



---

## **Introduction & Overview on Standards on Auditing**

**7<sup>th</sup> October, 2023**



- Provides **framework** for performing the audit procedures
- Establishes the basis for the evaluation of audit and assurance **performance**
- Provides **guidance** to Members
- To ensure **consistent practices** are being adopted across the profession
- Assurance of **Quality**

# SA 200 - Overall objective of the independent auditor and conduct of an audit in accordance with standards on auditing

- Objective of auditor:
  - To obtain **reasonable assurance** about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
    - Reasonable assurance means high, **but not absolute**, level of assurance
    - In case reasonable assurance cannot be obtained then auditor has to **modify its audit opinion**
  - To maintain **professional skepticism**:
    - Questioning mind
    - Remain alert to conditions which may indicate possible misstatement
  - To comply with **ethical requirements** such as:
    - **Independence**
    - **Integrity**
    - **Confidentiality**
    - Professional **behavior and** professional **competence**
- The standard guides in obtaining **sufficient and appropriate audit evidence** to reduce the **audit risk** to acceptably low level

- Auditor's responsibilities in agreeing the terms of the audit engagement with Management/ Those Charged With Governance (TCWG)
- Auditors objective is to accept or continue an audit engagement only when the basis upon which is to be performed has been agreed with the management
- Segregate the responsibilities of management and auditors clearly
- Acknowledgement from management for its:
  - Responsibility for preparation of financials statements
  - Provide auditor with unrestricted access to all the data and information
  - Internal controls exists
  - Provide additional information as and when required

- The SA covers the scope of responsibilities of the auditor regarding:
  - Quality control procedures for an audit of financial statement
  - Perform client acceptance and continuation procedure
  - Assignment of engagement teams
  - Engagement performance
- The engagement partner shall:
  - Determine that the quality control reviewer has been appointed
  - Discuss significant matters arising during the audit & review with the reviewer
  - Not to date/sign auditor's report before the completion of review

- Audit documentation should be sufficient and appropriate **to form an audit opinion**
- Sufficient and appropriate documentation means such documentation which enables an experienced auditor to understand:
  - **Nature, timing and extent** of the audit procedures performed
  - **Results** of the audit procedures performed and the audit **evidence obtained**
  - Significant matters, the **conclusions reached** and significant professional **judgments**
- Extent of audit documentation is based on following factors:
  - **Size and complexity** of the entity
  - Audit evidence obtained & its **significance**
  - Audit **methodology**
  - **Identified risks** of material misstatement
- Assembly of final audit file
  - Assemble the entire audit file within **stipulated time frame**
  - **Do not alter or change** any audit documentation after signing of audit report
  - If exceptional circumstances, then all changes must be reviewed and **reason for change** must be mentioned

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

- The scope of this SA is identifying and assessing the risk of material misstatement (ROMM) in the financial statements due to fraud
- SA requires the auditor to:
  - Maintain professional skepticism throughout the audit
  - Understand the business and its environment including internal control and obtain information
  - Identify and assess the ROMM due to fraud at the financial statement level
  - Identify significant and non-significant risk
- The auditor shall enquire with management about process for identification of ROMM and responses to it
- The auditor shall also refer to the report of internal auditor and ask for assessment of findings
- The auditor shall perform tests for fraud risk due to management override of controls by following methods:
  - Test journal entries
  - Test estimates and management biases
  - Test non-recurring transactions
  - Perform analytical procedures

- The auditor shall ensure whether the non-compliance shall not result in material misstatement
- Obtain representation from management / TCWG about known non-compliances
- Auditor shall perform following procedure for identifying non-compliance:
  - Applicable legal & regulatory framework
  - Sufficient appropriate audit evidence
  - The auditor shall remain alert to the instances of identified or suspected non-compliance
- Auditors responsibility on reporting of identified/ suspected non-compliance:
  - Communicate matters of non-compliance to TCWG
  - If management/ TCWG involved in non-compliance, communicate to next higher level
  - If non-compliance has material effect & has not been adequately reflected in financial statements qualified/ adverse opinion
  - If unable to conclude the effect of non-compliance, due to limitation imposed by management - qualified/ disclaimer of opinion



