

OVERVIEW OF AUDITING STANDARDS

CHAMBER OF TAX CONSULTANTS

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Overview of Standards on Auditing-

Broad Categorisation

- Planning
- Risk Assessment and Internal Controls
- Other Responsibilities
- Evidence gathering
- Using work of Others
- Documentation and Communication
- Audit Conclusion and Reporting

Planning Related Standards

Primary Standard:

- SA-300 Planning an Audit of Financial Statements

Other Standards:

- SA-210 Agreeing the Terms of Audit Engagement
- SA-220 Quality Control for an Audit of Financial Statements
- SA-315 Identifying and Assessing the Risk of Material Misstatements through Understanding the entity and its Environment
- SA-330 The Auditor's Responses to Assessed Risks
- SA-320 Materiality in Planning and Performing an Audit
- SA-510 Initial Audit Engagements – Opening Balances

Steps in Audit Planning

- Involvement of key engagement team members (Audit Planning Meeting)- Sharing of prior insights and experiences
- Preliminary Engagement Activities
- Planning Activities
 - Overall audit strategy
 - Audit Plan
 - Direction, supervision and review
- Additional Considerations – Initial Audit Engagements

Preliminary Engagement Activities

- Performing **client and engagement acceptance procedures** as per **SA-220**
- Evaluating compliance with **ethical and independence** requirements as per **SA-220**
- Obtaining an understanding of the **terms of engagement** as per **SA-210**

Client and Engagement Acceptance Procedures

- **SQC-1** requires obtaining **information** to assist the engagement partner in arriving at acceptance and continuance decisions
- **Information on the following matters:**
 - integrity of principal owners, key management and those charged with governance
 - Competence of the engagement team
 - Compliance by the firm and engagement team with ethical requirements
 - significant matters noticed in the previous audits and its implications on engagement and client continuance

Ethical and Independence Requirements

- **Code of Ethics** issued by the ICAI establishes the following fundamental principles:
 - Integrity
 - Objectivity
 - Professional Competence and due care
 - Confidentiality
 - Professional behavior
- **Independence requirements** under the **Companies Act** and **Other Statutes / Authorities like RBI, IRDA SEBI etc.**
 - Restrictions on holding of securities (including of group entities)
 - Restrictions on indebtedness and giving of guarantees
 - Restrictions on providing of services

Understanding the Terms of Engagement

- Agree the terms of the engagement with the **Management and Those Charged with Governance** through an **Engagement Letter**
- Considerations to be given to any laws or regulations
- Contents of an Engagement Letter (refer to slide -----)

Overall Audit Strategy

- Identifying the **characteristics of the engagement** that define its scope:
 - Financial reporting framework including any interim reporting requirements
 - Industry specific reporting requirements
 - Components and locations
 - Need for specialized knowledge
 - Reliance on work of internal auditors and use of service organisation
 - Effect of Information Technology on the audit procedures

Overall Audit Strategy

- Ascertaining the **reporting objectives**
 - Timetable for reporting
 - Schedule of discussions with management and those charged with governance
- Results of **preliminary engagement activities**
 - Determination of **materiality** in accordance with **SA-320**
 - Areas subject to higher risk of material misstatement
 - Need for maintaining professional skepticism
 - Results of internal control evaluation
 - Significant business and legal developments like changes in regulations, IT , business processes, financial reporting framework etc.
- Nature, timing and extent of resources ent team including **quality control reviewer**, engagement budgeting etc.)
- Development of an **audit plan**

Audit Plan

- Detailed version of the audit strategy
- Description of the nature, timing and extent of further audit procedures at the assertion level for each class of transactions, account balances and disclosures in terms of **SA-330 (Relevant for ICFR)**
- Description of the nature, timing and extent of planned risk assessment procedures to address risk of material misstatement in terms of **SA-315 (Relevant for ICFR)**

Direction, Supervision and Review

- Nature, timing and extent thereof depends on the following factors:
 - size and complexity of engagement
 - area of audit
 - assessment of risk of material misstatement
 - capabilities and competence of individual team members
- **As per SA-220 Engagement Partner is responsible for the overall review of the engagement**

Additional Considerations- Initial Audit Engagements

- Review of the predecessor auditor's working papers to the extent legally permissible
- Major issues identified
- Procedures necessary to obtain sufficient, appropriate audit evidence regarding **opening balances** as per **SA-510**
 - Balances correctly brought forward
 - Consistent application of accounting policies
 - Adequacy of procedures and documentation
 - Audit conclusions and reporting including modification of opinion in certain circumstances

Risk Assessment and Internal Control Related Standards

- **SA-315 Identifying and Assessing the Risk of Material Misstatements through Understanding the Entity and its Environment**
- **SA-330 The Auditor's Responses to Assessed Risks**

SA-315 / 330: Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment and Auditor's Responses to the Assessed Risks

