

SA 200 – 299

General Principles and Responsibilities

CA. KEDAR MEHENDALE
PARTNER
GOKHALE & SATHE

An Overview of Engagement and Quality Control Standards

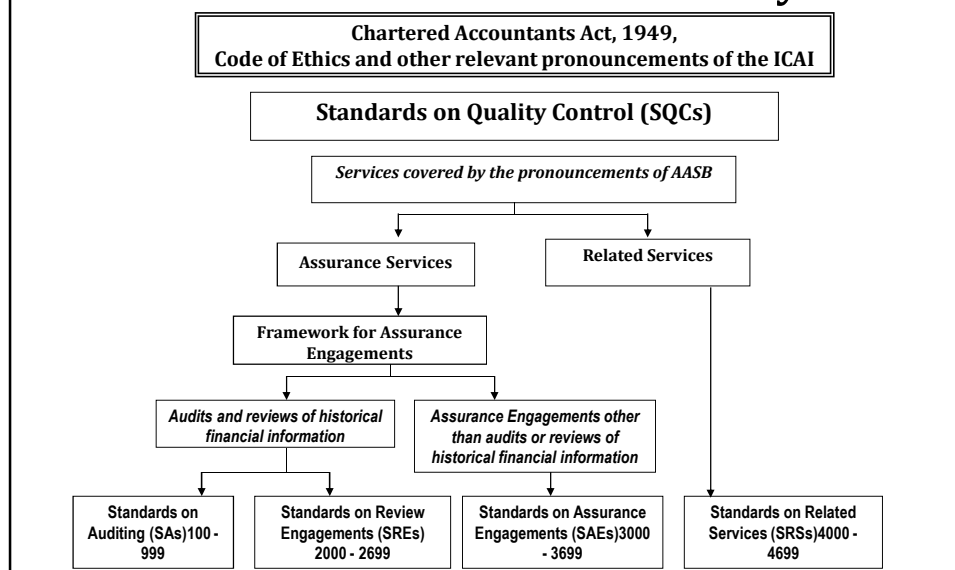
- Authority and Preface
- Standard on Quality Control (SQC)
- Framework for Assurance Engagement
- Engagement Standards
 - **Standards on Auditing - 100 - 999**
 - 100 – 199: Introductory Matters
 - 200 - 299: General Principles & Responsibilities
 - 300 – 499: Risk Assessment & Response to Assessed Risks
 - 500 – 599: Audit Evidence
 - 600 – 699: Using Work of Others
 - 700 – 799: Audit Conclusions & Reporting
 - 800 – 899: Specialised Areas

CA Kedar Mehendale

- **Standards on Review Engagements (SREs) 2000 – 2699:**
 - 2400: Engagements to Review Financial Statements
 - 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity
- **Standards on Assurance Engagements (SAEs) 3000 – 3699:**
 - 3000–3399: Applicable to all assurance engagements
 - 3400–3699: Subject Specific Standards
 - 3400: The Examination of Prospective Financial Information
 - 3402: Assurance Reports on controls at a service Organisation
- **Standards on Related Services (SRSs) - 4400 – 4699:**
 - 4400: Engagements to Perform Agree upon Procedures regarding Financial Information
 - 4410: Engagements to Compile Financial Information

