# Introduction

Business $\xrightarrow{\text{Reports}}$ $\boxed{\text{Financial Statements}}$ → Intended users

→ Criteria (Applicable Financial Reporting Framework)

Financial Statements ↓ $\boxed{\text{Practioner}}$ $\xrightarrow{\text{Assurance}}$ Intended users

Intended users: Banks, Members, Deb Holders, Creditors, Govt, Partnership firm, Roc

Practioner ↓ Evaluates the financial statements & Forms opinion

Assurance: Absolute level, Reasonable level, Moderate level, Low level

## Who issues Engagement & Quality Control Standards in India?

ICAI ⟶ AASB ⟶ Council ⟶ Engagement & Quality Control Standards

ICAI ↓ Founder member of IFAC

AASB ↓ Auditing and Assurance Standards Board

IFAC ⟶ IAASB ⟶ High Quality Auditing Standards

IFAC ↓ International Federation of Accountants

IAASB ↓ (International Auditing & Assurance Standards Board)

Standards

| (9) | (4) | (2) | (11) | (3) | (6) |
|---|---|---|---|---|---|
| 200 ✓ | 300 ✓ | 402 ✓ | 500 ✓ | 600 ✓ | 700 |
| 210 ✓ | 315 ✓ | $\boxed{450}$ ✓ | 501 ✓ | $\boxed{610}$ ✓ | $\boxed{701}$ |
| $\boxed{220}$ | 320 ✓ | | 505 ✓ | 620 ✓ | 705 |
| 230 ✓ | 330 ✓ | | 510 ✓ | | 706 |
| 240 ✓ | | | 520 ✓ | | $\boxed{710}$ |
| 250 ✓ | | | 530 ✓ | | 720 |
| 260 ✓ | | | $\boxed{540}$ | | |
| 265 ✓ | | | $\boxed{550}$ | | |
| 299 ✓ | | | 560 ✓ | | |
| | | | 570 ✓ | | |
| | | | 580 ✓ | | |

300-315-320-450

240, 315, 330

(240, 250 330 550)

CA. Ravi Kiran Balla

Engagement

- Assurance services
  - Historical Financial Statements
    - Reasonable Assurance → Audit → SA (Standards on Auditing)
    - Moderate Assurance → Review → SRE (Standards on Review Engagement)
  - (Projected balancesheet) Other than Historical financial Statements → (Projections) Assurance Engagement → Moderate Assurance → SAE (Standards on Assurance Engagement)
- Other than Assurance Servic
  - Related Services (Accounting/Represent → SRS (Standards on Related Services)

## Definition of Audit:-

Audit is an independent examination of financial information of an entity whether profit oriented or not, irrespective of its Size with a view to express an opinion on such financial Statements and to report thereon

Opinion

- Modified opinion
- Unmodified opinion

Note:- Business transactions are to be reported to the intended users in a summarised way through the financial statements which are to be prepared by the management in accordance with applicable financial reporting framework. This reporting process is called financial Reporting

Ex:- Applicable Financial Reporting Framework for a company is Financial Reporting standards (Accounting standards or Indian Accounting standards along with Schedule-III)

## Objective of the Audit:-

1 To obtain reasonable assurance that financial statements are free from material misstatements whether due to fraud or error on which basis auditor can form an opinion

2 To report to the intended users by complying with Standards on Auditing (700 series)

→ Auditor cannot express Absolute Assurance because of few limitations

## Inherent limitation of Audit:-

1 Nature of Financial Reporting :-

Preparation of financial statements involve accounting estimates.

Ex:- Provisions (Gratuities, Pension, Expenses, Insurance Claims).

→ Because of these estimations auditor may not provide absolute assurance

CA. Ravi Kiran Balla.

2 Nature of Audit procedures :-

It is sometimes practically impossible to perform audit proce[dures] due to which auditor is unable to express his opinion (Absolute assurance) (Ex- Physical stock verification of fish stored in cold storages)

3 Difficulties with regard to time & cost

4 Involvement of fraud while preparing financial statements makes the auditor unable to findout the misstatement even though audit is planned and performed in efficient and effective manner

Note:- Due to above Inherent limitations auditor can only give reasonable assurance but not absolute assurance

5 Other matters that affect the limitations of Audit

(a) The Existence and Completeness of related party relationship and transactions

(b) The occurence of non compliance with laws and regulations

6 Inherent limitations of Internal Control system

# SA-200:- Overall Objectives of Independent Auditor & Conduct of Audit in Accordance with Standards on Auditing

## Objectives of Independent Auditor:- (overall objectives of the Auditor)

1 To obtain Reasonable Assurance about whether the financial statements as a whole are free from material misstatements whether due to fraud or error thereby enabling the auditor to express an opinion on such financial statements whether they are prepared in all material respects in accordance with Applicable Financial Reporting Framework

2 To report to the intended users in accordance with standards on Auditing

## Audit process:-

Management Request → Audit Engagement → Planning → Audit Procedures → Audit Evidence → opinion → Report to Intended Users

- Audit Procedures: Nature, Timing, Extent
- Audit Evidence: Sufficient (Quantity), Appropriate (Quality)

## Types of Audit Procedures:-

1 Inspection
2 Inquiry
3 External confirmation
4 Observation
5 Reperformance
6 Recalculation
7 Analytical Procedures

CA RAVI KIRAN BALLA

Requirements under this Standard:- of the Auditor)

1 Ethical Requirements Relating to an Audit of financial Statements as per Code of ethics Issued by ICAI:-

1 Integrity

2 Objectivity (Must know the facts)

3 Professional Competence and due care

4 Confidentiality unless required by ~~law~~ law/Regulation to disclose

5 Professional behaviour

6 Independence

Note:- As per code of ethics the auditor must be independent of the entity. Independence comprises both Independence of mind and Independence in appearance

2 Professional Skepticism:- (Having Questioning Mind) (PM Pg 1.29)

Note:- Professional skepticism includes is an attitute that a questioning mind being alert to conditions which indicate possible misstatement due to fraud or error & critical assessment audit evidence

Ex:- 1 Audit Evidence that contradicts with other audit evidence Obtained.

2 Conditions that may indicate possible fraud

3 Circumstances that may indicate need for more audit procedures than required in Standards on Auditing

4 Possibility that there is potential for management to override the controls

3 Professional Judgement:-

Auditor shall exercise professional judgement in planning and performing an audit of financial statements.

Examples where auditor can exercise professional Judgement:-

1 while determining the materiality levels

2 while determining nature, timing, extent of audit procedures to be used

3 (while evaluating the audit procedure whether it is sufficient & or not appropriate)

4 Evaluating management judgement in applying AFRF

5 Drawing conclusions based on Audit Evidence

. Evaluating sufficiency & appropriateness of Audit procedures

4 Sufficient and Appropriate Audit Evidence:-

To obtain reasonable assurance the auditor shall obtain sufficient & Appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enabling the auditor to draw reasonable conclusions which form the basis for Auditors opinion

* Appropriateness is the measure of Quality of Audit Evidence
* Sufficiency is the measure of Quantity of Audit Evidence

5 Conduct of an Audit in accordance with standards on Auditing:-

(1) The auditor shall comply with all relevant standards on Auditing. An SA is relevant to the audit when the SA is in effect and the circumstances addressed by the SA exist. The auditor shall have an understanding of the entire text of an SA including its application and other explanatory material to understand its objectives and to apply its requirements properly

(2) Auditor shall not represent compliance with SA's in the auditors report unless the auditor has complied with requirements of this SA and all other SA's relevant to the audit

CA RAVI KIRAN BALLA

## Audit Risk:-

Audit Risk is a function of risk of material misstatement and detection risk. The assessment of risk is a matter of professional judgement. For the purpose of SA's, Audit risk doesnot include the risk that auditor might express an opinion that financial statements are materially misstated when they are not in fact. This risk is ordinarily insignificant.

In simple words, Audit risk is the risk of expressing inappropriate opinion when the financial statements are materially misstated (False/ which is not correct)

Audit Risk = Risk of material misstatement (+) Detection Risk

Risk of material misstatement → Inherent Risk, Control Risk

Ex:-

| Opinion | Reality |
|---|---|
| → True & Fair View | 2000 Crore fraud |
| * Inappropriate audit opinion | When the financial statements are materially misstated |
| → 2000 Crore fraud | True & fair view |

* Ordinarily insignificant → Not covered by SA's

Audit Risk
- ROMM (Assess)
  - Financial Statement level
  - Assertion level → Account balances, Classes of transactions, Disclosure
    - Inherent risk
    - Control risk
- Detection Risk (Manage)

## SA-210:- Agreeing to the terms of Audit Engagement

### Objective of this standard:-

The objective of this standard is to:-

→ Establishing whether the pre-conditions for an audit are present

→ Confirming that there is a common understanding between auditor and management and where appropriate those charged with governance of the terms of the audit engagement.

CA RAVI KIRAN BALLA

### Pre-Conditions for an audit:-

Inorder to establish whether the pre conditions for an audit are present the auditor shall

(A) Determine the financial reporting framework to be applied in the preparation of financial statement is acceptable (or) not

(B) Obtain the agreement from management that it acknowledges and understand its responsibilities:

(i) → Preparation of financial statements in accordance with applicable financial reporting framework

(ii) → Implementation of Internal controls which enables the preparation of financial statements free from material misstatements

(iii) → To provide the auditor with

(a) – Access to all information

(b) – Access to additional information that auditor may request the management

(c) - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain the audit evidence.

Note:- If management will not acknowledge the responsibilities then the auditor will be unable to obtain sufficient and approp audit evidence. If this is the case it is not appropriate for the auditor to accept the engagement unless law or regulation require the auditor to do so

## Limitation on Scope prior to Audit Engagement Acceptance:-

If management (or) those charged with governance impose a limitation on the scope of auditors work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements then the auditor shall not accept such a limited engagement as audit engagement unless required by law or regulation

Report

- Modified
  - Qualified
  - Adverse
  - Disclaimer
- Unmodified
  - Clean
  - Fair presentation framework
    - True & Fair view (or) Fairly presented
  - Compliance fram
    - Prepared in all material respects

Opinion

↓

Sufficient & Appropriate Audit Evidence

- No misstatement (or) Misstatement but not material
  - ↓ Unmodified (Clean)
- Yes ↓ Misstatement
  - Material but not pervasive ↓ Qualified
  - Material & Pervasive ↓ Adverse
- NO ↓ Effects of such possible misstatement
  - Material but not pervasive ↓ Qualified
  - Material & Pervasive ↓ Disclaimer

## Content of Audit Engagement letter:-

The agreed terms of audit engagement shall be recorded in the audit engagement letter or other suitable form of written agreement and shall include :-

1 The objectives and scope of the audit of financial statements

2 Responsibility of the auditor

3 Responsibility of the management

4 Identification of AFRF for the preparation of financial statements

5 Reference to the expected form and content of any report to be issued the auditor and statement that there may be circumstances in which the report may differ from its expected form and content.