Understanding the entity and its Environment

- Type of Industry
- Key regulatory aspects
- Key Operational aspects / business cycles
- Understanding the **Internal Controls** (*Process designed, implemented and maintained by TCWG, management and others to provide reasonable assurance about the achievement of an entity's objectives with regard to **reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets and compliance with applicable laws and regulations***)
- Understanding the **IT Controls – General and Business process** (*covers controls over the **source data, report parameters / change management process and report logic***)

SA-315 / 330: Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment and Auditor's Responses to the Assessed Risks

Key Internal Control Aspects

- Entity Level Controls
- Risk Mitigation and Management
- Management Override of Controls
- Financial Closing and Reporting process

SA-315 / 330: Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment and Auditor's Responses to the Assessed Risks

Identification and assessment of ROMMs and responses thereto

- Needs to be done for ELCs , FCRP and all key business cycles identified
- Identification of ROMM (“what could go wrong”)– Identify the “control” (“**review type** or “**direct and specific**”)– identify RAWC
- RAWC is higher if it addresses a **significant risk**

SA-315 / 330: Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment and Auditor's Responses to the Assessed Risks

Significant risk:

- Control activity is non routine
- Whether identified as a fraud risk
- Control is a review type control or requires judgement
- Significant changes in the nature and volume of transactions which might adversely affect the design and operating effectiveness of the control
- Whether the account has a history of errors (i.e. OE not effective or significant misstatement observed in the past)
- Effectiveness of ELCs that monitor control are not effective
- Whether the control operates less frequently
- Whether the control is performed by incompetent persons or there is a change in the key personnel performing the controls
- Whether the control is manual or complex in nature

A yes answer to one or more of the above questions would generally imply that there is a significant risk

SA-315 / 330: Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment and Auditor's Responses to the Assessed Risks

Responses to the Assessed Risks

- Maintaining professional skepticism
- Assigning experienced staff
- Providing more supervision
- Incorporating unpredictability
- **Control Testing – Design and Implementation and Operating Effectiveness – Inquiry, Observation, Inspection and Re performance**
- **Substantive procedures – Analytical Procedures and Test of Details**

Key Standards Dealing with Other Responsibilities

- **SA-240 Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**
- **SA-250 Consideration of Laws and Regulations in an Audit of Financial Statements**
- **SA-402 Audit Considerations Relating to an Entity Using a Service Organisation**
- **SA- 450 Evaluation of Misstatements Identified during the Audit**

SA-240 : Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

- What distinguishes fraud from error is “**intention**”
- There are **2 types of fraud**:
 - Fraudulent financial reporting
 - Misappropriation of assets
- **Fraudulent financial reporting**
 - Manipulation, falsification, alteration of accounting records, data, or supporting documents from which FS are prepared
 - Misrepresentation or omission of events, transactions or other significant information from FS
 - Misapplication of accounting principles of recognition and measurement, classification and presentation, or disclosure

SA-240 : Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Misappropriation of Assets

- Embezzling receipts
- Stealing physical assets or intellectual property
- Causing an entity to pay for goods and services not received
- Using an entity's assets for personal use
- Misappropriation of assets is often accompanied by false / misleading records or documents to conceal the fact that assets are missing or have been improperly pledged

SA-240 : Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

- Primary Responsibility for prevention and detection of fraud is that of the Management and TCWG
- **Responsibilities of Auditors**
 - Maintaining professional skepticism (ongoing questioning attitude – confirming directly with third parties, using experts etc.)
 - Discussion amongst engagement team members (Dissemination of information by experienced team members)
 - Undertaking risk assessment procedures
 - Evaluation of fraud risk factors (Incentive or pressure to commit fraud)
 - Identification of unusual or unexpected relationships
 - Communication to Management and TCWG

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

- **Introduction**
- **Responsibility of Management**
- **Auditors' Considerations and Responsibilities**
- **Communication and Reporting**

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

Introduction

- Non compliance with Laws and Regulations may materially affect financial statements
 - Form and content of financial statements including amounts to be reflected and disclosures to be made (Schedule III, Banking Regulation Act, Insurance Act, SEBI Mutual Fund guidelines etc.)
 - Conducting of business including licencing and registration (Banks, Mutual Funds, NBFCs, Pharmaceutical companies, fertilizer companies etc.) – Going concern issues
 - Operating aspects of the business (Provisioning , valuation, taxation, safety aspects etc.) – financial consequences like fines, penalties etc.
- Non-compliance is primarily a legal determination
- The lesser the non compliance is with respect to events and transactions that are reflected in financial statements lower the responsibility of the auditor

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

Management Responsibility

- It has primary responsibility for conduct of operations and non compliance
- Laying down appropriate operating procedures and systems including internal controls
- Developing a code of conduct
- Establishing a legal department and hiring legal advisors
- Maintaining a register of significant laws and monitoring complaints regarding non compliance
- Role of internal audit department and audit committee
- **Periodical compliance certificate (Companies Act 2013 requirements introduced)**