CA Kedar Mehendale

Structure of Standards issued by AASB



Overview of Framework for Assurance Engagement

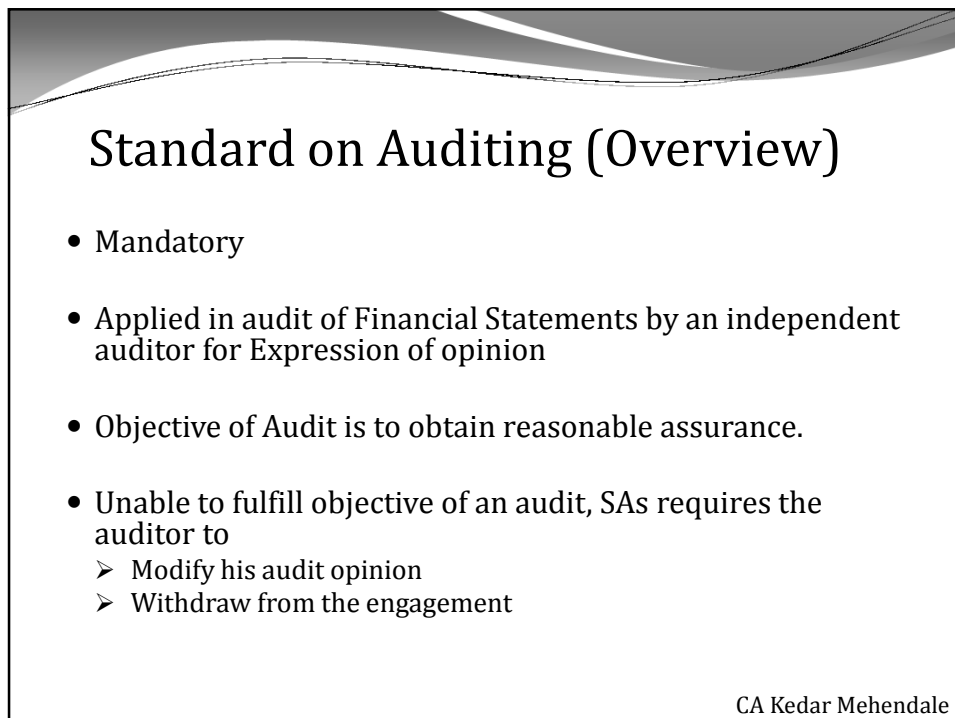
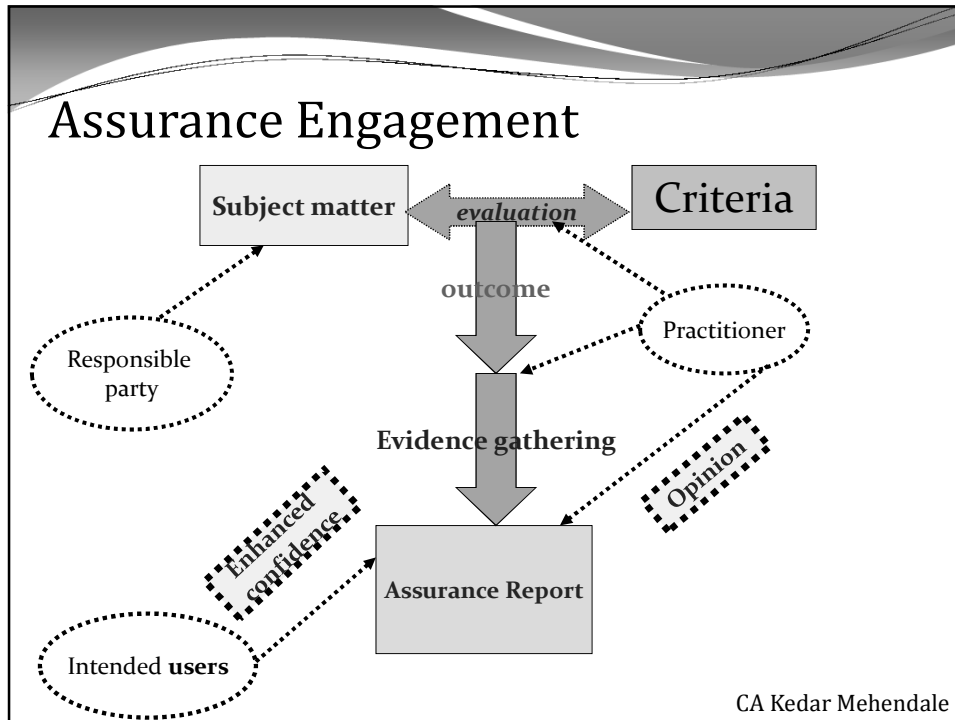
- This deals with assurance engagement performed by practitioners.
- Defines Two types Assurance engagements
 - Reasonable assurance engagement
 - Limited assurance engagement
- Identifies objectives of two types of Assurance engagements (*+ve & -ve form of assurance*)
- Distinguishes assurance engagements from other engagement
- Defines Element of assurance engagement