Additional contents :-

1. Elaboration of scope of the audit including reference to applicable laws, regulations, SA's, ethical and other pronouncements issued by ICA
2. The form of any other communication of results of the audit engagem
3. The fact that because of inherent limitations of audit and inheren limitation of internal controls there is unavoidable risk that som material misstatements are may not be detected eventhough the audit is conducted in accordance with SA's.
4. Discussion with regard to involvement of experts | Internal Auditors

Recurring Audits:-

On Recurring Audits the auditor shall assess whether circumstan require the terms of audit engagement to be revised and whethe there is a need to record them in a written agreement and whether there is a need to remind the entity of the existing terms of Audit Engagement

In the following cases it may be appropriate to revise the terms of the Audit Engagement | to remind the entity of Existing terms :-

1 When there is misunderstanding of objective and scope of audit
2 Any revised or special terms of Audit Engagement
3 A recent change in senior Management
4 A recent change in ownership
5 A significant change in nature | Entity's business
6 A change in legal & Regulatory frameworks

7 A change in FRF adopted in the preparation of financial statements

8 A change in other reporting requirements

## Acceptance of Change in Terms of Audit Engagement:-

Auditor shall not agree to the change in terms of Audit engagement where there is no reasonable justification to do so

If the terms of audit engagement are changed the auditor and management shall agree on and record the new terms of engagement in an engagement letter.

If the Auditor is unable to agree to the change of the terms of Audit Engagement and is not permitted by management to continue the original audit engagement then the auditor shall

(a) withdraw from the engagement where possible under applicable law or regulation and

(b) Determine whether there is any obligation either contractual or otherwise to report the circumstances to other parties such as those charged with Governance, owners, regulatory authorities.

CA RAVI KIRAN BALLA

~~Addit~~

# Additional considerations

## When there is a conflict between financial reporting Standards & Law

↓

Auditor shall discuss with management the nature of additional requirement and shall agree

(a) The additional requirements can be met through additional disclosures in financial statements

(or)

(b) The description of AFRF in the financial statements can be amended accordingly

↓

If neither of the above is not possible then auditor shall

- Determine the necessity to modify the audit report in accordance with SA-705

## Conflict between financial reporting framework & law

↓

If the auditor has determined that FRF is not acceptable but he shall accept the same because law prescribes if following conditions are present:-

↓

(a) Management agrees to provide additional disclosures in the financial statements required to avoid financial statements being misleading

(b) It is recognised in the terms of audit engagement that

- The auditors report will include an emphasis of matter paragraph drawing the users attention to the additional disclosures under the Standard 706
- Auditor shall not use the word True & Fair view in his audit report unless prescribed by law/Regulation

## Audit report is prescribed by law

↓

- Auditor shall evaluate
- When layout and wording of audit report is significantly different from SA's then

(a) Whether users might misunderstand the assurance obtained from audit of financial statements

(b) Whether additional explanation in the auditors report can mitigate possible misunderstanding

↓

Risk mitigated by disclosing additional Requirements in Auditors Report

↓

~~Res~~ Auditor Can proceed further

Risk cannot be mitigated

↓

Auditor shall not accept the Audit unless prescribed by law or regulation

↓

However Auditors Report shall not con[tain] any reference to Audit having been conducted in accordance with SA

## Audit Risk:-

It is the risk of expressing inappropriate opinion when financi statements are materially misstated.

It is the function of Risk of material misstatement & Detection Risk

## Risk of Material Misstatement:-

It is the Combined assessment of Inherent Risk & Control Risk

## Inherent Risk:-

It is the risk which is embodied in the financial statements

Ex:- Valuation of stock in case it is obsolete

## Control Risk:-

Controls:- It is the responsibility of the management to design an implement internal controls which are able to prevent, detect, Correct the Material Misstatements

Control Risk:- When the Internal controls are not able to prevent, dete correct the material misstatement then Control risk ar

Due to the above 2 risks i.e; inherent risks & control risks there may be a chance of misstatements in financial Statements. Thi is called Risk of Material Misstatement.

This Risk arises from Management Side

Detection Risk:- Auditor after assessing the risk of material misstat plans to perform substantive audit procedures to detect the misstatements. He must plan these procedu in response to RoMM

(This Risk is from Auditor side)

The ultimate object of the auditor is to bring down the Audit Risk to acceptable low level

Note:- Inorder to bring down the audit risk to acceptable lowlevel detection risk must have inverse relation with ROMM

* When auditor is unable to detect the misstatement even after applying substantive audit procedures, Then it is called Detection Risk

Audit Procedures

- Risk Assessment Procedures → (SA-315)
- Further Audit Procedures (SA-330)
  - Test of Controls
  - Substantive Audit Procedures
    - Test of Details
      - Class of Transactions → P&L Items → Vouching
      - Account balances → Balancesheet → Verification
      - Disclosures → Notes to Accounts
    - Substantive Analytical Procedures (SA-520)

Substantive Audit procedures:-

It is the study of relation between financial and non-financial information and any exceptions to be investigated further

CA RAVI KIRAN BALLA

# SA-300 :- Planning in an Audit of financial Statements

## Structure of Standard - 300

- Objective of an Auditor
- Benefits of planning
- Preliminary engagement activities
- Planning Activities
  - Establishing overall Audit Strategy
    - Scope
    - Time
    - Direction
  - Audit plan
    - Nature
    - Time
    - Exte
- Changes in Audit Strategy and Audit plan
- Docum ation

**Objective :-**

The objective of this standard is to plan the audit so that it wi be prepared in effective manner

**Benefits Of Planning:-**

Planning is not a discrete phase of audit but it is a continus and iterative process that often begin shortly after the completion previous audit and continues till completion of current audit engagement.

** Following are the benefits of Planning:-

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

2 Helping the auditor identify and resolve potential problems on a timely basis.

3 Helping the auditor properly organise and manage the audit engagement so that it is performed in an effective and efficient manner

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

5 Facilitating the direction and supervision of engagement team members and review of their work.

6 Assisting where applicable in co-ordination of work done by auditors of branches (Components & Experts).

## Preliminary Engagement Activities

Auditor shall undertake following activities at the beginning of audit:-

1 Performing procedures required by SA-220 regarding the continuance of client relationship and the specific audit engagement

2 Evaluating the compliance with ethical requirements including independence as required by SA-220

3 Agreeing to the terms of Audit Engagement SA-210

## Planning Activities:-

### Establishing Overall Audit Strategy :-

In establishing overall audit strategy the auditor shall :-

(i) Identify the characteristics of engagement that defines its scope

(ii) Ascertain the reporting objectives of the engagement to plan the timing of audit and nature of communications required

(iii) Consider the factors that in the auditors professional judgement are significant in directing the engagement team effort

(iv) Consider the results of preliminary engagement activities and where applicable whether knowledge gained in other engagements performed by the engagement partner for the entity is relevant

(v) Ascertain the nature, timing, and extent of resources necessary to perform the engagement.

### Develop an Audit Plan:-

Auditor shall develop an audit plan that shall include a description of :-

(i) Nature, Timing and Extent of risk assessment procedures as specified under Standard - 315

(ii) Nature, Timing and Extent of further audit procedures at the assertion level as specified in SA-330

CA RAVI KIRAN BALLA

(iii) Other planned audit procedures that are required to be carried out so that the engagement complies with SA's.

## Changes in Audit Strategy and Audit plan

The auditor shall update and change overall audit strategy and audit plan as necessary in the circumstances.

**Explanatory Material:-**

As a result of unexpected events changes in conditions, or the audit evidence obtained from the results of audit procedures the auditor may need to modify overall audit strategy and audit plan and thereby resulting planned nature, timing and extent of further Audit procedures based on revised consideration of assessed risks.

This may be a case when information comes to the auditors attention that differs significantly from the information available when the auditor planned the audit procedures.

## Documentation:-

1 Overall Audit Strategy

2 Audit plan

3 Changes in Audit Strategy & Audit plan

## SA-500 :- Audit Evidence

Objective:-

To design and perform audit procedures in such a way as to enab the auditor to obtain sufficient & Appropriate audit evidence to be enable to draw reasonable conclusions on which to base the Auditors opinion

Audit Evidence

- Sufficiency (Quantity of Audit evidence)
  - It denotes Quantity of Audit Evidence
- Appropriateness
  - It denotes Quality of Audit Evidence

Management Expert:- (Expertise in the field other than Accounting & Auditing)

An individual or organisation possessing expertise in the field o than Accounting & Auditing whose work in the field is used entity in preparation of financial statements.

Requirements:-

As per SA 315 & SA-330 auditors opinion is based on the result of the following:-

1 Risk Assessment procedures

2 Further Audit procedures which shall comprise:-

(i) Test of controls

(ii) ~~Au~~ Substantive Audit procedures including test of Details Substantive Analytical procedures

# Methods to obtain Audit Evidence:-

## Audit Procedures:-

1 Inspection:-

Inspection involves examining records, documents whether internal or external in paper form or electronic form or any other media (OR) Physical examination of Asset. The Degree of reliability of Audit Evidence depends upon nature and source of the Audit Evidence and Internal controls surrounding the preparation of Documents|Records

2 Observation:-

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

Ex:- The Auditors observation of inventory counting by entity's personnel

3 External confirmation:-

It is a direct written response to the auditor from the third party whether internal or external in paper form (or) Electronic form or any other media. These are frequently used for addressing assertions associated with account balances

Ex:- Debtors, Creditors etc.

However external confirmation procedures are not only restricted to account balances. It extends to confirming the terms of agreement with the other parties.

4 Recalculation:-

Recalculation consists of checking the mathematical accuracy o
documents or Records. It may be performed manually / Electronica

5 Reperformance:-

∴ It involves the auditors independent execution of procedures
that were orginally peformed as a part of entity's internal con

6 Analytical Procedures:-

It consists of evaluation of financial information made by the
study of relationship among both financial and nonfinancial da

7 Inquiry:-

It consists of seeking information from knowledgable persons, bot
financial and non financial within entity or outside entity

→ Inquiry is used extensively through out the Audit. It may
range from Oral enquiries formal written inquiries.

** Auditor shall evaluate whether the audit evidence obtained is
relevant and reliable. The following factors influence the reliabi
of Audit Evidence :-

(i) External audit evidence is more reliable than internal audit evi
However if internal controls are operating well in an organi
the Internal audit evidence is more reliable

(ii) Audit Evidence obtained by auditor directly is more reliable
than audit evidence obtained indirectly

(iii) Audit Evidence in documentary form is more reliable than evidence obtained orally.

(iv) Audit Evidence provided by original documents is more reliable than audit evidence provided by photo copies | fax etc. However, reliability depends on operating effectiveness of controls over their preparation and maintenance.

CA RAVI KIRAN BALLA

## Management Expert:-

When information to be used as audit evidence has been prepared using the work of management expert then the auditor shall, having regard to the significance of expert's work

(A) Evaluate the Competence, Capabilities and Objectivity of the expert

(B) Obtain an understanding of the work of that expert

(C) Evaluate the appropriateness of the experts work as audit evidence

Information regarding Competence, Capabilities and Objectivity of the management expert may come from variety of sources

1. Discussion with that expert
2. Personal Experience with previous work of expert
3. Discussion with Others who are familiar with that expert's work
4. Knowledge of that experts Qualifications
5. Membership of professional body | License to bodies | Other forms of external recognition.
6. Published papers or books written by the expert
7. An auditors expert if any who can assist is obtaining evidence WRT to information produced by the management expert.

# SA-315:- Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity & Its environments

↓

Including its Related Internal Control

## Objective of the Standard:-

To Identify and Assess the Risk of Material Misstatement through understanding the entity and its environment and thereby providing basis for designing and implementing responses to the assessed risk of material misstatement. and thereby reducing the risk to acceptable lowlevel.

