- i) Determining the info to be confirmed
- ii) selecting the appropriate confirmed party
- iii) Designing the confirmation request (Prop. Address)
- iv) sending the requests including follow up requests

Types / Forms of External confirmation:

A) Positive:

- A positive confirmation request requires the confirming party to respond directly to the auditor indicating whether they agree / disagree with the info provided the request or provide the requested information.
- Positive confirmation will provide more reliable AE. if confirming party respond appropriately. However, there is always risk that confirming party may reply to the confirmation request without verifying that the info is correct or not.
- To reduce the above risk auditor may use the positive confirmation request that do not state the amount or info. in the request letter & auditor should ask the confirming party to fill in the amount or provide the requested info.

- when auditor uses 'Blank confirmation request' he may receive less responses because of additional effect that is required on part of confirming party

B) Negative:

- In case of Negative confirmation, request auditor wants the confirming party to respond directly to the auditor only if confirming party disagree with the info provided in the request letter.

- Negative confirmation request provides less persuasive persuasive audit evidence than positive confirmation.

- Auditor shall not use Negative confirmation request as the sole substantive audit procedure for a specific areas unless all of the following conditions are fulfilled,

i) In auditor's judgement risk of Material misstatement is low

ii) In auditor's judgement relevant internal controls are operating effectively (compliance procedure)

iii) Population of items comprises large number of small, homogeneous transaction and balance

iv) Auditor is accepting or very low exception state

v) Auditor has not no reason to believe that the confirming party will disregard his confirmation request

c) Exception:

- The response that indicates difference between information requested to be confirmed or info. contained in the entity's Accounting records & information provided by confirming party as a response.

→ Mgt refusal to allow the auditor to send a confirmation:

- Inquire to mgt's reason for the refusal & seek audit evidence as to their validity & Reasonableness.
- Evaluate the implications of mgt's refusal on the auditor's assessment of relevant ROMM, including risk of fraud & on NTE of other audit procedures.
- perform alternative audit procedures & obtain relevant & reliable audit evidence.

If the auditor concludes that mgt's refusal to allow the auditor to send a confirmation request is unreasonable or the auditor is unable to obtain relevant & reliable AE from alternative Audit procedures.

↳ Auditor shall communicate with TCCG as per SA 26 & give opinion in accordance with SA 705.

→ Factors to be kept in mind while designing confirmation request:

SO

LBP

i) Layout & presentation of confirmation request

ii) Method of communication → In paper form
↳ Electronic mode

iii) Identified ROMM,

iv) Mgt authorisation or encouragement to the confirming party to respond to the party

v) The ability for intended confirming party to confirm or to provide the requested information

vi) Assertions being addressed

→ Evaluating the Evidence obtained:

i) A non response

ii) A response deemed unreliable

iii) A response indicating an exception.

iv) A response indicating agreement with the information as per confirmation request and provided the requested information

↳ classified into above categories

SA BIO: using the concept of Internal Auditors

Internal Audit:

Function performance Assurance consulting activities design to evaluate & improve

Internal audit function refers to a function of entity that perform assurance & consulting activities designed to evaluate & improve

- Effectiveness & entity's governance
- Entity's risk management process
- Internal control process

Objective & Scope of Internal Audit Functions:

su

- Activities relating to Governance ✓
- Activities relating to Risk Management ✓
- Activities relating to Internal controls ✓

Activities relating to Governance

Activities relating to Risk Mgt.

Activities relating to internal controls.

a) evaluation of ICs.

b) Examination of financial & operating information

c) Review of operating Activities

d) Review of compliance with laws & regulations

Scope of SA 610:

If external auditor is using work of internal auditor then his responsibilities are given under SA 610. It includes following circumstances.

i) when external auditor is using work of internal auditor function to obtain audit as evidence &

ii) when external Auditor is using work of internal auditor to provide direct assistance under the direction, supervision & review of external auditor.

Evaluating the internal Audit Function:

Before deciding whether to use the work of internal Auditor, external auditor should evaluate the internal audit function on the bases of following criteria:

i) The level of competence of internal Audit function.

ii) Objectivity i.e. the extent to which function organizational status & relevant policies & procedures support the objectivity of the function.

iii) whether the function applies the systematic & disciplined approach towards their work, including Quality control & procedures.

→ circumstances when then goals of internal audit function can not be used:

Lack of
suff. comp.

i) function lacks sufficient competence or

does not
apply
systematic
disciplined

ii) function does not apply a systematic & disciplined approach or

policy &
procedures
do not adequately
support their
obj.

iii) function's organisational status & policies & procedures do not adequately support their objectivity.

→ Using the goals of Internal Audit Functions:

≡

If external auditor plans to use the goals of internal function then external auditor shall,

Discuss the
planned use
as bases for
coordinating
their activities

i) Discuss the planned use of its goals with the function as bases for coordinating their activities

Read
reports of
function
relating to
work & Under
stand NRE of
AR by Gov

ii) Read the reports of function relating to the goals which external auditor wants to use to understand the nature & extent of audit procedure performed by function & function findings.

Perform
suff. AP
around work
to determine
whether it is
adequate for
purpose of stat audit

iii) perform sufficient auditor procedure around goals of function to determine whether it is adequate for the purpose of statutory audit.

→ Appropriate discussion & coordination with the function about respective activities will help in addressing the following:

- i) Timing of work
- ii) Extent of work
- iii) Nature of work
- iv) Proposed Method of sample selection
- v) Determination of Materiality
- vi) Documentation of work
- vii) Review & Reporting.