CA Kedar Mehendale

Element of assurance engagement

- Three Party Relationship
 - Practitioner
 - Responsible party
 - Intended users
- Subject Matter
 - Financial
 - Non-financial
- Criteria
 - Accounting standard
 - Established internal control framework
- Evidence - Sufficient and Appropriate, Quality, Quantity, materiality etc
- Assurance Report – Qualified Opinion, Adverse Opinion, Disclaimer of Opinion

CA Kedar Mehendale

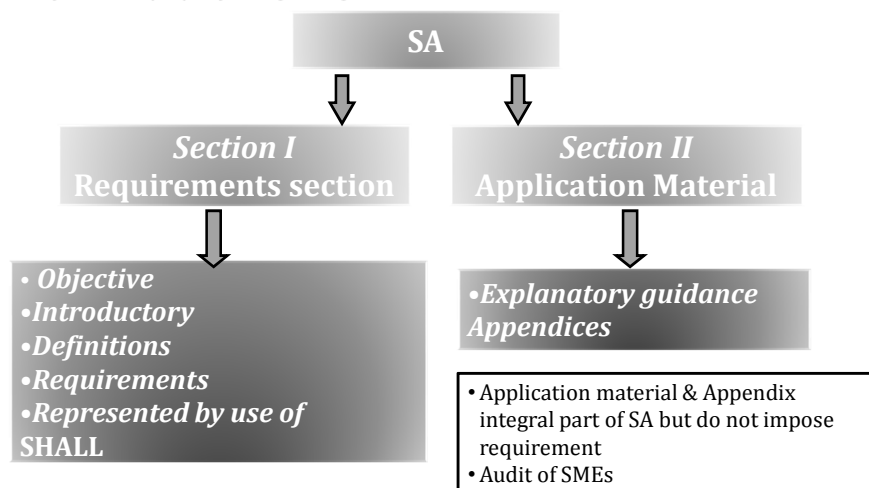


Other Significant Aspects


- Compliance with SAs
 - Departure only if alternate audit procedures achieve objective of SAs
 - Document reasons for departure
 - Document alternative procedures
 - Report to draw attention
- SA not applicable if situation outlined in SA is absent.
 - Document alternative procedures performed