## Requirements:-

### Risk assessment procedures and related activities:-

The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risk of material misstatement at the financial statement level and at assertion level

The following can be used as Risk Assessment Procedures:-

1 Inquiries of management and of others within the entity who in the auditors judgement may have information that is likely to assist in identifying risk of material misstatement due to fraud or error

2 Analytical procedures

3 Observation and inspection

## Internal Controls:-

It is the process designed implemented and maintained those charged with Governance, management and other personnel provide reasonable assurance. about the achievement of entity's Objectives such as:-

(i) Reliability of the financial reporting

(ii) Effectiveness and Efficiency of operations

(iii) Safeguarding of Assets

(iv) Compliance with laws & Regulations

## Required Understanding of Entity & Its Environment including the Entity's Internal control

### ***Understanding the Entity & Its Environment:-

The Auditor shall understand the following:-

(i) Industry, Regulatory, other External factors including the applicable financial reporting framework

(ii) The Nature of the Entity including:-

(a) Its operations

(b) The Ownership and Governance structure

(c) The types of the Investment that entity plans to m

(d) How it is financed and structured which enables th auditor to understand class of transactions, Account balances and disclosures to be expected in financi statements

(iii) Entity's selection and application of Accounting policies including the ~~the~~ reasons for changes thereto

(iv) The Entity's objectives and strategies and those related business risk that may result in the Risk of Material Misstatement

(v) The measurement and review of the entity's financial performance

CA RAVI KIRAN BALLA

Internal Controls :-

General IT benefits an entity can get:-

1 Consistent application of pre defined business rules and perform complex calculations in processing large volume of transactions or data

2 Enhance the timeliness, availability and accuracy of the information

3 Facilitate the additional analysis of information

4 Reduce the risk that controls will be circumvented

5 Enhance the ability to achieve effective segregation of duties by implementing security controls in application, database and operating system

Specific Risks to an Internal control of an Entity by Using IT:-

1 Reliance on systems or programmes that are inaccurately processing data, processing inaccurate data (or) both

2 Unauthorised access to the data that may result in destruction or improper changes to data

3 Unauthorised changes to data in master files

4 Unauthorised changes to systems or programmes

5 Potential loss of data (or) inability to access data as require

## Inherent limitations of Internal Controls:-

Internal controls, no matter how effective they are, can provide entity with only Reasonable Assurance about achieving the entity financial reporting objective. It is because of existence of Inherent limitations. This include:-

1 Involvement of human decisions

Ex:- There may be an error in design of, or in the change to, a control (Wrong selection of Internal controls)

2 Collusion between the Employees

Ex:- Management may enter into side agreements with customers that alter the terms and conditions of entity's standard contract.

3 Operation of control may not be effective such as where information produced for the purpose of internal controls (Ex:- Exception reports) is not effective used because the individual who is responsible for reviewing the information doesnot understand purpose and fails to take appropriate action

## Components of Internal Controls:- (Preliminary Assessment)

1 Control Environment

2 Entity's Risk Assessment process

3 The information systems including related business processes, relevant to financial reporting and Communication

4 Control Activities

5 Monitoring of Controls

## Identification and Assessment Of Risk of Material Misstatements:-

Misstatements can be taken place at 2 levels

Misstatements

- Financial Statement level
- Assertion level
  - Class of Transactions → P&L Items
  - Account Balances → Balancesheet
  - Disclosures → Notes to Accounts

## Risk that require Special Audit Consideration:-

1 When there is a risk of fraud

2 When there are Complex Transactions

3 When there is a change in recent significant economic, accounting, other developments like changes in regulatory environment

Ex:- Companies Act 2013, CGST Act 2014

4 whether the risk involves significant transactions with related pa

5 The degree of subjectivity involved in the measurement of financial information related to risk especially those measurem involving a wide range of measurement uncertainity

Ex:- Insurance Companies

While Identifying and Assessing the risk of Material Misstatement a financial statement level and Assertion level the auditor shall prov a ... basis for designing and performing further. Audit procedure

For this purpose the Auditor shall:-

1 Identify Risks throughout the process of obtaining an understand of the entity and its environment, including relevant controls tha relate to the risks and by considering class of transactions, Account balances & disclosures in the financial statements

2 Assess the Identified Risks and evaluate whether they relate more pervasively to the financial statements as a whole and potentially effect many assertions. Assess < Financial statement level / Assertion level

3 Relate the identified risks to what can go wrong at assertion level taking into account relevant controls that auditor intend to test

4 Consider the likelihood of the misstatement including the possibil of multiple misstatements and whether the potential misstat is of a magnitude that could result in a material misstatement.

## Revision of Risk:-

During the progress of Audit if Auditor obtains any additional information which is inconsistent with Audit Evidence on which the Auditor originally based the Assessment, then Auditor shall revise the Risk Assessment and accordingly he shall modify the planned Further Audit procedures.

CA RAVI KIRAN BALLA

## SA-320 :- Materiality in Planning & Performing the Audit

### Introduction :-

**Materiality :-**

Misstatements including omissions are considered to be material if they individually or in aggregate could reasonably be expected to influence the economic decisions of users taken on financial basis. However if Financial Reporting Framework discusses about materiality then materiality shall be taken in accordance with Financial Reporting Framework.

Ex :- As per Schedule-III expenditure above Rs 1,00,000/- shall be taken into seperate account but not under miscellaneous account

Judgement about materiality are made in the light of circumstances affected by size or nature of misstatement (OR) both sometimes

The concept of materiality is applied by the auditor both in planning and performing of the Audit and in evaluating the affect of Identified misstatements on the Audit and of uncorrected misstatements if any on the financial statements and forming a opinion in Auditors Report. In some circumstances the auditor may apply materiality not depending on size (Amount).

Ex :- Compliance of laws and Regulations

## Performance Materiality :-

Performance Materiality means an amount (or) amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole.

## BenchMark Concept :- (Percentage criteria for determining materials levels is known as Benchmarking)

A percentage is often applied to an choosen benchmark as a starting point in determing the materiality for the financial statements as a whole.

## Factors that may affect the identification of appropriate benchmark include the following :-

1 Elements of the financial statements (Ex:. Assets, liabilities, Equity, Revenue, Expense)

2 Items on which attention of users of particular entity's financial statements tends to be focused (Ex:- while evaluating financial performance users may focus on profit, revenue/ Net Assets)

3 Nature of the entity, where the entity is at in its life cycle, and the industry and the economic environment in which the entity operates.

CA RAVI KIRAN BALLA

4 Entities Ownership structure.

Ex:- when entity is substantially financed by debt then the earnings will be low so it is better to choose assets as our benchmark

5 Relative volatility of benchmark (Fluctuations)

## Revision of materiality :- (same as Revision of Risk)

## Documentation:-

The Audit Documentation shall include following :-

1 Materiality fixed at financial statement level

2 Materiality fixed at Assertion level

3 Performance Materiality fixed → Both at Financial statement level & → at Assertion level

4 Revision of Materiality → Revision of Originial Materiality (or) Performance Materiality

# SA-330 :- The Auditors Responses to Assessed Risk:-

**Objective:-**

To obtain Sufficient & Appropriate Audit Evidence about the assessed risk of material misstatement through designing and implementing appropriate responses to those Risk

**Definitions:-**

**Substantive Audit Procedures :-**

An Audit procedure designed to Detect material misstatements at the Assertion level. It comprises:-

1 Test of Details

2 Substantive Analytical Procedures

**Test of Controls:-**

An Audit procedure designed to evaluate the operating effectiveness of Controls in preventing or detecting or correcting misstatements at Assertion level (class of transactions, Account balances, Disclosures)

Overall Responses

- Financial Statement level
- Assertion level

Financial Statement level:-

The Auditor shall design and implement the overall response address Assessed Risk (ROMM) at financial statement level.

It may include:-

1 Emphasising to the Audit team the need to maintain professional Skepticism

2 Assigning more experienced staff or those with special skills using experts

3 Providing more supervision

4 Incorporating additional elements of unpredictability in the Selection of Further Audit Procedures to be performed

5 Making general changes to Nature, Timing and Extent of Audit procedures.

Assertion level:-

The Auditor shall design and perform FAP whose Nature, Timing and Extent are based on, and are responsive to risk assessed at Assertion level

1 Auditor shall perform & Design the Audit procedures:-

Ex:- Performing Test of Controls

Performing Substantive Audit procedures

Combination of both Test of controls and Substantive Audit procedures.

For this purpose the Auditor shall:-

A Consider the reasons for the assessment given for the ROMM at the assertion level for each class of transactions, Account balances and disclosures including.

1 Whether the risk is inherent

Ex:- Valuation of Obselete stock

2 Whether the risk is arised due to control risk.

B Obtain more pursuasive Audit Evidence when the auditors assessment of risk is high.

FAP are divided into :- 1 Test of controls

2 Substantive Audit procedures

When to use Test of Controls:-

1 The Auditors assessment of ROMM at assertion level includes an expectation that the controls are operating effectively. (i.e, the auditor intends to rely on the operating effectiveness of controls in determining the Nature, Timing, Extent of Substantive procedure)

2 When Substantive Audit procedures alone donot provide Sufficient and Appropriate Audit Evidence at Assertion level

## Nature and Extent of Test of Controls:-

a The Auditor shall perform other Audit procedures in combina with inquiry to obtain Audit Evidence about the Operating effectiveness of the controls including

1 How the controls were applied during the period under A

2 The Consistency with which they are applied

3 By whom or by what means they were applied.

b Determine whether the controls to be tested depend upon oth controls (indirect controls) and if so whether it is necessa to obtain Audit Evidence supporting the effective operation those Indirect controls.

Ex:- System is designed to generate exception report incase Sales is less than 1 lakh and this exception report sh be verified by finance manager.

This is the direct control, However to generate their exception report general IT controls must be there surrounding the system These IT controls are called Indirect controls. Hence the direct control are dependant on indirect controls to give appropriate results.

CA RAVI KIRAN BALLA

## Timing of Test of Controls:

1 When there are no significant changes in the control of an organisation the auditor shall test the controls atleast once in every 3rd audit.

2 When the auditor obtain Audit Evidence during an interim period the auditor shall obtain evidence about significant changes to those controls subsequent to interim period.

## Using Audit Evidence Obtained in the Previous Audits:

In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous Audits and if so, the length of time period that may elapse before retesting a control the Auditor shall consider the following:

1 The Effectiveness of other elements of Internal Controls including control environment (SA-315 Components of Internal controls)

2 The Risk arising from Characteristics of the control including whether it is manual or automated

3 The Effectiveness of general IT controls

4 Whether the lack of change in particular Control posses a risk due to change in circumstances

5 The ROMM and extent of dependance on controls

## Substantive Audit procedures

- Test of Details only
- Substantive Analytical procedures
- Combination of b[oth] Test of Details [and] Substantive Ana[lytical] procedures

The Auditor shall consider whether External Confirmation procedures to [be] performed as Substantive Audit procedures:-

Following are the factors that assist the au[ditor] in determining whether external confirmation procedures are to be performed as SAP:-

1 The confirming parties knowledge of subject matter

2 The objectivity of the intended confirming party

3 Ability (or) willingness of the intended confirming party to resp[ond]

The Auditor substantive procedure shall include the following Aud[it] procedures related to financial statements closing process

A Agreeing (or) Reconciling the financial statements with the underlying Accounting records. (There will be a supporting Evidence)

B Examining material Journal Entries and other adjustments mad[e] during the course of preparing the financial statements (No such [supporting] Evidence Ex:- Depreciation only will be Entry but no Supporting)

# SA - 501 :- Audit Evidence - Specific Consideration for Selected Items

- Inventories → Existence & Conditions
- Litigation & claims → Completeness
  - Inquire with management
  - Inquire with legal counsel
  - Reviewing legal Expense Account
- Segment Reporting → Presentation & Disclosures

## Objective of this standard :-

It is to obtain sufficient & Appropriate Audit Evidence with regard to

1 Existence and condition of Inventory

2 Completeness of litigation & claims involving the entity

3 Presentation and disclosure of segment information in accordance with AFRF

## Inventory :-

(whether Inventory is material or not is the professional Judgement of Auditor)

When inventory is material to financial statement, the auditor shall obtain SAAE regarding existence and condition of inventory by

1 Instructions are following or not
2 Observation
3 Inspection → Condition
4 Performance Test Counts

1,2 Existence

A) Attendance at physical inventory counting unless impractible to

(i) Evaluate management's instructions and procedures for recording and controlling the results of the entities physical inventory counting

(ii) Observe the performance of management's count procedures

(iii) Inspect the inventory

(iv) Perform Test Counts

B) Performing Audit procedures over the entities final inventory rec to determine whether they accurately reflect actual inventor counts

Special considerations in relation to Inventory :-

1 If physical inventory counting is conducted at a date other than financial statements date, the auditor shall, perform audit proce to obtain Audit Evidence about whether changes in the Inventor between the count date and the balance sheet date are proper recorded

2 If attendance at physical inventory counting is impracticable th auditor shall perform alternate audit procedures to obtain SA if it is not possible Modify the opinion.