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

Auditor's considerations and responsibilities

- Procedures both at the **Planning** and **Execution** stage to ensure compliance
- At the **Planning Stage**- Obtaining a general understanding of the applicable legal and regulatory framework and compliance therewith
 - Identify laws and regulations which have a fundamental effect on the operations or affect going concern status
 - Use knowledge of the entity's business and industry
 - Inquiries from the Management regarding policies and procedures for compliance and **identifying, evaluating and accounting for litigation / claims**
 - Identify whether specific reporting is required with regard to certain laws or regulations or guidelines (e.g PF, ESIC Income tax Service tax under CARO, RBI guidelines)

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

- At the **Execution Stage** following procedures should be performed to identify instances of non-compliance to be considered whilst preparing the financial statements:
 - Inquiries with the Management
 - Inspecting correspondence with relevant statutory authorities
 - Reading the minutes
 - Appropriate Control and Substantive procedures for industry specific requirements like provisioning, valuation accrual of expenses for retirement benefits, computation of incentives and subsidies etc.

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

- Identify any possible non-compliances based on the procedures performed or other matters which may come to light:
 - Non payment of statutory dues
 - Delayed payment of statutory dues
 - Non maintenance of proper records and returns
 - Non compliance with certain statutory and procedural requirements under various laws in respect of certain transactions
 - Investigations by government departments
 - Unsupported transactions especially with related parties

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

- Transactions which are significantly different from the prevailing market prices
- Unusually excessive payments
- Payments without proper exchange control documentation
- Unauthorised or improperly authorised transactions
- Unusual transactions with companies registered in tax havens
- Media comments

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

- In case of information regarding possible non-compliances- understand the nature and circumstances in respect thereof and obtain sufficient other information to evaluate its impact on the financial statements as under:
 - Potential financial consequences in the form of fines, penalties, damages, litigation etc.
 - Forced discontinuance of operations and going concern considerations
 - Disclosure of the potential financial consequences
 - The extent of seriousness of the financial consequences so as to affect the true and fair view

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

- Documentation of the findings and discussion thereof with the Management
- Discussion with the entities lawyers or outside lawyers if appropriate- Considerations of **SA-501** to be kept in mind
 - Direct communication with the entities lawyers and other professionals to be prepared by the Management
 - Control over the process of preparation and despatch thereof
 - If permission refused it would constitute scope limitation
- If information obtained is inadequate effect thereof on the audit report and the Management Representation to be considered (Depends upon the control environment)

SA-250: Consideration of Laws and Regulations in an Audit of Financial Statements

Communication and Reporting

- To Management**
- To Users of the Audit Report**
- To Regulatory and Enforcement Authorities**

SA-402 Audit Considerations Relating to an Entity Using a Service Organisation

- Definition of Service organization (*a third party organization or segment thereof which provides services to the user entity that are part of the information systems relevant to financial reporting*)
- Obtaining an understanding of services provided through direct testing or reliance on reports – **important from the Internal control reporting perspective under Companies Act, 2013 (SA-315 AND 330 remain relevant)**
- Reliance on reports
 - Type 1 report (only covers design and description of controls)
 - Type 2 report (covers both design and operating effectiveness of controls)
 - Relevance and competence to be evaluated before placing reliance
 - Normally no need to refer in the main report

SA- 450 Evaluation of Misstatements Identified during the Audit

- Type of Misstatements- Factual, Judgemental and Projected
- Accumulation of misstatements (other than those that are clearly trivial)
- Consideration of identified misstatements as audit progresses
- Communication and correction of misstatements
- Evaluating the effect of uncorrected misstatements
- Written representation from management (uncorrected misstatements not material)
- **Always link with the materiality**

Evidence Gathering Standards

- **SA-500 – Audit Evidence**
- **SA 501 – Audit Evidence : specific considerations**
- **SA-505 - External Confirmations**
- **SA-520 – Analytical Procedures**
- **SA-550 – Related Parties**
- **SA-560 – Subsequent Events**
- **SA-570 – Going Concern**

SA-500 Audit Evidence

Methods of obtaining evidence

- Inquiry
- Inspection
- Observation
- Analytical Procedures
- Confirmation
- Re performance
- Re calculation

Inquiry alone is not sufficient

SA-500 Audit Evidence

- Obtained by performing:
 - Risk assessment procedures AND
 - Further audit procedures
 - Tests of controls
 - Substantive procedures
 - Tests of details
 - Substantive analytical procedures
- Nature and timing of audit procedures affected by:
 - Availability of audit evidence in electronic form only
 - Availability of audit evidence at certain points/ periods in time

SA-500 Audit Evidence

- Audit Evidence prepared by **Management's Expert**
 - Evaluate competence, capabilities & objectivity of expert
 - Obtain an understanding of his work
 - Evaluate appropriateness of his work as audit evidence

SA-500 Audit Evidence

- Evaluate Reliability of **Information produced by the Entity (IPE)**
- Obtain audit evidence about the accuracy and completeness of the information;
 - Concurrently with actual audit procedures where obtaining audit evidence is integral part of audit procedures
 - ToC over preparation & maintenance of information
- Evaluate whether the information is **sufficiently precise and detailed** for the auditor's purposes.

