

Standards on Auditing

- Implementation by SMPs

- CA Vishal P. Doshi

Audits and Reviews of Historical Financial Information

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200-299 General Principles and Responsibilities

SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
SA 210	Agreeing the Terms of Audit Engagements
SA 220	Quality Control for an Audit of Financial Statements
SA 230	Audit Documentation
SA 240	The 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 260	Communication with Those Charged with Governance
SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
SA 299	Joint Audit of Financial Statements



Overall Objectives of the Auditor (SA 200)

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

- a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

Complying with SAs Relevant to the Audit (SA 200)

The auditor shall:

- ▶ comply with all SAs relevant to the audit. An SA is relevant to the audit when the SA is in effect and the circumstances addressed by the SA exist.
- ▶ have an understanding of the entire text of an SA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
- ▶ not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of this SA and all other SAs relevant to the audit.
- ▶ comply with each requirement of an SA unless, in the circumstances of the audit:
 - (a) The entire SA is not relevant; or
 - (b) The requirement is not relevant because it is conditional and the condition does not exist.



Agreement on Audit Engagement Terms (SA 210)

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

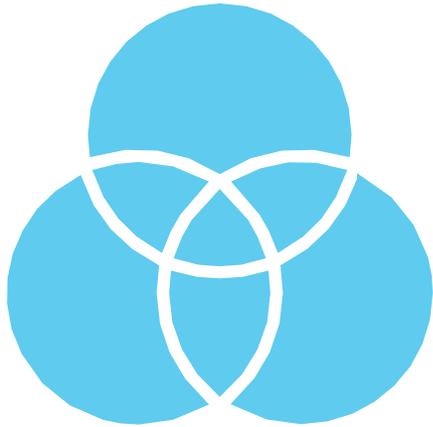
- (a) The objective and scope of the audit of the financial statements;
- (b) The responsibilities of the auditor;
- (c) The responsibilities of management;
- (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.

Recurring Audits (SA 210)

The following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- ▶ Any indication that the entity misunderstands the objective and scope of the audit.
- ▶ Any revised or special terms of the audit engagement.
- ▶ A recent change of senior management.
- ▶ A significant change in ownership.
- ▶ A significant change in nature or size of the entity's business.
- ▶ A change in legal or regulatory requirements.
- ▶ A change in the financial reporting framework adopted in the preparation of the financial statements.
- ▶ A change in other reporting requirements.

Leadership Responsibilities for Quality on Audits (SA 220)



Communicating within the firm:

(a) The importance to audit quality of:

- i. Performing work that complies with professional standards and regulatory and legal requirements;
- ii. Complying with the firm's quality control policies and procedures as applicable;
- iii. Issuing auditor's reports that are appropriate in the circumstances; and
- iv. The engagement team's ability to raise concerns without fear of reprisals; and

(b) The fact that quality is essential in performing audit engagements.

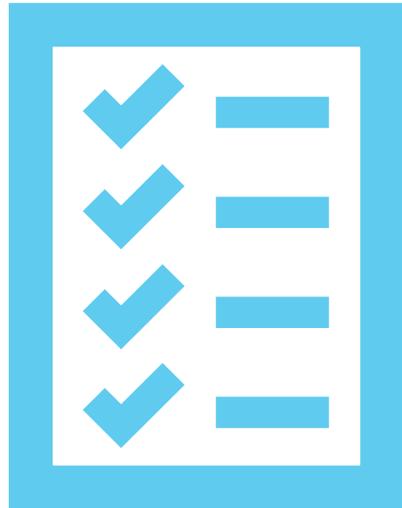
Audit Documentation (SA 230)

**If You Didn't
DOCUMENT
YOU DIDN'T
DO
IT**

Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides:

- (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
- (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Audit Documentation (SA 230)



Audit documentation serves a number of additional purposes, including the following:

- ▶ Assisting the engagement team to plan and perform the audit.
- ▶ Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220.
- ▶ Enabling the engagement team to be accountable for its work.
- ▶ Retaining a record of matters of continuing significance to future audits.
- ▶ Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.



Audit Documentation (SA 230)

Timely Preparation of Audit Documentation

- Audit programmes
- Analyses
- Issues memoranda
- Summaries of significant matters
- Letters of confirmation and representation
- Checklists
- Correspondence (including e-mail) concerning significant matters
- Abstracts or copies of the entity's records

Retention of Audit Documentation

- The retention period for audit engagements ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

Assembly of the Final Audit File

- Deleting or discarding superseded documentation
- Sorting, collating and cross referencing working papers
- Signing off on completion checklists relating to the file assembly process
- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the team

Ownership of Audit Documentation

- Unless otherwise specified by law or regulation, engagement documentation is the property of the firm.