→ Determine whether, in which cases & to what extent external auditor use direct assistance of internal auditor:

a) The external auditor may be prohibited by law & regulation from obtaining direct assistance from internal auditor.

b) If it is not prohibited by law & regulation then external auditor can use direct assistance of internal auditor to perform audit procedures under the direction, supervision & review of external auditor.

c) If external auditor plans to use internal auditor to provide direct assistance then he shall evaluate the following

- Level of competence ✓
- Any threat to their objectivity. ✓

d) Before using internal auditors to provide direct assistance for purpose of audit, external auditor shall:

- obtain a written agreement from an authorised representative of the entity that internal auditors will be allowed to follow external auditor's instructions & entity will not intervene in the work of internal auditor, i.e. performed for external auditor.

- Obtain a written agreement from internal auditor that will keep confidentiality of specific matters instructed by external auditor & they will immediately inform external auditor if there is any threat to objectivity.

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e) External auditor shall not use internal auditors to provide direct assistance in following circumstances:

- when procedure involve making significant judgement in the audit

- where it relates to areas where ROMM is high

- It relates to work with which internal auditors were involved to execute or report to management or TCWG.

External Auditor's Responsibilities for Audit:

a) External Auditor has the sole responsibility for the audit opinion & that responsibility is not reduced even if external auditor decides to use the works of internal auditor or uses direct assistance of internal auditor.

^{Internal auditor}
b) They may perform audit procedures similar to those performed by external auditor, either the internal audit function nor the internal auditors are independent of the entity as is required of the external auditor in an audit of FS in accordance with SA. 200.

~> Meaning:

- i) Events between the date of FS & Date of Auditor's report.
- ii) Facts become known to auditor after the date of Auditor's Report

Facts known to auditor
After Auditor's Report
Date but before FS
issued date

Facts become known
to auditor after FS
issued date.

~> SA Audit procedure relating to events occurring between the Date of FS & the date of Auditor's Report:

obtain SAAE regarding significant events between DOFS & AR date which requires either adj. or disclosure

(a) Auditor shall perform audit procedure to obtain SAAE regarding all the significant events between the date of FS & the date of auditor's report which requires either adjustment or disclosure in the FS as per applicable FRF.

b) while identifying significant events, Auditor should consider the following procedure as part of SA:

Auditor should understand procedure used by mgmt for identifying sig. evts.

i) He should understand procedure used by management to identified significant event.

Perform imp inquiry with mgmt regarding any sig. evts. ii) He should perform important inquiry with the management & req that whether any significant events have occurred or not.

Obj: (i) Respond appropriately to facts become known to auditor after date of auditor's report

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Page _____
Date _____

Audit minutes
of meeting of owners, mgt
of PS

(iii) Auditor should also review the minutes of meeting of owners, management, TCo which have taken place after date of FS.

(iv) Auditor should also review entity's latest subsequent interim FS, if any available.

conclude
Mgt has
complied
with AFR
for all events
with
adj. or disclos
have been
adequately
consider its
effect on
his opinion

(v) After evaluating his Audit evidence, Auditor should conclude whether Mgt. has complied with applicable FRF for all significant events.

i.e., whether appropriate adjustment or disclosure have been made accordingly auditor should consider its effect on his opinion as per SA 700, 705, 706.

Audit procedure when facts become known to auditor after the auditor's report date:

(a) Auditor has No obligation to perform any audit procedure regarding FS after the date of auditor's report.

(b) However when after the date of auditor's report, a fact becomes known to the auditor that, had it been known to the auditor at the date of auditor's report may have caused the auditor to amend his audit report then he should consider the following

(i) Discuss the matter with Mgt. & TCo (where appropriate)

ii) Determine whether FS need any amendment if so inquire with the Mgt about how they intend to address this matter in the FS.

• Obtain COR from Mgt. that all significant events for which adjustment or disclosure is required as per applicable FAF has been adjusted / disclosed.

→ If the Management amends the FS, the auditor shall consider the following:

a) Auditor should carry out audit procedure which are necessary in the circumstances regarding the amendments.

b) Auditor should also review the steps taken by Mgt. to ensure that only one who has received previously issued FS along with old audit report have been informed about situation.

c) Unless there is exceptional circumstances,

↳ Auditor should extend his audit procedure till date of New audit report. He should provide a new audit report on amended FS & a new audit report on amended FS.

→ Exceptional Circumstances

• ~~When audit is~~

• When law, regulation or FAF does not prohibit the management from restricting the amendment of FS to consider the effects of significant events & BOD is also not prohibited to approve such restricted amendment in FS then auditor shall either

i) provide a new audit report along with a statement under EOM or OM paragraph that convinces his audit procedure is restricted solely to the amendment of FS. given)
(Reference of respected notes to account should be

OR

ii) Auditor can amend his audit report to include an additional date to indicate that his audit procedure are restricted solely on amended FS (only approved SE)

a) In some entities mgt. may not be required to issued amended FS as per applicable laws & regulation & ∴ auditor is also not required to provide an amend or new audit report.

• b) However when mgt. does not amend the FS & Auditor believes that FS should be amended then auditor shall

i) Modify his opinion as per SA 705, if auditor's report is not yet provided to the entity

ii) If auditor's report is already provided to the entity then auditor should notify the mgt & request them not to issue FS & his report to users without such amendment.

- If mgt still issue on FS & audit report without considering the amendment then auditor should take appropriate action. He should prevent reliance on auditor's report.

~> Meaning of internal control:

Internal control can be defined as a process/policies & procedures / set activities. i.e. designed, implemented & maintained by top, mgmt & other personnel to provide reasonable assurance about the achievement of entity's objectives.

