

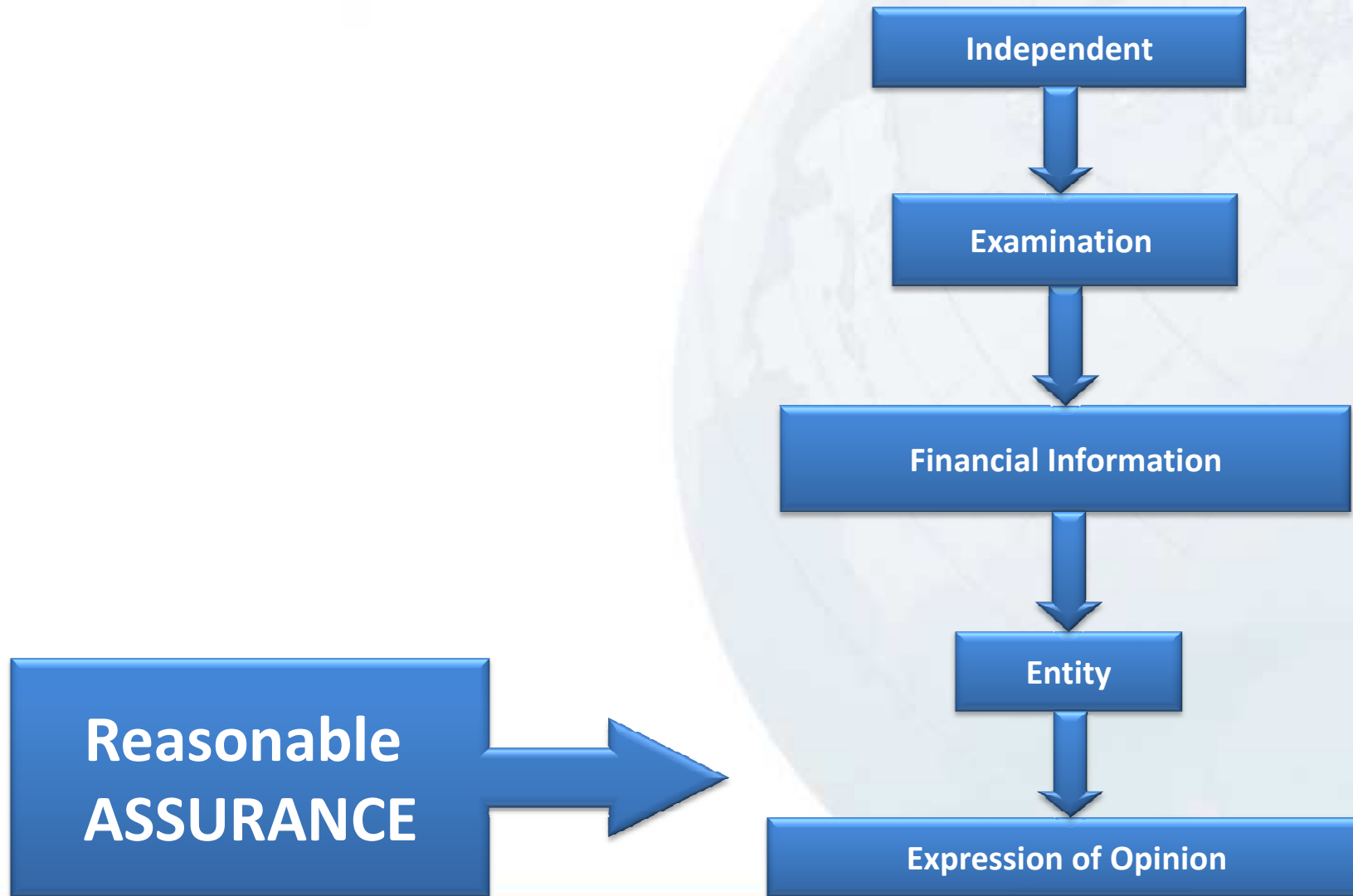
A photograph of a desk with a wooden surface. In the upper center, there is a glowing yellow lamp with a black base. To the right of the lamp is a small, round, yellow object on a glass base. In the foreground, there are several papers and books. A large, light-colored paper is spread out, with a pair of round glasses and a pen resting on it. To the left, there is a stack of books, including a brown one and a black one. The word "Auditing" is written in white, bold, sans-serif font in the upper left corner of the image.