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Communication with Those Charged with Governance (SA 260)

- ▶ The Auditor's Responsibilities in Relation to the Financial Statement Audit
- ▶ Planned Scope and Timing of the Audit
- ▶ Significant Findings from the Audit
 - ▶ Significant Qualitative Aspects of Accounting Practices
 - ▶ Accounting Policies
 - ▶ Accounting Estimates
 - ▶ Financial Statement Disclosures
 - ▶ Related Matters
 - ▶ Significant Difficulties Encountered during the Audit
 - ▶ Significant Matters Discussed, or Subject to Correspondence with Management
 - ▶ Circumstances that Affect the Form and Content of the Auditor's Report
 - ▶ Other Significant Matters Relevant to the Financial Reporting Process
- ▶ Auditor Independence
- ▶ Supplementary Matters

300-499 Risk Assessment and Response to Assessed Risks

SA 300	Planning an Audit of Financial Statements
SA 315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
SA 320	Materiality in Planning and Performing an Audit
SA 330	The Auditor's Responses to Assessed Risks
SA 402	Audit Considerations Relating to an Entity Using a Service Organisation
SA 450	Evaluation of Misstatements Identified During the Audit

Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment (SA 315)

- ▶ The Entity and Its Environment
 - ▶ Industry, Regulatory and Other External Factors
 - ▶ Nature of the Entity
 - ▶ The Entity's Selection and Application of Accounting Policies
 - ▶ Objectives and Strategies and Related Business Risks
 - ▶ Measurement and Review of the Entity's Financial Performance
- ▶ The Entity's Internal Control
 - ▶ General Nature and Characteristics of Internal Control.
 - ▶ Controls Relevant to the Audit.
 - ▶ Nature and Extent of the Understanding of Relevant Controls.
 - ▶ Components of Internal Control.
- ▶ Identifying and Assessing the Risks of Material Misstatement
 - ▶ Assessment of Risks of Material Misstatement at the Financial Statement Level
 - ▶ Assessment of Risks of Material Misstatement at the Assertion Level
- ▶ Risks that Require Special Audit Consideration
 - ▶ Whether the risk is a risk of fraud;
 - ▶ Whether the risk is related to recent significant economic, accounting, or other developments
 - ▶ The complexity of transactions;
 - ▶ Whether the risk involves significant transactions with related parties;
 - ▶ Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Assessment of Risks of Material Misstatement at the Assertion Level (SA 315)

Classes of transactions and events for the period under audit

Occurrence—transactions and events that have been recorded have occurred and pertain to the entity.

Completeness—all transactions and events that should have been recorded have been recorded.

Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately.

Cut-off—transactions and events have been recorded in the correct accounting period.

Classification—transactions and events have been recorded in the proper accounts.

Account balances at the period end

Existence—assets, liabilities, and equity interests exist.

Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.

Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded.

Valuation and allocation—assets, liabilities, and equity interests are included at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

Presentation and disclosure

Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity.

Completeness—all disclosures that should have been included have been included.

Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.

Accuracy and valuation—financial and other information are disclosed fairly and at appropriate amounts.

Materiality in Planning and Performing an Audit (SA 320)

- ▶ Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value.
- ▶ Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.
- ▶ Materiality Level or Levels for Particular Classes of Transactions, Account Balances or Disclosures
- ▶ Revision as the Audit Progresses

500-599 Audit Evidence

SA 500	Audit Evidence
SA 501	Audit Evidence-Specific Considerations for Selected Items
SA 505	External Confirmations
SA 510	Initial Audit Engagements - Opening Balances
SA 520	Analytical Procedures
SA 530	Audit Sampling
SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
SA 550	Related Parties
SA 560	Subsequent Events
SA 570	Going Concern
SA 580	Written Representations

Audit Evidence (SA 500)

- ▶ Audit Procedures for Obtaining Audit Evidence
 - ▶ Inspection
 - ▶ Observation
 - ▶ External Confirmation
 - ▶ Recalculation
 - ▶ Reperformance
 - ▶ Analytical Procedures
 - ▶ Inquiry
- ▶ Information to be Used as Audit Evidence
 - ▶ Relevance
 - ▶ Reliability

Audit Evidence - Specific Considerations for Inventory (SA 501)

- ▶ If physical inventory counting is conducted at a date other than the date of the financial statements, the auditor shall, perform additional audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded.
- ▶ If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.
- ▶ If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705

External Confirmations (SA 505)

- ▶ External Confirmation Procedures
 - ▶ Determining the Information to be Confirmed or Requested
 - ▶ Selecting the Appropriate Confirming Party
 - ▶ Designing Confirmation Requests
 - ▶ Positive Confirmation request
 - ▶ Negative confirmation request
- ▶ Results of the External Confirmation Procedures
 - ▶ Reliability of Responses to Confirmation Requests
 - ▶ Non-Responses
 - ▶ Exceptions
- ▶ Negative confirmations provide less persuasive audit evidence than positive confirmations.

