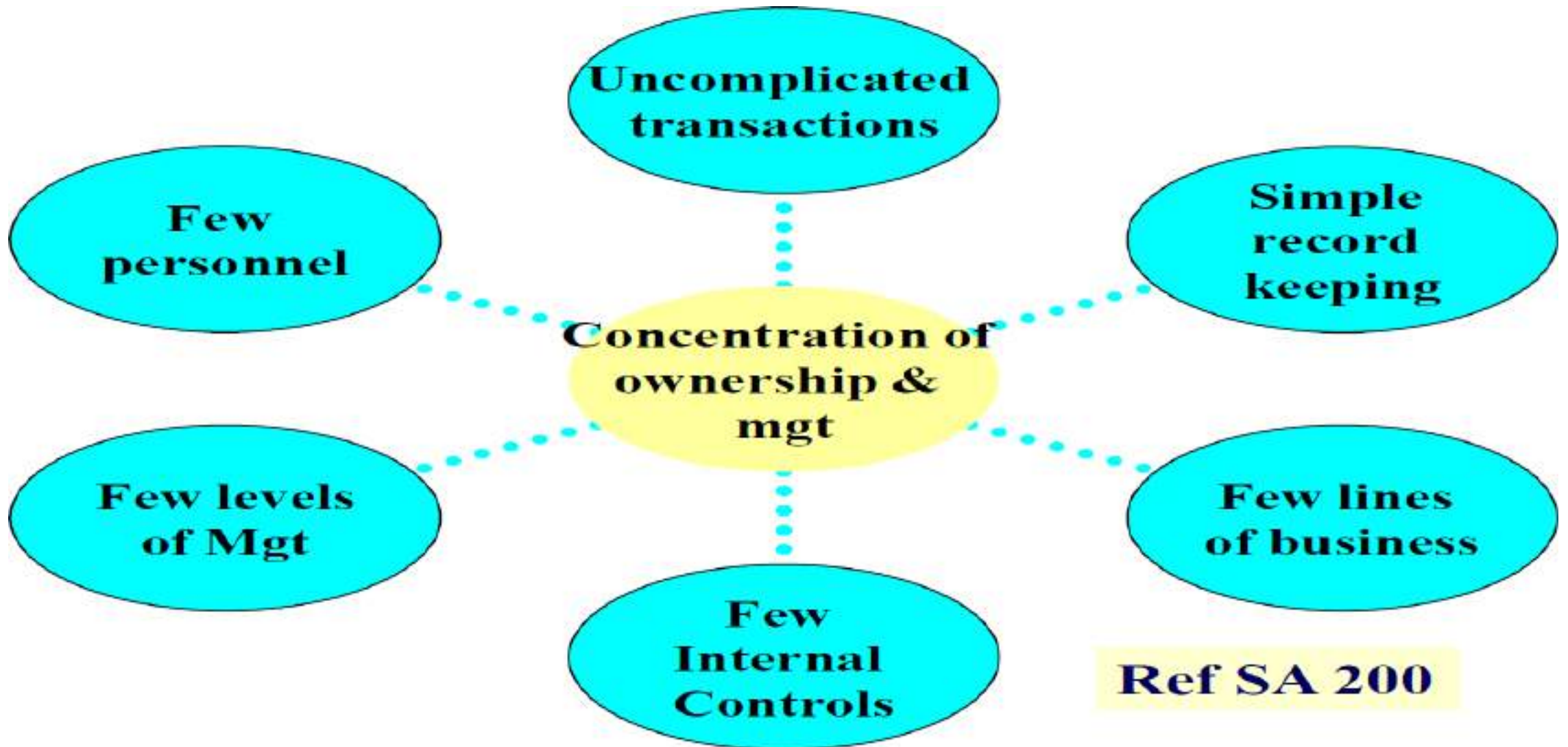


Compliance with Standards on Auditing SME perspective & Documentation

**Compiled by :
CA. Nayan R. Kothari**





SME

- As per the World Bank, SMEs play a major role in most economies, particularly in developing countries. Formal SMEs contribute upto 60% of total employment and upto 40% of National Income (GDP) in emerging economies.
- India: Goal of the new government to make \$ 5 Trillion economy by 2024 with the mantra “Sabka Saath, Sabka Vikas, Sabka Vishwas”.

