Overall objectives of Independent Auditor & Conduct of Audit in accordance with Standards on Auditing.

Objectives: Obtain reasonable assurance to express an opinion on the financial statements & report on the same.

Requirements:

- **Ethical Requirements**
  - Integrity, Competence, Confidentiality
  - Professional Behavior
  - Objectivity
  - Independence

- **Professional Skepticism**
  - To have a questioning mind & being alert in planning & performing an audit (Fraud, Audit Risk)

- **Professional Judgements**
  - Using of training knowledge & experience while making decisions
  - Need to exercise professional judgement throughout the audit

- **Audit Evidence & Risk**
  - Obtain sufficient appropriate audit evidence to reduce audit risk to an acceptable level

Conduct of Audit in Accordance with SA

- Comply with all relevant standards
- Understand entire SAs
- Auditor shall comply with each requirement of SA unless entire SA is not relevant/relevant
- Fail to achieve an objective in relevant SA:
  - Consider impact on report
  - Consider need to withdraw
  - Document the same

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Contents of Engagement Letter

- Basis on which fees are computed and any billing arrangements.
- The expectation that management will provide written representation (SA 580).
- Arrangements regarding the planning and performance of the audit.
- Arrangements concerning the involvement of other auditors and experts in some aspect of the audit (SA 600).
- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- The fact that because of inherent limitations of audit, there is an unavoidable risk that some material misstatement may not be detected.
<table>
<thead>
<tr>
<th>Engagement Partner Responsibility</th>
<th>Quality Control Procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant ethical requirements &amp; Independence</td>
<td></td>
</tr>
<tr>
<td>Identify circumstances that create threat to independence</td>
<td></td>
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<tr>
<td>Take appropriate actions</td>
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<td>Withdrawal</td>
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<td>Acceptance &amp; Continuance of Client Relationship</td>
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<td>If information obtained</td>
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<tr>
<td>Take appropriate actions</td>
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</tr>
<tr>
<td>Assignment of Engagement Team (Audit Expert)</td>
<td></td>
</tr>
<tr>
<td>Competent &amp; Capable</td>
<td></td>
</tr>
</tbody>
</table>

TV: Engagement Performance
- Direction, Supervision & Performance
  - Review
    - By engagement partner
    - Firms review policies & procedures
    - Before date of AR
  - Consultation
    - Has team took appropriate consultation when required
    - Within the team, between the teams or others
    - Implementation of results

VI: Engagement QC Review
- Listed cos & others (if required)
- Appointment of Reviewer
- Before date of AR
- Points to be reviewed by Reviewer
- Significant matters
- Proposed AR
- Selected Audit Docs
- Independence
- Doc supports the conclusion

VII: Difference in Opinion
- Follow Firm policies
- Monitoring QC policies

VIII: Documentation
SA 230 - Audit Documentation

Purpose
- Basis for Opinion
- Evidence for Compliance with SA & Legal Requirements
- Helps in Planning an Audit
- Helps in direction & supervision
- To ascertain accountability
- To retain significant matters for future Audit
- Helps in QCR
- Helps in External Inspection

Drivers
- Size & Complexity of entity
- Nature of Audit Procedures
- RMM
- Significance of Audit Evidence
- Audit Methodology & Tools
- Nature of Exception

Extent
Able & Experienced Auditor
- No previous experience
- Understand:
  - Audit procedure
  - Result of AP
  - Significant matters
  - Significant judgement

Contents
- Discussion with mgmt & TCWG
- Significant matters
- Inconsistent matters
- Time, nature & extent of AP
- Departure from SA (if any)
- Subsequent events (SA 560)

Retention
- Documentation prepared on timely basis
- Assemble in Audit File within 60 days from AR
- Addition & deletion not allowed except for admin. purpose
- Retention → 7 yrs.

Ownership
- Auditor has an ownership over Audit Documents

Audit Notebook
- Notebook of Queries & Classification

Audit procedure
- Evidence
- Conclusion

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Auditor's Responsibility
- Obtain reasonable assurance
- Professional skepticism
- No legal determination of occurrence of fraud.