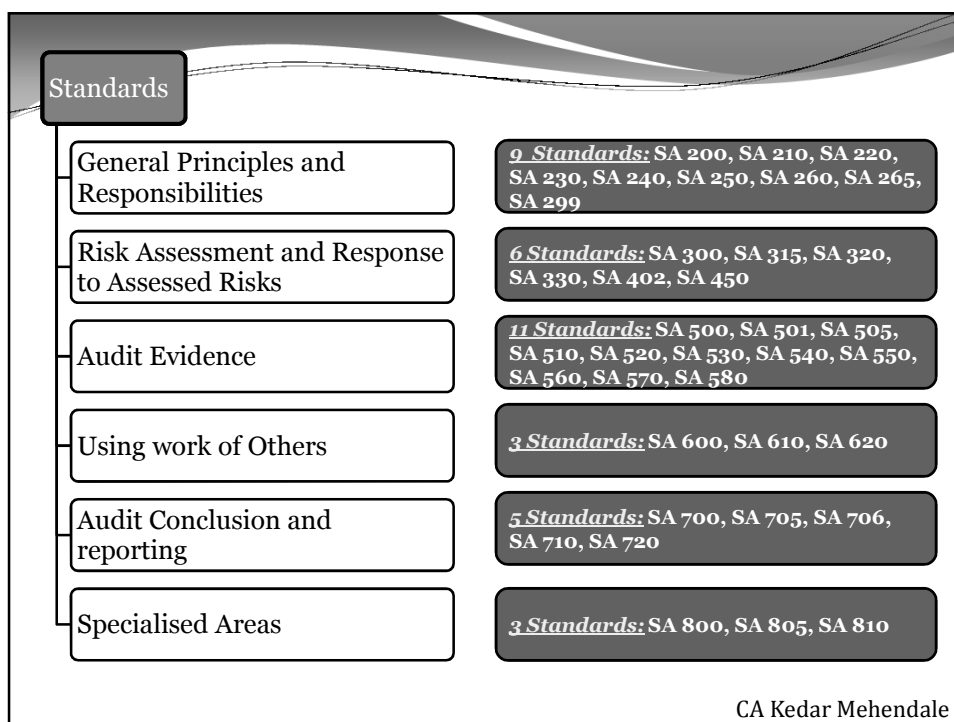
CA Kedar Mehendale

Format of SAs



CA Kedar Mehendale

 THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA (A statutory body established under an Act of Parliament)	
Overview Departments Members Students Industry Resources FAQs	
Documents Issued	Nos
Quality Control Standard	01
Standards on Auditing	37
Standards on Review Engagements	02
Standards on Assurance Engagements	02
Standards on Related Services	02
Statements on Auditing	02
Guidance Note –Generic	30
Guidance Note-Industry Specific	04
Implementation Guides	08
Technical Guide	06
Studies	02
Others	05
Total	101



New Standard Number (SA)	Standards on Auditing (SAs)	Published in Journal	Date from which effective	
			April 1, 2010	April, 2011
200	Overall objectives of the Independent Auditor and the Conduct of an Audit in accordance with standards on Auditing	March 2010	✓	
210	Agreeing the Terms of Audit Engagement	September 2009	✓	
220	Quality control for an Audit of Financial Statements	March 2010	✓	
230	Audit Documentation	January 2009	✓	
240	The Auditor's Responsibilities Relating to Fraud in an audit of Financial Statements	December 2007	✓	
250	Consideration of Laws and Regulation in an Audit of Financial Statement	December 2008	✓	
260	Communication with Those Charged with Governance	December 2008	✓	
265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	December 2009		✓
299	Responsibility of Joint Auditors		For all periods beginning on or after April, 1996	

SA 200 – Overall objective of the Independent Audit and the conduct of an audit in accordance with Standard on Auditing

Objective of the standard

- Overall objective of independent auditor
- Establishes Independent auditors overall responsibilities

CA Kedar Mehendale

Overall objective of Auditor

- Obtain reasonable assurance about whether financial statements are free from material misstatement
- Report on financial statements in accordance with auditors findings

CA Kedar Mehendale

Premises on which Audit is conducted - Responsibilities

Management	Auditor
<ul style="list-style-type: none"> ▪ Preparation of the financial statements. ▪ Maintenance of adequate accounting records ▪ Maintenance of adequate internal controls ▪ Selection and application of accounting policies ▪ Safeguarding of assets of the enterprise ▪ Provide Auditor with all information, unrestricted access ▪ Audit of financial statement does not relieve management of its responsibilities. 	<ul style="list-style-type: none"> ▪ Independent examination of records. ▪ Expressing an opinion on financial statement

CA Kedar Mehendale

Requirement

- Ethical Requirements
- Professional Skepticism
- Professional Judgment
- Sufficient Appropriate Audit Evidence and Audit Risk
- Conduct of an Audit in Accordance with SAs
 - Complying with SAs relevant to the Audit
 - Shall use the objectives stated in SA in planning and performing the audit
 - Comply with relevant requirements of SA

CA Kedar Mehendale

Requirement – Ethical Requirement

- Ethical requirements
 - Integrity
 - Objectivity
 - Due care
 - Confidentiality
 - Professional behavior

CA Kedar Mehendale

Requirement - Professional Skepticism

- Being alert to
 - For audit evidence that contradicts other
 - For reliability of documents and responses to inquiries
 - For possible fraud
 - For circumstances that need additional audit procedures
- Maintenance skepticism throughout the audit
- Not expected to disregard past experience of the honesty and integrity of entity's management

CA Kedar Mehendale

Requirement - Professional Judgment

- Materiality and Audit Risk
- Nature timing and extent of audit procedure
- Evaluating whether sufficient appropriate audit evidence has been obtained, or more needs to be done to achieve.
- Drawing of conclusions based on the audit evidence obtained.
- Need to be exercised throughout the audit.