Analytical Procedures (SA 520)

- ▶ Substantive Analytical Procedures
 - ▶ Suitability of Particular Analytical Procedures for Given Assertions
 - ▶ The Reliability of the Data
 - ▶ Evaluation of Whether the Expectation is Sufficiently Precise
 - ▶ Amount of Difference of Recorded Amounts from Expected Values that is Acceptable
- ▶ Analytical Procedures that Assist When Forming an Overall Conclusion
- ▶ Investigating Results of Analytical Procedures

Audit Sampling (SA 530)

- ▶ **Sample Design, Size and Selection of Items for Testing**
 - ▶ When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn
 - ▶ The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level
 - ▶ The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection
- ▶ **Sample Selection Methods**
 - ▶ Random selection
 - ▶ Systematic selection
 - ▶ Monetary Unit Sampling
 - ▶ Haphazard selection

Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures (SA 540)

Examples

- ▶ Employee benefits
- ▶ Allowance for doubtful accounts
- ▶ Inventory obsolescence
- ▶ Warranty obligations
- ▶ Depreciation method or asset useful life
- ▶ Provision against the carrying amount of an investment where there is uncertainty regarding its recoverability
- ▶ Outcome of long term contracts
- ▶ Financial Obligations / Costs arising from litigation settlements and judgments

Procedure

- ▶ The method, including where applicable the model, used in making the accounting estimate
- ▶ Relevant controls
- ▶ Whether management has used an expert
- ▶ The assumptions underlying the accounting estimates
- ▶ Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why
- ▶ Whether and, if so, how management has assessed the effect of estimation uncertainty.

Subsequent Events (SA 560)

Events Occurring Between the Date of the Financial Statements and the Date of the Auditor's Report

- ▶ The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.
- ▶ When, as a result of the procedures performed, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

Going Concern (SA 570)

Examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern:

- ▶ Financial
 - ▶ Net liability or net current liability position.
 - ▶ Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
 - ▶ Indications of withdrawal of financial support by creditors.
 - ▶ Negative operating cash flows indicated by historical or prospective financial statements.
- ▶ Adverse key financial ratios.
- ▶ Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- ▶ Arrears or discontinuance of dividends.
- ▶ Inability to pay creditors on due dates.
- ▶ Inability to comply with the terms of loan agreements.
- ▶ Change from credit to cash-on-delivery transactions with suppliers.
- ▶ Inability to obtain financing for essential new product development or other essential investments.

Going Concern (SA 560)

▶ Operating

- ▶ Management intentions to liquidate the entity or to cease operations.
- ▶ Loss of key management without replacement.
- ▶ Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- ▶ Labor difficulties.
- ▶ Shortages of important supplies.
- ▶ Emergence of a highly successful competitor.

▶ Other

- ▶ Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- ▶ Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- ▶ Changes in law or regulation or government policy expected to adversely affect the entity.
- ▶ Uninsured or underinsured catastrophes when they occur.

Written Representations (SA 580)

- ▶ Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements.
- ▶ Accordingly, similar to responses to inquiries, written representations are audit evidence.
- ▶ Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.