‘SME’: As per Micro, Small and Medium Enterprises Development (MSMED) Act, 2006:



Revised Classification applicable w.e.f 1st July 2020

Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

Standards on Auditing ... Guides the Auditor



DOCUMENTATION

Snapshot of Engagement Standards



Broad category / Engagement Standards	Remarks	No. of Standards	Reference
Standards on Quality Control		1	SQC 1
General Principles and Responsibilities	Audit of historical Financial Information (FI)	9	SA 200 to 299
Risk Assessment & Response to Assessed Risks		6	SA 300 to 450
Audit Evidence		11	SA 500 to 580
Using Work of Others		3	SA 600 to 620
Audit Conclusions and Reporting		6	SA 700 to 720
Specialized Areas		3	SA 800 to 810
Standards on Review Engagements (SREs)		Review of historical FI	3
Subject Specific Standards (Assurance Engagements)	Other than historical FI	3	SAE 3400 to 3420
Related Services (AUP, compilation, etc.)	Factual findings/ Compilation	3	SRS 4400 to 4410
Total		48	

Regulatory requirements

Mandatory reporting in statutory audit report and tax audit report

- Compliance with Standards on Auditing is mandatory u/s 143 (10) of Companies Act 2013.
- National Financial Reporting Authority to have powers to recommend Standards on Auditing (section 132)
- SA also applies to tax audit

Class action suit under Companies Act, 2013

- Class action suit on auditor / audit firm
- To prove innocence the auditor requires proper documentation

Quality assurance of audit

- To ensure that the audit complies with the professional standards as provided by SQC – 1

Audit of listed entities

- Peer review certificate is must for audit of listed entity under SEBI Regulation.
- Audit Quality review is also conducted by QRB / FRRB

Compliance with standards

Benefits on compliance with the standards in an engagement



- Timely Completion of assignment
 - Serves the purpose of guidance in various situation
- Quality assurance in the assignment
- Required as per statutory framework
- Safeguarding the auditor's and firm's interest

SAs represents Generally accepted procedures of audit if member does not disclose such departure therefrom, he/ she shall be liable to disciplinary proceeding under Clause 9 of Part I of Chartered Accountant Act, 1949

Turbulent Events which raised many questions

Satyam - Falsely boosted revenue

Enron - Kept huge debts off balance sheet

Ricoh – Fictitious sales / unsupported adjustments

WorldCom – Inflated assets

Lehman Brothers – Loan liability accounted as sales

Holistic viewpoint of why Standards are relevant

Trust and faith of stakeholders

Work in interest of stakeholders

Governance

Following code of ethics in true spirit

Quality Assurance

Credibility and wider acceptance at global level

SA - ensure & enhance quality of audit engagements

- ▶ Preface to the Statements on Standard Auditing Practices issued by ICAI states –

“While discharging the attest function, it is the duty of the members of ICAI to ensure that the Standards are followed in the audit of financial information covered by the audit report. If for any reason a member has not been able to perform an audit in accordance with the same, his report should draw attention to the material departures therefrom”

- ▶ The same finds its relevance in –

- The Chartered Accountants Act, 1949 / Code of Ethics
- Peer Review / Financial Reporting Review Board (FRRB)
- Quality Review Board (QRB) / Disciplinary Mechanism
- SA deals with responsibilities of the auditor & it's application to specific areas.
- SA contains guidance & other explanatory material.



How do SAs demonstrate proportionality?

▶ Through the requirements:

- SA 260, where management = TCWG in case of SME, unlike larger enterprise.
- SA 315 & SA 330 (risk based), absence of formal risk assessment process
E.g. In case of SME, test of details would have more preference rather than control
- SA 540 (Estimates), Estimates enable in opting for choice of responses to assessed risks
- SA 550 (Related parties), inspection of records or documents – Auditor to rely *more on enquiry, inspection & observation rather than mere scrutiny of financial transactions* .

▶ Through the application material:

- Many considerations specific to smaller entities
- Other guidance, e.g. form and focus of communication with TCWG

Is compliance with all SAs required?