3 If attendance at physical inventory count is not possible due unforseen reasons then the Auditor shall make or observe so physical counts on an alternative date

4 If inventory is maintained with third parties then the audi shall apply following procedures to get SAAE with regard existence and condition :-

(a) Get the External confirmation from that third party

(b) Attend the physical inventory count at the location third party

## Litigations & Claims:-

The following are the Audit procedures to Identify litigations & Claims:-

1. Inquiry with management, where applicable those Charged with governance Others with in the entity including Inhouse legal Counsel
2. Reviewing the legal Expense Account
3. Reviewing the minutes of meetings of those charged with Governance or external / internal legal counsels

If litigations and Claims are identified the auditor shall seek to communicate with external legal counsel and if management refuses to communicate with them then auditor shall perform alternate audit procedures and auditor is unable to get SAAE by performing alternative audit procedures then he shall consider the issuance of Modified opinion

CA RAVI KIRAN BALLA

## Segment Reporting:-

The Auditor shall obtain SAAE regarding the presentation and disclosure of segment information in accordance with AFRF by

(a) Obtaining an understanding of the methods used by the management in determining segment information and
   (i) Evaluating whether such methods are likely to result in disclosure in accordance with FRF
   (ii) Test the application of such methods

## SA - 505 :- External Confirmation

### Objective :-

The Objective of the auditor when using external confirmation procedures is to design and perform such procedures to obtain rel and reliable audit Evidence

### Definitions :-

#### External Confirmation :-

It is the Audit Evidence obtained as a direct written respo to the Auditor, from the third party,

#### Positive Confirmation Request :-

It is a request that the confirming party respond directly the auditor indicating whether the confirming party agrees o disagrees with the information in the request (or) providing requested information

#### Negative Confirmation Request :-

It is a request that the confirming party respond directly the auditor only if the confirming party disagrees with the information in the request

Requirements under this standard:-

1 External Confirmation Procedure:-

When using external confirmation procedures the auditor shall maintain control over external confirmation request including:-

1 Determine the information to be conformed

2 Determine / Select the appropriate conforming party

3 (Content including words, Form) Design the confirmation request including that requests are properly addressed and contain written information for responses to be sent directly to the auditor.

4 Send the requests including followup request when applicable to the conforming party

2 Factors to be considered when designing confirmation Requests:-

1 The Assertions being addressed

2 Identified ROMM due to fraud

3 The layout (wording) and presentation of confirmation request

4 Prior experience on the Audit and Similar engagement

5 Method of communication (Paper form / Electronic form)

6 Management's Authorisation or Encouragement to the confirming parties to respond to the Auditor. Confirming party generally willing to respond to confirmation request containing management authorisation.

7 Ability (or) willingness of the third party to respond to the confirmation request

CA RAVI KIRAN BALLA

3 Management's Refusal to allow the Auditor to send Request:-

1 Enquire with the management the reasons for the refusal and
Audit Evidence as to their validity and reasonableness

2 Evaluate the implications of managements refusal on the Auditor
Risk Assessment Process, Nature, Timing and Extent of other Aud
procedures

3 If Management's refusal is reasonable the Auditor shall app
Other Audit procedures designed to get reliable and relev
audit evidence. If managements refusal in not reasonable, t
auditor shall communicate with TCWG under SA-260 and sha
also consider the implications for the audit and the auditor
opinion in accordance with SA-705

4 Exception:- (Amount Not matching with Third Party)

If auditor gets the exceptions from the third party the Audit
shall investigate further to determine whether the exception is
misstatement (or) not

5 When to use Negative Confirmation Requests:-

1 When Auditor assess the ROMM as low

2 When Auditor got the evidence regarding the operating effect
of controls relevant to the assertion

3 When ~~to~~ The population of items subject to negative confirm
procedures are large number of small, homogeneous transaction

4 When Auditor expects a very low exception rate

5 The Auditor is not aware of Circumstance/Conditions that would cause recipients of negative confirmation requests to disregard (Ignore) such requests.

## SA-530:- Audit Sample:

### Objective:-

The objective of the Auditor when using Audit Sampling is provide a reasonable basis for the Auditor to draw conclusion about the population from which the Sample is collected.

### Definitions:-

**Audit Sampling:-** The Application of Audit procedures to less th 100% of items with an population of Audit relevance such that sampling units have a chance of selection in order to provide auditor with a reasonable basis on which to draw conclusion about the entire population.

**Sampling Risk:-** The Risk that the Auditor conclusion based on th Sample may be different from the conclusion if the entire populati were subjected to the same Audit procedure. It can lead to tw types of erroneous conclusions

Sampling Risks

- Test of Controls
  - More effective than Actual → would lead to Inappropriate Opinion
  - Less effective than Actual → Lead to Additional work
- Test of Details
  - Material Misstatement does not exist in sample but in existence in Actual → would lead to inappropriate opinion
  - Material Missta does existence Sample but in fa material missta in existence in → Lead to Additio work

Non-Sampling Risk:- The Risk that the Auditor reaches an erroneous conclusion for any reason not related to Sampling Risk.

Ex:- It includes use of inappropriate Audit procedure,
Misinterpretation of Audit procedures etc.

Statistical Sampling:- It is an approach which has following characteristics

1 Random Selection of Sampling of items
2 The use of probability theory to evaluate sample results, including measurement of sampling risk.

The sampling approach that doesnot have characteristics of 1 & 2 is considered as non-statistical sampling

Stratification:- The process of dividing population into sub-population each of which is a group of sampling units which have similar characteristics (often monetary values)

Tolerable Misstatement:- A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary items set by the auditor is not exceeded by the actual misstatement in the population

Important note:- Tolerable Misstatement is application of performance materiality. It may be same amount or amount lower than performance materiality.

Tolerable Rate of Deviation :- A rate of deviation from prescribed control procedures set by the auditor in respect of which auditor to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the a rate of deviation in the population

## Factors Affecting Sample Size for Test of Controls :-

1 An increase in the extent to which the Auditors Risk Assessme takes into Account relevant controls → Sample Size will be Increa

2 An increase in the tolerable rate of deviation → Sample Size will b Decreased

3 An increase in the Expected rate of deviation → Increase in Sample

4 An increase in the auditors desired level of Assurance → Increase Sample S

5 An increase in the Numbers of Sampling units in the population → Negl Eff

## Factors Affecting Sample Size for Test of Details:-

1 An increase in the extent to which the Auditors Risk Assessmen takes into Account relevant controls → Increase in Sample Size

2 An increase in the tolerable (rate of deviation) misstatement → Decrease in Sample S

3 Stratification of the population → Decrease in Sample Size

4 An increase in the use of other Substantive procedures directed at the same Assertion → Decrease in Sample S

5 An increase in the expected Misstatement → Increase in Sample S

6 An Increase Number of Sampling units in the population → Negligible Effec

## Methods to Apply Audit Sampling :-

- Random selection
  - Simple Random
  - Stratified Random
- Systematic (or) Interval Sampling
- Monetary unit selection
- Haphazard Sampling
- Block Sampling



1 Random Sampling :-

Sampling selected using random number generators

2 Systematic Selection :-

In the first stage we will fix the number by using the random selection and determine the intervals and after which we can select the sample.

Ex:- In a population of 1000 units, first selection we can make using Random number tables and fixing 50 units as the interval. Let us assume 35 is the first selection then 85 will be the second sampling 135 is the 3rd sampling

When using systematic sampling the Auditor need to determine that sampling units with in the population are not structured in such a way that the sampling interval corresponds with the particular pattern in the population

3 Monetary Units Selection:-

It is a type of value weighted selection in which sample s[...] selection and evaluation results in conclusion in monetary Am[...]

4 Haphazard Selection:-

Here auditor selects the sample without following a structured technique. Although no structure technique is used th[...] auditor would nontheless avoid any conscious bias and predictab[...]

5 Block Sampling:-

It involves selection of blocks of contigeous items from wi[...] the population. Block selection cannot ordinarily be used in samplin[...] because most population are structured such that items in a sequence can be expected to have similar characteristics to eac[...] other but different characteristics from items elsewhere in th[...] population

6 Performing Audit Procedures:-

The Auditor shall perform audit procedures on the selec[...] sample. If the Audit procedure is not applicable for the part[...] sample selected the auditor shall perform the procedure on the replacement item

If the Auditor is unable to apply designed Audit proce[...] (or) suitable alternative procedures to a selected item the Auditor [...] treat the item as deviation from the prescribed control (Incase of test of controls) as misstatement (Incase of test of Details)

## 7 Nature and Cause of deviations & Misstatements :-

The Auditor shall investigate the nature and cause of any deviations or misstatements identified and evaluate their possible effect on the other areas of the audit.

In the extremely rare circumstances when the auditor consider a misstatement or deviation discovered in a sample to be an anomaly then the auditor shall obtain high degree of certainity that such anamoly (Either it can be deviation or misstatement) is not representative of the population.

**Projecting Misstatement :-** (No Requirement to project the deviations)

For Test of Details, the auditor shall project the misstatements found in the sample to the population.

## SA-510 :- Initial Audit Engagement Opening balances

### Objective :-

While conducting initial Audit Engagement the objective of au with respect to opening balances is to obtain SAAE about whe

(i) Opening balances contains any misstatements that materially af the current period financial statements

(ii) Appropriate accounting ~~balances~~ Policies reflected in the opening bal have been consistently applied in the current period financial statements or if there are any changes whether they are properly accounted for and adequately presented and di in accordance with AFRF

### Definition :-

**Initial Audit Engagement :-**

An engagagement in which either financial statements f the prior period were not audited (or) financial statements f the prior period were audited by predecessor auditor

**Opening balances :-**

Those accounting balances that exists at the beginning of the period (closing balance of prior period) and accounting polic applied in prior period. It includes matters requiring disclos that existed in the beginning of period such as contingencies a commitments

## Requirements under this standard

### Relating to opening balances :-

1 Auditor shall read most recent financial statements and predecessor audit report if available for the information relating to opening balances including disclosures

2 He shall obtain SAAE about whether opening balance contain misstatements that materially affect the current year financial statements by :-

(a) Determining whether prior period closing balances have been properly brought forward to the current period or where appropriate, any adjustments have been disclosed as prior period items in the current years statement of profit or loss.

CA RAVI KIRAN BALLA

(b) Determine whether opening balances reflect application of appropriate Accounting policies

3 Performing one or more of the following :-

(a) where the prior period financial statements were audited, Obtaining copies of audited financial statements including other relevant documents relating to prior period.