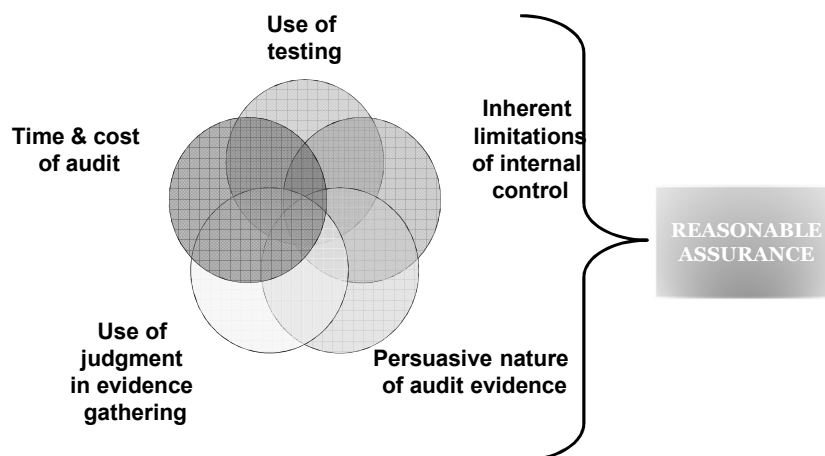
CA Kedar Mehendale

Requirement - Sufficient Appropriate Audit Evidence and Audit Risk

- Audit is matter of professional judgment rather than a matter of capable of precise measurement
- Risk exist at two levels
 - The overall financial statement level – Material Misstatement
 - The assertion level for class of transaction, account balance and disclosure.
 - Inherent Risk
 - Control Risk
 - Detection Risk

CA Kedar Mehendale

Inherent Limitations of Audit



Requirement - Conduct of an Audit in Accordance with SAs

- **Auditor Shall**

- Comply with all SA relevant to the Audit
- Have understanding of the entire text of an SA – application guidance / explanatory material / more specific requirement / explain procedure
- Achieve overall objective as well as objectives stated in Individual SAs
- Comply with relevant requirements
 - Explicit Requirement – Modify the auditors opinion if scope limitation SA 705
 - Implicit requirement
- Not represent compliance with SA in auditors report unless the auditor has complied with the requirements

CA Kedar Mehendale

Failure to Achieve an objective

- The auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor, if yes
 - modify the auditors opinion
 - or withdraw from the engagement.

CA Kedar Mehendale

SA 210 – Agreeing the Terms of Audit Engagement

Objective of the standard

- Auditor and client should agree on terms of engagement.
- Agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract

CA Kedar Mehendale

Objective

- Auditor is to accept or continue audit engagement only when the basis upon which it is to be performed has agreed through
 - Establishing that preconditions for an audit are present
 - Confirmed the common understanding between Auditor and management

CA Kedar Mehendale

Requirement

- Precondition for audit are present
- Agreement on Audit Engagement Terms
- If recurring audit – Acceptance of change in terms of the audit engagement
- Additional consideration
 - for Financial reporting Standards supplemented by law and regulation (eg. Auditing Standards)

CA Kedar Mehendale

Requirement - Precondition for audit are present

- Whether financial reporting framework to be applied is acceptable
- Obtained an agreement that management acknowledges and understand its responsibilities
 - For preparation of financial statement
 - For Internal controls
 - For providing access to all information
 - For providing unrestricted access to persons within entity
- Don't accept engagement if
 - Scope limitation
 - Preconditions for audit are not present
 - Financial reporting framework is unacceptable
 - If agreed terms has not been obtained.