Auditing

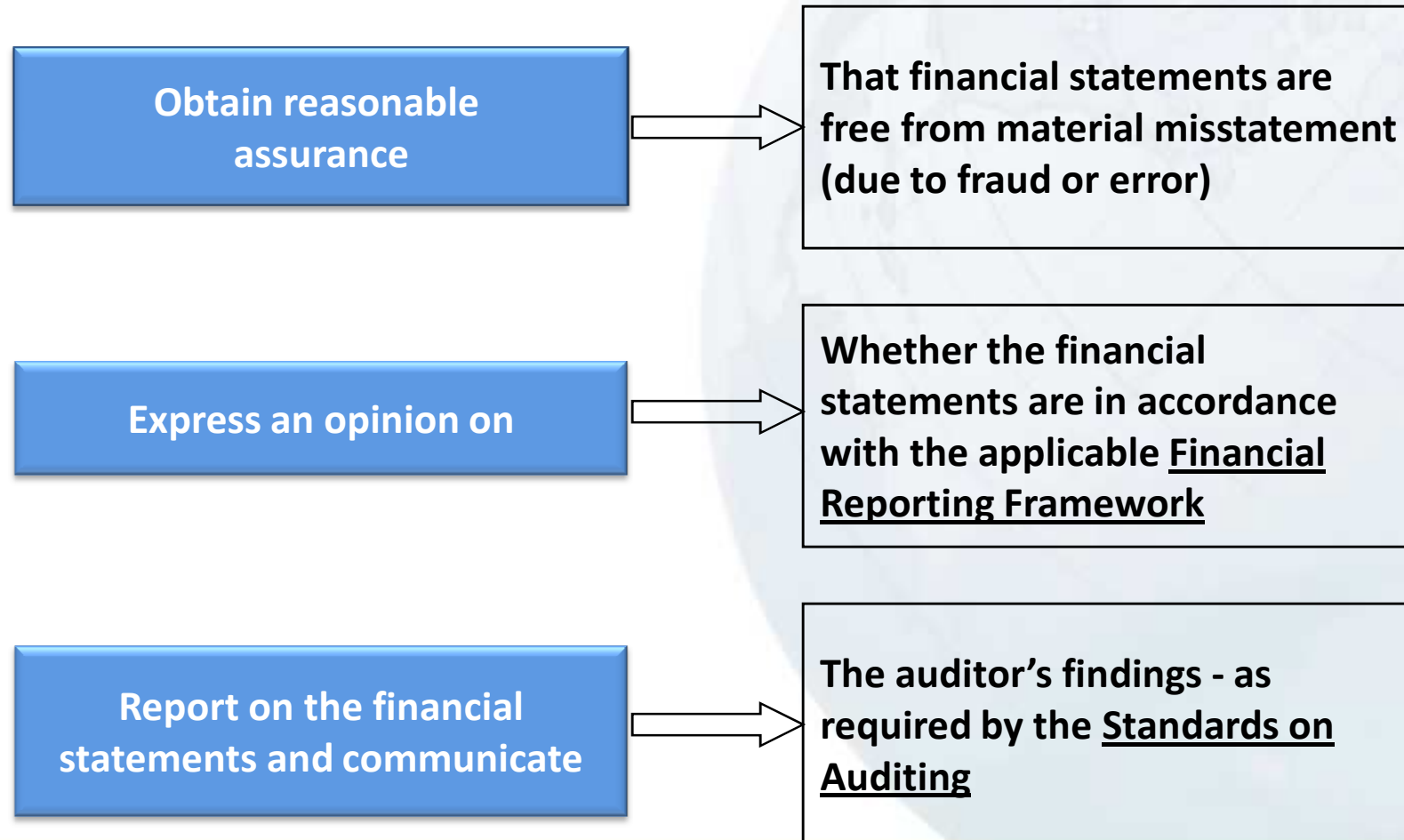
Standards on Auditing

CA Gautam V Shah

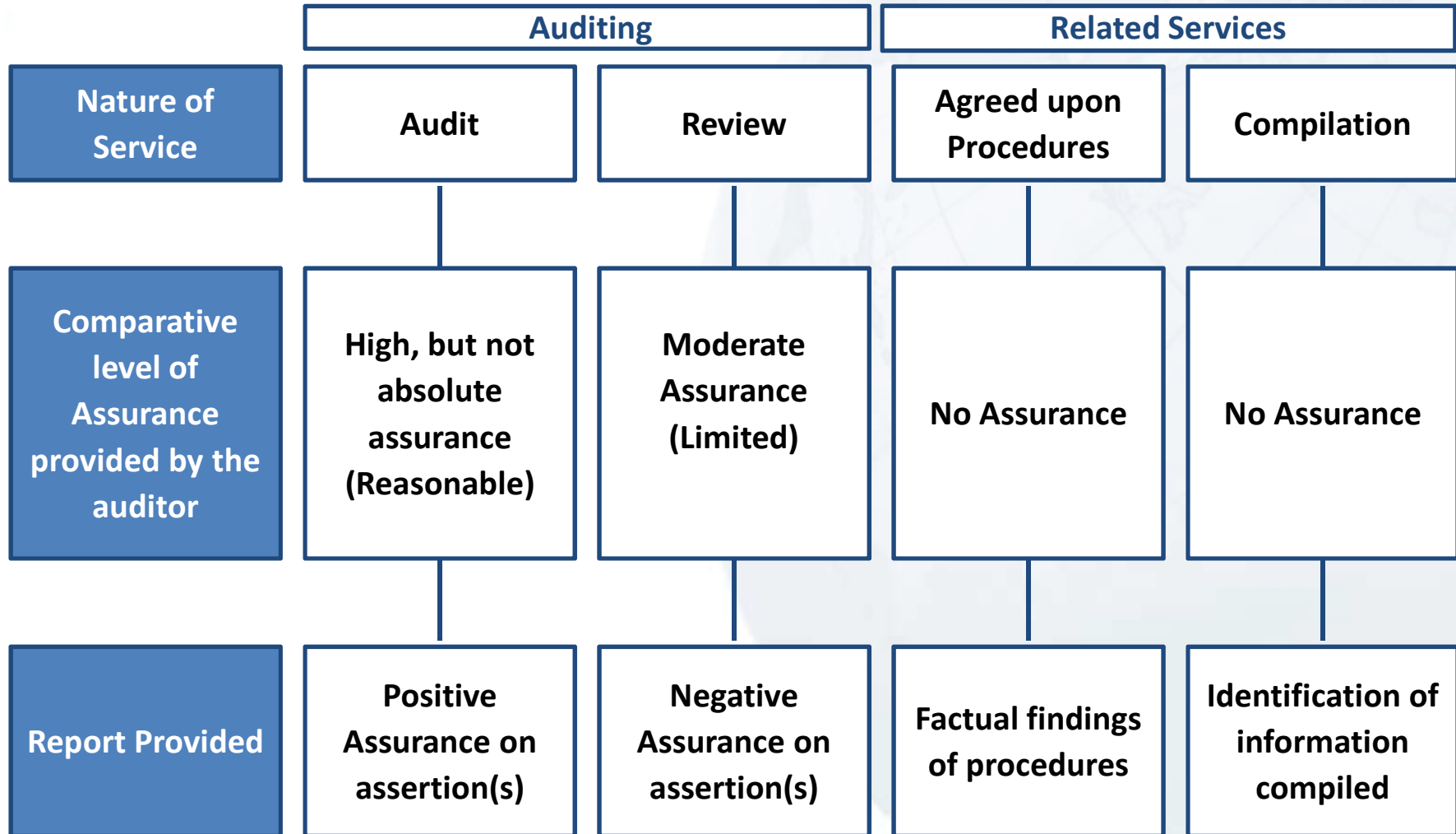
What is an Audit??