* Inherent Limitations
* Factors affecting Auditor's ability

Risk Assessment Procedures
1. Inquiry
   a. Management Assessment
   b. Identify & Respond
   c. Communication with TCWG

2. Analytical Procedures
3. Other Information
4. Evaluation of Fraud Risk factor

Financing Level
- Knowledge of audit fraud
- Intern Audit function

Oversight of process knowledge of audit fraud

Assertion Level
- Assign & Supervise knowledge person
- Evaluate selection & application of AIC policies
- Unpredictability procedures

Identifying and assessing risk
- Controls

SA 240

Response:
- NTE of further audit procedure
  - Design & perform audit procedures
  - Determine need to perform extra audit procedures

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Evaluation of Evidence

- If he finds misstatement, consider whether it is fraud
- If it is fraud, then consider reliability of WR
- Revisit the risk

Unable to Continue

- Consider whether it is appropriate
- If auditor withdraws, determine professional & legal responsibility
- Discuss appropriate level of mgmt & reasons

Communication & Documentation

- If fraud or indicators of fraud then
  - Communicate at appropriate level on timely basis
    - TCWG, if relevant
- Documentation
  - SA 315, 330
  - Communication
  - Significance of fraud

Join Us on Telegram http://t.me/canotes_ipcc
**Auditor Responsibility**
- Identify non-compliance
- Not responsible for prevention
- Laws having direct effect on FST
  - Obtain evidence abt compliance
- Other laws
  - Perform audit procedures to identify non-compliance

**Audit Procedures**
- Understanding of regulatory framework
- Sufficient evidence regarding compliance
  - LRK having DE
- Perform audit procedure (other laws)
- Professional skepticism
  - WR

**In Case of Non-Compliance**
* In case of suspected non-compliance
  * Auditor's inability to confirm a non-compliance

To understand the nature of non-compliance & its impact in FIS
* Discuss with the mgmt & consider taking legal advice
  * Evaluate impact in the Audit Report

---

**Non-Compliance Indicators**
- Information System
  - Market price
- Legal
  - Adverse media comment
  - Country
- Documentation
  - Record
- Universe payment
  - Tax
- Heaven
Reporting Responsibilities

TCWG
- If intentional/material
  Communicate immediately
- If TCWG is involved
  Communicate to next level i.e. Supervisory board
  or obtain legal opinion

In Auditor's Report
- If non-compliance is not adjusted in FS
  Issue a Qualified/Adverse opinion
  If sufficient evidence is not available on non-compliance
  Issue a Qualified/Disclaimer opinion

To Regulatory Authority
If required by law
SA-260 "Communicating with Those Charged with Governance"

Auditor's Responsibility → Tcwu → Timely Basis

1) Auditor's Responsibility
   a) Forming & Expressing an opinion
   b) Audit does not relieve Tcw from their responsibility
   c) Comply with SA's

2) Scope
   a) How to address significant RMM
   b) Auditor's approach to IC
   c) Materiality
   d) Using the work of Internal Audit

3) Significant Findings
   a) Qualitative aspect
      - Accounting policies, estimation disclosure
   b) Significant Difficulties
      - Unnecessary delay
      - Unavailability of information
      - Restrictions
      - Unwillingness of Amending of going concern
   c) Content & form of Audit report
   d) Other matters

Communication Process

⇒ Tcwu → Writing → Significant Findings
⇒ Oral → Inadequate
⇒ If, no effective two-way communication, consider RMM.

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"SA - 265 " Communicating Deficiencies in Internal Control to TCHG & Management"

* Deficiency - IC
  - Designing Implementation
  - Operation
  - Unable to Prevent
  - Deduct
  - Misstatement

⇒ Letter of Weakness:
  1) Description of deficiency
  2) Potential effect
  3) Purpose of audit
  4) Auditor considers IC to design audit procedure not for expressing opinion thereon.
  5) Only those deficiencies which were identified by the auditor

⇒ Previous communication
  - Significant findings
  - Deficiencies

⇒ Others
  - Need not repeat
  - Except change of Ng
  - New info.

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SA 299: Joint Audit of Financial Statement

Joint Audit → Audit of FS by 2 or more auditors

Planning
- Involvement of all key members
- Jointly establish overall audit strategies
- Things to be considered
  - Identify Division & Common Audit Area
  - Ascertain the Reporting Objectives
  - Consideration of significant factors
  - Result of preliminary engagement activity
  - NTE of necessary resources

Risk Assessment
- Each Joint Auditor assess RMM
- Communicate to others
- Documentation

Reporting
- Common AR
  - If all auditors arrive at an agreed report
    → Separation AR
  - If any disagreement with regards to any matter
    → Provide Other Matter Paragraph” in each report.