- ▶ Basic obligation is to **comply with all SAs** relevant to the audit
- ▶ Not all SAs may be relevant.
For example –
 - o SA 402, if SME does not use a service organization
 - o SA 501, if SME does not have any inventory
 - o SA 600, if SME audit is not a group audit
 - o SA 610, if SME has no internal audit function
- ▶ Conditional requirements need not be applied if conditions do not exist [SA 240]



SA 200 Overall Objectives of the Independent Auditor and conduct of an audit in Accordance with SA

- **What is the overall objective of an auditor?**

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.

- **Applicable financial reporting framework** – The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

Requirements

Ethical requirements relating to audit of financial statements:

The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements

Professional skepticism:

The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated

Professional Judgment:

The auditor shall exercise professional judgment in planning and performing an audit of financial statements

Sufficient Appropriate Audit Evidence and Audit Risk:

To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion

Conduct of an audit in accordance with SAs:

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

SA 200 - Consideration specific to smaller entities

A smaller entity refers to an entity which typically possesses qualitative characteristics such as:

- *Concentration of ownership and management in a small number of individuals (often a single individual); and*
- *One or more of the following (not an exhaustive list and may not display all of these characteristics)*
 - Straightforward or uncomplicated transactions
 - Simple record-keeping
 - Few lines of business and few products within business lines
 - Few internal controls
 - Few levels of management with responsibility for a broad range of controls
 - Few personnel, many having a wide range of duties
- *The considerations specific to smaller entities included in the SAs have been developed primarily with unlisted entities in mind. Some of the considerations, however, may be helpful in audits of smaller listed entities*

CASE STUDY - Audit Planning

Introduction:

- Company A is a manufacturing company having a turnover of INR 1,000 Crores
- Number of Employees – Over 300
- Business Model – Manufacturing of Fragrances and Chemicals
- Operations – Located at Baroda, Mumbai and Chennai
- Distribution Channel – C&F Agents appointed in India and Abroad

Objectives of Audit:

- Expressing an Opinion on the Financial Statements on the basis of:
 - Ensuring alignment with prescribed framework of Accounting Policies and Practices and
 - Relevant Statutory Requirements

Stage 1: Audit Planning:

- Initial Meeting with Group CFO where the following subjects were discussed:
 - Understanding the business of the Client
 - Changes in Management Structure and Activities of the Client
 - New or Closed Premises and Plant facilities
 - Recent changes in implementation of Technology within the group
 - Any changes in accounting policies and procedures and in the system of Internal Control
 - Significant matters arising from previous years Financial Statements, Audit Report and Management Letters
 - Concerns of any accounting or compliance related matters in the current year under observation
 - Relevance of any work to be carried out by the clients Internal Auditors

Cont...

Stage 1: Audit Planning (Contd...)

- Initial Meeting with manager and other personnel in the Accounts Department to obtain the following information:
 - Annual Reports, Financial Statements for past 3 years
 - Minutes, Management Representation Letters, Internal Audit Report, if any
 - Draft Trial Balance, Financial Statements for Current Year under audit
 - Extract of General Ledgers
 - Access to systems and network
- Key Findings from meetings and analysis:
 - Installments in repayment of Term Loan of INR 100 Crores taken in the year 2008-09 from a Financial Institution were delayed a couple of times in the current year due to Cash Flow crunch
 - Disputes between promoters of the company for ownership of the company
 - Labor Unrest at one of the factories located in Chennai
 - Siphoning of Inventory at Plant in Baroda
- Forged Invoices were entered into the system and payments were released
- Purchases made from Directors Proprietary concern
- Bonuses to Employees paid in the month of July in the year under audit
- Meeting with Audit Team for planning of Audit to discuss special inclusions in the Audit Programme
 - **Going Concern**
 - Check profitability, repayment capability of the Company, whether the Company has adequate resources to repay installments of Term Loan taken.
 - Check the current status of the dispute between the promoters and analyze whether the dispute could lead to closure of company
 - Check if labor unrest has resulted in significant drop in turnover of company

Cont...

Stage 1: Audit Planning (Contd...)