SA-501 Audit Evidence – specific considerations

- Existence and Condition of Inventory
- Completeness of Litigation Claims Involving the entity
- Presentation and Disclosure of Segment Information in accordance with applicable financial reporting framework

Existence and Condition of Inventory

- Attendance at Physical Inventory Counting
 - Primary responsibility of Management
 - Attend unless impracticable due to nature and location
 - Unable to attend due to unforeseen circumstances –
Observe physical count on alternative date and perform alternative procedures
 - Management Representation
 - Scope limitation in case of existence / qualified opinion in case of improper disclosure.

Completeness of Litigation claims Involving the Entity

- Inquiry Regarding Litigation and Claims
 - Obtain awareness of any litigation and claim involving the entity.
 - Communication of entity's lawyers directly with the auditor.
 - Meeting with the lawyer – Disagreement between the Management and lawyer
 - Management Representation

Segment Information

- Segment Information
 - Understanding the methods used by the Management (e.g. sales transfers, eliminations , cost and asset allocation etc.
 - Appropriate disclosure of segment information as per the financial reporting framework.
 - Management Representation
 - Qualified/Disclosure

SA-505 External Confirmations

- Evidence **directly** from external sources is more reliable
- **Maintaining control over the external confirmation process**
 - Information to be confirmed
 - Selection of parties
 - Designing confirmation requests
 - Control over despatch and follow up
- Alternative procedures in the event of refusal by Management
- Evaluation of results

SA-520 Analytical Procedures

- Applied
 - At planning stage – to understand business and identify potential risks
 - Near end of audit – to conclude whether results of variances correspond to knowledge of business (Different from substantive analytical procedures)
- When analytical procedures identify significant variances or inconsistent relationships – further investigation / explanations / corroborative evidence needed

SA-530 Audit Sampling

- Requirements
 - Sample Design, Size and Selection of Items for Testing
 - Performing Audit Procedures
 - Nature and Cause of Deviations and Misstatements
 - Projecting Misstatements
 - Evaluating Results of Audit Sampling

SA-540 Accounting Estimates

- Requirements
 - Risk Assessment Procedures and Related Activities
 - Identifying and Assessing the Risks of Material Misstatement
 - Responses to the Assessed Risks of Material Misstatement
 - Further Substantive Procedures to Respond to Significant Risk
 - Evaluating the Reasonableness of the Accounting Estimates, and Determining Misstatements
 - Disclosures Related to Accounting Estimates
 - Indicators of Possible Management Bias
 - Written Representations
 - Documentation

SA-550 Related Parties

- Perform the following audit procedures on RPs and transactions disclosed by management:
 - Review prior year WPs for names of related parties
 - Review client's procedures for identifying RPs
 - Inquire about affiliation of directors/key management personnel with other entities
 - Review shareholder records for names of principal shareholders
 - Review memorandum, articles, minutes, statutory records
 - Enquire from past auditors, review their reports
 - Review client's tax returns, information given to other regulators
 - Review JV and other key agreements

SA-550 Related Parties

- RP disclosure should be adequate in terms of requirement
- Consider adequacy of controls in relation to RP transactions and carefully audit selections for validity, proper recording and disclosure
- Obtain written management representation
 - About completeness of RP information provided
 - Adequacy of RP disclosures in FSs
- If unable to obtain sufficient appropriate audit evidence or if disclosure is inadequate, express qualified opinion or disclaimer

SA-560 Subsequent Events

- **Requirements**

- Events occurring between the date of the Financial Statements and the date of the Auditor's Report
- Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued
- Facts Which Become Known to the Auditor After the Financial Statements have been Issued

SA-570 Going Concern

- **Requirements**

- Risk Assessment Procedures and Related Activities
- Evaluating Management's Assessment
- Period Beyond Management's Assessment
- Additional Audit Procedures when Events or Conditions are Identified
- Audit Conclusions and Reporting
- Use of Going Concern Assumption Appropriate but a Material Uncertainty Exists
- Use of Going Concern Assumption Inappropriate
- Management Unwilling to Make or Extend Its Assessment
- Communication with Those Charged with Governance
- Significant Delay in the Approval of the Financial Statements

Standards dealing with Using the work of Others

- **SA-600- Using the work of Another Auditor**
- **SA-610- Using the work of Internal Auditors (Revised)**
- **SA-620 – Using the work of an Auditor’s Expert**

SA-600- Using the work of Another Auditor

- **Principal Auditor-** Auditor responsible for reporting on financial information which includes financial information of one or more components audited by another auditor
- **Other Auditor** – auditor other than principal auditor having responsibility for reporting on financial information of components
- **Component-** division, branch, subsidiary, JV, associate, other entity – financial information included in the financial information audited by principal auditor

SA-600- Using the work of Another Auditor

Audit Procedures – Principal Auditor

- Factors to be considered before ascertaining procedures to be performed
 - Materiality of the component (to consider in the context of the group)
 - Knowledge of business of the components – foreign jurisdictions
 - Risk of material misstatements of the components
 - Statutory considerations
- If other auditor is independently appointed under a statute – rebuttable presumption to place reliance on the work