(b) Evaluate whether Audit procedures performed in current period provide evidence relating to opening balance Ex:- Debtors Realisation

(c) Specific audit procedures to obtain evidence regarding the opening balances Ex:- Inventories

If Auditor concludes that opening balances contain misstatements that could affect the current period financial statements materially shall perform additional audit procedures as are appropriate to determine the effect on current period financial statements. Auditor shall communicate with appropriate level of management and TCWG in accordance with SA-450 if he concludes that misstatements in opening balances.

→ Auditor shall obtain SAAE that Accounting policies reflected in the opening balances have been consistently applied in current period financial statements and whether changes if any properly accounted for, presented, disclosed in accordance with

Reporting Requirements :-
Opening balances

1 If the Auditor is unable to obtain SAAE regarding opening balances then he shall express modified opinion (Qualified | Disclaimer)

2 If Auditor concludes that opening balance contains misstatements that materially effects current period financial statements and the effect of misstatement is not properly accounted for (or) not adequately presented or disclosed then shall express modified opinion (Qualified | Adverse)

Consistency of Accounting policies:-

a. If Auditor concludes that current period that accounting policies are not consistent with prior period b Change in Accounting policies are not accounted, presented or disclosed in accordance with AFRF

↓

Then Auditor shall express Qualified / Adverse opinion

Auditors Reporting Requirements

- Opening balances
  - Unable to obtain SAAE → Modified (Qualified / Disclaimer)
  - SAAE → Modified (Qualified / Adverse)
- Accounting policies
  - Consistency, Not properly accounted → Qualified / Adverse

## SA-520 :- Analytical Procedures

### Definition :-

Analytical Procedures means evaluation of financial inf through analysis of plausible (Reasonable / Probable) relationships among both financia non-financial data. It also encompass such investigation a necessary of identified fluctuations or relationships that ar inconsistent with other relevant information or that differ fro expected values by a significant amount.

### Analytical Procedures Includes :-

1 Comparing information of prior periods
2 Comparing the anticipated results of entity such as budgets & for
3 Comparing the similar industry information such as Comparisio entity's ratio of sales to Accounts Receivable with industry ave or with other similar entities

### Objectives of the Auditor :-

1 To obtain relevant and reliable Audit Evidence when using Subst Analytical procedures (used at During the Audit)
2 To design and perform Analytical procedures near the end o the Audit that assist the Auditor when performing an overall conclusion as to whether financial statements are consistent w Auditors understanding of the entity (used at End of the Audit)

Requirements under this Standard:-

Substantive Analytical Procedure:-

When designing and performing Substantive Analytical procedures (Analytical procedures alone or in combination with test of Details), auditor shall

1. Determine the suitability of particular Substantive Analytical procedures for given assertion taking into the account of Assessed risk of material misstatements and Test of Details
2. Evaluate the reliability of the data from which the auditor's expectation of recorded amounts (Given by management) or ratios is developed, taking account of Source, Comparability and nature and relevance of information available and controls over preparation (Refer *)
3. Develop an Expectation of Recorded Amounts (or) Ratios and evaluate whether expectation is sufficiently precise to identify a misstatement (Individually | when Aggregated with other misstatements) may cause the financial statements materially misstated. (Refer #)
4. Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation

Note:- If Risk is Assessed as High the acceptable difference between Actual and Expected Values should be Low

## * Factors relevant for determining the reliability of the data:-

(Refer Point 2 above)

1 Source of the information

Ex:- when the information is obtained from independent out Sources → Reliability increases when compared to the info Obtained from management

2 Comparability of the information.

CA RAVI KIRAN BALLA

3 Nature and Relevance of the information available

Ex:- Whether budgets have been established as a results to be expected rather than goals to be achieved

4 Controls over the preparation of information that are designed ensure its Completeness, Accuracy and Validity.

## # Matters Relevant to Auditors Evaluation of whether the expectation be developed sufficiently precisely to identify a misstatement may affect the financial statements materially :- (Refer Point 3)

1 The accuracy with which the expected results of the Substantive Analytical procedures can be predicted.

Ex:- The Auditor may expect greater consistency in Comparing G.P margins from one period to another than in Comparing discretionary expenses such as Research & Development / Adv

2 Degree to which the information can be desegregated

3 The availability of the information both financial / Non financial

## Analytical Procedures that assist when forming an Overall conclusion:-

The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with auditors understanding of the entity which we obtain under SA 315

Note:- If the results of Analytical procedures identify a previously unrecognised risk of material misstatement, the auditor shall revise the ROMM and plan the further audit procedures accordingly

## Investigating Result of Analytical procedure:-

If analytical procedure performed in accordance with the Standards on Auditing, identify fluctuation and relationship that are inconsistence with other relevant information or differed from expected values by significant amount the auditor shall investigate such difference by :

→ Enquiring with management and obtaining appropriate Audit Evidence relevant to management's responses

→ Perform other Audit procedures as necessary in the circumstances

# SA-260 Communication with Those Charged with Governance

**Those charged with Governance:-**

The persons with responsibility of overseeing the strategic direction and obligations relating to accountability (Answerability

**Management:-**

The persons with executive (implement) responsibility for the conduct of entity's operations (Day to day activities)

**Auditors Responsibilities:-**

1 Determine the appropriate person to whom communication must be made

2 Determine whether to communicate with Governing Board Communication is already made with sub-group (Audit Comm

3 If all TCWG are involved in managing the entity and the matter has been communicated with management already the those matters need not be communicated again to the same persons in their governing role

**Matters to be Communicated under the Standard:-**

a) Auditors responsibility in relation to Audit of financial Statements

b) Planned, Scope and timing of the audit

c) Significant findings from Audit with respect to

→ Accounting policies, Accounting Estimates, financial Statement disclosures, Significant difficulties encountered at audit

→ Material weakness identified in Internal control

→ Significant matters discussed with management.

→ Other significant issues

d) Statement with respect to ethical requirements

## Matters to be treated as significant difficulties (with reference to point c)

1 Significant delay in providing information

2 Unnecessarily providing brief time to complete the audit

3 Extensive unexpected effort to obtain SAAE

4 Unavailability of expected information

5 Scope limitation exercised by management

CA RAVI KIRAN BALLA

## Communication Process :-

Communication may be oral (or) written, detailed (or) summarised, structured (or) unstructed.

However if oral communication is insufficient then communication must be in writing

* Communication must be in timely basis

Factors affecting mode of Communication :-

1 Size, operating structure, control environment, legal structure of the entity

2 Incase of Audit of special purpose financial statements whether auditor also audits the entity's general purpose financial sta

3 Requirements under law, specifying written communication wi those charged with Governance

4 Expectations from those charged with Governance

5 The amount of on going conduct and dialogue the auditor with those charged with governance

6 Significant changes in governing body membership

# SA-265 :- Communicating Deficiencies in Internal Controls to those Charged with Governance and Management

## Deficiencies in Internal Controls :-

1. Inability of Internal controls to detect, correct, prevent material misstatements
2. Absence of controls necessary to prevent, Detect, Correct the misstatements

## Auditors Responsibilities :-

1. Identify the deficiencies in Internal controls
2. Communicate the deficiencies in Internal controls

## Identification of Deficiencies in Internal controls

↓

Determine whether on basis of work done any deficiencies in Internal control is identified (or) not

↓

Determine whether deficiencies individually (or) in combination with others constitute significant deficiencies

## Indicators of Significant Deficiencies:-

1 Evidence of ineffective aspects of Control Environment

2 Entity's Risk Assessment process is absent (or) Ineffective

3 Ineffective responsive to identified significant risks

4 Managers inability to oversee financial statement preparatio

5 Misstatements identified by Auditors procedures were not prevented, detected, corrected by entity's internal controls.

## Communication of Deficiencies of Internal Controls :-

Significant → Those Charged with Governance (+) Management

Not Significant (Ne → Management

* Communication must be in writing

## Contents of Communication:-

CA RAVI KIRAN BALLA

1 Description of Deficiency

2 Explanation of their potential effect

3 Sufficient information to explain that the purpose of Audit is to express an opinion and Internal controls to design further audit procedures

# SA-240:- The Auditors Responsibilities to Fraud in an Audit of financial Statements

## Characteristics of Fraud:-

Misstatements in the financial statements can arise from either fraud or Error

fraud → Intentional
Error → Unintentional

**Two types of Intentional misstatements** are relevant to the auditor.

- Fraudlent Financial Reporting
  - Causes
    - Incentives/pressures
    - Perceived oppurtunity
    - Rationalisation/Attitute
- Misappropriation Of Assets
  - Causes
    - Incentives/pressures
    - Perceived oppurtunity
    - Rationalisation/Attitute

**Manner of Committing fraud**

Fraudlent Financial Reporting

1. Manipulation, falsification (or) alteration of accounting records from which financial Statements are prepared
2. Misrepresentation in or intentional omission from the financial statements of events, transactions or other significant information

Misappropriation of Assets

1. Embezzling Receipts
2. Stealing physical Assets / Intellectual property (Missing)
3. Causing an entity to pay for goods or services not received
4. Using an entity's assets for personal use

3 Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation or disclosure

Ex:- Revenue Exp as Capital Expenditure

Responsibilities:- The primary responsibility is

→ To prevent and detect the fraud rests with both those ch with Governance and Management.

→ The Auditor responsibility is to obtain reasonable assuran that the financial statements are free from material misstatement whether due to fraud or error. As there inherent limitations of an audit. there is an unavoidable that some material misstatements may not be detec even though the audit is properly planned and perfor

→ When Compared to error the identification of fraud is di as it involves sophisticated and carefully designed schemes to

Factors affecting the ability of the Auditor to identify the

(Person who is Committing fraud)

1 Skillfullness of the perpetrator

2 Degree of collusion involved

3 Seniority of the individual involved in the fraud

4 Frequency and extent of manipulation

5 Relative size of the amount involved in the fraud

Objectives:-

1. To identify and assess the Risk of material misstatement in the financial statements due to fraud

2. To obtain sufficient and Appropriate Audit Evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses → (SA-315, 330)

3. To respond appropriately to identified or suspected fraud (Communicating with CG → MCA)

Definitions:-

Fraud:- An intentional act by one or more individuals among management, TCWG, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage
↳ (Hiding truths)

Fraud Risk factors:- Events or conditions that indicate an incentive or pressure to commit fraud or provide an oppurtunity to commit fraud

Requirements:-

1 Professional Skepticism:-

Not withstanding the auditors past experience of the honesty and integrity of the entity management / ~~TCG~~ TCWG, he shall maintain professional skepticism throughout the Audit

## 2 Discussion among the Engagement Team :-

This includes :-

1 An exchange of Ideas about
↓

* How they believe the entity's financial statements may be susceptible to material misstatement due to fraud
* How management could perpetrate and Conceal fraudlent financial reporting
* How the assets of entity could be misappropriated

2 Discussing the circumstances which are indicative of earnings management by management which could lead to fraudulent financial reporting (Ex- Increasing profit margings → Management Earn...

3 Discussing the known external and internal factors affecting the entity which may create incentive or pressure / oppurtunity / Attitute (or) Rationalization to Commit the fraud

4 Discussion on management's involvement in overseeing the employees who are having the access to cash (or) other Assets which are susceptible to misappropriation.