- The auditor shall communicate with TCWG
  - Planned **scope and timing** of audit
  - Identified **significant risk**
  - **Significant deficiencies** in the internal control
  - Circumstances that affect the **form and content of auditor's report**
  - Significant matter arising during the audit
  - Engagement team have **complied with relevant ethical requirements regarding independence**
  
- The auditor shall include the matters communicated to TCWG (whether orally or in writing) in audit documentation

# SA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

- This SA requires auditor to identify:
  - Whether there any deficiency in Internal Controls is present by performing Audit
  - Understand whether, individually or in combination, they constitute significant deficiencies
  - Communicate to the respective stakeholders
- Deficiency in internal control exists
  - When a control is designed, implemented, or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
  - a control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing

- Provides **an uniform approach** to perform the audit procedure on the joint audit
- The auditors shall also discuss the **nature, timing and extent** of audit procedures for **common and specific areas** and communicate to TCWG
- Work divided between the joint auditors to be communicated to the Management
- Joint auditor is **not required to review** the work performed by other joint auditor
- The joint auditors are required to issue a **common audit report** except in case where there is disagreement in joint auditors, in this case they shall issue separate audit reports
- The joint auditors are jointly and severally responsible for:
  - Decisions taken by all joint auditors in respect of **common audit areas**
  - Audit work **not divided** and carried out by all joint
  - Matters brought to the notice of joint auditors by any one of them & on which **all of them agree**
  - Disclosure requirement in **financial statements**
  - **Joint decision**

- Audit evidence should be **sufficient and appropriate** to conclude an opinion on financial statements
  - Sufficient quantum wise and appropriate quality wise
- The audit evidence is usually **more reliable** if it is derived from **external source**
- Evidence provided by **original documents** is more reliable
- Audit evidence form:
  - Visual / Documentary / Oral
  - Internal / External
- Audit evidence can be obtained via following procedures:
  - **Inspection**
  - **Observation**
  - **Inquiry**
  - **Analytical Review**
  - **Reperformance**

- For example in case of inventory audit testing when its material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:
  - Attendance at **physical inventory counting**
  - Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results
  - **Roll-forward or roll-back procedures**

- External confirmation may be defined as an audit evidence obtained as a **direct written response** to the auditor from a **third party**, in paper form, or by electronic or other medium
- External confirmation are derived **independently** i.e. without interference of the Company
- The auditor shall evaluate whether the results of the external confirmation procedures provide **relevant and reliable audit evidence**, or whether performing further audit procedures is necessary
- Types of confirmations
  - **Positive** confirmation
  - **Negative** confirmation

- Responsibility
  - Perform opening balance testing
  - Ensure appropriate accounting policies are consistently applied
  - Appropriate presentation and disclosures are made in the current year in accordance with the applicable financial reporting framework
  
- If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements.

- Analytical procedure as defined by Standard is evaluations of financial information through analysis of plausible relationships among both financial and non-financial data
- Techniques available for substantive analytical procedures
  - Trend analysis
  - Ratio analysis
  - Reasonableness test
- Factors to be considered for substantive audit procedures
  - Availability of data
  - Account type
  - Source
  - Predictability



- Auditor while considering the **extent of checking on sampling plan** are as follows
  - **Size** of the organization under audit
  - State of the **internal control**
  - **Adequacy and reliability** of books and records
  - **Tolerable error** range
  
- Samples can be selected by using following methods
  - **Random** sampling
  - **Systematic** sampling
  - **Monetary unit** sampling
  - **Haphazard** sampling

- Some financial statement items cannot be measured precisely, but can only be estimated. The nature and reliability of information available to management to support the making of an accounting estimate varies widely, which thereby **affects the degree of estimation uncertainty associated with accounting estimates**.
- The degree of estimation uncertainty affects, in turn, the risks of material misstatement of accounting estimates, including their **susceptibility to unintentional or intentional management bias**
- Examples of **audit estimates**:
  - Allowance for doubtful **receivables**
  - **Inventory** obsolescence provisioning
  - **Warranty** provision
  - Impairment provision on the **investment**
  - Provision with respect to **litigation**
  - Share based payments (**ESOP**)