Responsibilities

Miscellaneous
- Communicate these matters that are relevant to other auditors
- Need not review work of other joint auditors
- Common engagement letter & MRE
- “Work allocation documents” signed by all joint auditors & communicate to TCWG.
SA 300: Planning an Audit of FS

Auditor Should Plan → Work → to Conduct → Effective Audit (involvement of all key members)

I. Audit Strategy (Step I)
   (Scope/ Timing/ Direction of AUDIT)
   Consideration:
   - Identify the characteristic
   - Ascertain reporting objectives
   - Significant factors
   - Result of Preliminary engagement activities
   - NTE of Resources

II. Audit Plan (Step II)
   Includes
   - NTE of risk assessment procedures (SA 315)
   - NTE of further audit procedures (SA 335)
   - Other Audit procedures

Key Points:
* Planning is a continuous process
* Plan should be reviewed if required.
* Both audit strategy & audit plan are interrelated.
* Planning will be done with regards to direction & supervision

SA 220 → Continuation/ Acceptance of engagement
SA 220 → Compliance with ethical requirements
SA 210 → Term of engagement

Documentation:
→ Overall Audit Strategy will includes:
→ Audit Plan
→ Significant Change with reason
For obtaining reasonable assurance, auditor needs to reduce audit risk to acceptable level.

Process of identifying & assessing RMM

Audit Procedures
- Inquiry with Mgmt. & others
- Observation
- Inquiry
- Analytical Procedures
- Information from
  - Other engagements
  - Previous experience
  - Acceptance & Continuance Process
  - Discussion b/w engagement partners & other key engagement members

Info about Industry, regulatory & other external factors
- Nature of Entity (operations, ownership, governance, type of investment & financial structure)
- Accounting policies
- Objectives & strategies
- Business risk
- Financial performance
- Internal control relevant

Identify Risk
- Identify
- Assess
- What?
  - Pervasiveness
  - What can go wrong @ assertion level considering relevant controls
  - Likelihood

RMM X DR

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SA 320: Materiality in Planning & Performing an Audit

**Materiality** (Amt / Quality)
- Meaning:
  - Any mis-statement
  - Individual / aggregate
  - Influence economic decision
  - User of FS
- Assumptions:
  - Reasonable knowledge of business / A/cing
  - Willing to study FS with reasonable diligence
  - Preparation / Audit of FS as per materiality
  - Inherent uncertainty
  - Reasonable economic decision

**Performance Materiality**
- Meaning:
  - Amt set by auditor
  - @ less than materiality
  - to reduce probability of “incorrect” & “induced” mis-statement
  - doesn’t exceed materiality level
  - for FS as a whole

**Benchmark**
- Use Normalised Benchmark
- Meaning:
  - Method to determine
  - Materiality level
  - Professional
  - B.M = Benchmark, % = Judgement
  - B.M x % = Materiality

Factors that influence B.M:
- Element of FS
- Attention of Users
- Nature of entity (Lifecycle)
- Ownership structure
- Volatility
- Examples:
  - PBT, Total revenue, gross profit, Total expense etc.

AdditionalPts:
- Revise materiality level if required
- Different materiality levels can be decided for certain transactions if required

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**Significant Risk**
- Risk of fraud
- Significant changes
- Complexity of transactions
- Related party transactions
- Subjectivity involving IT financial info
- Unusual transactions

**Components of Internal Controls**
- Control Environment
- Risk Assessment Process (RAP)
- Info. System
- Control Activity
- Monitoring

**SA 330**

Audit Procedures

- Further Audit Procedures

<table>
<thead>
<tr>
<th>Test of Control</th>
<th>Substantive Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Compliance Procedure)</td>
<td></td>
</tr>
<tr>
<td>Cases</td>
<td></td>
</tr>
<tr>
<td>o Controls are operating effectively</td>
<td></td>
</tr>
<tr>
<td>Substantive Procedure alone can't provide SARE</td>
<td></td>
</tr>
<tr>
<td>Interim period</td>
<td>Additional procedure</td>
</tr>
<tr>
<td>Inquire along with other audit procedures</td>
<td></td>
</tr>
<tr>
<td>o Who, How means controls are applied/consistency</td>
<td></td>
</tr>
<tr>
<td>o Previous audit no change, 3 yrs. until significant change</td>
<td></td>
</tr>
<tr>
<td>o Evaluate the operating effectiveness of controls</td>
<td></td>
</tr>
</tbody>
</table>