~> Examples of objectives for which control can be designed:

SCORE

- i) Safeguarding of entity's Assets
- ii) Compliance with applicable laws & Regulation
- iii) Reliability of entity's financial reporting
- iv) Effectiveness & efficiency of operation.

~> Inherent limitation of Internal Controls:

- Internal control, no matter how effective they are they can only provide reasonable assurance about achievement of entity's objectives due to certain inherent limitations.

i) Human Judgement:

Human judgement involved in decision making. It can be intentional or unintentional human error, that may break down the entire internal control.

ii) Lack of understanding about the purpose of internal control:

Sometimes employees/incharge may not be aware about the reasons or purpose for which control are designed. It may lead to ineffectiveness of internal control.

iii) Collusion Among People :

sometimes entity's employees may collude together to override the entity's internal control system. Eg: Having agreements with suppliers or customers.

iv) Limitations in case of small entities :

If an organisation has very few employees, it may be difficult segregation of duties. However in such organisation owner manager may be able to exercise more effective oversight, i.e. supervision than in case of larger entity.

v) Management is expected to use their judgement for designing & implementing entity's internal control, their judgement may not be always be appropriate.

Benefits of Understanding Internal Controls (for Start, Auditors)

- 1) It will help in designing NTE of further audit procedure
- 2) It will help in identifying & analysing those factors which may result into ROMM.

Components of Internal Control: (COSO Framework)

- a) Control Environment
- b) Entity's Risk Assessment Process (incl. Risk identr. also)
- c) Control Activities
- d) Information system
- e) Monitoring & controls

a) Control Environment:

i) It includes the **governance & mgt. functions**

ii) It includes the **attitude, awareness & actions of TCWC** along with **Management**

iii) control environment sets the **tone of an organisation** i.e. making people aware about the relevance on **internal control**,

iv) **Elements of control environment: (Impact & Appraisal.)**

• **participation by TCWC to ensure the entity's control environment is appropriately designed**

• **Management's philosophy & operating style has significant impact on entity's overall control environment.**

• **Communication & enforcement of integrity & ethical values to the people working in the organisation**
Eg: reward & punishment for compliance & non compliance of internal control,

• **Designing & Appropriate organization structure depending upon size & nature of business activities**

• **Human Resources policies & procedures such as recruitment, training, counseling, performance evaluation, compensation promotion etc. impact the overall control of the organisation.**

* Existence of satisfactory control environment is not an absolute ^{100%} deterrent to fraud:

*Positive factors
No absolute
Help in reducing risk*

i) The existence of a satisfactory control environment can be a positive factor while assessing ROMM. These may also help in reducing the overall risk of fraud but it is not an absolute deterrent to fraud.

Negatively impact effectiveness of IC

ii) Deficiencies in control environment may significantly undermine or negatively affect the effectiveness of internal controls.

It self does not pdc of rom about risk yes

iii) Control environment by itself does not prevent or detect or correct a material misstatement, for prevention, detection or correction appropriate controls will be needed. However control environment may influence the auditor's evaluation of effectiveness of internal controls.

b) Entity's Risk Assessment Process:

Process of identifying Business risks relating to FR obj

i) Auditor should understand the entity's process of identifying business risks relating to financial reporting objectives.

ii) How do they estimate the significance of risks?

iii) How do they assess likelihood (chance) of their occurrence?

iv) How do they decide about actions to address those risks?

Note:

Risks Management process includes identification of those events or conditions which will not allow the organization to achieve their objective.

organization should analyse this events or condition to understand their likelihood & potential impact on the business.

After such assessment org. may choose any of the following responses to address these risks:

- Accept the Risk
- Avoid the Risk
- Share / Reduce the Risk.

c) Control Activities:

i) control activities are policies & procedures that helps the management to ensure that their objective can be achieved.

ii) control activities may include the following

- Information Processing
- Segregation of Duties
- Physical Access control for safeguarding the assets
- Performance reviews (comparison of Actual vs Budget)

d) The Information System:

i) Auditor should understand the entity's information system which includes all related business processes related to financial reporting

Identify class of transactions which significant for FS

ii) Info. system may include identification of class of transaction that are significant to financial statements

Eg: Any activity related to purchase, sales etc

Include detailed process regarding journals

iii) Information system should include a detailed process regarding a transaction, i.e., How transaction are initiated, recorded, processed corrected if necessary & reported

used to prepare FS should be part of

iv) Financial reporting process used to prepare FS should be part of entity's information system.

controls all types of JVs

v) There should be controls around all types of journal entries

e) Monitoring of controls:

To assess effectiveness of IC over period of time

i) Monitoring of control is a process to assess the effectiveness of internal control performance over period of time

through ongoing evaluations, separate evaluations or a combination

ii) Management may accomplish monitoring of control through ongoing evaluations, separate evaluations or a combination of both

All internal control may not be relevant for stat. audit.

Objective:

- 1) Financial Reporting
- 2) Compliance
- 3) Operations

} Internal controls

may not be relevant for stat. audit

Factors to be kept in mind while determining which controls are relevant for audit:

- a) Materiality
 - b) The significance of related risk
 - c) Size of entity
 - d) Applicable legal & regulatory requirement
 - e) Nature of entity's Business
- b) diversity & complexity of entity's operation

Examples of controls which may be relevant for the purpose of Stat. Audit:

- a) Controls over completeness & accuracy of information generated from the system.
 - b) Internal controls designed for safeguarding of Assets. They can be either physical access control or logical access controls.
- completeness & accuracy of info from system
- Safeguarding of Assets
- physical or logical access controls

Evaluation of Internal controls: (Tools to review IC) Methods

- i) Narrative Record
- ii) check list
- iii) Internal control Questionnaire
- iv) Flow chart.

i) Narrative Record:

- This is a complete & exhaustive descriptive of system as found in operation by the auditor.