5 Considering any unusual or unexplained changes in behaviour or lifestyle of the employees or management which the audit engagement team ~~modifies~~ identifies

## Risk Assessment Procedures:-

1 Inquiries with management:-

-> Management's assessment of the risk

-> Management's process for identifying and responding to the risks of fraud in the entity

-> Management's Communication with Those charged with Governance regarding the process for identifying and responding to the risk of frauds

-> Management's communication to employees regarding the ethical behaviour to be maintained

CA RAVI KIRAN BALLA

2 Discussion with others:-

The auditor shall make inquiries of management and others within the entity as appropriate to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity;

Examples of others within entity:-

1 Operating personnel

2 Employees with different levels of authority

3 Inhouse legal counsel

4 Chief ethics officer

5 Person or persons charged with dealing with allegations of fraud

3 Discussion with Internal Auditor

For those entities that have an internal audit function, auditor shall make inquiries of internal audit to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the ~~fraud~~ entity and to obtain views about risks of fraud.

4 Discussion with Those charged with Governance.

5 Analytical procedures

6 Other information :-

The auditor shall consider whether other information obt by the auditor indicates ROMM due to fraud

7 Evaluation of Fraud Risk matters

The auditor shall evaluate whether the information obtain from the other Risk Assessment Procedures and related activi performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate existence of fraud that may indicate Risk of Material Misstatem

# Identification and Assessment of Risk of Material Misstatement due to fraud

→ Auditor shall identify and Assess material misstatement under SA - 315

- Financial Statement level
- Assertion level
  - Class of transactions
  - Account balance
  - Disclosures

He shall assess based on presumptions that there are risks of fraud in Revenue Recognition

→ The Auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly to the extent not already done so the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks

## Responses to Assessed Risks of material misstatement due to fraud

- Overall responses to risk at financial statement level
- Overall responses to risk at assertion level

Overall Responses to Risk at financial statement level:

Auditor shall
↓
1 Assign and supervise personnel taking into account of the know Skill an ability of individual to be given with significant engag responsibilities

2 Evaluate whether the selection and application policies by the enti (particulary subjective measurments Ex:- Accounting Estimates) may indicative of fraudlent financial reporting resulting from mana effort to manage earnings

3 Incorporate an element of unpredictibility in the selection of nature, timing and extent of audit procedures

Overall Responses to Risk at Assertion level:-

In accordance with SA-330 the auditor shall design and per further audit procedures whose nature, timing and extent are responsive to assessed risks of material misstatements due fraud at assertion level. It may include:-

→ Change in the nature of audit procedures to get more persuasive audit evidence

→ Change in the timing of audit procedures

→ change in the extent of audit procedures (Ex:- verifying the transactions rather than going with sampling)

## Evaluation of Audit Evidence:-

→ The auditor shall evaluate whether analytical procedures that are performed when forming an overall conclusion as to whether the financial statements as a whole are consistent with the auditor's understanding entity and its environment indicate a previously unrecognised risk of material misstatement due to fraud

→ If auditor identifies any misstatement then he shall evaluate whether it is an indicative of fraud or not. If he concludes it as a fraud then shall evaluate the implications on the other areas of audit particularly reliability of management representations.

→ If he concludes that the financial statements are materially misstated the auditor shall evaluate the implications for the audit (Ex:- Issuing Modified opinion, Communicating with those charged with governance, statutory authorities)

Conditions/Events which increase the risk of fraud or error:-

1 Faults in internal controls
2 Doubts about the integrity or competence of the management
3 Unusual pressures within the entity
4 Unusual transactions
5 Problems in obtaining sufficient and Appropriate Audit Evidence

## Auditor Unable to Continue the Engagement :-

In exceptional circumstances Auditor may face situations which make him unable to continue the Audit then he shall determine whether it is legally possible to withdraw from the engagement

If he withdraws then :-

→ He shall communicate with those charged with Governance the reasons for his withdrawl

→ Determine whether there are any professional or legal responsibility to communicate with those persons who have appointed the (or) to regulatory authorities

## Fraud Risk factors relating to Misstatements arising from fraudulent financial Reporting :-

1 Incentives/ Pressures :-

1 High degree of competition or market saturation, accompanied by declining margins

2 High vulnerability to rapid changes such as changes in technology, product obsolescence, or interest rates

3 Significant declines in customer demand and increasing business failures in either the industry or overall economy

4 (Ex: labour strikes) Operating losses making the threat of bankruptcy, foreclosure, hostile takeover imminent

5 New accounting, statutory, or regulatory requirements

## 2 Oppurtunities :-

1 Significant related party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.

2 A strong financial presence or ability to dominate a certain industry (Monopoly) sector that allows the entity to dictate terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions.

3 Assets, liabilities, revenues, or expenses based on significant estimates that involves subjective judgements or uncertainities that are difficult to corroborate

4 Significant, unusual, or highly complex transactions, especially those close to period end that pose difficult "substance over form" questions.

5 Significant bank accounts or subsidiary or branch operations in not required to pay taxes → (Ex:- SEZ areas) tax-haven jurisdictions for which there appears to be no clear business justification

## 3 Attitude | Rationalization :-

1 Communication, Implementation, support or enforcement of the entity's values or ethical standards by management, or the communication of inappropriate values or ethical standards that are not effective.

2 Known history of violations of securities laws or other laws and regulations or claims against the entity, its senior management, or those charged with governance alleging fraud or violations of laws and regulations

3 Excessive interest by management in maintaining or increasing entity's stock price or earnings trend

4 An interest by management in employing inappropriate means to minimize reported earnings for tax- motivated reasons

5 Low morale among senior management

Risk factors arising from Misstatements arising from Misappropriation of Assets

1 Incentives / Pressures :-

Personal financial obligations may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets. Adverse relationships may be created by the following :-

→ Known or anticipated future employee layoffs

→ Recent or anticipated changes to employee compensation or benefit plans

→ Promotions, Compensation, or other rewards inconsistent with expectations

## 2 Oppurtunities :-

1 Certain Characteristics or Circumstances may increase the susceptibility of assets to misappropriation. For example, oppurtunities to misappropriate assets increase when there are the following:-

(i) Large amounts of cash on hand or processed

(ii) Inventory items that are small in size of high value or in high demand

(iii) Easily convertible assets, such as bearer bonds, diamonds (or) computer chips

(iv) Fixed assets which are small in size, marketable, or lacking observable identification of ownership

CA RAVI KIRAN BALLA

## 3 Attitudes | Rationalisation:-

1 Disregard for the need for monitoring or reducing risks related to misappropriation of assets

2 Disregard for internal control over misappropriation of assets by overriding existing controls or by failing to take appropriate remedial action on known deficiencies in internal control

3 Behaviour indicating displeasure or dissatisfaction with the entity or its treatment of the employee

4 Changes in behaviour or lifestyle that may indicate assets have been misappropriated.

5 Tolerance of petty theft.

# SA-299 :- Joint Audit of financial Statements ·

## Objective:-

1 To laydown broad principles for joint auditors and to provid uniform approach in conducting joint audit

2 To facilitate the work between the joint auditors

3 To identify individual and joint responsibility of joint audi

## Definition of Joint Audit & Joint Auditors:-

It is an Audit of financial statements of entity by two or Auditors appointed with the objective of issuing the Audit Such Auditors are called Joint Auditors

Requirements

- Audit planning, Risk assessment, Allocation of work
- Responsibilities and Co-ordination
- Conclusion Reporti

## Audit Planning, Risk Assessment, Allocation of work:-

1 Joint Auditor shall jointly establish an overall audit strategy, set Scope, Timing, Direction of Audit that guides the developm the Audit plan. Engagement partner and other key members be involved in it

2 While developing the joint audit plan they shall (joint auditors)

(Scope) → Identify the division of the Audit areas and the common areas by defining the scope of their work

(Timing) → Ascertain the Reporting objectives to plan the timing of Audit and nature of Communications required (what to communicate, when to communicate)

oral | written

(Direction) → Consider and Communicate among all the factors which are significant in directing engagement team efforts

3 They shall divide the audit work among themselves based on the terms of audit of identifiable units or specified areas. when division of work is not possible as specified above then they may divide the work based on Assets | Liabilities | Income | Expenditure.

4 Certain areas of work would not be divided owing to their importance and nature of the work, those work shall be covered by all the joint auditors.

5 Each auditor shall asses the ROMM WRT to work alloted to them and shall communicate to other joint auditors

6 They shall discuss and document nature, timing, extent of audit procedures for common and specific alloted areas, and the same shall be communicated to Those charged with Governance.
They shall obtain Common engagement letter.

7 All the documents (Audit strategy, Audit plan, Communication with TCWG division of work) shall be signed by all the joint auditors.

CA RAVI KIRAN BALLA

******

## Responsibilities and Co-ordination :-

### Individual Responsibilities

1 Work allocated for them

2 When decisions are taken by individual auditors

3 If auditors identify any areas which are relevant to areas of responsibility of other joint auditors which deserve their attention, then he shall communicate the same to all other joint auditors in writing prior to the completion of Audit

4 Evaluating the prevailing internal control system and Risk assessment relating to the areas allocated to them

### Joint Respons

1 Work which is not divid

2 When decisions are taken b Joint Auditors

3 Matters which are brought to notice of joint auditors by of them and all joint audit agreed for that

4 For examining the complian financial statements with th requirements of relevant Stat financial Reporting framewo

5 Ensuring the audit report complies with required / rele Statutes, SA's, pronouncem

## Conclusion and Reporting:-

1. Joint auditors are required to issue Joint Audit Report unless there is any disagreement with regard to opinion or any matters to be covered by the Auditors Report
2. Joint auditors are not bound by the views of the majority of auditors. They can issue joint audit seperately incase of disagreement with others. However, this reference must be kept in other matter paragraph as per SA-706
3. Each joint auditor is entitled to assume that the other joint auditors have carried out their work as per SA's and have brought to his notice any departure from AFRF and any other significant observations
4. Before finalising the audit report the joint auditors shall discuss and communicate with each other respective conclusion that would form content of Audit Report.