**Test of details**

**SAP**

**RMM (SA 315)**
SA 402: Audit Considerations Relating To Entity Using Service Organisation

Objective: Obtain understanding of transactions & internal controls

Obtaining Information

- How? A user entity use the service
- Nature of service
- Significance of service
- Nature & materiality of transactions
- Interactions between SO & UE
- Relationship
- Relevant control at UE

Source of Information

- Type 1/Type 2 report
- Connecting SO through UE
- Visiting SO
- Using another auditor
- Sub service organisation

Reporting

- Modify opinion → If unable to obtain audit evidence
  → Need of reference if required
  → Doesn’t diminish responsibility of UA

Unmodify opinion
  - Don’t use reference of SA unless required by law.
TYPE 1 & 2 REPORT

Information Provided

- Aspect of Controls @ SO
- Flow of significant transactions
- Control objective @ SO
- Effectiveness of Controls

Consideration Before Using

- Competence of professional
- Adequacy of standards
- Enquiring about SA

* Inclusive OR CARVE OUT

If Type 1/Type 2 includes services provided by sub-service organisations ↓

CARVE OUT
Otherwise
CARVE IN

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SA-450 {Evaluation of Mis-statement identified during the audit?}

Mis-statement

Consider effects of Mis-statement

Material

- NTE of audit
  - Communicate with management to correct
    - agree
      - No further procedures
    - disagree
      - Consider the effect of opinion

Non-material

- No further procedures

Join Us on Telegram http://t.me/canotes_ipcc
Objective: Design Audit Procedure to obtain Audit Evidence

- Inspection
- Observation
- Recalculation
- Inquiry
- Reperformance
- External Confirmation
- Analytical Procedure

SA 500

Sufficient Audit Evidence

Risk & Quality of A.E.

Appropriate Audit Evidence

Relevant

Logical connection with Audit Procedure

Reliability

Control Auditor Direct

Independent

S O C I A L

Original letter form (written)

Inconsistent, or Doubt over Reliability

- Additional procedure to resolve the matter

- Consider the effect of the matter on other aspects of audit

CA Jyoti Jarg

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SA 501 "Audit Evidence - Specific Considerations for selected items"

1) [Inventory Check] → Only Existence & Condition Procedures → Observation
   - Evaluation of Mgt. Instructions
   - Inspection
   - Test Count

Special Cases

1. Physical counting at another date
   - At alternative date
   - Additional Procedures

2. Unable due to unforeseen circumstances
   - Request Mgt. for perform physical count on alternate date
     - Agree
       - Alternative Procedures
         - Sufficient
           - Insufficient
             - Modify opinion
     - Disagree
     - Alternative Procedures
   - Sufficient
   - Insufficient
     - Modify opinion

3. Impracticable to perform physical counting
   - Perform alternative procedures
     - Sufficient
     - Not sufficient
       - Modify opinion

4. Third Party
   - Confirmation
   - Report of another auditor
   - Inspection
   - Settlement with another auditor
   - Pledge

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2) Litigations & Claims

   - Identify Procedures
     - Inquiry
       - Mgt.
       - Inhouse Counsel
       - Review Minutes
       - Legal Expenses
       - WR
     - If RMM identified:
       - Direct Communication with External Legal Counsel
       - If not possible:
         - Alternative Procedures
         - Modify Opinion

3) Segment Information - Comply with FRF - Procedures

   - Obtain understanding of the method for determining segment information
   - Analytical Procedures
SA 505

Direct Written Response from Third Party - Reliability Factors

Type
- Positive (Reply in all cases)
  - Information available only outside entity
  - Fraud risk factor
- Negative (Reply only when disagree)
  - Low risk
  - Large population with homogeneous item
  - Low expectation rate
  - Recipient will respond to the request.