Overall Objectives of the Auditor



Assurance Level



Assurance Level

Standards

General Principles and Responsibilities

8 Standards: SA 200, SA 210, SA 220, SA 230, SA 240, SA 250, SA 260, SA 265, SA 299

Risk Assessment and Response to Assessed Risks

6 Standards: SA 300, SA 315, SA 320, SA 330, SA 402, SA 450

Audit Evidence

11 Standards: SA 500, SA 501, SA 505, SA 510, SA 520, SA 530, SA 540, SA 550, SA 560, SA 570, SA 580

Using work of Others

3 Standards: SA 600, SA 610, SA 620

Audit Conclusion and reporting

5 Standards: SA 700, SA 705, SA 706, SA 710, SA 720

Specialised Areas

3 Standards: SA 800, SA 805, SA 810

Renumbering of Standards

Category	No. Series
SQC's	01-99
Introductory Matters	100-199
General Principles & Responsibility	200-299
Risk Assessment & Responses to Risk assessed	300-499
Audit Evidence	500-599
Using work of others	600-699
Audit Conclusion & reporting	700-799
Specialised Areas	800-899
SRE's	2000-2699
SAE's	3000-3399
Subject Specific Standards	3400-3699
SRS's	4000-4699



SA 610 R (AAS 7)
Using the work of Internal Auditors
(w.e.f. April 1, 2010)

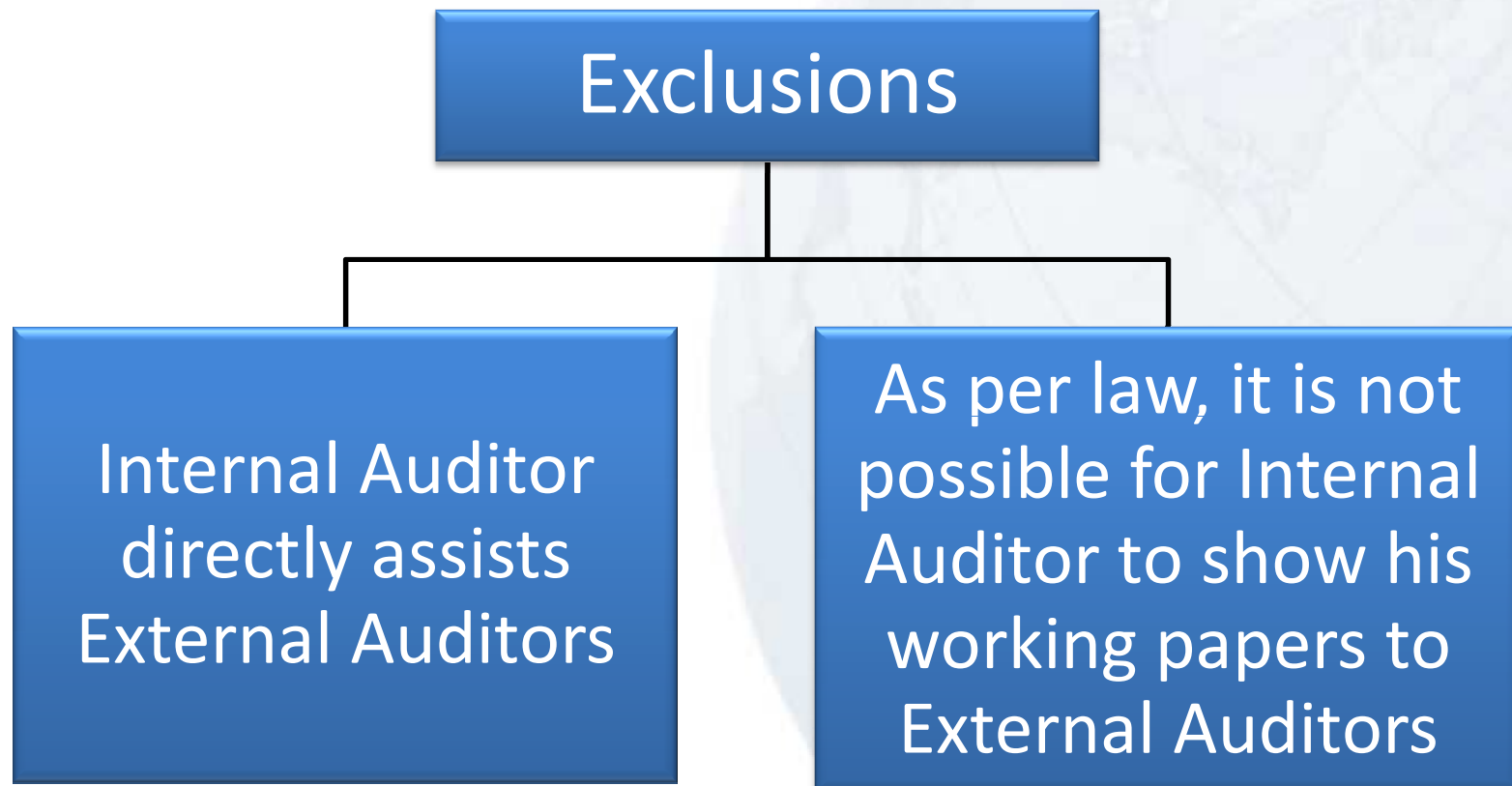
Scope of SA 610

Applicability

Deals with the **external auditor's responsibilities:**

- regarding the work of internal auditors
- when the external auditor has determined, in accordance with SA 315 - *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*
- that internal audit function is likely to be relevant to the audit

Scope of SA 610



Internal Audit

SIA framework defines

- An independent management function
- which involves a continuous and critical appraisal of the functioning of an entity
- with a view to suggest improvements thereto and add value to and strengthen
- the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.