- It may be recommended in cases where no formal control system in operation & could be more suited to small business

- The basic disadvantage of narrative records are

a) To comprehend the system in operation is quite difficult

operation is quite difficult

b) To identify weakness or gaps in the system,

Identify gaps & weaknesses

a) To incorporate change arising on account of reshuffling of manpower

change arising due to reshuffling of manpower

ii) Check list:

- This is a series of instructions &/or questions which a member of the auditing staff must follow and/or answer

- Answer to check list instructions are usually Yes, No or Not applicable

eg: Are tenders called before placing order?
Are purchase made on the basis of written order?

iii) Internal control Questionnaire:

- This is comprehensive series of questions concerning internal control

- This is most widely used form for getting information

about the existence, operation & efficiency of internal control in organisation,

oversight of significant
 • An important advantage of questionnaire approach is that oversight on commission of significant internal control review procedure is less likely to occur with this method,

issued to client & filled by appropriate concern person
 • The Questionnaire is usually issued to the client & the client is requested to get filled by the concerned executives & employees

iv) Flow chart:

Graphic presentation of each part
 • It is a graphic presentation of each part of the company's system of internal control,

minimises amount & relevance of explanation & give Bird's eye view
 • It minimises the amount of narrative explanation & gives bird's eye view of the system & the flow of transactions & integration & in documentations

help to understand & evaluate
 • This will help him to understand & evaluate the internal controls in the correct perspective.

Automated Environment

Key Features of an automated environment:

- ① a) Faster business operations
- ② b) Ability to process large volume of transactions
- ③ c) Better security & controls
- ④ d) Integration of Business Operations
- ⑤ e) provides latest information for decision making
- ⑥ f) less prone to human errors.

Risks arising from use of IT system (Common IT risks)

- ① a) Unauthorised access to data
- ② b) Loss of Data
- ③ c) Inaccurate processing of data, processing inaccurate
- ④ d) Unauthorised change to system
- ⑤ e) Excessive Access

Understanding & Documenting Automated Environment

While performing the statutory audit, auditor should understand the entities business & its environment, incl. IT environment, following points will help the auditor in understanding company's automated environment.

- a) Different information^{System} being used (if there is 2)
- b) Their respective purpose (it can be financial or non financial)
- c) location of these IT system - local or global
- d) Inhouse or outsourced
- e) who are the key person in charge (CIO, CISO, Admin)
- f) version being used.

above

Note: After understanding the about information auditor should maintained appropriate documentation for the same.

→ Impact of IT related risks on Stat. Audit:

a) Impact on substantive Amt. checking:

If risk are not mitigated, auditor will not able to rely on data or reports generated from the system.

• If common IT risks are not mitigated by appropriate controls then auditor will not able to rely on data, information or reports generated from the system.

• Therefore the substantive checking will increase considerably to understand whether information is accurate or complete.

b) Impact on Reporting:

• Due to regulatory requirement in respect of internal financial control which are relevant for financial reporting, (see 143(3)(ii)). Auditor may have to modify his report in certain cases

c) Impact on controls:

• Auditor may not be able rely on automated controls which are built into entity's information system & therefore additional substantive works will be required,

Testing Methods in an Automated Environment:

a) There are 4 types of Audit methods or tests that can be used to evaluate automated controls

- Inquiry
- Inspection
- Observation
- Reperformance

b) Inquiry is most efficient audit test but it also gives the least reliable audit evidence therefore inquiry alone may not be sufficient.

c) Reperformance is most effective as an audit test & gives the most reliable audit evidence but reperformance could be very time consuming & least efficient most of time.

d) while using these methods, auditor needs to use professional judgement & consider the following factors before concluding which method or what combination is best?

- ✓ i) Risk Assessment
- ✓ ii) complexity involved in Business
- ✓ iii) History of errors or misstatements
- ✓ iv) Control environment
- ✓ v) Desired level of evidence required.

✍

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→ Internal Financial control as per Regulatory Requirements:

a) Definition of IFC similar to ICS (As per SABIS)

b) Responsibility of following parties or people as per Companies Act.

- Sec. 134 for BOD under DRS

- Sec. 143(3)(i) for statutory Auditor

- Sec. 177 for audit committee

- Sec. 149 for code for independent directors

→ Assess & Reporting Audit Findings:

Findings on entity's IT environment
→ assess & report relevant risks
→ assess & report

i) During the course of Audit, Auditor may come across certain finding or exceptions in the entity's IT environment that should be assessed & reported to relevant stake holders incl. management & TCOCY (SA 265)

Determine impact on his audit
→ assess & report relevant risks
→ assess & report

ii) Auditor needs to assess each finding to determine its impact on his audit procedure & whether such finding or exception can be a deficiency in internal control.

