

# SA 200 "OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR and CONDUCT OF AUDIT IN ACCORDANCE WITH SAs"

## Overall Objectives of the Auditor

In conducting an audit of financial statements, the overall objectives of the auditor are:

- To obtain reasonable assurance about whether the F.S. as a whole are free from material misstatement, whether due to fraud or error, in accordance with an applicable FRF, and
- To report on the F.S. and communicate as required by the SA's

Special Note- Auditor obtains Reasonable assurance when he obtain SAAE.

## Requirements of Standard

### (a) Ethical Requirements Relating to an Audit of F.S.

- The auditor shall comply with relevant ethical requirements, including independence.
- Relevant ethical requirements ordinarily comprise the Code of Ethics issued by the ICAI. The fundamental principles are:
  - (i) Objectivity;
  - (ii) Integrity;
  - (iii) Professional behaviour
  - (iv) Confidentiality; and
  - (v) Professional competence and due care;
- Independence comprises both independence of mind and independence of appearance.
- Independence enhances the auditor's ability to act with integrity, to be objective and Confidential and to maintain an attitude of professional skepticism and appropriate professional behaviour.

### (b) Professional Skepticism

#### (1) Meaning:

- An attitude that includes
- A questioning mind, being alert to conditions (which indicate possible misstatement due to error or fraud), and critical assessment of audit evidence.
- The auditor shall plan and perform an audit with professional skepticism.
- Professional skepticism includes being alert to:
  - (i) Contradictory audit evidence.
  - (ii) Questions on reliability of documents.

### (c) Professional Judgement

#### (1) Meaning

- The application of relevant knowledge, training, and experience,
- In making informed decisions about the courses of action
- The auditor shall exercise professional judgment in planning and performing an audit of financial statements.
- Professional Judgment is important when deciding about:
  - (i) Materiality and audit risk.
  - (ii) NTE of audit procedures.
  - (iii) Evaluating sufficiency and appropriateness of audit procedures.
  - (iv) Evaluating management judgment in applying applicable FRF.
  - (v) Drawing conclusions based on audit evidence.

**(d) Risk of Material Misstatement**

- The risks of material misstatement may exist at two levels:
  - (i) The overall financial statement level; and
  - (ii) The assertion level for account balances, classes of transactions, and disclosures.
- Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.
- The risks of material misstatement at the assertion level consist of two component inherent risk and control risk.
- Special Note- The SAs do not ordinarily refer to inherent risk and control risk separately, but rather asks auditor for assessment of the "risks of material misstatement".

**Inherent Limitations for an Audit**

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.

This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

**(a) The nature of financial reporting:**

- The preparation of F.S. involves judgment by management in applying the requirements of the applicable FRF to the facts and circumstances of the entity. For example Accounting estimates.

**(b) The nature of audit procedures:**

- Management and others do not provide complete information intentionally unintentionally.
- Audit procedures used to gather audit evidence may be ineffective against fraud detection.
- Audit is not an official investigation into alleged wrongdoings.

**(c) Balance between Benefit and Cost**

- User expectation that the auditor will form an opinion on the F.S. within a reasonable period of time and at a reasonable cost.
- It results into use of Test checking and putting most of efforts over the areas having risk of material misstatement with corresponding less efforts in other areas.

**(d) Other Matters that Affect the Limitations of an Audit:**

In the case of certain assertions or subject matters, the potential effects of the limitation on the auditor's ability to detect material misstatements are particularly significant such assertions or subject matters include:

- Fraud, particularly fraud involving senior management or collusion.
- The existence and completeness of related party relationships and transactions.
- The occurrence of non-compliance with laws and regulations.
- Future events or conditions that may cause an entity to cease to continue as a going concern.