Internal Audit

- **Role and objectives** of internal audit are determined by **management** and/or Those charged with **governance**
- **Objectives** of internal audit and external audit are **different** but some of the **ways** of achieving objectives may be **similar**
- Internal audit function may include the following:
 - Monitoring of internal control
 - Examination of financial and operating information
 - Review of operating activities
 - Review of compliance with laws and regulations
 - Risk management

Objectives of SA 610

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

However, **external auditor** has **sole responsibility** for audit opinion, and that responsibility is not reduced by use of work of internal auditors

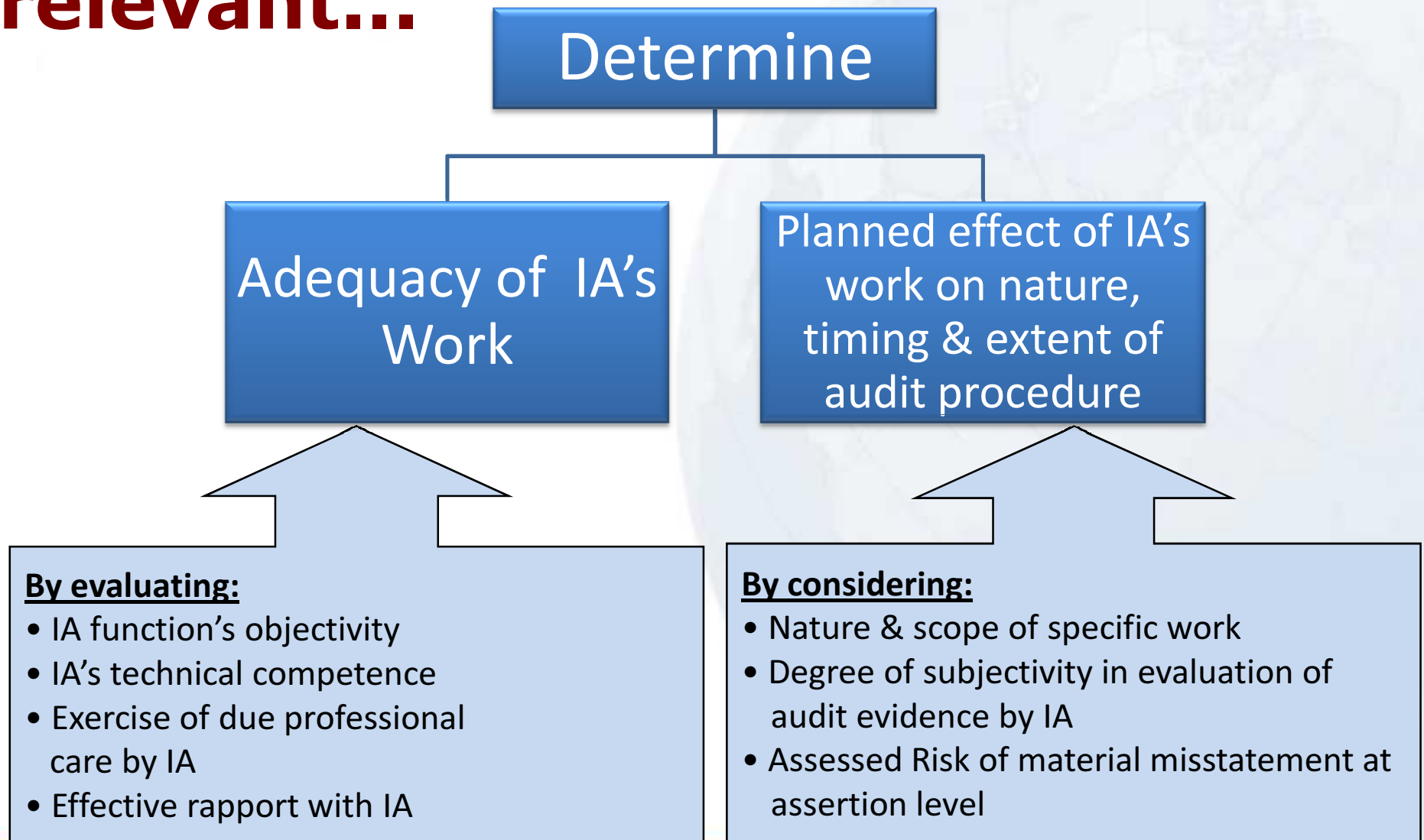


Responsibility

Determining whether and to what Extent to Use the Work of the Internal Auditors



If the internal audit function is relevant...



Using Specific Work of the Internal Auditors

External Auditor should test the work of Internal auditor to determine whether it is adequate by considering:

- Technical Training & proficiency of the internal auditor
- Supervisions, Reviews and Documentation of Internal Auditor
- Adequacy of Evidences obtained by Internal Auditor
- Appropriateness of conclusions reached and reports issued in that regard
- Whether inconsistencies pointed out by Internal auditor have been resolved

Documentation

When the external auditor uses specific work of the internal auditors, the external auditor shall document :

- Conclusions regarding the evaluation of the adequacy of the work of the internal auditors, and
- The audit procedures performed by the external auditor on that work
- It may be useful to agree in advance upon the following matters with the internal auditors:
 - >> Timing, extent or coverage
 - >> Materiality for particular classes of transactions
 - >> Methods of item selection
 - >> Documentation and review/reporting procedures

EAC Opinion

Whether the professional responsibility of a fellow member as an internal auditor of a company is confined to his employer only?