- Meeting with Audit Team for planning of Audit to discuss special inclusions in the Audit Programme (Contd...)
 - **Materiality**
 - Check purchase and sales vouchers for the months of April, October and March to ascertain the extent of loss of inventory
 - Increase sample size of checking to 60% for inventory
 - Physical Verification of Cash Balances
 - Check 100% transactions with group companies including branches, proprietary concerns to ascertain arms length pricing
 - Check if Festival Bonus and Performance linked bonuses are paid to employees. All other bonuses should be thoroughly scrutinized

Stage 2: Audit Procedures

- Key Findings in comparative analysis with previous 2 years Financial Statements
 - Payments made to fictional employees created in the year of audit which reflected an overall increase in the Salary cost of the company

- Increase in Legal & Professional payments in the year under audit were twice as compared to the previous years. This was on account of Family Dispute settlement made by the Promoters and later recovered from the company.
- Books show a debit balance in Creditors as advance paid to them which actually were fictional advances shown.
- Key Findings during Vouching
 - Working Capital is being utilized by the company for repayment of Term Loan.
 - Payment of INR 15 Crores not recovered from a customer for more than 180 days
 - Delivery Challan's were made for transporting goods out of India but no corresponding Sales Invoices were found in the records
 - Bonuses were paid to Sales Manager in the months of July and August for exceptional performance in achieving the sales target that was approved by the Board during the meeting held in that quarter

CASE STUDY 2

Brief Background / Objectives of Assignment:

- There is a due diligence of dealers of a company called FMCG Ltd. The scope of the assignment is to conclude on a question that the dealer is competent enough to keep up with the future ambition of FMCG.
- To break this up further, we could say:
 - Relational assessment
 - Financial
 - Operational

Stage 1: Meetings:

From reputation stand point, we planned to meet the

- Outlets - Customer Base
- Statutory Auditor of the Dealers
- Main Bankers of each Dealer
- FMCG's Area Sales Manager who is regularly in touch with the Dealer

Stage 2: Pilot Visit – Key Points:

- A pilot visit experience to one of the Dealers in 'Mofussil' Areas in North India

CASE STUDY 2 (Contd...)

Stage 2: Pilot Visit – Key Points: (Contd...)

- Summary of Discussions with the Dealer
 - There are 300 outlets in the rural area within the radius of 60Kms.
 - Interiors were served by the Dealer.
 - They also have their own tea brand but the operations are not in nexus with the business of FMCG to avoid conflict of interests.
 - They have a small OD facility of INR 20L to finance a business of INR 60L every month
 - Debtors remain at 10 days sale while Inventory @ INR 20L.(The FMCG has a policy of Cash Basis)
- Summary of Discussions with Bankers
 - There exists a term loan of INR 40 Lacs for purchase of a rural godown which has been rented out as business
 - All repayments are made within the due date
 - Financial standing of the Dealer is excellent
- Noteworthy Points arising out of meetings with the Auditors
 - Financial standing is excellent
 - Accounting System needs to be improved so as to avoid last minute rushes during audits deadlines
 - There are no assessments/demands or any kind on legal issues pending
- Noteworthy Points in meeting with the Area Sales Manager
 - There does not seem to be any conflict of interest in owning the tea brand by the Dealer
 - Faster feedback expected if the Dealer is appointed along with his Sales Manger during meetings with the outlets
 - Meeting at the Village that the Dealer proposed to visit together with the Sales Manager

CASE STUDY 2 (Contd...)

- **Stage 3: Audit Programme - Inclusions:**

- Checking the accounting systems
- Going through the Business prospects of the godown business so as to budget a positive cash flow to repay the installments of term loan taken.
- Confirm from the markets about the turnover in the books and scheme
- Cover major villages across all kinds of outlets.
- Take each outlet sales information just to verify if that matches with the information given by the Dealer. This is to check if there is any fictitious invoicing
- Check Dealers personal funds, if any, locked in FMCG business to ascertain his interest in the same
- Investigate and obtain instances through discussions, checking property documents, etc. on financial standing instead of relying on financial accounts
- Meetings with references given by the Dealer and understand any special consideration from an audit standpoint

SA 230: Documentation - Nature & Purpose



“The skills of an accountant can always be ascertained by an inspection of his working papers”
- Robert H Montgomery, *Montgomery’s Auditing*, 1912

Audit documentation - Challenges

Significant observations without reference of source documents

Improper / no linking of documents

Unsatisfactory documentation of audit plan, nature, timing, etc.