CA Kedar Mehendale

Requirement – Agreement on Audit Engagement Terms

- Agree the terms of an engagement with management
- Should be recorded in suitable form
 - Objective and scope of audit
 - Responsibilities of auditor
 - Responsibilities of management
 - Expected form and content of an audit report to be issued
 - Applicability of law and regulation

CA Kedar Mehendale

Audit Engagement Letter (AEL)

- Auditor should send preferably before commencement of audit, to help avoid any misunderstandings Should be recorded in suitable form.
- Should be acknowledged by client.
- Principal Contents (may vary for each client)
 - Scope of Audit
 - Objective
 - Responsibility of Auditor
 - Inherent limitations of audit
 - Management's responsibilities
 - Unrestricted access to records
 - Expectation of receiving from management written representations.
 - Audit process subject to Peer review

CA Kedar Mehendale

AEL...

- Fee computation basis and billing arrangements
- Deliverable list – Letters/Reports to be issued to client.
- Arrangements for planning of audit.
- Arrangement concerning involvement of other auditors/ experts/ predecessor auditor/internal auditor etc.
- Any restriction on auditor's liability when such possibility exists.

CA Kedar Mehendale

Recurring Audits

- Consider need for revision of the terms of engagement and need to remind the client of the existing terms of engagement.
- New engagement letter when Arrangements for planning of audit.
 - Change in senior management/BOD/ownership.
 - Significant change in nature or size of client's business.
 - Misunderstanding by client of objective and scope of audit.
 - Legal requirements or pronouncements of ICAI, or changes in the existing ones.
 - Any revised or special terms of engagement

CA Kedar Mehendale

SA - 220 Quality Control for an Audit of Financial Statement

Objective of Standard

- To implement quality control procedure at engagement level so that
 1. Audit complies with Professional standards and regulatory and legal requirements
 2. The audit report issued is appropriate in the circumstances

CA Kedar Mehendale

Requirements

- Leadership for quality on Audit
- Relevant Ethical Requirements
 - Independence
- Assignment of Engagement Team
- Engagement Performance
 - Directors, Supervision and Performance
 - Review
 - Conclusions
 - Quality Control Review
 - Difference of opinion
- Monitoring
- Documentation

CA Kedar Mehendale

Requirement - Relevant Ethical Requirements

- Independence – Engagement Partner Shall
 - Obtain information that create threat to independence
 - Evaluate identified breach
 - Take action to eliminate such threats
(eg. Take declaration of independence from all partners)

CA Kedar Mehendale

Requirement – Assignment of Engagement Team

- Expertise in specialized area
- Understanding, Practical Experience
- Training
- Knowledge of relevant industries
- Ability to apply professional judgment

CA Kedar Mehendale

Requirement – Engagement Performance

Directors, Supervision, Performance

- Informing the members
 - Their responsibilities
 - Objective of work to be performed
 - Nature of entity business
 - Risk related issues
 - Approached for audit
- Teamwork & Training
- Tracking progress
- Identifying matters for consultation by more experienced team member

CA Kedar Mehendale

Review

- Partner shall satisfied that sufficient appropriate audit evidence has been obtained to support conclusions
 - Significant matter has been raised for further consideration
 - Need to review the timing & extent of work performed
 - Timely review to resolved the issue
 - Should document the extent and timing of review

Conclusion

- Engagement Partner shall take responsibility for conclusions
 - Take appropriate consultation (between team & Outside)
 - Conclusions resulting have been implemented.

CA Kedar Mehendale

SA – 230 Audit Documentation

- Objective of Standard
- The objective of the auditor is to prepare documentation that provides
 - Sufficient and appropriate record of the basis, for auditors report and
 - Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements

CA Kedar Mehendale

Requirements

- Timely Preparation of Audit Documentation
- Documentation of Audit procedure performed and Audit Evidence obtained
 - Form, content Extent of Audit Documentation
 - Matters Arising after the date of Auditors Report
- Assembly of Final Audit File