EAC opinion

The committee notes that in the 'Guidance Note on Co-ordination Between the Internal Auditor and Statutory Auditor' issued by ICAI, it has been stated that ' the internal auditor being appointed by the management, his reporting responsibility is confined to different levels of management. He is neither obliged nor free to report to outsiders' and that the extent of work undertaken by the Internal Auditor is determined by the management

EAC Opinion

If the answer to the previous question is in affirmative, how is it consistent with the rule that a member of the Institute in discharging professional duty will be entitled to rely on the work of a fellow member?

EAC opinion

The Committee is of the view that though the statutory auditor can rely on the work performed by the internal auditor, he continues to be responsible to the shareholders. Para 7 of the Guidance Note states 'In spite of close co-operation and co-ordination between the Internal and the Statutory Auditors, the ultimate responsibility for reporting on financial statements is that of the Statutory auditors and he cannot under any pretext take shelter on the plea that he relied blindly on the work of the Internal Auditor



SA 720

Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements

(w.e.f. April 1, 2010)

Scope

- Deals with the auditor's responsibility in relation to **other information (OI)** in **documents containing audited financial statements** and the auditor's report thereon
- Unless **specifically required by an engagement**, auditor's opinion doesn't cover OI and thus auditor has no responsibility to determine whether OI is properly stated; but
- Auditor **reads** the OI because the credibility of the audited financial statements may be undermined by **material inconsistencies** between the audited financial statements and other information

Objectives

The objective of the auditor is to respond appropriately

- When the documents containing audited financial statements and the auditor's report thereon include other information;
- that could **undermine the credibility** of those financial statements and the auditor's report



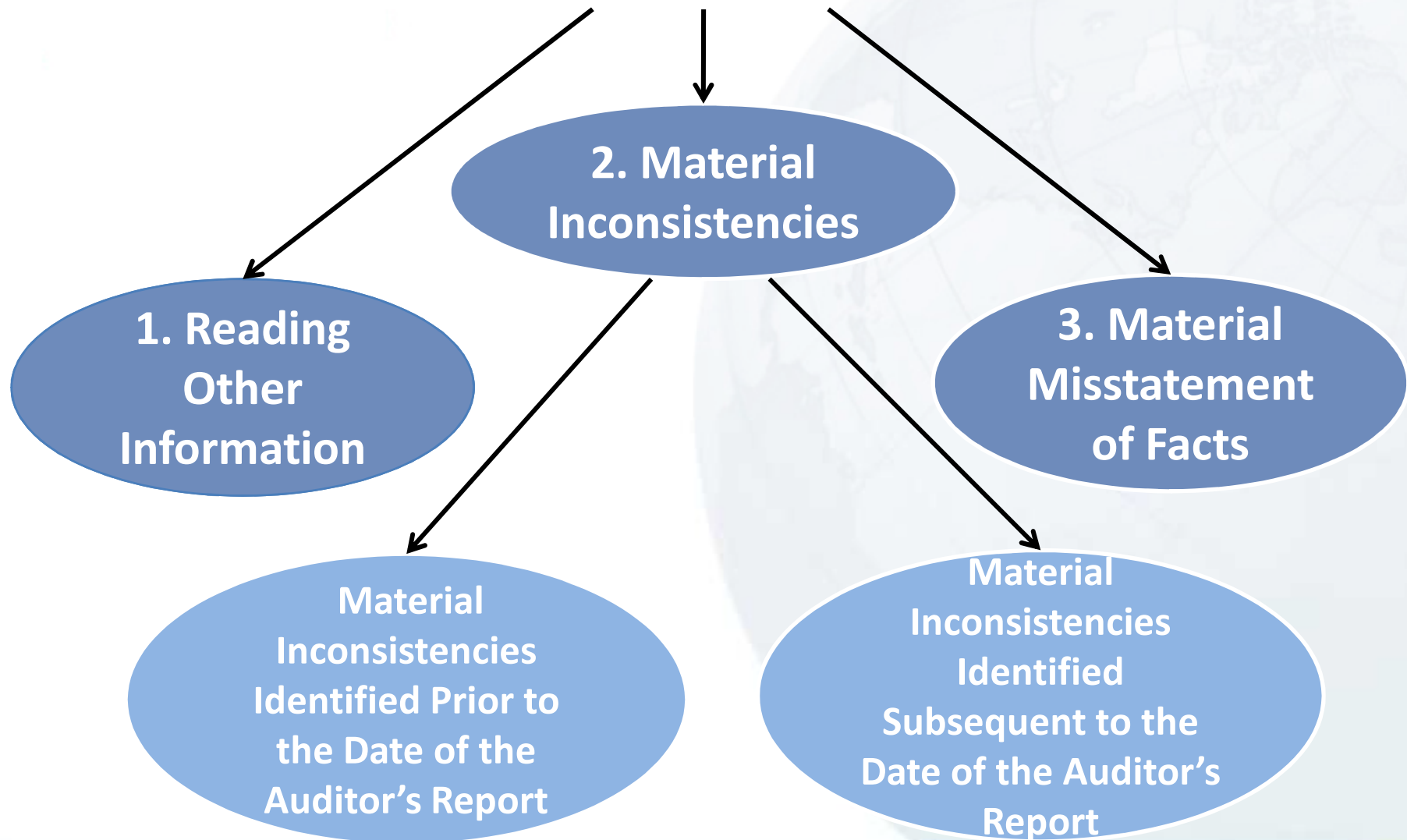
Definitions

Other information – Financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon

Inconsistency – Other information that contradicts information contained in the audited financial statements.