No documentation for verification of key management estimated

Lack of proper segregation and indexation of working papers

Lack of documents to ensure that firm adhered with the ethical standards laid down by ICAI

Documents prepared for certain areas only

Contingent liability disclosed does not reconcile with work papers

No back up / mismatch for comments given in CARO

Documentation - Critical component of audit evidence

- ▶ Document is any material that provides evidence of work performed that enables the Auditor to satisfy himself
- ▶ Appropriate documentation need not be burdensome
- ▶ Reinforcing quality
- ▶ Be proportionate, efficient and effective
 - Experienced auditor test
 - Caution against checklist mentality (each assignment might have specific documentation needs)
 - Importance of exercising professional judgment
 - Illustrations of how documentation can be done in efficient & effective manner

Objective

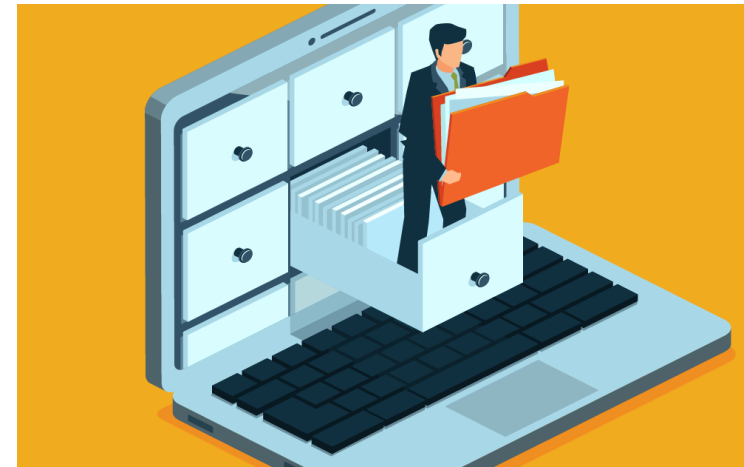
- ▶ To prepare documentation that provides –
 - Sufficient & appropriate record of the basis of the auditor's report.
 - Evidence that audit was planned & performed in accordance with SAs & Applicable Legal & Regulatory requirements

Definitions

- ▶ **Work papers** – signed agreements – written representations – spreadsheets – videos – pictures – transcripts – correspondences – etc
- ▶ **Audit documentation** – Record of audit procedures performed, relevant audit evidence obtained, & conclusions the auditor reached (terms such as “working papers” or “work-papers” are also sometimes used).
- ▶ **Audit file** – one or more folders or other storage media, in physical or electronic form, containing records that comprise the audit documentation for a specific engagement.
- ▶ **Experienced auditor** – An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:
 - Audit processes; / SAs & applicable legal - regulatory requirements;
 - Business environment in which the entity operates; and
 - Auditing & financial reporting issues relevant to the entity’s industry

Do we know what we do not know

- ▶ **How much to document?** Enough to – (*past, present & future*)
 - Assist in planning and performing / Record matters of continuing significance
 - Create accountability / Assist external inspection
 - Assist supervision and direction - Quality control review
- ▶ **When to document?**
 - Timely manner (documents prepared after audit are less accurate)
 - Within 60 days of completion of audit (SQC 1)
 - Retain for 7 years from date of audit report
 - Implementation Guide to SA 230 – March 2013
 - 16 Case studies –
 - Appendix containing Illustrative Working paper Format



Other Matters

▶ **Departure from a Relevant Requirement -**

“If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure”

▶ **Matters Arising after the Date of the Auditor’s Report**

If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor’s report, the auditor shall document:

- The circumstances encountered;
- The new or additional audit procedures performed, audit evidence obtained, and
- Conclusions reached, and their effect on the auditor’s report; and
- When and by whom the resulting changes to audit documentation were made and reviewed

Audit Documentation is not a substitute for the entity's accounting records

- ▶ Extent of Documentation depends on various factors such as Risk Assessment sampling Methods used & Materiality
- ▶ Permanent Audit File / Current audit File
- ▶ Contains – Relevant risks & controls applicable to an area – assertions to be tested & satisfied – Substantive & analytical procedures performed
- ▶ Physical or Electronic Form – Hard or Soft copy
- ▶ Audit Plan / Engagement Letter / Qualified opinion
- ▶ Documents relating to the use of professional judgment Deleting / Discarding old superseded information
- ▶ Retention of Records – 7 years as per SQC-1