Process
- Determining the info.
- Selecting the parties
- Designing the confirmation request
- Sending the request on follow-up

Mgmt. Request
- Inquiry
  - Reason
    - Valid
      - Alternative procedure
    - Invalid
      - Discuss with TCWG
      - Modify opinion

Conformation
- Not Received
  - Alternative procedure
- Not Reliable
  - Assessment of relevant risk
- Exception
  - Investigate

Obtain reasonable evidence
Unable to obtain

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SA 510
Condition:
(Initial Audit Engagement)
Objectives:

Opening Balance
- Correctly brought fwd
- Prior period adjustments

Consultancy of AICPA/GAAS
- Whether consistent
  OR in case of change
  Compliance with F.A.F

Reporting by Predecessor Auditor
- Is it relevant in material in current year?
  Yes
  Modify opinion
  Unqualified opinion
  No
  Unmodified opinion

Reporting
- Unable to obtain audit evidence
  Qualified or Disqualified Opinion
  Does not affect current yr.
  Unmodified Opinion
  Opening balance containing misstatement
  Affects current yr. fig.
  Properly disclosed in fin. stmts
  Unmodified Opinion
  Otherwise
  Qualified Opinion/Adverse

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SA 520

- Meaning:
  - Analysis of Relationships
- Financial & Non-Financial
  - include Investigation → Inconsistency

* Timing
  - Initial
    - To obtain understanding of entity
  - During the audit
    - as substantive procedures
  - Overall review stage
    - For forming an overall conclusion

* Designing & Performance of SAP

Suitability
- Large Data
- Predictable
- Assessment of Risk

Reliability of Data
- Source
- Relevance
- Nature

Expectation
- Sufficient precise to identify a mis-statement

Difference
- Record amount ≠ Expected value

Investigate if any inconsistency

Join Us on Telegram http://t.me/canotes_ipcc
Application → AP < TOC \[ \begin{array}{c}
\text{Sampling Risk} \\
\text{difference in conclusion}
\end{array}\]

\[\begin{array}{c}
\text{TOC} \\
\downarrow 100\% \neq 100\% \\
\text{Controls are effective}
\end{array}\]

\[\begin{array}{c}
\text{TOD} \\
\downarrow 100\% \neq 100\% \\
\text{mis-stmt} \text{ does not exist} \\
\text{OPINION}
\end{array}\]

\[\begin{array}{c}
\text{less} \neq \text{effective} \\
\text{Mid-stmt} \text{ does not exist} \\
\text{NTS}
\end{array}\]

Types of Sampling

I) Statistical
   - Random selection
   - Use of probability theory
   - Measurement of sampling risk

II) Non-Statistical
   - Doesn't have above mentioned characteristics

Design, Size & Selection for Testing

- Purpose of AP
- Characteristics of population
- Reduction of sampling risk to acceptable level
- Each unit has equal chance of selection

Types of Sample

<table>
<thead>
<tr>
<th>Factor</th>
<th>TOCD</th>
<th>TOC</th>
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<tbody>
<tr>
<td>RMM ↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Tolerable rate ↑</td>
<td>↓</td>
<td>↓</td>
</tr>
<tr>
<td>Assurance ↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>No. of units</td>
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Auditor's Procedure

- Apply audit procedure
- If not applicable
  - Deviation / Mis-statement
  - Identify nature & cause of deviation / mis-statement
    - Of any anomaly → need to obtain high degree of certainty
      - Project mis-stmt (PM)
      - Not required in case of deviation

Conclusion on Audit Sampling

- PM + Anomaly more than tolerable mis-stmt
- Increase assessment of RMM
- Estimated mis-stmt closure to tolerable mis-stmt (doesn't provide basis for conclusion)

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Risk Assessment Procedures

How? applicable
applicable data
review controls

H E A R C D
event review controls

Uncertainty

Assumptions change segmentation

A b h r s u d

Identify and assessed risk

• Evaluate the degree of uncertainty
• Determine whether uncertainty arising any significant risk

Uncertainty

• How mgmt. has considered alternative assumption & reason of rejection
• Reasonableness of significant assumptions
• Efforts paid taken by mgmt
1 so that estimates are as 1% per FRF.
1. Develop a range
2. Whether 1.5% as per FRF.

SA 540

WR about reasonableness of assumptions.

• WR about reasonableness of assumptions.

• Whether an estimation is right or wrong.
• Indicators of possible mgmt. bias.