Other matter paragraph

Ex:-
→ Joint Audit
→ Disagreement with other regarding opinion

Emphasis matter paragraph
↳ Relating to financial statements

## SA-250 :- Consideration of Laws & Regulations in an Audit of financia[l] Statements

### Management's Responsibilities:-

It is the responsibility of management to comply with law[s] regulations and it may be performed through:-

[Q To Ensure compliance of [laws &] Regulations what is [the] management responsib[ility]]

1 Monitoring Legal Requirements and ensuring that operating procedu[res] designed to meet the requirements (Ex:- TDs on salaries are deducted and to be remitted to Govt within 2days)

2 Instituting and operating appropriate Systems of internal contro[ls]

3 Developing, publicising, and following a code of conduct (Set of rules)

4 Ensuring the employees are properly trained and understanding Co[de] of ethics

5 Monitoring compliance with code of ethics and take actions [to] discipline employee who failed to Comply with it

6 Engaging legal advisors to assist in monitoring legal requireme[nts]

7 Maintaing a register of Significant Laws & Regulations with w[hich] the entity has to Comply.

### Auditor's Responsibilities:-

1 Obtain general understanding of legal and regulatory framewor[k] applicable and how entity is complying with the framework

2 Applicable laws & Regulations are divided into 2 types

Point-1
Those laws which have direct affect on determination of material amounts and disclosures in financial statements

Point-2
Other laws & Regulations th[at do not directly] affect amount and disclos[ures in] financial statements but com[pliance with] such laws may be fundam[ental to] operating aspects

## Auditors Responsibilities with respect to Point-1:-

1. Auditor Shall obtain SAAE to ensure the Compliance of those laws and Regulations

Ex:- Obtaining the Income Tax Returns (or) GST Returns

Obtaining the Payment Challans

2. Obtain written representations from management saying that all instances of non-compliance (or) suspected non-compliance have been disclosed to auditor

CA RAVI KIRAN BALLA

## Auditors Responsibilities with respect to Point-2:-

1. Enquire with the management
2. Inspecting Correspondance from relevant licensing and Regulatory authorities to identify instances of non-compliance
3. Obtain written representations from management saying that all instances of non-compliance or suspected non-compliance have been disclosed to auditor

## Auditors Procedure in Case of Non-compliance is Identified (or) suspected non-Compliance :-

1. Obtain an understanding of the act
2. Circumstances in which it is Occured
3. Evaluate possible affects on financial statements
4. Discuss with management (or) Those charged with Governance

## Reporting Responsibilities

- **Those charged with Governance**
  - * Matters involving non-compliance
  - * If TCWG is involved communicate to higher authorities if any
- **To members through Audit Report**
  - If there is material effect on financial statements → Qualified/ Adverse
  - If auditor is unable to conclude → Qualified/ Disclaimer
- **Regulatory and Enforcement A**
  - (If law requires

(Non-compliance Indicators)

### Indicators Considered by the Auditor :-

1 Investigations by regulatory bodies

2 Payment of fines (or) penalties

3 Unusual payments in cash

4 Payments without proper exchange control documentation (Non-Comp FEMA FE

5 Unauthorised transactions (or) improperly recorded transactions.

6 Adverse media Comment

## SA-230:- Audit Documentation

**Meaning:-**

It is the record of Audit procedures performed and relevant audit evidence obtained and conclusions reached thereon

### * Purpose of Audit Documentation

1 It assists in planning and performing Audit

2 Direction, Supervision and Review of the Work.

3 To fix (Answerable) Accountability

4 Record for future reference

5 Quality Control Review and Inspection

- Peer review Board → Setup by ICAI
- Quality Review Board → Setup by Central Govt

6 Conduct of External Inspections

### ** How the Documentation Must be?:-

1 Documentation must provide for sufficient and Appropriate record of the basis for auditor's report.

2 Evidence that audit was planned and performed in accordance with SA's and other regulatory requirements

### Form, Content, and Extent of documentation:-

- Auditor shall prepare Audit documentation that is sufficient to enable an experienced auditor to understand:-

  1 Nature, Timing and Extent of Audit procedures

  2 Results of Audit procedures performed and Audit Evidence obtained

  3 Significant matters arising during audit and conclusions reached thereon, significant professional judgements made in reaching those conclusions

## *** Factors affecting form, Content and Extent:-

1 Size and Complexity of the entity

2 Nature of the Audit procedures to be formed Ex:- Inspection, External ... will have ... document...

3 Assessed Risk of Material Misstatement

4 Significance of Audit Evidence Obtained

5 Need to document a conclusion or the basis for a conclusion not read... determinable from the documentation of work performed (or) ... Audit Evidence Obtained.

CA RAVI KIRAN BALLA

6 The methodology used & tools used (while using sampling less documen... is required).

## Retention Period:-of Audit Documentation:-

7 Years from the "Date of Auditors Report"

## Specific Documentations under this standard:-

1 Documentation of discussions with management and TCWG

↓

→ Matters discussed

→ when and with whom dodiscussion is made

→ How the Auditor addresses the inconsistencies

2 Documentation of Departure from relevant requirement of any standa...

→ and including the reason for departure (Non compliance of any stand... should be disclosed/docume...

→ and alternative procedures applied

3 Documentation of matters arising after the date of Auditor's Re...

→ Circumstances encountered

→ New (or) Additional procedures performed, Audit Evidence obtaine... conclusions reached and their affect on Auditor's Report

→ when and by whom the changes to Audit documentation were ma... review...

## Ownership:-

Auditor is the owner of his working papers and he may at his discretion make portions of (or) extracts from documentation available to the client.

## SA-580 :- Written Representations

Meaning :-

It is a written statement provided by management to Auditor confirm certain matters or to support other audit evidences.

Nature of written Representations :-

→ Written Representations are recognised as audit evidence as a re[sponse] to the Auditor's enquiries. However, written representation do not p[rovide] for sufficient and Appropriate Audit Evidence

→ Written Representations shall be obtained for all financial statement[s] periods referred in Auditor's Report.

→ Written Representations should be in the form of written represe[ntation] letter addressed to Auditor

→ Date of written Representations as near as practicable to the [date] of Auditor's Report

CA RAVI KIRAN BALLA

Requirements Under this standard :-

Matters for which written Representations may be obtained :-

1 Preparation and Presentation of financial statements in accordance with Applicable financial Reporting framework

2 Information must be provided as per the terms of Engagement

3 Description of management responsibilities as described in the terms [of] Engagement -(SA-210)

4 Management shall provide written representations as required [by] other standard

5 Management shall provide written representations if the auditor requires them to do so

## Auditors Responses in different situations :-

If management refuses to provide written representations

1 Discuss the matter with management
2 Re-evaluate the reliability and Integrity of the management
3 Determine the possible affect on the opinion
4 Issue Disclaimer opinion

Reliability of written Representations but they are doubtful

1 In case of having concerns about Competence and Integrity of management, determine the effect on other areas of Audit
2 If written representations are inconsistent with other evidences perform additional procedures
3 If he concludes that written representations are not reliable, determine the affect on auditors report
4 Consider the issuance of disclaimer of opinion

## SA-600 :- Using the work of Another Auditor :-

### Applicability :-

It is applicable when the principal auditor while reporting on fina[ncial] statements of entity uses the work of another auditor (Component [auditor]) with respect to the financial information of one or more Compo[nents] (Branches, Divisions, Associates, subsidiaries, Joint ventures) included [in] the financial statements of the entity

### Non-Applicability :-

→ Comparative figures approach → Corresponding figures app[roach]

It is not applicable to :-

1. Joint Audit → SA-299
2. Using the work of predecessor Auditor → SA-510

### Requirements under this Standard :-

**Principal Auditor's Procedures :-**

1. Consider the professional competence of Other Auditor if Other au[ditor] is not the member of ICAI
2. Visit the Component and examine books of accounts if required
3. Obtain Sufficient Appropriate Evidence that work of Other aud[itor is] adequate for principal Auditor's purposes
4. Discuss Audit procedures applied by Other Auditors
5. Review a written summary of Other Auditor's procedures and findings through Questionnaires or Check lists
6. Consider significant findings of Other Auditors and discuss tha[t] with them and to the management

7 Perform supplementary tests if any

8 Incase Other Auditor is not professionaly Qualified then principal Auditor shall evaluate the Competence, Capabilities, Skill and required professional Qualifications of the other Auditor

## Documentation:-

1 Reasons for non-considering the particular components as material Components

2 List of the Components whose financial statements are audited by Other ~~other~~ Auditors



3 Names of other Auditors

4 Audit procedures performed regarding the Components

5 Manner of dealing with modified report of Other Auditor while finalising the Auditors report of principal

## Co-ordination| Liaisoning:-

1 There must be proper Co-ordination (or) Liaison between principal and Other Auditor

2 Principal may require the other auditor to answer a detailed Questionnaire

3 Other Auditor should Co-ordinate with principal auditor

↓

→ By adhering (comply) the timetable

→ Bringing to the attention of principal auditor any significant finding

→ Compliance with relevant Statutory requirements

→ Respond to Questionnaire given by principal Auditor

Reporting Requirements:-

1 Auditor shall express Qual / Disclaimer of opinion if he concludes that he cannot use the work of Other Auditor and is unable to perform sufficient additional procedures with re to financial information of Component.

2 There must be clear division of responsibility between princip Auditor and Other Auditor

## SA - 620 :- Using the work of Auditor's Expert

### Meaning of Auditors Expert :-

→ An individual (or) organisation which have expertise in the field other than Accounting (or) Auditing whose work is used by Auditor to assist the Auditor in obtaining SAAE

### Following are the Examples where the Auditor uses the work of Expert:-

1 Valuation of Buildings, plant & machinery, Complex financial instruments (Derivatives)

2 Acturial Calculation of liabilities associated with Insurance Contracts (or) Employee benefit plans.

CA RAVI KIRAN BALLA

3 Value of Environmental liabilities

### *** Procedures to be followed while using work of Auditors Expert:-

1 Auditor shall determine Competence, Capabilities and objectivity of Auditors Expert. He shall also be aware of relationship between the auditors expert and the client which may affect the independence of the expert

2 He should understand the field of expertise of that expert through discussions with him. It will help the auditor in evaluating the adequacy of the work of that Auditors Expert

3 Agreement with Auditors Expert:-

⇒ Auditor shall agree with Auditors expert in writing following matters:-

→ Nature, Scope and objectives of the experts work

→ Role and Responsibilities of Auditor and that of expert

→ Timing of Communication between Auditor and that expert

→ Need for Auditors expert to observe confidentiality

4 Evaluating the Adequacy of the Auditors expert work

(i) He shall evaluate by considering -

→ Reasonableness of the Experts finding

→ Consistency of findings of that expert with other evidence

→ Reasonableness of the assumptions used by that expert

→ Reasonableness and accuracy of the ~~sto~~ source data use the expert

(ii) If Auditor determines that the work of expert is not adeq then shall perform further procedures.

→ If Auditor finds any highly sensitive areas in Audi he shall assess the ROMM and accordingly he shall increase nature, timing and extent of Audit procedure

## Audit Reporting :-

Reference in the Auditors Report, the work of Auditors Expert

**Unmodified Opinion**

(i) Auditor shall not refer to the work of Auditor's expert in the report contain unmodified Opinion unless required by law or Regulation

(ii) If law requires he shall indicate in the Auditor's report that such reference doesn't reduce the auditor's responsibility for the Audit opinion

**Modified Opi**

(i) He shall refer to the w Auditors expert if such is necessary for unders the nature of modifi

(ii) He shall also indicate th reference shall not redu auditor's responsibility

# Special Audit

## General points:-

### Audit of Different Entities
(Educational Institution, charitable Institutions, Cinema, Hospital etc.)

- Constitution of the Organisation
  - Examine the Constitution of the organisation
  - Examine the byelaws(or) rules and regulations (or) trust deed
  - Examine the powers of the members of the management and other officers
  - Examine the minute books of managing Committee and of members general meeting as the case may be
- Evaluate the internal control system in the Organisation
- Examine the accounting policies followed and the accounting records maintained

## Assets & Liabilities :-

1 Examine whether all fixed assets are properly accounted for

2 Check the ownership and existence of fixed assets by verifying records and conducting physical verification respectively

3 verify whether depreciation has been properly calculated on each class of fixed assets

4 Obtain written representations for existence, ownership and valuation of assets

5 verify capital fund or corpus fund with special attention to any increase in the same as compared to that of last year

6 Examine the adequacy of internal controls over purchase and issue of stock

7 Examine whether there are any claims against the entity has been properly accounted for

8 Examine the loan schedules and ascertain whether proper repa
Of principal and interest is made or not.

9 Examine the calculations of provisions made relating to statu
liabilities. Ex:- Tax( Income Tax, GST)

## Incomes/Receipts

Write various sources of incomes and verification procedures bas
type of Business (or) Entity

## Expenditure/Payments :-

Write various sources of expenditure and Verification procedure
based on type of Business (or) Entity

# SA-560 :- Subsequent Events

**Meaning:-**

Preparation of FS $\xrightarrow{\text{approves}}$ BOD $\xrightarrow{\text{Audit}}$ Auditor → BOD → AGM → Members adopt the financial statements

Events occuring between the date of financial statements and the date of Auditor's Report and facts that become known to auditor after the Auditor's Report date

## Auditor's Responsibilities :-

### 1 Events Occuring after balancesheet date before Auditor's Report date :-

1 Perform procedures to obtain SAAE that all events which requires adjustment and disclosures have been identified

2 For the purpose of determining nature and timing of procedures auditor may:-

→ Understand the procedures applied by management for identification of significant events.