- Responsibilities :
  - Ensure **specific accounting and disclosure requirements** are being complied with
  - To perform audit procedures **to identify, assess and respond to the risks of material misstatement** arising from the entity's failure to appropriately account for related party relationships, transactions or balances
  - Ensure disclosure are **true and fair** and are not misleading
- Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected.
- Potential effects of **inherent limitations** on the auditor's ability to detect material misstatements are greater for such reasons as the following:
  - Management may be **unaware of the existence** of all related party relationships
  - Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management

- The auditor shall take into Account the Risk Assessment which includes the following:
  - Obtain an understanding of any procedures management has established to ensure that subsequent events are identified
  - Inquiring of management and TCWG.
  - Read minutes that have been held after the date of the financial statements
  - Read the entity's latest subsequent interim financial statements, if available
  
- If 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

- Events or conditions that may cast significant doubt on the entity's ability to continue as a Going Concern:
  - Net liability or net current liability position
  - Adverse key financial ratios
  - Management intentions to liquidate the entity or to cease operations
  - Loss of key management without replacement
- Audit procedures that are relevant to the conclude the matter of going concern may include the following:
  - Analyzing and discussing cash flow, profit and other relevant forecasts with management
  - Analyzing and discussing the entity's latest available interim financial statements
  - Reading minutes of the meetings of shareholders
  - Identifying any breach of loan repayments if any
  - Performing audit procedures regarding subsequent events
  - Confirming the existence, legality and enforceability of arrangements to provide financial support with related and third parties and assessing the financial ability of such parties to provide additional funds

- Written representation about management's responsibilities that the management has:
  - Fulfilled its responsibility for the preparation and presentation of the financial statements
  - Provided the auditor with all relevant information agreed in the terms of the audit engagement and that all transactions have been recorded and are reflected in the financial statements
- The date of the written representations shall be as near as practicable, but not after, the date of the auditor's report on the financial statements
- The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.
- Written representations are requested from those responsible for the preparation and presentation of the financial statements

- The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the **work of the other auditor is adequate** for the principal auditor's purposes
- The principal auditor should ordinarily perform the following procedures:
  - Inform the other auditor of matters such as areas requiring **special consideration**
  - Procedures for the identification of **intercomponent transactions**
  - **Time-table** for completion of audit
  - **Advise** the other auditor of the significant accounting, auditing and reporting requirements
- **Not applicable** in case of:
  - Joint auditors
  - Using the work of predecessor auditor
  - Component being immaterial

- If the external auditor plans to use the work of the internal auditor, the external auditor shall discuss the **planned use of its work**
- The external auditor shall **read the reports** of the internal auditor to **obtain understanding of the nature and extent** of audit procedures it performed and the **related findings**
- If the external auditor uses the work of the internal auditor, the external auditor shall include in the audit documentation :
  - The **nature and extent** of the work used and the basis for that decision
  - The amount of **judgment involved** and the assessed risk of material misstatement
  - The level of **competence** of the internal auditor
  - Whether the internal auditor applies a systematic and disciplined approach, including quality control
  - The audit procedures performed by the external auditor to evaluate the adequacy of the work used



- Auditor's expert is an individual/organisation possessing expertise in a field **other than accounting or auditing** whose work is used by auditor in obtaining evidence
- The auditor has sole responsibility of his audit opinion, using the **auditor's expert does not reduce his responsibility**
- Auditor may accept the work of auditor's expert as evidence if he concludes that the work of auditor's expert is adequate
- Following evaluation to be done by the auditor
  - **Competence** and capabilities
  - Evaluating **Adequacy of Auditor's Expert's work**
- Example:
  - **Actuarial valuation**
  - Valuation of complex **financial instruments**
  - Valuation of **land and building**

# Ahuja Valecha



Associates LLP

Chartered Accountants

---

Thank You !!!