CA Kedar Mehendale

Requirement – Documentation

Form, Content, Extent of Audit Documentation

- Auditor Shall prepare audit document that is sufficient to understand
 - The nature, timing extent of audit procedure
 - Result of Audit procedure performed
 - Audit evidence obtained
 - Significant matters arising during the audit
 - Conclusions reached thereon
 - Professional Judgment made in reaching those conclusions

CA Kedar Mehendale

- Identification of specific items
- Matter tested
- Who performed the audit work
- Date of work completed
- Who review the audit work
- Extent of review
- Discussion of significant matters with management

Matters Arising after date of Auditors Report

- Circumstance encountered
- New or additional procedure performed
- Audit evidence obtained
- Conclusions reached
- When & by whom the resulting changes were made

CA Kedar Mehendale

Form & Contents depends on

- Size and complexity of entity
- Nature of audit procedure performed
- Significance of audit evidence
- Nature and extent of exceptions identified
- Audit methodology and tools used

Documentation includes

- Audit programmes
- Analyses
- Letter of confirmation & representation
- Checklists
- Correspondences (e-mail)
- Abstracts or copies of entity's records (agreements)
- Need not include superseded drafts

CA Kedar Mehendale

- *Audit documentation provides evidence that the audit complies with SA.*
- *However it is neither necessary nor practicable to document every matter considered, or judgment made, in an audit.*

Audit Document	Demonstrate
<i>Audit plan</i>	<i>Auditor has planned the audit</i>
<i>Signed engagement letter</i>	<i>auditors has agreed the terms of audit engagement</i>
<i>Qualified opinion</i>	<i>auditor has complied with requirement to express qualified opinion</i>
<i>Documentation</i>	<i>professional skepticism</i>
	<i>Engagement partner has taken responsibility for direction, supervision, monitoring</i>

CA Kedar Mehendale

Requirement – Assembly of Audit File

- Auditor Shall
 - Complete the administrative process on timely basis
 - Auditor shall not delete or discard audit documentation before the end of retention period (7 years)

CA Kedar Mehendale

SA - 250 Consideration of Law and Regulations in Audit of Financial Statements

- Objective of Standard
 - To obtain sufficient and appropriate evidence regarding compliance which have direct effect on amount and disclosure
 - To perform specified audit procedures to identify instances of non compliance with law
 - To respond appropriately to non compliance and suspected non compliance with law

CA Kedar Mehendale

Types of Laws & Regulation

- Which Has Direct effects – On determination of reported amounts and disclosures (Eg Companies Act, Income Tax Act, RBI Act, IRDA, MVAT, Service Tax etc.)
- Does not have direct effect - however noncompliance may result in fines, litigation etc. (Eg. PF act, Shop & establishment Act, etc.)

CA Kedar Mehendale

Responsibilities

Management	Auditors
<ul style="list-style-type: none"> ▪ Monitoring legal requirements ▪ System of Internal Controls ▪ Follow code of conduct ▪ Training of employees for understanding of code of conduct ▪ Compliance of code of conduct ▪ Engaging legal advisors ▪ Maintaining register of significant laws & regulations 	<ul style="list-style-type: none"> ▪ He may specifically required to report on compliance with certain provisions of law ▪ Specific Statutory reporting requirement to plan to include appropriate test of compliance with provision of law

CA Kedar Mehendale

Requirements

- Auditor's consideration of compliances with law & regulation
- Audit procedure when non compliance is identified or suspected
- Reporting of identified or suspected non compliance
 - To those charged with Governance
 - To regulatory and enforcement authorities
 - In Auditor's report on financial statements
- Documentation

CA Kedar Mehendale

Requirements - Auditor's consideration of compliances with law & regulation

- Shall obtain Understanding
 - Of legal & regulatory framework for Industry
 - How entity is complying with framework
 - Inquiring the management / in-house legal consultant – whether same is complied
 - Inquire about policies and procedures adopted
 - Inspecting correspondence relating to regulatory authorities
 - Reading of minutes
 - Request management to give representation about non compliance