Exist only when control not able to PDC mm

iii) A deficiency in control exists if a control is not able to prevent detect & correct misstatement in the FS.

my Data Analytics for Audit;

Combination of
Process,
Tools & Tech
used to
analyze vast
amount of data
to obtain
meaningful info

a) combination of processes, tools & techniques that are used to analyze vast amount of electronic data to obtain meaningful information can be called as Data Analytics.

can benefit &
improve by
using data
analytics.
↑ Data value

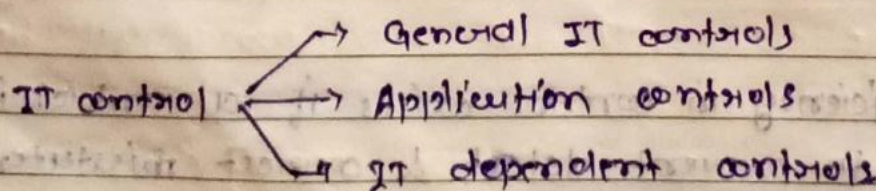
b) Business can benefit immensely by using data analytics, it may help in improving profitability, providing better customer services or to achieve competitive advantage.

obtain
SARs &
identify

c) Data analytics can also used in audit to obtain SARs or to identify & Assess RMM.

d) Data analytics can be used to perform the following function

- ✓ i) Recomputation of Balance
- ✓ ii) Fraud investigation
- ✓ iii) selecting audit samples (Using CAPT / systematic)
- ✓ iv) to check completeness & Accuracy of data in population
- ✓ v) to evaluate the impact of internal control deficiency



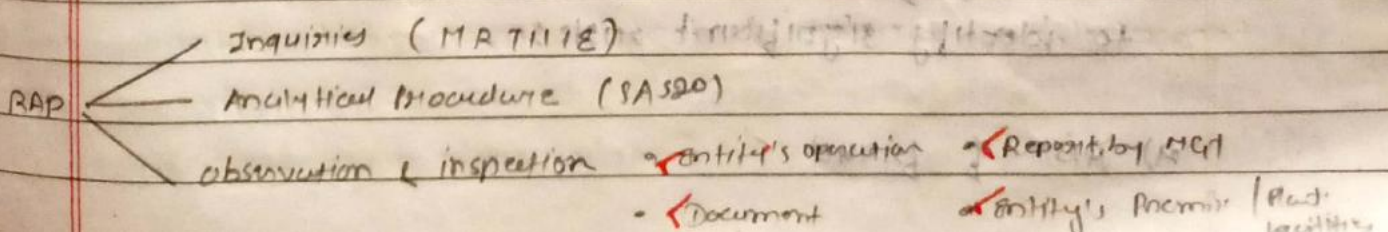
SA 315: Identifying & Assessing the ROMM through understanding the entity & its environment

- Auditor should identify & assess the ROMM by applying a procedure, i.e., Risk assessment procedure
- Risk assessment procedure may include the following (Refer from Module)

Note: Risk assessment procedure by themselves do not provide SAAE to base your audit opinion,

Understanding of the entity & its environment including entities internal control:

- Accounting Principles & Ind-specific practice; Regulatory framework for
- SO a) Relevant industry, Regulatory framework & other external factors such as applicable FRS, legislation & Regulation, direct supervisory activities, taxation & other policy
- SO b) Nature of entities Business including its operations, ownership & Governance structure, types of investment, matching plan to raise invest, structure how it is financed
- c) Entities ownership structure & sources of finance
- d) Types of investment made by entity, Industry developments, New product & services, Expansion of Busi
- SO e) Entities goals & objectives also related business risks which may result into material misstatement, Key performance indicators, Period on Period Performance analysis,
- SO f) Measurement & review of entities financial performance Budgets, forecast, credit rating agency report
- g) selection & Application of Accounting policies



we Identify & Assess the ROMM at following levels:

Overall FS
Level

Assertion
level

- These risks are pervasive in nature. They may affect multiple assertions or entire FS.
- It may include risks for a class of transaction or A/c balance or presentation & disclosure.

i) classification of risks on the above levels with help in auditor in designing & performing further audit procedure also known as responses to assessed risks.

ii) After performing risks assessment procedure auditor can design & perform further audit procedure. i.e., compliance & substantive procedure.

we Significant Risks: / Special Audit consideration

SOP

- If auditor comes across significant risks during risk assessment procedure, then he should consider special audit consideration, i.e., detailed compliance & substantive procedure to address the risks.

- Following factors on consideration will help an auditor to identify significant risks:

b) Complexity of transactions ✓

a) Transaction with related party ✓

d) Unusual significant transaction ✓

e) Degree of subjectivity involved in measurement of a FS items. Eg: Diff accounting estimates such as warranty provisions

f) Risk related to recent significant accounting, legal or economic development.

- Sometimes auditor may come across risk of which substantive procedure alone do not provide SAAG:

Eg: Companies may have highly automated internal controls with very little or no manual intervention for processing certain transactions.

∴ It is essential for the auditor to understand & evaluate these controls through compliance procedure before amount testing.

- While understanding & evaluating internal control auditor may come across significant deficiency or material weakness in design of internal control. He should communicate the same to PCA & Mgt.

Note:

Now a days auditor is also required to express his opinion on internal financial control which are relevant for financial reporting as per Sec 143(3)(i).

Objective of SA 315:

As per SA 315, the objective of the auditor is to identify & assess ROMM (whether due to fraud or error) at the FS level & assertion level.

↳ Through understanding the entity & its environment including related internal control this will help the auditor in designing & implementing further audit procedure, i.e., response to the assessed risks

To achieve the objective of the SA 315, auditor may follow the following steps:

i) Auditor should identify risks throughout the process of understanding the entity & its environment including related control.

consider
chance of
misstatement
incl possibility
of M.M

ii) Auditor should consider the likelihood of misstatement including the possibility of multiple misstatement & whether the potential misstatement could result into a material misstatement.

Evaluate
risk
pervasive
or not

iii) Auditor should assess the identified risks & evaluate whether they are pervasive to the FS or not.

iv) Auditor should relate identified risks to what can go wrong at the assertion level & take into account related internal control.