SA-600- Using the work of Another Auditor

- Consider professional competence – if not a member of the ICAI
- Perform sufficient appropriate audit procedures to ensure adequacy in the context of the specific assignment-
 - communication on matters requiring specific attention
 - inter- group transactions
 - SRM/ Completed questionnaire
 - Obtaining “fit for consolidation” accounts especially for foreign entities
 - Visits / discussions / supplementary procedures

SA-600- Using the work of Another Auditor

Audit Procedures – Other Auditors

- Follow the instructions
- Communicate immediately any significant findings
- Answer the questionnaire etc.
- Adhere to the timelines

SA-600- Using the work of Another Auditor

- Concludes on non reliance – not able to perform sufficient audit procedures- qualified opinion or disclaimer
- Reliance on the opinion / report – division of responsibility to be clearly stated

SA-610- Using the work of Internal Auditors

- External auditor's responsibility regarding work of internal auditor when external auditor has determined in accordance with **SA 315** that internal audit function is likely to be **relevant** to audit – **internal audit responsible for financial reporting**
- Auditor expects to use internal auditor's work to modify nature, timing & extent of audit procedures

SA-610- Using the work of Internal Auditors

- Role & objective of internal audit determined by **Management and Those Charged with Governance**
- Similarity in the objectives in many cases- Areas of similarity
 - Monitoring internal controls
 - Risk Management
 - Examination of financial and operating information
 - Review of operating activities
 - Compliance with laws and regulations
 - Governance
- **Irrespective of degree of autonomy/ independence, internal audit function is not independent of entity**

SA-610- Using the work of Internal Auditors

- If external auditor determines internal audit function likely to be **relevant** to audit, determine:
 - **whether** & to what **extent** to use specific work of internal auditors; and
 - If so, whether such work is **adequate** for external audit purpose.

SA-610- Using the work of Internal Auditors

Determining Manner and Extent of Use

- **Factors for assessing objectivity**
 - Status
 - Reporting mechanism
 - Any conflicting responsibilities
 - Follow up on findings
- **Factors for assessing Technical Competence**
 - Qualifications / membership affiliations
 - Training and technical skills

SA-610- Using the work of Internal Auditors

- **Factors for assessing due professional care**
 - Proper planning, supervision, review and documentation
 - Any statutory requirements
- **Factors for ensuring effective communication**
 - Regularity and frequency of meetings
 - Access to work papers / reports and communication of significant findings either way

SA-610- Using the work of Internal Auditors

- **Evaluate & perform audit procedures on the work to determine its adequacy:**
 - Examination of items already examined
 - Examination of other similar items
 - Observations of procedures performed by internal auditors

This AAS would become more relevant and important due to statutory recognition to Internal Audit under the Companies Act, 2013

SA-620 – Using the work of an Auditor's Expert

- Outlining the **auditor's responsibilities** where he uses an **expert's work** in obtaining **sufficient appropriate audit evidence**
- Responsibility does not get diminished
- **Does not deal** with following situations:
 - Engagement team member is expert in a specialised area of accounting/ auditing
 - Auditor uses the work of an expert whose work in that field is used by entity to prepare FS

SA-620 – Using the work of an Auditor's Expert

- **Auditors Expert** – *An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. – **Internal or External***
- Examples of Auditor's Experts
 - Valuation specialists
 - Actuarial specialists
 - Geological specialists
 - Legal and Tax Specialists
- May be internal or external
- Use **professional judgment** if distinction is difficult - consider:
 - Applicable professional rules
 - Education standards
 - Competency requirements

SA-620 – Using the work of an Auditor's Expert

- **Management Expert-** *An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements*

SA-620 – Using the work of an Auditor's Expert

- Determining the need for an Auditor's Expert
- Nature, Timing & Extent of audit procedures
- Competence, Capabilities and Objectivity of the Auditor's Expert
- Obtaining an understanding of the field of expertise
- Agreement with the expert
- Evaluating the adequacy of expert's work
- Reference to auditor's expert in the auditor's report

Documentation and Communication Related Standards

Primary Standards

- SA- 230 - Audit Documentation
- SA-260 / 265 - Communicating (including Deficiencies in Internal Control) to Those Charged with Governance

Other Standards

- SA-210 Agreeing the Terms of Audit Engagement (Engagement Letter)
- SA-300 Planning an Audit of Financial Statements (Audit Planning Memorandum)
- SA-580 Written Representations (Letter of Representation)

Documentation and Communication Related Standards

- Documentation is all pervasive in an audit and compliance with all SAs need to be adequately and appropriately documented to support the audit opinion
- Certain SAs require mandatory documentation to be part of the audit work papers

SA-300 Audit Documentation

- **Audit documentation** – *The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).*
- **Audit file** – *One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.*
- **Experienced auditor** – *An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:*
 - (i) Audit processes;*
 - (ii) SAs and applicable legal and regulatory requirements;*
 - (iii) The business environment in which the entity operates; and*
 - (iv) Auditing and financial reporting issues relevant to the entity’s industry.*