Misstatement of fact – Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements

Requirements of SA



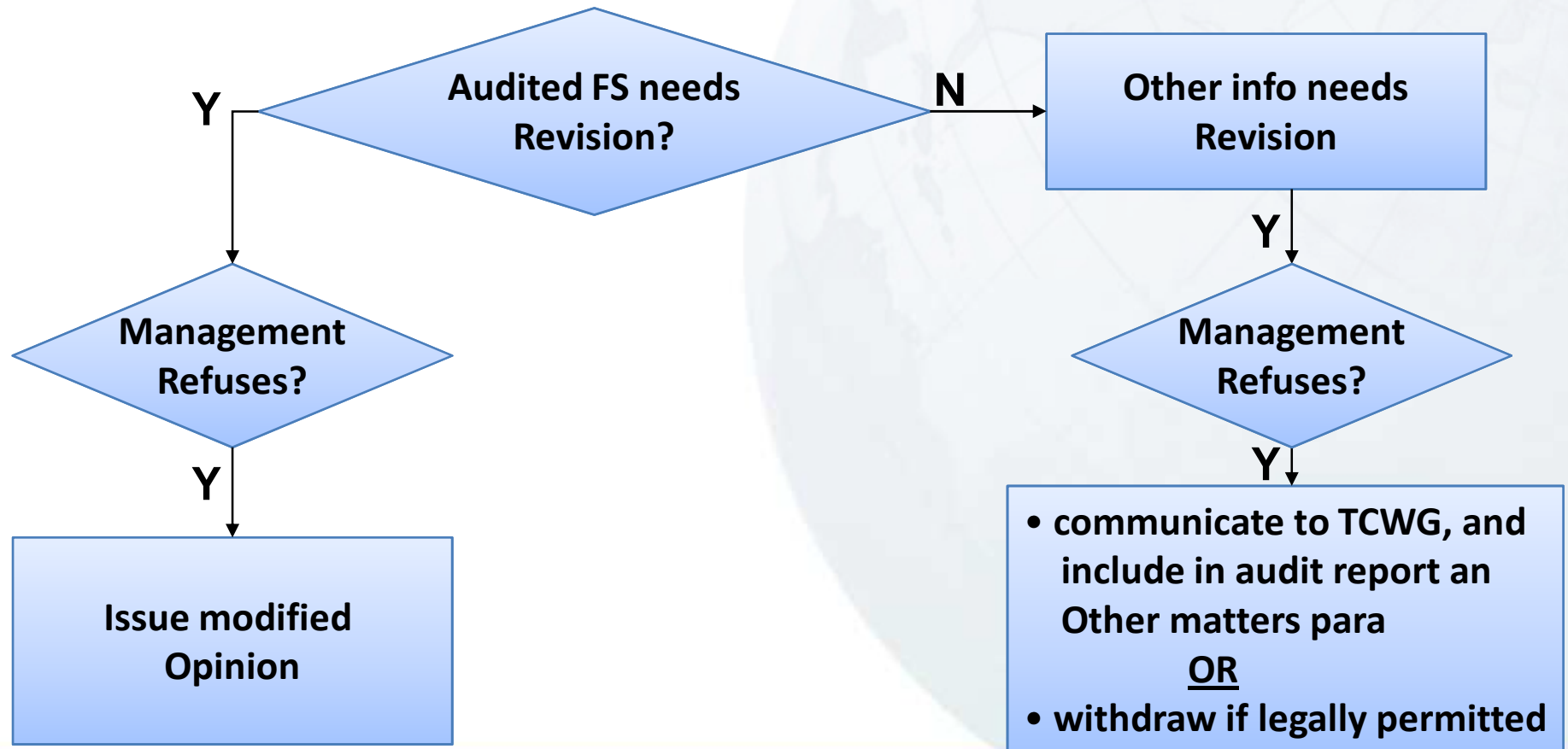
Reading Other Information

- Read the other information to identify **material inconsistencies**, if any, with the audited financial statements
- Auditor shall make appropriate arrangements to obtain the other information **prior to the date of the auditor's report** which, helps in timely resolution of possible material inconsistency
- If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable



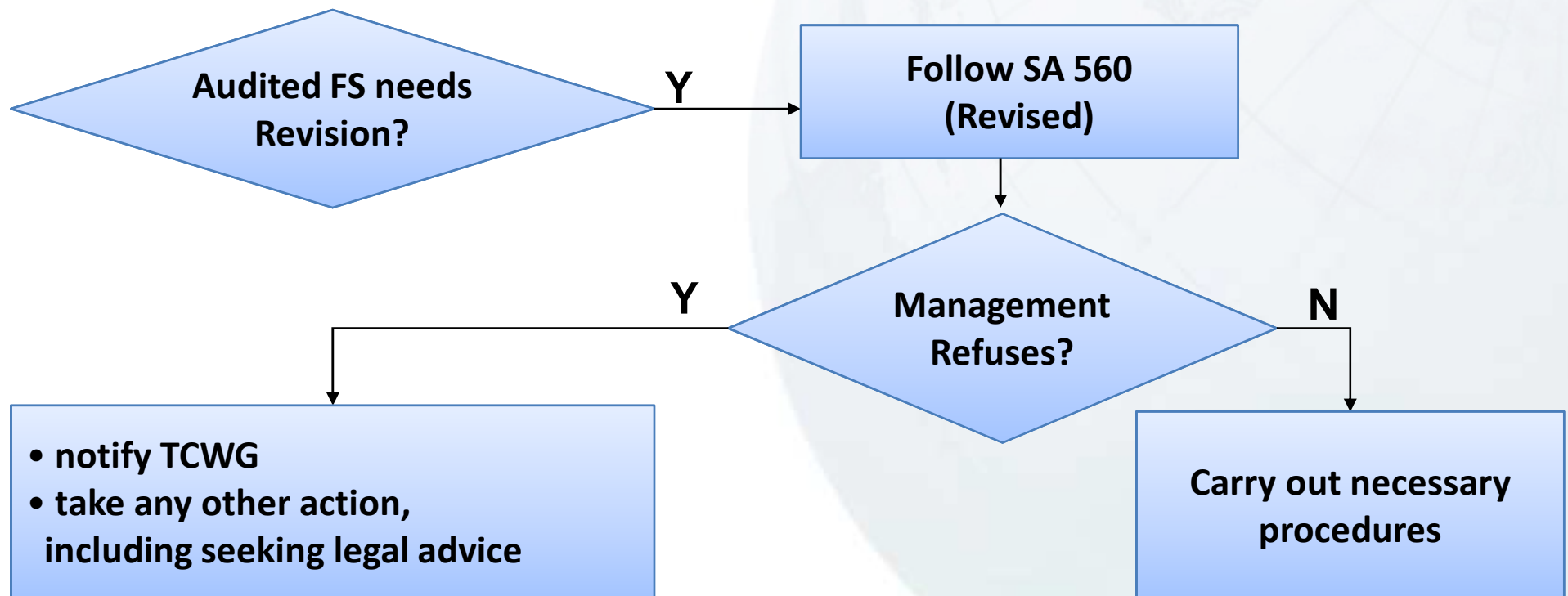
Material Inconsistencies Identified in Other Information

Prior to the Date of Auditor's Report



Material Inconsistencies Identified in Other Information

Subsequent to the Date of the Auditor's Report



Material Misstatement of Facts

- If the auditor becomes aware of an apparent material misstatement of fact, the auditor shall **discuss the matter with management**
- If the auditor is not satisfied with such discussions, the auditor shall request management **to consult with a qualified third party**, such as the entity's legal counsel, and the auditor shall consider the advice received
- If management refuses to correct the material misstatement of fact in the other information, the auditor **shall notify those charged with governance** of the auditor's concern regarding the other information and take any further appropriate action

Report on Revised FS

Relevant Pronouncements

- ICAI GN on Audit Report on Revised Accounts of companies before circulation to shareholders (December 1979)
- ICAI GN on Revision / Rectification of Financial Statements (February 1985)
- MCA circular of 1/2003 dated January 13, 2003
- ICAI GN on Revision in Audit Report (January 2003)
- MCA circular 5/2010 dated November 22, 2010
- SA 560R (Para 10 to 17)



SA 710R (AAS 25)

Comparative Information – Corresponding Figures and Comparative Financial Statements

(w.e.f. April 1, 2011)