So: complex issue might not be understood by Meri

SUKALA

Large No. of Business failures in India

causing an inherent state of being misstated

Page

Inherent Risks:

i) Inherent Risk is the susceptibility of an assertion about a class of transaction, Account balance or disclosure to misstatement that could be material either individually or when aggregated with other assuming that there are no related internal control in place.

ii) There is always a risk that before considering any existing of internal control in an organisation, a particular transaction or account balance or a disclosure has a chance of being misstated & such misstatement & such misstatement can be material. This risk is known as inherent risk.

iii) Inherent risk is higher for some assertions than for other. For eg. Inherent risk will be High in case of unusual transactions or complex transactions.

iv) Inherent Risk factor should be considered while designing test of controls & substantive procedure i.e. further Audit procedure.

Control Risks:

i) Control risk is a risk that a misstatement that could occur in an assertion about a class of transactions, Account balance or disclosure that could be material either individually or when aggregated with other will not be prevented or detected & corrected on a timely basis by entities internal control.

Ex: Control on cash & CHEQ Book in banked accts (if not the CR)
Fire extinguishers & smoke detectors.
Petty cash items of exp only & ₹10000 limit
SUKALA
Page
Date

ii) Control risk is a risk that internal control existing & operating in an entity will not be efficient enough to stop frauds from happening (Preventive) or find (Detective) & rectify in an appropriate time, any material misstatement relative to an assertion.

Inverse
or & efft.
etc

iii) There is an inverse relation between control risk & efficiency of internal control.

iv) Therefore when efficiency of internal control is high, then control risk is low.

mt
99

Detection Risk: iii) DA comprises - sampling & non sampling

i) Detection risk is a risk that the procedure performed by the auditor to reduce audit risk to an acceptable low level, will not detect a misstatement that exists & that could be material either individually or when aggregated with other misstatements.

ii) Auditor should design & perform appropriate audit procedure to reduce the audit risk to an acceptably low level in statutory audit, audit risk can not be reduce the zero, due to inherent limitations of audit (SA 200)

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99

Relationship Between IR, CR & DA:

i) Auditor should make a combined assessment of IR, CR, since management designs, implements & maintains adequate & effective internal controls to reduce the impact of inherent risk.

DR: ex: sizeable coin inventories in Pa. Co. does not devote time to attending inv. count. (Choose rely upon AHP)

SUKALA

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Date

• Checking Revenue of Co by taking sample

ii) If IR for an assertion is high & related internal control are highly efficient then control risk for that assertion will become low & it will also make inherent risk low.

iii) If IR + CR is high then auditor should keep his DR lower to reduce audit risk to an acceptability low level

iv) Audit risk is a function of ROMM & Detection Risk:

$$AR = ROMM \times DR \quad \text{--- (1)}$$

v) ROMM has following components:

$$ROMM = IR \times CR \quad \text{--- (2)}$$

Area of MAT.

$$AR = IR \times CR \times DR$$

vi) Detection Risk comprises sampling & non sampling risk.

vii) Auditor can only influence detection risk. IR & CR belong to the entity can be influenced only by the mgmt. entity.

viii) Detection risk may be reduced by increasing extent of checking i.e. increasing the sample size & involving competent & experience team member in engagement team.

what is not included in Audit Risk?

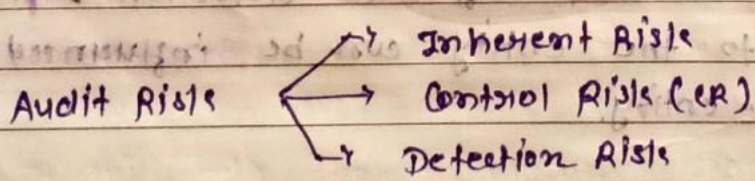
a) It is a technical term related to the process of auditing. It does not refer to the auditor's business risks such as

- ✓ i) loss from litigation
- ✓ ii) Adverse publicity etc
- ✓ iii) Other events arising in the connection with audit of FS.

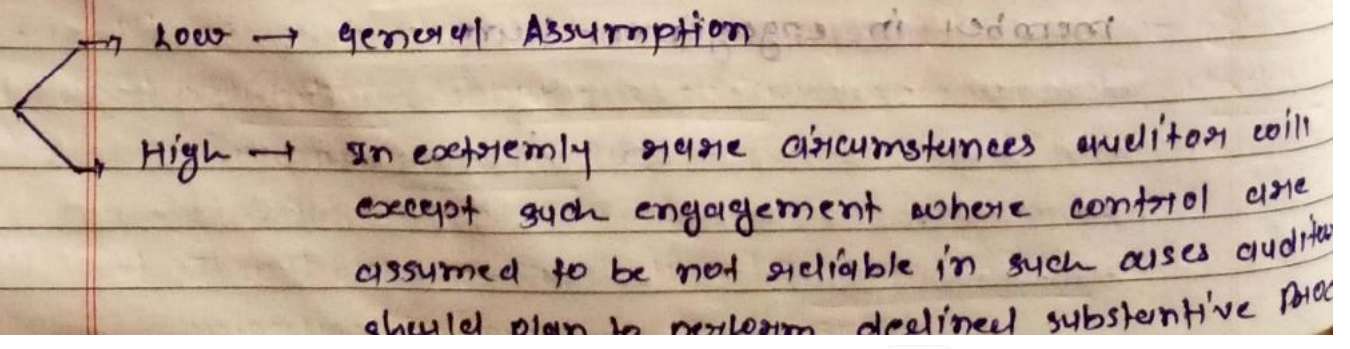
b) For purpose of SA's audit risk does not include the risk that the auditor might express an opinion that the FS are materially misstated when they are not. This risk is ordinarily insignificant.