CA RAVI KIRAN BALLA

→ Enquire the management as to occurence of subsequent events which may affect the financial statements

→ Read the minutes of meetings held after the balancesheet date

→ Study the interim financial statements if any

3 If Auditor identifies any event which requires any adjustment or disclosure he should ensure its appropriate treatment

4 Obtain written representations from management that all known events which requires adjustments or disclosures have been adjusted or disclosed

## 2. Procedures in case Auditor identifies facts that become known to Auditor after the date of Auditor's Report :-

(i) Before the Issue of financial statements (by BOD) : (After the audit … given to BOD before … such report to …)

→ Generally there is no obligation on the Auditor to change the Au… report. However incase of significant matter auditor shall discuss with management and determine the need to amend the financial sta… and enquire how management intends to address the matter … financial statements.

* If management amends the financial statements then audito… extend the audit procedures to the date of new audit repo… and he shall provide new audit report on amended financial statements.

→ Amend the Audit report to include an additional date restr… to that amendment and the fact must be disclosed in empha… matter paragraph or other matter paragraph Adjustment - Empha… Disclosure - Othe…

* If management refuses to amend the finanancial statements the… shall request the management not to issue the financial statement… users. and

→ If management still issues the financial statements to user then auditor shall take necessary action to prevent the relia… on the Auditor's report

(ii) After the issue of financial statements

(Read from material)

# SA-570 :- Going Concern

## Responsibilities Of the Management:-

1. Assess entities ability to continue as a going concern
2. Prepare General purpose financial statements on going concern basis unless it intends to liquidate the entity.
3. If the going concern is not followed then the fact must be disclosed

## Responsibilities Of the Auditor:-

1. To obtain SAAE regarding the appropriateness of management's use of Going concern assumption
2. Determine whether management has already performed preliminary assessment of entity's ability to continue as a going concern.
3. If Auditor identifies events that cause significant doubt on entity's ability to continue as a going concern he shall apply additional audit procedures which are specified below:-
   - → Request management to re-assess the entity's ability to continue as a going concern
   - → Evaluate the future plans of management
   - → Consider the Reliability of the cash flow forecast
   - → Consider the availability of the information and request the management to provide written representation regarding future plan of actions and feasibility of plans

Auditor after applying Audit procedures can come to following con[clusions]

| | | |
|---|---|---|
| Going concern Assumption is Appropriate | Going concern Assumption is Appropriate but material uncertainity is in existence | Going conc[ern] Assumption not appro[priate] |
| ↓ | ↓ | ↓ |
| Unmodified opinion | If management discloses the facts in financial statements | Adverse |

If management discloses the facts in financial statements:

- Yes → Unmodified
- No → Qualified / Adverse

CA RAVI KIRAN BALLA

***Indicators (or) conditions that may cause significant doubt about Going concern Assumption

1 Financial Indicators:-

1. Net liability position (Assets ↓ Liabilities ↑)
2. Non-renewal of borrowings
3. Excess dependance on short term borrowings to buy long term [assets]
4. Inability to pay the Creditors
5. Withdrawl of financial support
   Ex:- Government withdrawing grants
6. Substantial losses
7. Inability to arrange finance

P.C.L. Sowjanya CA-Tree Auditing Notes

8 Negative operating cash flows

9 Discontinuance of payment of dividend

2 Operating Indicators:-

1 Loss of key managerial personnel

2 Management's intention to liquidate the entity

3 Loss of major customers, major market

4 Labour Difficulties Ex:- Strikes

5 Emergence of new strong competitor

6 Loss of / shortage of important supplies

Ex:- Non-availability of Raw material

3 Other Indicators:-

1 Non-Compliance of Statutory Requirements

2 Pending legal proceedings against the entity

3 Changes in Law / Regulation

4 Uninsured / Underinsured Assets

# SA-610:- Using the Work of Internal Auditor

## Meaning and Scope of Internal Audit:-

It is a function of an entity designed to evaluate and impr[ove] the effectiveness of entity's governance, Risk management an[d] Internal controls Direction

**Areas where Internal Auditor can be there (Scope of Internal Audi[t])**

1. Activities relating to Governance
2. Activities relating to Risk management
3. Activities relating to Internal controls
   - → Examination of financial & Non-financial information
   - → Evaluation of operating effectiveness of entity's operations
   - → Review of compliance with laws & Regulations

(I) External Auditors procedures with respect to Evaluation of Interna[l] Audit function:-

1. Determine the adequacy of internal auditor's work for external auditor's purpose by evaluating
   - → Competence, Capabilities and professional qualifications of Internal Auditor
   - → Objectivity of Internal Auditor
   - → Application of Systematic and Disciplined Approach
2. After Evaluation if the auditor concludes that internal audit f[unction] is not adequate for his purpose then he shall not use the work of Internal Auditor. However if it is satisfactory then may use work of Internal [Auditor]

(a) By discussing with the Internal Auditor how he will be using his work

(b) Read the reports of Internal Auditor and obtain an understanding of the Nature, Timing and Extent of Audit procedures applied by him

(c) Apply the Audit procedures on the work of Internal Audit function to determine its adequacy for the purpose of Audit

(d) Conclude whether the use of work of Internal Auditor is not appropriate (or) not

CA RAVI KIRAN BALLA

## II Using Direct Assistance Of Internal Auditor:-

1 Determinging whether Internal Auditor can be used to provide direct assistance. If it is prohibited by law (or) Regulation he sall not use the work of Internal Auditor. And he can use Internal Auditor's work if there are no significant threats to the independence (or) objectivity. And internal auditor is sufficiently competent to perform proposed work

2 Determining the nature, timing and extent of work that can be asigned to internal auditor

Following are the Areas which cannot be assigned to Internal Auditor

(a) Assessing the Risk of Material Misstatement

(b) Areas where significant ~~judg~~ accounting judgements are involved
Ex:- Accounting Estimates

(c) Areas where risk is assessed as high

(d) Areas which are related to work of Internal Auditors

3 Using the Direct Assistance of the Internal Auditor

(a) Prior to using obtain an written agreement from entity allo the external auditor to use the work of Internal Auditor

(b) Obtain an written agreement from Internal Auditor to ma the confidentiality of specific issues specified by External and he will be maintaining the objectivity throughout the A if not he will be informing to the External Auditor

(c) Direct, supervise and review the work performed by the Inter Auditor in accordance with SA-220

# SA-450:- Evaluation Of Misstatements Identified during the Audit

## Meaning and Causes of Misstatements:-

Difference between Amounts, Classification, presentation, disclosures reported in the financial statements and that is required for the item in accordance with Financial Reporting Framework

Causes:- (Difference)

1 Inaccuracy of the amounts presented | reported in the financial Statements

2 Ommission of an amount or disclosure

3 Incorrect accounting estimates made ( By overlooking (or) misinterpretation of facts)

CA RAVI KIRAN BALLA

4 Unreasonable judgements of management

5 Inappropriate selection of Accounting policies (applications)

## Following are the Auditors procedures in case misstatements are identified:-

1 Accumulate the misstatements unless those are clearly trivial (small) ignorable misstatements)

2 Communicate with the management and request them to correct the misstatements (If those misstatements are material)

3 If management corrects then Auditor shall perform additional procedures to determine whether misstatements are still in existence these are called corrected misstatements

4 If management refuses to correct then obtain the reasons for such refusal → Auditor shall assess the materiality and if he concludes that it is material the Auditor shall communicate the uncorrected misstatements to those charged with governance and he shall consider the effect on the opinion

and it shall be communicated to TCWG and ask them to rectify the misstatement

→ Auditor shall obtain written representations from management / TCWG if those misstatements are uncorrected saying that those uncorrected misstatements are immaterial

Note:- Depending upon the nature of identified misstatements and circumstances of their occurance indicates that there may be other misstatements also exist and material too !!

(OR)

Aggregate of misstatements accumulated during the audit approaches the materiality as determined under SA-320

In the above situations auditor shall determine whether there a need to revise the Audit plan (or) Audit Strategy

## SA-550:- Related Parties (214, 215, 330, 550)

**Meaning:-**

Related party as defined in Financial Reporting Framework (AS-18) (or) where applicable FRF establishes minimal (or) no related party requirement then

(a) A person or entity having control (or) significant influence over reporting entity

(b) Entity over which reporting entity has control (or) significant influence

(c) Entity under common control with reporting entity through

→ Common controlling ownership

→ Owners who are close family members and Common key management

**Auditors Responsibilities in relation to Related parties:-**

Auditor shall obtain an understanding of related party relations and transactions to

CA RAVI KIRAN BALLA

(a) Recognise fraud risk factors and conclude financial statements in so far as they are affected by those relations and transactions achieve true and fair presentation and not misleading

(b) Perform Audit procedures to identify, assess and respond to ROMM

(c) Evaluate whether identified related party relationships and transactions have been appropriately accounted for and disclosed as per FRF

(d) Obtain written representations from management (or) TCWG WRT

* Disclosure to auditor the identity of related parties of which they are aware and appropriate accounting and disclosures as per financial reporting frame work is made

## Duties of Auditor under this Standard :-

I Risk Assessment procedures :-

1 Understand the entity's related party transactions and relations by

(a) Enquiring with the management regarding identity of the entity's related parties and changes from prior period

(b) Nature of relationships between entity and related parties

(c) Type and purpose of transactions with related parties

2 Obtain an understanding whether management has established controls

(a) To identify, account for and disclose related party's relationship and transactions

(b) Authorise and approve significant transactions with related pa

(c) Authorise and approve significant transactions outside normal course of business

3 Maintain alertness for related party information when reviewing accounts (or) documents :-

(a) Auditor shall remain alert when inspecting records with re information indicating existence of related party relationships transactions not previously identified (or) disclosed

(b) If Auditor identifies significant transactions outside entity's n course of business then enquire with management about n of these transactions and whether related party could be inv

Possible sources for identification of related party information:-

1 Income tax notices

2 Income tax returns

3 Shareholders registers

4 Life Insurance policies

5 Register of Investments

4 Identify the fraud Risk factors:-

Auditor shall identify the fraud risk factors.

Examples for fraud risk factors:-

Domination of management by single person (or) a small group without compensating controls.

Indicators:-

1 Related party has vetoed taken significant business decisions

2 Significant transactions are referred to related party for final approval

3 Little (or) no debate among the management (or) TCWG regarding business proposal initiated by related party

## II Responses to Assessed Risks:-

1 Identification of Unidentified (or) Undisclosed related parties (or) related party transactions:-

→ Communicate to other members of engagement team

→ Request the management to identify the transactions with new identified related parties

→ Enquire for the reasons with management that why they have failed to identify related parties (or) why they have failed to [illegible] related party relationships and transactions

→ Reconsider the risk that other unidentified related parties (or) Undisclosed related parties transaction may exist

→ If non-disclosure appears to be intentional then auditor shall evaluate implications for the audit

2 If Auditor identifies significant related parties transactions which are outside entity's normal course of business he shall

→ Collect the responses with respect to approval and authorisation of the transactions

→ Inspect the underlying contracts to evaluate business rational

→ Collect other evidences as necessary

CA RAVI KIRAN BALLA