Documentations under other SAs

- ▶ **SA 200: Basic Principles Governing an Audit**
 - Evidence that the audit was carried out in accordance with the basic principles
- ▶ **SA 220: Quality Control for Audit Work**
 - Audit evidence obtained from substantive procedures & the conclusions drawn therefrom, including the results of consultations
- ▶ **SA 240: The Auditors responsibilities relating to fraud in an audit of FS**
 - Understanding of the entity & environment, assessment of the risks of material misstatement required by SA 315
 - Management's response & communication to TCWG
 - Regulatory requirements like Companies Act, 2013, RBI etc.
 - Reasons for conclusion & reporting
- ▶ **SA 250: Consideration of Laws and Regulations in an audit of FS**
 - Various checklists e.g. Companies Act, IGAAP, RBI & NHB, Corporate Governance etc.
- ▶ **SA 260: Communication with those charged with Governance**
 - Oral, email, formal communication, Audit committee presentations & management letters (retention of copy)

SA 240 - Auditor's responsibilities relating to fraud in an audit of financial statements

- Lack of awareness of audit firm in showing professional scepticism through the audit report
- Documentation containing the background of the client was found to be lacking
- Based on documents available, it was difficult to conclude whether fraud risk was considered during the audit of financial statement i.e. revenue recognition, related party transactions etc.



Documentations under other SAs (contd.)

- ▶ **SA 299: Responsibility of Joint Auditors**
 - Joint responsibility statement
- ▶ **SA 300: Planning an Audit of financial statements**
 - Pre audit meeting, overall audit strategy, plan & significant changes & reasons
- ▶ **SA 315: Identifying and assessing the risk of material misstatement through understanding the entity and Its Environment**
 - Discussion among the engagement team and the significant decisions reached;
 - Understanding of the entity's environment and internal control (IC) components;
 - Sources of information from which the understanding was obtained;
 - Risk assessment procedures performed;
 - Identified & assessed risks of material misstatement at the FS level and at the assertion level;
 - Risks identified, and related controls about which the auditor has obtained an understanding
 - Reporting on IFC over FS u/s 143 (3) (i) of the Companies Act, 2013

Documentations under other SAs (contd.)

▶ **SA 320: Materiality in Planning and Performing an Audit**

- Audit docs shall include the following amounts & the factors considered in their determination:
- Materiality for the FS as a whole (overall)
- If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosure;
- Performance materiality; and
- Any revision of materiality levels as the audit progressed & reasons thereof.

▶ **SA 330: Auditor's Response to Assessed Risks**

- The overall responses to address the assessed risks of material misstatement at the FS level, and the nature, timing and extent of the further audit procedures performed;
- The linkage of those procedures with the assessed risks at the assertion level; and
- The results of the audit procedures, including the conclusions where these are not otherwise clear.
- Conclusions reached about the operating effectiveness of IC in case the auditor has relied upon such test carried out in previous audit periods.
- The auditors' documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.

Risk Assessment & response to assessed risk

[SA 300, 315, 320, 330]



Audit plan / strategy / risk assessment not documented

Controls not validated (e.g. IT controls)

Materiality levels not documented for class of transaction

No back up for test of controls and balances

Documentations under other SAs (contd.)

▶ **SA 505: External Confirmations**

- If the auditor agrees to management's request not to seek external confirmation regarding a particular matter, the auditor should document the reasons for acceding to the management's request.

▶ **SA 540: Auditing Accounting Estimates**

- The basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and Indicators of possible management bias, if any

▶ **SA 550: Related Parties**

- Auditor shall include the names of the identified related parties and the nature of the related party relationships.

▶ **SA 580: Written Representations**

- Auditor is required to document identification of significant issues relating to the competence, integrity, ethical values or diligence of management or about its commitment to or enforcement of these. Matters where auditor has relied upon the management's explanation and information.

Documentations under other SAs (contd.)

Illustrative List of matters on which MRL is to be taken:

1. Type of audit and period of audit to be covered.
2. Date of the financial statements. Management responsibilities w.r.t. financial statements. Preparation, maintenance of the accounting records, internal financial systems, controls, and these controls are effective as to the financial statements are free from material deficiencies, omissions, miss statements. If any list of uncorrected misstatements, if any. (SA450)
3. Accounting policies to be adopted. Accounting standards applicable. (SA540)
4. Information and documents, representations provided and their authenticity.
5. Conflicts of Interest, related party transactions. if any, (SA550)
6. Details of Frauds, Misstatements, misappropriations if any. (SA240)
7. Assets Title of the fixed assets, records of the fixed assets, record of additions, deletion, depreciation on the fixed assets. Physical verification and reconciliation if any.
8. Investments. Investment policy, Investments made during the year. As per the policy document of the auditee. Deviation from the policy if any. And the terms of the investment are beneficial to the auditee.
9. Cash Balances, its verification, Balance certificate, whether as per the norms of the company.
10. Bank balances, Balance confirmations, Reconciliation, Comments on the items of reconciliation if any.