600-699 Using Work of Others

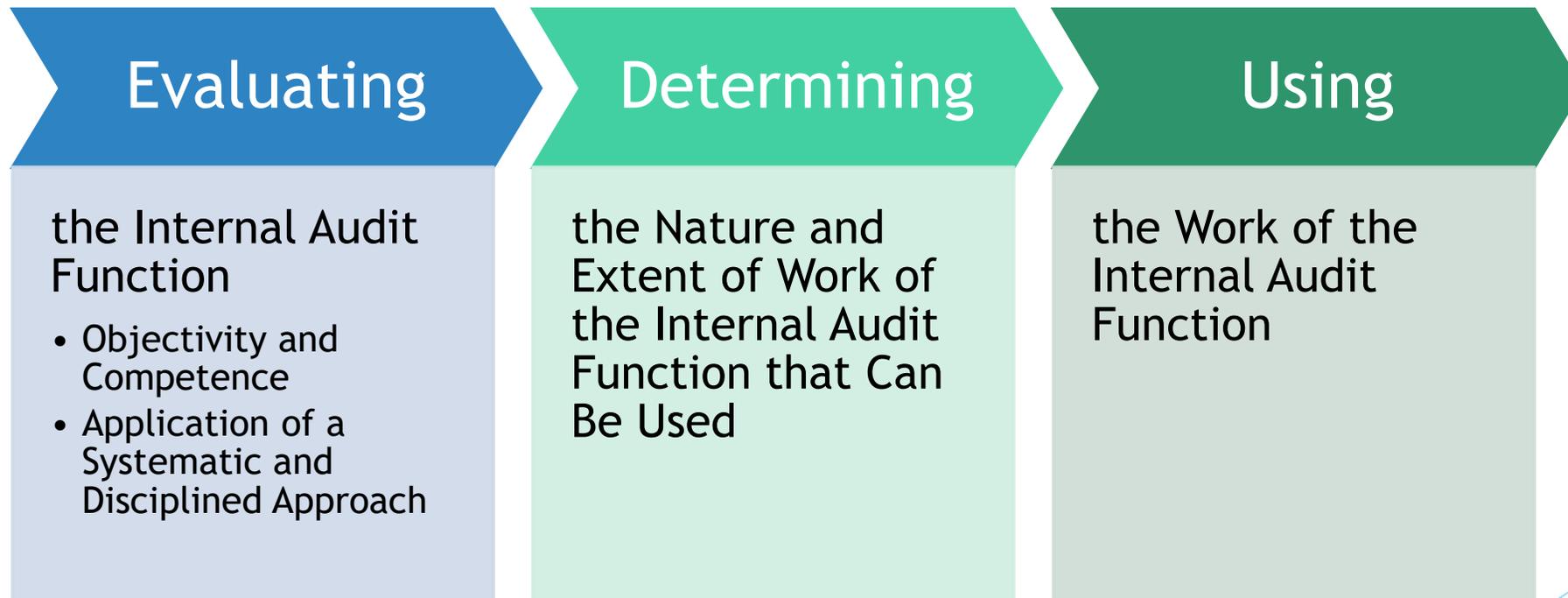
SA 600	Using the Work of Another Auditor
SA 610	Using the Work of Internal Auditors
SA 620	Using the Work of an Auditor's Expert

Using the Work of Another Auditor (SA 600)



- ▶ When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit.
- ▶ When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the Institute of Chartered Accountants of India.
- ▶ The principal auditor should consider the significant findings of the other auditor.

Using the Work of Internal Auditors (SA 610)



700-799 Audit Conclusions and Reporting

SA 700	Forming an Opinion and Reporting on Financial Statements
SA 701	Communicating Key Audit Matters in the Independent Auditor's Report
SA 705	Modifications to the Opinion in the Independent Auditor's Report
SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
SA 710	Comparative Information—Corresponding Figures and Comparative Financial Statements
SA 720	The Auditor's Responsibilities Relating to Other Information

Auditor's Report (SA 700)

- ▶ Title
- ▶ Addressee
- ▶ Auditor's Opinion
- ▶ Basis for Opinion
- ▶ Going Concern (where applicable)
- ▶ Key Audit Matters (in case of listed entities)
- ▶ Other Information (where applicable)
- ▶ Responsibilities of Management for the Financial Statements
- ▶ Auditor's Responsibilities for the Audit of the Financial Statements
- ▶ Report on Other Legal and Regulatory Requirements
- ▶ Signature of the Auditor
- ▶ Unique Document Identification Number (UDIN)
- ▶ Place of Signature
- ▶ Date of the Auditor's Report

Communicating Key Audit Matters in the Independent Auditor's Report (SA 701)

- ▶ Key audit matters are those that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.
- ▶ In determination of KAM, the auditor shall take into account the following:
 - (a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315.
 - (b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
 - (c) The effect on the audit of significant events or transactions that occurred during the period.
- ▶ Key Audit Matters Not a Substitute for Expressing a Modified Opinion

Modifications to the Opinion in the Independent Auditor's Report (SA 705)

Nature of Matter Giving Rise to the Modification	Material but Not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Pervasive effects on the financial statements are those that, in the auditor's judgment:

- (i) Are not confined to specific elements, accounts or items of the financial statements;
- (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Modifications to the Opinion in the Independent Auditor's Report (SA 705)