WR

Documentation

• Major difference between actual outcome & estimated outcome

Indicators

• Change in estimates/method done by mgmt & subjective assessment regarding change in circumstances.
• Use assumptions which are inconsistent with observable market assumptions.
• Assumption indicates favourability of mgmt’s objectives.
• Estimates indicating a pattern of optimism or pessimism
• Estimate prepared without using recognised measurable techniques.
SA 550: Related Parties

- Whether RPT/RP identify, account & disclose as per FRF.

 Auditor's Responsibility

- Understanding of Internal Controls
- Share Information with engagement team
- Nature of relationship, transactions or any change.
- Inspection of records & documents.

Audit Procedures

Significant Risk

1. Undisclosed RPT
   - Not previously identified or disclosed to auditor.
   - Communicate with team.
   - Identify all transactions.
   - Why IC Failed?
   - SAP - Newly identified RP
   - Risk of other parties
   - Appropriate accounting (fraud) - Special consideration

2. Transaction outside normal course of business
   - Inspect contract & agreement
   - Rationale for business
   - Terms as per explanation
   - Appropriate ARCing
   - Appropriate Approvals

3. Arms Length Basis
   - Obtain sufficient appropriate evidence
   - Compare terms of RPT with unrelated parties
   - Conditions of transactions - Market price
   - Confirmation

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SA 560: Subsequent Events

**Meaning:** Events occurring between the date of the financial statements & audit report date AND facts that became known to the auditor after the date of audit report.

**Responsibilities**
- Consider effect of SE in FST/AR

**Audit Procedure**
- Enquiry of mgmt
- Review Interim FST
- Read the minutes after BS date
- WR
- Expert opinion

**Reporting**
- Perform audit procedure
- Discuss with mgmt
  - Determine whether FST need to be changed
  - If mgmt change
    - New Audit Report
  - If NOT
    - Inform the mgmt not to issue AR
      - If mgmt issue
        - Legal actions

After issue date
- Ensure that every recipient of FST is informed

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SA 570

- It is a fundamental assumption
- Under this assumption, F.S are prepared on a basis that entity is a going concern & will continue its operation for the foreseeable future.

- Assessment of Going concern
  - Appropriate Disclosures

- Appropriateness of Mgmt's use of the going concern assumption

Risk Assessment Procedure

1. Event condition indicates doubt over going concern
   - Determine whether management has assessed or not
     - Yes
     - No
     - Enquiry
     - Discuss with management
     - REMAIN ALERT (SKEPTICISM)

2. Additional Procedures
   - Request management for assessment
   - Evaluate future plans
   - Cash-flow forecast
   - Additional facts
   - WR
   - Others representation evaluate facts

3. Conclusion & Reporting
   - Going concern appropriate with material uncertainty
   - Going concern inappropriate
     - Mgmt: Unwillingness
     - Adverse opinion
     - If mgmt is unwilling to make its assessment, then he shall consider the implication for the auditor's report

4. Auditor Procedure
   - Mgmt to adequately disclose the facts in the F.S
   - If disclosed properly
     - Unmodified + EOM
   - If NOT
     - Qualified or adverse
SA 580: Written Representation (Necessary Evidence Not Sufficient)

**Written Statement → Management**

- Management Responsibility
  - Preparation & Presentation of FS.
  - Proper recording of all transactions
  - Proper disclosure of all information to auditor

**Support Audit Evidence**

- FS, Books of A/c, Records, Public Statements of Mgmt.

**Contents**

- Management Responsibility
- Others
  - Selection & application of appropriate AP.
  - Carrying value of assets & liabilities
  - Liability (Actual & Contingent)
  - Title/Control over asset
  - Aspects of Law/Agreement that may affect FS

**Case 1: Doubt on Reliability**
- If doubt over competence/integrity

  - If possible, withdraw unless TCWG take appropriate action
  - Inconsistent with other audit evidence

  - Resolve the matter

  - If not, consider integrity of mgmt.