Documentations under other SAs (contd.)

11. Other Current assets and its releasable value, determination of the value as stated in the financial statements.
12. Liabilities their adequacy, confirmation, reconciliation of the balances.
13. Contingent liabilities, their nature, their impact on the financial statements.
14. Capital Commitments if any. Differed commitments, if any.
15. Expenses, nature of expenses to the auditee business, their adequacy, and provisions.
16. Provision for claims and losses if any, provision for ascertained, known losses, and claims to be occurred after the date of the financial statements.
17. The coverage of the main audit report, and the details, statistical data, its correctness, accuracy, analysis if any given in the report for which this representation is given.
18. Disclosure in Revenue and Expenditure account, ascertainment, policy adopted for revenue recognition.
19. General commitments. About compliance of the various acts, statutory dues, taxation, and provisions for the same, pending assessments, and disputes, litigation, and its position as on the date. (SA250)
20. Details of subsequent events affecting the financial statements. (SA560)
21. Specific representations applicable to the business of the auditee and covering the scope of audit /assignment.

Audit Evidence [SA 500 -580]

Back up not maintained for validating the date given to actuary

No control on external confirmation and alternate audit procedures not performed

Failure to test the opening balances brought forward

Methodology of selection of sample not documented

Management assertions not tested / not documented

LOR/MRL – does not cover the key audit aspects

No working for analytical procedures conducted

Documentations under other SAs [SA 600 - 620]

▶ **SA 600: Using the work of Another Auditor**

- Components whose financial information was audited by other auditors & their significance to financial information of the entity as a whole;
- names of other auditors;
- conclusions reached that individual components are not material.
- Procedures performed and conclusions reached regarding components. For example, auditor would document the results of discussions with other auditor and review of written summary of other auditor's procedures.
- Any limiting procedures
- Conclusions reached
- Manner of dealing with modified report of OA while finalizing the PA's report

▶ **SA 610: Using the Work Of Internal Auditor**

- 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

External auditor relying on work done by others

SA 600: Using the work of another auditor

Reporting considerations



Co-ordination with other auditor (branch or component)



Division of Responsibility

SA 610: Using the work of an Internal auditor

Understanding the scope of Internal Audit Function (IA)



Determining whether and to what extent rely on IA function



Using specific work of IA function



Using direct assistance of IA function by EA

SA 620: Using the work of an expert

Determining need for expert's work



Evaluating the competency and capability of the expert



Obtaining the understanding the field of an expert



Responsibility of the auditor and need for reference in audit report

Audit Conclusions and Reporting [SA 700-706]

- Auditors report issued in old format i.e. not as per SA 700
- Auditor's responsibility not worded appropriately [illustrative format is given in the standard]
- Name of the signing partner and membership number not mentioned on financials and certificates issued
- Quantification of the impact of qualifications not mentioned in the report nor reasons for non-quantification of such qualifications was mentioned
- EOM not given for key items which would otherwise require reader attention