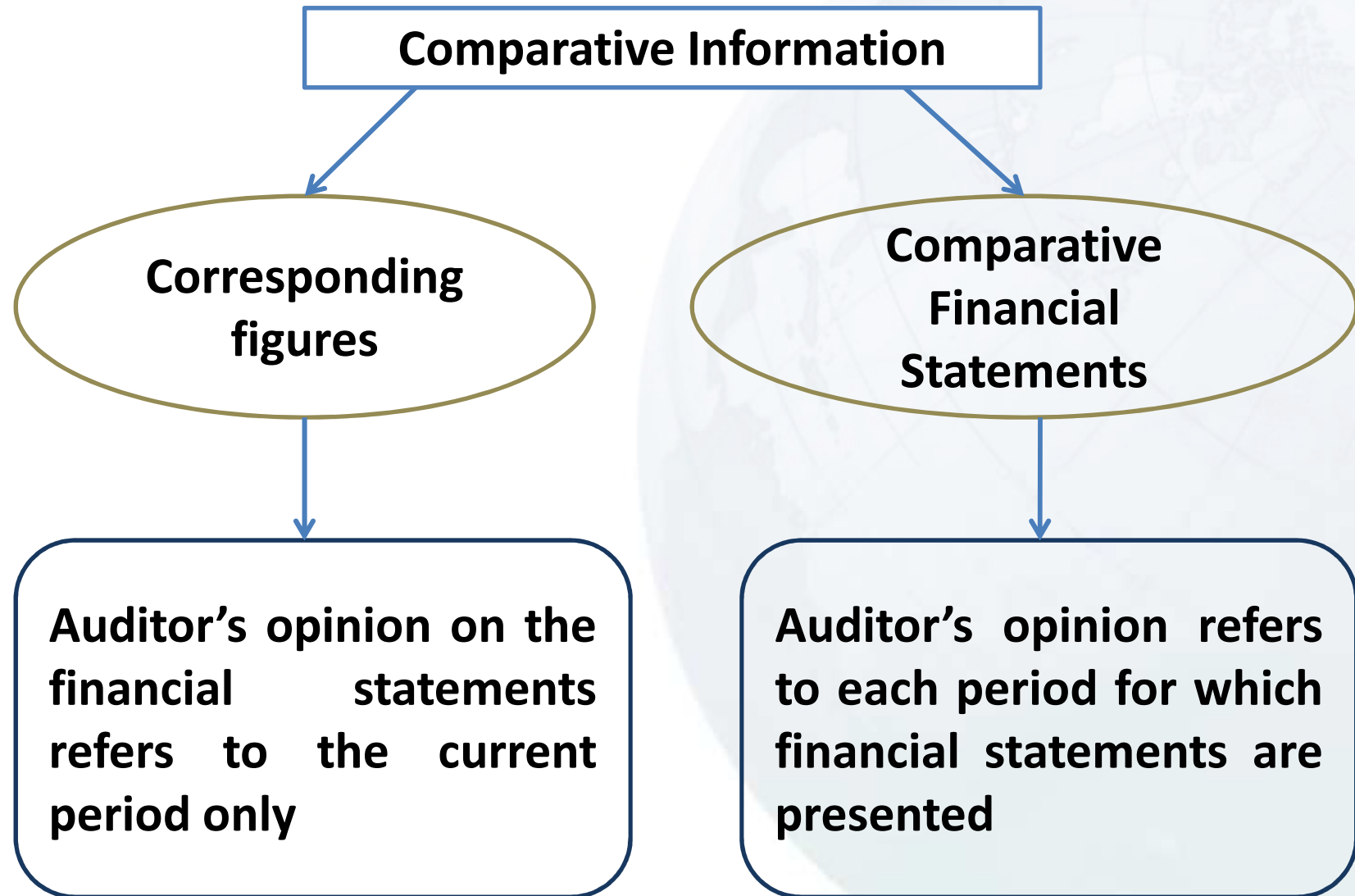
Scope of SA 710

- Auditor's responsibilities regarding **comparative information** in an audit of financial statements
- When the prior period financial statements have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510(R) - *Initial Engagements - Opening Balances* regarding opening balances also apply

Nature of Comparative Information

It is presented in an entity's financial statements depending on the requirements of the **applicable financial reporting framework**

Two Different Broad Approaches



Definitions

Comparative information – The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework

Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period.

Definition

Comparative financial statements – Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor’s opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.

For purposes of this SA, references to “prior period” should be read as “prior periods” when the comparative information includes amounts and disclosures for more than one period.

Objectives

The objectives of the auditor are:

- To obtain **sufficient appropriate audit evidence** about whether the comparative information included in the financial statements has been presented, in all material respects in accordance with the requirements for comparative information in the applicable financial reporting framework; and
- To **report** in accordance with the auditor's reporting responsibilities

Requirements - Audit Procedure

1. Evaluate whether:

- a) The comparative information **agrees with** the amounts and other disclosures presented in the prior period; and
- b) The **accounting policies** reflected in the comparative information are consistent with those applied in the current period
- c) Changes, if any, in accounting policies have been properly accounted for and adequately presented and disclosed

Requirements - Audit Procedure

2. Perform Additional Audit Procedures:

- a) If there is a **possible material misstatement** in the comparative information, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence
- b) If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560R - Subsequent Events

Requirements - Audit Procedure

3. Written Representations:

- a) As required by SA 580(R) - *Representations by Management*, the auditor shall request written representations for **all periods** referred to in the auditor's opinion
- b) The auditor shall also obtain a specific written representation regarding any **prior period item** that is separately disclosed in the current year's statement of profit and loss

Audit Reporting

A. CORRESPONDING FIGURES

Auditor's opinions refers to current period only and **shall not** refer to the corresponding figures except:

- When Auditor's report in prior period financial statements was modified and the subject matter is still unresolved – **Modify opinion on current period's financial statements**
- When auditor obtains audit evidence wrt existence of material misstatement in prior period financial statements on which unmodified opinion was issued, and misstatement has not been dealt as required by applicable financial reporting framework – **Qualified/ Adverse opinion on current financial statements wrt Corresponding figures**

Audit Reporting

B. COMPARATIVE FINANCIAL STATEMENTS

- Auditor's opinion shall **refer to each period** for which financial statements are presented and on which an audit opinion is expressed
- If the auditor's **opinion on prior period financial statements differs from the relevant previous opinion**, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706

Audit Reporting

C.1 PRIOR PERIOD FINANCIAL STATEMENTS AUDITED BY A PREDECESSOR AUDITOR

The auditor should state in other matter para:

- that the financial statements of the prior period were audited by a predecessor auditor;
- the type of opinion expressed by him (reasons for modifications, if any);
- the date of that report

Audit Reporting

C.1 PRIOR PERIOD FINANCIAL STATEMENTS AUDITED BY A PREDECESSOR AUDITOR

Incase of Comparative financial statements,

- The reporting requirement can be done away with, if the auditor's report on the prior period's financial statements is revised with the financial statements
- If the auditor concludes that material misstatement exists in prior period financial statements on which unqualified opinion was issued, and upon communication with the management, the predecessor auditor agrees to issue a new report, the auditor shall report only on the current period.

Audit Reporting

C.2 PRIOR PERIOD FINANCIAL STATEMENTS NOT AUDITED

- The auditor shall state in an Other Matter that the corresponding figures are unaudited
- Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements

Illustration 1

- The auditor's report on the prior period, as previously issued, included a qualified opinion. The matter giving rise to the modification is unresolved and impact in current period is also material

The following should be included:

Basis for Qualified Opinion

“As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which constitutes a departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 (“the Act”). This is the result of a decision taken by management at the start of the

Illustration 1 (Contd)

preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year”

“Based on the straight-line method of depreciation and annual Rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by Rs.XXX in 20X1 and Rs.XXX in 20X0, property, plant and equipment should be reduced by accumulated depreciation of Rs.XXX in 20X1 and Rs.XXX in 20X0, and the accumulated loss should be increased by Rs.XXX in 20X1 and Rs.XXX in 20X0.”

Illustration 2

- The prior period's financial statements were audited by a predecessor auditor. The auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so

The following should be included in 'Other Matters' para in the audit report:

"The financial statements of the Company for the year ended March 31, 20X1, were audited by another auditor who expressed an unmodified opinion on those statements on June 30, 20X1"

Questions ?





Thank You

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