• Assessment of risk is matter of professional judgement rather than a matter capable of precise measurement

Audit Risk:



Stage 1: Preliminary Assessment of CR



Stage 2: Perform compliance procedure to test the above assumptions

Stage 3: Final Assessment of control risk

High

Low

Auditor should revise his Nature, Timing & extent of planned

continue with the existing plan of audit procedure

Note:

v) It is a function of ROMM & DR.

i) Audit Risk means the risk that auditor gives an inappropriate opinion when FS are materially misstated

ii) In other words, Auditor express unmodified opinion when FS are materially misstated

iii) For the purpose of SA 915, audit risk does not include the risk that auditor might express an opinion on FS that they are materially misstated when they are not.

↳ In other words, Audit risk does not include a situation that auditor will express a modified opinion when he should have give an unmodified opinion

iv) In such case, not only reputation of auditor would be damaged but also invite regulatory action from professional body.

Audit Documentation

→ Meaning:

It refers to Record of audit procedure performed, Audit Evidence obtained, & conclusion drawn.

→ Nature / Objective of Audit Documentation: ②

i) A sufficient & appropriate of record as Basis for Auditor conclusion.

ii) An evidence that audit was planned & performed in accordance with applicable SA's & legal requirements.

→ Benefit / Purpose of Audit Documentation:

i) It will Assist the engagement team to appropriately planned & performed the audit.

ii) It will help in retaining a record of matter which may be significant for future audit.

iii) It will help the engagement team in using appropriate responsibilities. i.e. making them accountable.

iv) It will also help the engagement team in providing direction, ensure regular supervision & discussing review responsibilities.

v) It will help in conducting Quality control review &

→ ownership of Audit Documentation:

i) As per SAC 1, AD is the property of auditor.

ii) It is at the auditor's discretion to make portion of or extracts from audit documentation available to clients or 3rd parties. (only when it is required by law permitted by client)

→ Form, Content & Extent of Audit Documentation:

i) Auditor shall prepare audit documentation, i.e., sufficient to enable in experienced auditor having no previous connection with the audit to understand the following.

a) Nature, Timing & Extent of Audit procedure performed

b) The results of audit procedures performed & details of Audit Evidence obtained

c) Significant matter arising during the audit & conclusions reached thereon. Auditor should also document significant professional judgement used to arriving those conclusion.

ii) while documenting nature, timing & extent of audit procedure performed, Auditor shall record following

a) who performed the work & date such work completed

b) who received the work along with date & extent of review

iii) If auditor identified info. i.e., inconsistent with the auditor conclusion regarding a significant matter, then auditor should document how he addressed such inconsistency.

iv) Auditor should also document discussion of significant matter with management & team.

eg: Significant deficiency is in internal control, going concern related problems, subsequent events, Employee fraud.

→ Factors affecting form, content & extent of AD:

- < i) Size & complexity of the entity
- < ii) Nature of the audit procedures to be performed
- < iii) Identified ROMM
- < iv) Significance of Audit evidence obtained
- < v) Nature & extent of exceptions identified
- < vi) Audit Methodology & tools used

→ Assembly of Final Audit file:

- i) It can be define as one or more folders in physical or electronic form which contains audit documentation for specific engagement.
(Maintain up to 7 years)

Establish
Policy
regarding
assembly
of AR.

ii) As per SOA 1, Audit firms should establish policies & procedure for timely completion of the assembly of audit files.

Not more
than 60 days
from AR.

iii) An appropriate time limit as per engagement standard is ordinarily not more than 60 days from the date of auditors report.

Admini-
strative
process

iv) completion of assembly of final audit file is an administrative process. It does not include performance of new audit procedure or drawing new conclusions.

v) Above administrative process includes following:

a) Deleting or Discarding superseded documentation

b) Shuffling & cross referencing working paper -

c) signing off an completion checklist relating final assembly process

d) Documenting audit evidence which auditor has already obtained, discussed & agreed with a relevant engagement team member before the date of audit report.

At least
7 years
from AR

vi) As per SOA 1, Auditor should retain his audit documentation for at least 7 years from date of auditors report or if latter the date of final auditors report.

→ Completion Memorandum / Audit Documentation Summary

i) Auditor may consider it helpful to prepare & retain as part of the audit documentation

a) significant matters identified during the audit

b) How they were addressed

ii) Summary may facilitate effective & efficient review & inspection of audit documentation

iii) Auditor to consider whether there is any individual relevant SA objective that the auditor can not achieve that would prevent the auditor from achieving the overall objectives of the auditor

→ Examples of significant matters includes:

- Result of Audit procedure indicating

i) FS could be materially misstated or

ii) Need to revise the auditor's previous assessment of ROMM & responses to those risks

- Circumstances that causes the auditor significant difficulty in applying necessary audit procedures

- Findings that could result in a modification to the audit opinion or inclusion of EDM para. in Auditor's report.

- In determining the form, content & extent of AD of significant matters is the extent of professional judgement exercised in performing the work & evaluating the results.

→ Examples of Audit Documentation:

- i) Audit Programme ✓
- ii) Analyses ✓
- iii) Issue Memoranda ✓
- iv) check list ✓
- v) summary of significant matters ✓
- vi) letters of confirmation & Representation. ✓

→ SA 501 Q: obtaining SAAE regarding presentation & disclosure of segment info.