CA Kedar Mehendale

Indicators of Non compliances

- Investigation by Govt. Dept. or other
- Payment for unspecified services / loans to consultants
- Excess Sales commission
- Purchases – different from market price
- Cash payments
- Unusual transactions with Companies registered in tax havens
- Failure of Information system to provide audit trail
- Adverse media comment
- Payment without exchange control documentation

CA Kedar Mehendale

Requirement - Audit procedure when non compliance is identified or suspected

- Understand the act & circumstances in which it has occurred
- Understand the effect on financial statements
- Discussion with Management
- Obtain legal advice if required
- Appropriate Documentation of non compliance
- Reporting

CA Kedar Mehendale

Requirement - Reporting

- To Management
 - Communicate material non compliance
 - If intentional or material – communicate without delay to audit committee , BOD, Senior Management
 - Communicate to Next higher level
- To User
 - Express qualified or adverse opinion if material
 - Disclaimer of opinion if scope limitation
- To Regulator

CA Kedar Mehendale

SA – 260 Communication with those charged with governance.

- Objective of Standard
 - Communicate clearly the responsibilities of auditor in relation to financial statement audit
 - Express an opinion
 - Management is responsible for preparation of financial statement
 - Planned Scope & timing of audit
 - Obtain information relevant to the audit
 - Provide timely observations arising from audit
 - Auditors view about significant accounting practices, accounting policies, estimates, disclosure etc.
 - Difficulties encountered during the audit.
 - Delay in getting information
 - Unavailability of expected information
 - Extensive unexpected efforts required to obtain audit evidence
 - Promote two way communication

CA Kedar Mehendale

Communication Process

- With whom communicate
 - Exercise judgment to determine those persons with whom audit matters of governance to be communicated.
 - Governance Structure
 - Relevant Legislation & legal responsibilities
- Form of Communication
- Timing of Communication
- Matters to be communicated

CA Kedar Mehendale

SA - 265 Communication deficiencies in internal control to those charges charged with governance and Management.

- Objective of Standard
 - To communicate appropriately the deficiencies in internal control that the auditor has identified during the audit and are sufficient to merit attention of those charge with governance.

CA Kedar Mehendale

Requirements

- Whether deficiencies constitute significant deficiencies
- Those should be reported on timely basis
- Should be reported in writing along with their potential effects
- Indicators of Significant Deficiencies
- Evidences of
 - Ineffective aspects of control environment
 - Absence of risk assessment process within the entity
 - Ineffective response to significant risks
 - Misstatement not prevented or detected

CA Kedar Mehendale

Indicators of Significant Deficiencies

- Evidences of
 - Ineffective aspects of control environment
 - Absence of risk assessment process within the entity
 - Ineffective response to significant risks
 - Misstatement not prevented or detected

CA Kedar Mehendale

SA – 299 Responsibility of Joint Auditors

- Deals with Responsibilities of Joint Auditors
- Does not deals with relationship between Principal Auditor and another auditors (eg. Branch auditor / Divisional auditors)

CA Kedar Mehendale

Division of Work with Mutual Consent

- Division of Work with mutual consent
 - Identifiable units / specified areas
 - Assets / Liabilities
 - Income / Expenditures
- Document the division
- Communicate to the client

CA Kedar Mehendale

Co-ordination

Share information

- Which deserve others attention
- Require disclosure
- Required mutual discussion
- Application of judgment by other auditors
- To be done before finalisation of audit

CA Kedar Mehendale

Relationship / Responsibilities

• Responsibilities

- Responsible for work allocated to him (whether or not separate report has been made)
 - Nature, timing extent of audit procedure applied
 - Test checking & Sampling
- Jointly and severally responsible for
 - Undivided work
 - Decision taken by all
 - Matter brought to notice and on which there is an agreement
 - Disclosure requirements
 - Joint Audit report

CA Kedar Mehendale

Reporting

- Normally, joint auditors are able to arrive at an agreed report
- However, if disagreement then each one of them should express opinion through a separate report
- Joint auditors are not bound by the view of Majority

CA Kedar Mehendale

THANKS

CA Kedar Mehendale