Type of modified opinion	Opinion paragraph in Auditor's Report
Qualified opinion	In our opinion and to the best of our information and according to the explanations given to us, <u>except for the effects of the matter described in the Basis for Qualified Opinion section of our report</u> , the aforesaid financial statements give the information required by the Companies Act 2013 in the manner so required and <u>give a true and fair view</u> in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 20XX and its profit/loss, (changes in equity) and its cash flows for the year ended on that date.
Adverse opinion	In our opinion and to the best of our information and according to the explanations given to us, <u>because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report</u> , the accompanying consolidated financial statements <u>do not give a true and fair view</u> in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, of its consolidated profit/loss, (consolidated position of changes in equity) and the consolidated cash flows for the year then ended.
Disclaimer of opinion	<u>We do not express an opinion on the accompanying financial statements of the entity.</u> Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (SA 706)

- ▶ **Emphasis of Matter paragraph** - A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
- ▶ **Other Matter paragraph** - A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

The Auditor's Responsibilities Relating to Other Information (SA 720)

- ▶ Other information - Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.
- ▶ Annual report is normally prepared on an annual basis in accordance with law, regulation or custom, to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. It contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.

When some or all of the document(s) will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this SA.

800-899 Specialized Areas

SA 800	Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	Special purpose framework - A financial reporting framework designed to meet the financial information needs of specific users.
SA 805	Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	A single financial statement (for example, a cash flow statement) or to a specific element of a financial statement (for example, cash and bank balances) includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.
SA 810	Engagements to Report on Summary Financial Statements	Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time

2000-2699 Standards on Review Engagements (SREs)

SRE 2400	Engagements to Review Historical Financial Statements
SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity

Engagements to Review Historical Financial Statements (SRE 2400)

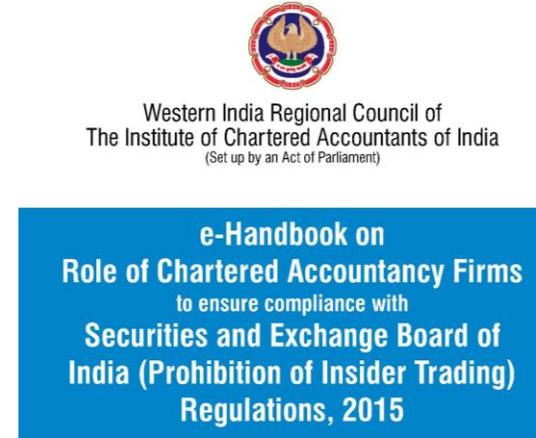
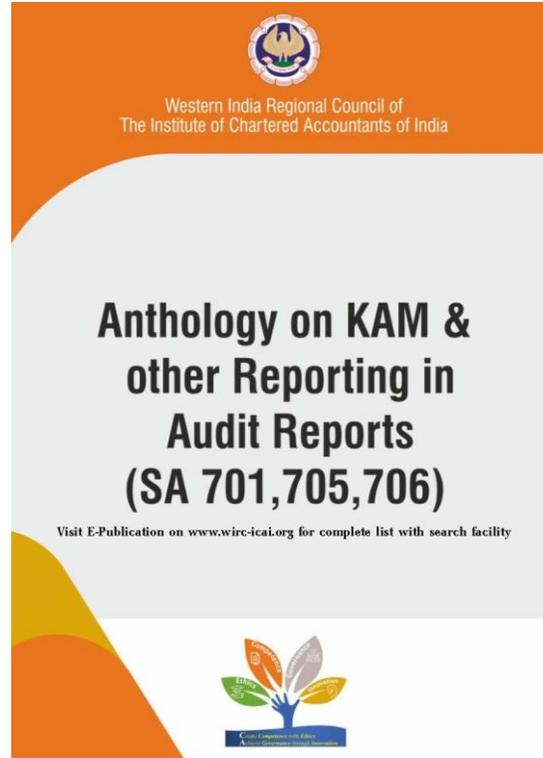
- ▶ The practitioner's responsibilities and form and content of the practitioner's report on the financial statements when engaged to perform a review of historical financial statements, when the practitioner is not the auditor of the entity's financial statements.
- ▶ The review of historical financial statements is a limited assurance engagement and is not an audit and accordingly, the practitioner does not express an audit opinion on the financial statements.

Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

- ▶ 3000-3699 Standards on Assurance Engagements (SAEs)
 - ▶ 3000-3399 Applicable to All Assurance Engagements
 - ▶ 3400-3699 Subject Specific Standards
 - ▶ SAE 3400 “The Examination of Prospective Financial Information”
 - ▶ SAE 3402, “Assurance Reports on Controls At a Service Organisation”
 - ▶ SAE 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus

Related Services

- ▶ 4000-4699 Standards on Related Services (SRSs)
 - ▶ SRS 4400 “Engagements to Perform Agreed-upon Procedures Regarding Financial Information”
 - ▶ SRS 4410 (Revised), Compilation Engagements



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