- Auditor shall obtain SAAE regarding presentation & disclosure of segment info. in accordance with applicable FRF by

a) Obtaining understanding of Methods used by mgt. in determining segment info.

i) Evaluating whether such method are likely to result in disclosure

ii) where appropriate, testing the application of such method

b) performing analytical procedures or other audit procedures appropriate in circumstances

→ Understanding of the Methods used by Mgt:

Examples of Matters that may be relevant when obtaining Understanding of Methods used by Mgt:

- S i) sales, transfers & charges between segment & elimination of intersegment amounts
- C ii) comparisons with Budget & other expected results.
- A iii) Allocation of Assets & cost among segment
- C iv) consistency with prior period & the adequacy of disclosures with respect to inconsistencies

NOTES

SA 570 : Assumption conclusion

<p>QC Assumption being inappropriate & Management prepares FS on another Basis (eg: Liquidation Basis)</p>	<p>Use of GC Basis of Accounting is appropriate but Material uncertainty exists & Adequate disclosure of Material Uncertainty is made in FS.</p>	<p>Use of GC Basis of Accounting is Appropriate but Material uncertainty exists & Adequate disclosure of Material Uncertainty is not made in FS</p>	<p>QC Assumption being inappropriate But Mgt. still prepare FS on GC Basis</p>
<p>Unmodified opinion & EDM para 4</p>	<p>Unmodified opinion but with Material Uncertainty related to GC</p>	<p>Qualified opinion on Adverse opinion</p>	<p>Adverse Opinion</p>

→ Meaning:

It means evaluation of financial info through analysis of plausible relationship between financial & non financial data

eg: Comparison with client data, with ind. data, their PY's data, CY budgeted data, Auditor's expected data.

→ Timing of Analytical Procedure:

- ① Planning Phase
- ② Testing Phase
- ③ Completion Phase

→ Analytical Procedure in Planning Phase:

• It will assist the auditor in understanding the client business & identified the errors in potential risks which auditor may previously encounter it.

• It will also help the auditor determining NTE of further audit procedure to be performed.

• In planning, Auditor may use both financial & non financial data.

Purpose of Audit Procedure:

uses comparison & relationship to assess that data appears to be reasonable

• It is used comparison & relationship to assess that whether account balance or other data appears to be reasonable

Eg: Exp increased by Co. during the year.

No. of employee expenses as per employee

Help in identifying unusual transactions

• It will help in identifying the existence of unusual transactions or events, amounts included, trends that indicate an implication on overall audit

Help in identifying areas where AOMM can be planned & plan SAP

• It helps in identifying areas where AOMM can be planned so auditor can plan his further audit procedure accordingly

Substantive Analytical Procedure: (SAP)

To obtain reliable & relevant AE

The objective of auditor to obtain reliable relevant audit evidence when using SAP

Eg: to check payroll exp, interest income, interest exp

To design & perform AP more effectively & assist the auditor in forming an overall conclusion

• The objective of auditor is to design & perform analytical procedure more effectively & assist auditor when forming an overall conclusion that whether auditor understanding of FS is consistent with actual FS.

Intended to corroborate conclusion drawn during audit

In some circumstances auditor may revise his ROMM

AP are intended to corroborate conclusion formed during the audit, so that auditor can base his opinion

In some circumstances auditor may revise his ROMM & also modified his further

Audit Procedure

AP used as substantive tests

Steps involved while applying substantive review procedure / Substantive Analytical procedure :

Determine suitability for given asset

1) Determine the suitability of particular SAP for given asset on basis of auditor's assessed ROMM & TOL.

2) Auditor should evaluate the Reliability of Data from which auditor's expectation of recorded amount is developed

3) Develop an expectation of recorded amount & evaluate whether the expectation is sufficiently precise to identify a misstatement.

4) Auditor should determine amount of any difference of recorded amounts from expected values to be consider as immaterial.

suitable, based on, expect, Dev, Act vs, variation

Reliability of Data: (2)

- Auditor should consider following factors to determine reliability of data before using such data,

1) Source of info. available

eg: info. be more reliable when it is obtained from independent source outside the entity

2) Comparability of info. available

eg: Budget incl. data may needed to be supplied to be comparable to that an entity produces & sells specialised product

3) Nature & relevance of info. available:

eg: whether budget have been established as result to be expected rather than goals to be achieved

4) Controls over the preparation of information

eg: Review & Maintenance of Budget

→ Factors Affecting Substantive Audit Procedure: (2)

a) Availability of Data:

Availability of reliable & relevant data will affect the effectiveness of SAP.

b) Disaggregation:

Degree of disaggregation in available data can directly affect its usefulness in detecting misstatement while using SAP.

c) Account Type:

Certain A/c tend to be more predictable such as income statement line items, since they include accumulated transaction for a period. They are directly comparable with prior period number.

d) Source / Nature of Transaction:

Routine Nature transaction tend to be more predictable, it will more effective to use SAP in comparison to non routine & those significance class of transaction which requires estimation, since they will be more difficult to period.

e) Nature of Assertion:

- SAP may be more effective in providing evidence for some assertion than for others.
- Preventive Analytical procedure using data analytical can be used to address completeness, valuation, measurement & occurrence.

f) Inherent Risk:

If qualitative assessment for a specific assertion conclude that ROMM is high the auditor should plan to rely on TD to address this high ROMM area. performing only SAP on such area may not be appropriate.

Technique Available as per SAP: ①

1) Trend Analysis:

- A company used technique
- The comparison of current data with the prior period balance

2) Ratio Analysis:

- It is useful for analysis of assets & liabilities A/c, as well as revenue & expenses A/c.
- An individual BS A/c is difficult to predict.
- Ratios can also be computed over time.

3) Reasonableness Test:

- This analytical procedure does not rely on events of prior period but upon non financial data for the audit period under consideration.
- Applicable to income statement accounts & certain accrual or prepayment accounts.
- These test are made by reviewing the relationship of certain account balance to other balance for reasonableness of amounts.

4) Structural Modeling:

A modeling tool constructs a statistical model from financial / non financial data of prior accounting to predict current A/c Balance.