**Case 2: WR not provided**
- Delve with mgmt.
- Take appropriate action (AR)

**Key Points:**
- WR should be addressed to auditor.
- WR should be obtained before date of AR.
- It is just an additional evidence

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Audit Considerations

- Determine the need of other auditor’s work
- If required

Audit Procedures

- Can provide advice regarding time table report
  - S A R
  - Significant Area Requirement
- Ascertain any limitation on the scope
- Findings Consideration
- Conclusions that any component is not material
- Discussion
  - Supplementary Test of records
  - PA’s audit procedures & conclusions
  - Procedure & finding in form of questionnaire/checklist
  - Qualification of OA & how is dealt with it

SA 600

Coordination

- Written Communication
- Advice about important matters that may have bearing on OA’s work
- PA
- O.A
- Bringing attention of PA about matters significant at entity level
- Compliance with Statutory Requirements

Responsibility of PA

- PA is not responsible for OA work
- PA to mention in his report the components audited by OA
- PA unable to verify components/review OA — Issue qualified/disclaimer report
- OA gives a qualified report — PA to consider its impact in the F.S.T of entity as a whole & report accordingly

CA Jyoti Garg
SA 610: Using work of Internal Auditors

Using the work of IAF

Using IA to provide direct assistance.

Stage 1:
- Evaluating the IAF
  - Objectivity of IA
  - Competence of IAF
  - Systematic & disciplined approach using quality controls

Stage 2:
- Extent of using IAF work
  - Nature & scope of work
  - Relevance to Auditors
  - Sufficient involvement
  - Communication with TCWG
  - Less use of IA
  - More judgement
    - Planning
    - Gathering
    - Audit Evidence
    - Highest assessed risk
    - Low level of competence
    - Less support to objectivity

Stage 3:
- Using the work
  - Discuss with IA
  - Read the report & findings of IAF
  - Perform sufficient audit procedure
    - Proper planning, perform supervision & documentation
    - Reasonableness of conclusion as per circumstances

If not present
- DONT USE

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Stage 1:
- Whether IA assistance use or not
  → Prohibited by laws & regulations.
  → Objectivity
  → Competence
  If not present, don't use

Stage 2:
- Extent of using direct assistance
  → Aim of judgement involved
  → Planning & evidence
  → Assessed Risk
  → Communication with IASG
    where DA can't be used
  → Significant judgement
  → Higher assessed risk
  → Work in which IA involved
  → Decision as per SA 610.
  → Involvement of fraud

Stage 3:
- Using Internal Auditors
  → WA from authorised representative of entity
  → WA from Internal Auditor
  → Supervision & direction

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SA 620: Using the Work of an Auditor's Expert

Auditor Responsibility → Expert Work → Having knowledge other than Auditing OR Accounting

Determine the Need → Yes → Audit Procedure

Competence, Capability & Objectivity of Expert

Understanding of Field

Agreement

- Nature, scope & objective of work
- Nature of role & responsibility
- Timing of communication
- Confidentiality

Adequacy of Expert Work

- Reasonableness of findings
- Consistency of findings with other evidence
- Reasonableness of assumptions
- Source of data

Identify relationships which may impair expert independence

- Previous work experience
- Discussions with experts/other
- Qualification/licence
- Published books
- Quality control procedures

Area of expertise
- Professional & other standards
- Assumptions & methods
- Nature of data

Reporting

- Unmodified opinion → Shall not refer expert work
- Modified opinion → Refer, if required to understand the reason for modification

CA Joti S. J.
Basic Elements of Audit Report - SA 700

1. **Title**: Independent Auditor's Report

2. **Address**
   a) Specify to whom the report is to addressed
   b) On basis of engagement type, law, regulations
   c) Shareholders, TCWG

3. **Auditor Opinion**
   a) Entity's name
   b) State financial statements have been audited
   c) Title of each component of financial statement
   d) Refer notes, significant policies
   e) Period covered
   f) Opinion

4. **Basis for opinion**
   a) Accordance with SA's
   b) Auditor's responsibilities (Para 8)
   c) Auditor is Independent & Comply with other Ethical requirements
   d) Having sufficient appropriate audit evidence

5. **Going Concern**
   a) Report as per SA 570, if applicable

6. **Key audit matters**: SA 701

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7. Responsibility of mgmt:
(a) Preparing the financial stmt as per FRF
(b) Implementation of Internal Controls
(c) Assessing entity's ability of going concern
(d) Period covered by letter.