SA-300 Audit Documentation

The auditor shall prepare audit documentation that is sufficient to **enable an experienced auditor, having no previous connection with the audit**, to understand:

- audit procedures performed
- relevant audit evidence obtained
- conclusions reached

SA-300 Audit Documentation

Purpose of audit documentation:

- Assist team in planning and performing
- Record matters of continuing significance
- Creating accountability
- Assist in supervision and direction
- Assist in QC review
- Assist in external inspection

SA-300 Audit Documentation

Nature and Type of Audit Documentation

- Updated and relevant **permanent file** is of paramount importance in view of dynamic legal and regulatory requirements
- **Current audit file** containing documentation of **control and substantive procedures** to comply with the specific regulatory, operational and control aspects.
- Could be in paper or **electronic form**
 - Audit Programmes
 - Memos discussing significant issues and their resolution
 - Confirmations (**SA-505**)
 - Checklists
 - Correspondence (including e-mail)

SA-260 / 265: Communicating (including Deficiencies in Internal Control) to Those Charged with Governance (TCWG)

- **General Communication**
- **Communication of Deficiencies in Internal Control**

SA-260 / 265: Communicating (including Deficiencies in Internal Control) to Those Charged with Governance (TCWG)

General Communication

- Auditors responsibilities in relation to Financial Statement Audit and Internal Control Evaluation
- Planned scope and timing of audit
- Significant findings (including difficulties encountered)
- Affirmation of Independence
- Modification of Opinion

SA-260 / 265: Communicating (including Deficiencies in Internal Control) to Those Charged with Governance (TCWG)

Communication of Deficiencies in Internal Control

- When deficiencies can occur
 - Control designed, implemented or operated such that it is unable to prevent, detect or correct misstatements on a **timely basis (Detective Controls)**
 - Controls necessary to prevent, detect and correct misstatements on a timely basis are **missing (Preventive Controls)**

(Communication to an appropriate level of Management on a timely basis would be sufficient- Letter of Weakness , Management Letter etc.)

SA-260 / 265: Communicating (including Deficiencies in Internal Control) to Those Charged with Governance (TCWG)

Identifying Deficiencies In Internal control

- Through discussion with appropriate level of Management on a timely basis on the following lines, except as indicated in the next bullet
 - Management's understanding of the causes of the deficiencies
 - Management's monitoring (**COSO framework**)
 - Exceptions noted and responses and follow up thereto
 - **Role of Internal Audit, various committees and external inspections**
- Integrity and competence of Management could be questioned – communication not appropriate- identify alternatives
- Specific considerations to **smaller entities**- less formal- balance with potential for management override- cost benefit analysis

SA-260 / 265: Communicating (including Deficiencies in Internal Control) to Those Charged with Governance (TCWG)

Significant Deficiency in Internal control

- A deficiency or combination of deficiencies which are of sufficient importance to merit attention of TCWG
- Actual occurrence as well as likelihood of occurrence
- Factors to be considered:
 - Likelihood of material misstatements
 - Susceptibility to fraud or loss
 - Subjectivity and complexity in estimates
 - Related party transactions
 - Controls over non recurring JVs
 - Frequency of occurrence
 - Failure to implement appropriate remedial action
 - Absence of risk management process

SA-260 / 265: Communicating (including Deficiencies in Internal Control) to Those Charged with Governance (TCWG)

Communicating Deficiencies in Internal Control

- Factors governing communication of significant deficiencies
 - Legal and regulatory requirements
 - Considerations for smaller and closely held entities – less formal and detailed
 - Extent of details – professional judgement – nature, size and complexity, governance structure
 - Repetitive in nature – cost benefit considerations – failure to act – change in the Management
 - Possibility of Management override of controls
- **(Using professional judgement is of paramount importance)**
- Form of communication
 - Oral communication – timely remedial action – smaller and closely held entities
 - Written communication- deficiencies more critical and significant- legal and regulatory requirements
- Should be clear and concise at the same time bringing out the **implications and recommendations** – strike balance between being overly critical and as a tool for **value add/ business condition insights**
- **Appropriate caveats to be included**

SA-210 Agreeing the Terms of Audit Engagement

Contents of the Audit Engagement Letter

- Elaboration of the scope, regulatory framework, ethical and professional pronouncements etc.
- Form and manner of communication
- Inherent limitations of an audit
- Arrangements for planning and performing the audit
- Expectation that management would provide representations and information (including any matters affecting financial statements) on timely basis
- Fees and billing arrangements
- Involvement of other auditors, internal auditors, predecessor auditor, component auditors etc.
- Working paper and confidentiality arrangements

SA-300 Planning an Audit of Financial Statements

Contents of an Audit Planning Memorandum

- Documentation of overall audit strategy covering the scope, timing and conduct of the audit as also any changes in the same
- Documentation of the audit plan covering the nature, timing and extent of risk assessment and other procedures at the assertion level in response to assessed risks

(Based on assessments and evaluation under SA-240, 250, 315 and 330)

SA-580 Written Representations

General Contents of a Letter of Representation

- Acknowledgement of responsibility for preparation of financial statements in accordance with the relevant framework
- Affirmation that significant assumptions used in making estimates are reasonable
- Affirmation of the appropriateness of measurement process
- Disclosures are complete and appropriate
- No subsequent events require adjustment other than those disclosed
- **Access to and provision of all information including accounting records, results of risk assessment, frauds or suspected frauds etc.**
- Effects of **uncorrected misstatements**, both individually and in the aggregate are not material and inclusion of uncorrected misstatements as an annexure

Audit Conclusion and Reporting Standards

- **SA-700 – Forming an Opinion and Reporting on Financial Statements (Revised)**
- **SA-701 – Communicating Key Audit Matters in the Independent Auditors Report**
- **SA-705 – Modifications to the Opinion in the Independent Auditor’s Report**
- **SA-706 – Emphasis of Matter Paragraphs in the Independent Auditor’s Report**
- **SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements**

SA-700 – Forming an Opinion and Reporting on Financial Statements

- **Objectives**
- **Definitions**
- **Forming an Opinion**
- **Contents**

SA-700 - Objectives

- Forming an opinion based on evaluation of the conclusions drawn from the audit evidence obtained
- Expressing clearly the opinion and the basis thereof

SA-700 - Definitions

- **General Purpose Financial Statements-** *Financial Statements prepared in accordance with a general purpose framework*
- **General Purpose Framework – Fair presentation framework – Compliance Framework**
- **Unmodified Opinion –** *Opinion expressed that the financial statements are prepared in all **material respects** in accordance with the applicable financial reporting framework*

SA-700 – Forming an Opinion

- Prepared in accordance with the financial reporting framework
- Whether sufficient appropriate audit evidence has been obtained
- Conclusion whether uncorrected misstatements are material
- Selection, disclosure and consistent application of accounting policies in accordance with the financial reporting framework
- Accounting estimates are reasonable
- Information presented is relevant, reliable, comparable, understandable to achieve a **fair presentation**
- **Type of opinion – modified, unmodified or disclaimer**

SA-700 – Contents

- **Title** – Clearly state from an **independent auditor**
- **Addressee** – Depends upon the circumstances, terms of engagement and regulatory requirements
- **Opinion**- Identify the entity whose financial statements have been audited - State that the financial statements have been audited - Identify the title of each statement comprising the financial statements - Refer to the notes, including the summary of significant accounting policies; - Specify the date of, or period covered by, each financial statement comprising the financial statements
- **Basis for opinion– audit conducted in accordance with the SAs** - compliance with independence ethical requirements – reasonable assurance whether financial statements are free from material misstatement- use of judgement- risk of material misstatement whether due to fraud or error –opinion not expressed on effectiveness of internal controls
- **Report on Going Concern (wherever applicable in accordance with SA-570 and Key Audit Matters (discussed later)**

SA-700 – Contents

- **Management’s Responsibility for the financial statements** – design, implementation and maintenance of internal control – free from material misstatement whether due to fraud or error-preparation in accordance with fair presentation framework – *going concern responsibilities*
- **Auditor’s Responsibility – audit conducted in accordance with the SAs** - compliance with ethical requirements – reasonable assurance whether financial statements are free from material misstatement-use of judgement- risk of material misstatement whether due to fraud or error –opinion not expressed on effectiveness of internal controls – *appropriateness of the going concern assumption*
- **Audit Opinion**
- **Other Reporting Responsibilities (Report on Other legal and Regulatory Requirements)**

Key Audit Matters

- KAM are defined as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period
- Matters that were communicated with those charged with governance (TCWG)
- Matters that required significant auditor attention
- Matters of most significance in the audit

Key Audit Matters – Typical Examples

- Areas involving higher risks of material misstatements or significant risks
- Areas involving significant judgements and estimates
- Matters determined to be important to the users of financial statements
- Where management's selection of an appropriate accounting policy was complex or involved subjectivity

Key Audit Matters – Typical Examples

- Whether there were any misstatements identified that related to the matter
- Matters which required most audit effort
- Areas where there have been difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence
- Areas affected by a severe control deficiency relevant to the matter (if any)

Key Audit Matters – Documentation Considerations

- SA 701 requires the auditor to document the professional judgments made about why a matter that required significant auditor attention is or is not a KAM
- If there are no KAM, the rationale for the same
- Why a matter determined to be a KAM is not communicated
- No requirement to document the rationale for why matters communicated to TCWG were not matters that required significant auditor attention

SA-705 – Modifications to the Opinion in the Independent Auditor's Report

- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion

SA-705 – Circumstances resulting in Modification of Opinion

- Financial statements as a whole are not free from material misstatement – appropriateness of accounting policies – application of selected accounting policies – appropriateness or adequacy of disclosures
- Inability to obtain sufficient appropriate audit evidence – circumstances beyond control (destruction or seizure of records) – nature and timing of auditors work – Limitations imposed by management