8. Auditor's Responsibilities

Objectives of Audit
- Professional Judgement & Skepticism
- Describe audit by stating the auditor's responsibilities

Communication -> TCWG -> Planning/Scope/Deficiencies in internal Controls (SA 265, 260)

Listed Co. -> TCWG -> Independence
Listed Co. -> SA 701

Location of Auditor Responsibility:
- Appendix of Auditor Report
- Website (if allowed by laws)

Other Reporting Responsibility (eg. CARO)

Signature: Personal Name, Firm name, Membership no., Firm no.

Address:

Date:

Audit Report should be in writing (electronic media)

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SA 701: KEY AUDIT MATTERS (KAM)
Meaning: Those matters, that in the auditor’s professional judgement were of most significant in the audit of financial statements of the current period. KAM are selected from matters communicated with TCWG.

Purposes of KAM
- To enhance communication value of auditor report
- To provide additional information to users which helps in understanding the entity & nature of significant mgmt. judgement

Objective of Auditor
- Determine KAM
- Communicate in his report

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Applicability of KAM (SA 701)

1. Listed companies required by laws & regulations

Determining KAM
- Select from the matters communicated with TWS (SA 260)
- Area of significant risk (SA 315)
- Significant auditor judgement in the area of mgmt judgement / estimates
- Significant events / transaction effect

Communicating KAM
- Under separate heading, "Key Audit Matter" includes
  - KAM are those matters that in auditor judgement were of the most significant in audit.
  - Matters were addressed in the context of financial statement & informing the auditor opinion
  - Auditor does not provide a separate opinion on these matters.

KAM is not substitute for
- Disclosure in financial statements which are required under applicable FRF
- Modify opinion
- Reporting under SA 57B where required
- Separate opinion on individual matters.

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Opinion

Unmodified Opinion

On the basis of audit evidence, auditor concludes that financial statements are prepared in all material aspects as per FRF.

Qualified

- On the basis of sufficient & appropriate audit evidence, auditor concludes that misstatements are material but not pervasive.
- Auditor is not able to obtain sufficient & appropriate audit evidence but concludes that possible effect of undetected misstatement could be material but not pervasive.

Adverse

- On the basis of sufficient & appropriate audit evidence, auditor concludes that misstatements are both material & pervasive.

Disclaimer

- When auditor is unable to obtain sufficient & appropriate audit evidence but concludes that possible effect of undetected misstatement could be material as well as pervasive.
SA 706: Emphasis of matter paragraph & other matter paragraph

EOM
→ As per auditor judgement, these matters are important for understanding of financial statements.
→ It includes the matters which already appropriately disclosed & presented in a financial statement, provided that matter does not give rise to modification in auditor report.

OM
→ Other than matters that are presented & disclosed in financial statement, provided not prohibited by law & regulations.

Not classified as KEY Audit Maters (SA 701)

→ Useful for understanding the audit & auditor's responsibility.
→ Represent under separate heading.

Represent under separate heading
SA 710: Comparative Information

Definition: The amounts & disclosure included in the financial stmt in respect of one or more prior period in accordance with the applicable FRF.

Audit Procedure

- Evaluate that information agree with prior period &
- Consistency of AIC policies in current period, if any change, evaluate whether as per FRF.

Corresponding

- Opinion only about current period except
  - modified opinion in prior period x matter is still unresolved
- Auditor obtain audit evidence that a material misstatement exist in prior period x unresolved opinion has been issued & matter is still not dealt with FRF.
- Unaudited financial stmt in prior period
  - Auditor is still responsible for obtaining audit evidence about prior period item
  - OM paragraph

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SA 720: Auditor's Responsibilities relating to Other Information

Auditor's Responsibility → Other Information [Annual Report ← Financial & NF data excluding Fin Stmt & Auditor's report]

- Make appropriate arrangements with management for obtaining other info. on timely basis
- Read to ascertain whether there is any inconsistency between others Info. ≠ Fst
- Others Info. ≠ Auditor's Knowledge

# Case 1:
- If there is misstatement in Others Info.
  - Communicate with mgmt
  - Yes
  - No

  Tcwq

  Correct
  Incorrect

  Info. Prior to Audit Report
  Info. Assist Audit Report

  Consider implications for Auditor Report
  Take appropriate action to bring user's attention to indirect info.
  Withdraw

# Case 2:
- If there is misstatement in Fst/ Auditor's Knowledge

Response as per other Standards

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