SA-705 – Qualified Opinion and Adverse Opinion

- Misstatements individually or in aggregate are material but **not pervasive**
- Inability to obtain sufficient appropriate audit evidence – conclusion that possible undetected misstatements, if any, could be material but **not pervasive**
- **Adverse Opinion – possible effect of undetected misstatements is pervasive**
 - **Not confined to specific elements, accounts or items of the financial statements**
 - **Represent a substantial portion of the financial statements**
 - **Disclosures which are omitted / misstated are fundamental to the users understanding of the financial statements**
- Communicate to management and TCWG

SA-705 – Disclaimer of Opinion

- Unable to obtain sufficient appropriate audit evidence to base his opinion
- Conclusion that potential effects on financial statements are both material and pervasive
- Communicate to management and TCWG

SA-706 – Emphasis of Matter Paragraphs in the Independent Auditor’s Report

- Draw attention to a matter disclosed in the financial statements
- Is of such importance that it is fundamental to the users understanding of the financial statements
- Auditor is in agreement and has obtained sufficient appropriate audit evidence
- Reference should only be to information presented or disclosed in the financial statements
- **Include immediately after the opinion para – Does not sound logical?**
- Indicate that the opinion is not modified
- Communicate to management and TCWG
- Examples include uncertainties relating to future outcome of exceptional litigation, regulatory action, *estimates (to take care)*, early application of new accounting standards which has a pervasive effect
- Should be used very selectively

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

- **Scope**
- **Objectives**
- **Requirements**

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

Scope

- Auditor’s responsibilities in relation to ***other information in documents containing audited financial statements*** –
- Does not involve undertaking an audit or expressing an opinion on such information-
- Covers both annual and interim audited financial statements

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

- **Other Information** – Financial and **non financial** information (other than audited financial statements and auditor’s report thereon) which is included by **law, regulation or custom** in a document containing audited financial statements and auditor’s report thereon
- **Document containing audited financial statements-** annual reports or **other similar documents** that are issued to owners or other similar stakeholders
- **Does not cover the following**
 - press releases / analyst briefings
 - **information on the web site?**

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

Objective

- To **respond appropriately** when documents containing audited financial statements and auditor’s report thereon include information which could undermine the credibility of the financial statements and auditor’s report thereon

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

- **Reading the other information**
- **Dealing with material inconsistencies**
- **Dealing with material misstatement of facts**

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

- Informing / communicating to the Management to furnish the Other information – Separate or include in the Engagement letter
- Purpose of reading
 - identifying material inconsistencies
 - identifying material misstatement of facts
- Date
 - Prior to or on the date of audit report
 - As soon as may be practicable

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

Reading the Other Information

- Informing / communicating to the Management to furnish the Other information – Separate or include in the Engagement letter
- Purpose of reading
 - identifying material inconsistencies
 - identifying material misstatement of facts
- Date
 - Prior to or on the date of audit report
 - As soon as may be practicable

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

- **Examples of sections to be read**
 - Chairman’s Statement
 - Notice of the meeting including explanatory statement
 - Directors’ Report
 - MD&A
 - Report on Corporate Governance
 - Information related to subsidiaries
 - Basle II- Pillar 3 disclosures (for banks)
 - Management Report (for insurance companies)

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

- **Examples of items comprising relevant Other Information**
 - Financial summaries / highlights
 - Planned capital expenditure
 - Pie charts / diagrams/ graphs
 - Summary financial statements
 - Financial performance including variance and ratio analysis
 - Export performance
 - Foreign currency transactions
 - Dividend history
 - Segment information
 - Significant transactions / arrangements/ acquisitions / restructuring
 - Prescribed particulars for issue of equity shares with differential voting rights and stock options in the Board Report under the Companies Act, 2013
 - Prescribed particulars of related party transactions in the Board Report under the Companies Act, 2013

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

- **Examples of items not covered / relevant**
 - Information related to market share
 - HR related information
 - Financial statistics for periods other than those covered by the annual financial statements

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statements

Dealing with Material Inconsistencies

Information obtained prior to or on date of audit report

- **Revision of financial statements**
 - Refusal to make revision- modification of opinion in accordance with SA-705
- **Revision of the other information**
 - Refusal to make revision:
 - Communicate to TCWG
 - Include an emphasis of matter para in the audit report
- **Withdraw from engagement if legally permissible**

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statement

Information obtained subsequent to the date of the Audit Report

- Management agrees to make revision-communication to concerned stakeholders
- Refusal to make revision
 - Communicating to TCWG
 - Seek legal advice
 - Withdraw from engagement if legally permissible or else issue a report to the relevant statutory authority

SA-720 – The Auditor’s Responsibility in Relation to Other Financial Information in Documents Containing Audited Financial Statement

Dealing with Material Misstatement of Facts

- Discussion with Management
- Evaluate the validity of disclosures- differences of opinion or judgement
- Material difference of opinion / judgement – communicate or seek legal advice



Questions

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