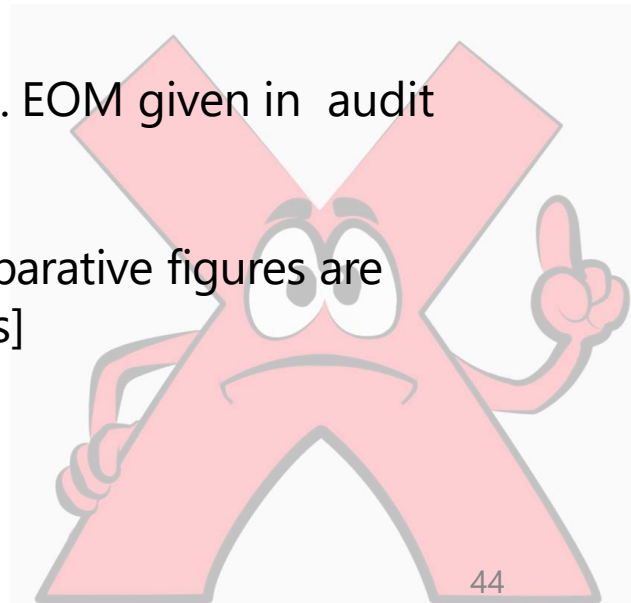
CONCLUSION

Why documentation is relevant

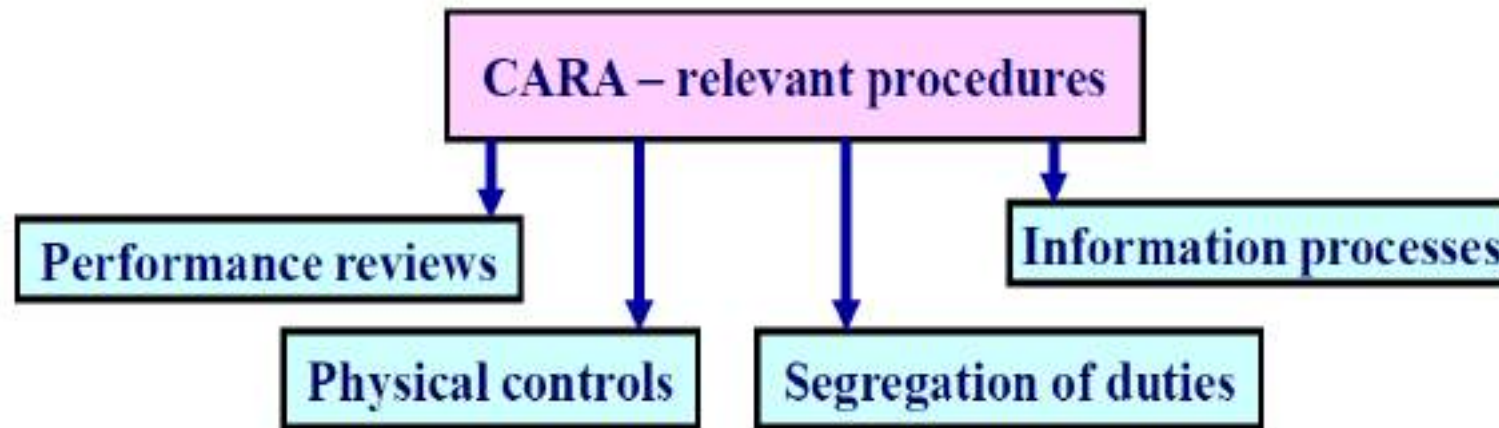
- **“WORK NOT DOCUMENTED = WORK NOT DONE”**
- Poor documentation depicts poor performance in audit – reflect firm’s process
- Emphasis on use of detailed checklist for ensuring completeness and compliance with all standards
- Significant responsibility cast on auditors under regulatory framework
- When things go wrong the onus is on auditors to “prove” that he / she was not professionally negligent in performing his duties
- Auditing Standards neither favour nor discriminate based on size of the practitioner
- Guide for new team members. Also assist in reviewing the work of team and also serve the purpose of ready reckoner for subsequent engagements

Common errors in Audit Report

1. Other matter paragraph not given for change in auditors
2. In case where CARO reporting is not applicable, reporting is required to mention such fact
3. Separate report is issued on IFC however auditors responsibility paragraph incorrectly includes that opinion is not required for such controls
4. EOM not given for negative net worth / going concern
5. Inconsistency in reporting for standalone and consolidated financial statement (e.g. EOM given in audit report for standalone financials but not in consolidated financials)
6. Qualification given in previous year report but not continued in ensuing year [comparative figures are reported hence it is required to continue the qualification with appropriate changes]
7. Cross Reference not given for pending litigation / disputes



Control Activities Relevant to Audit (CARA)



Important:

Relevance to Auditors understanding – assessing risk & subsequent response –
i.e. SME considerations –

- Same concepts – less formal
 - Some may not be relevant – direct owner oversight
- Relate mainly to transaction cycles

Few Thoughts



No audit tool will be of use unless there is desire and efforts are given to achieve

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CA. Nayan R. Kothari



MANOJ VIPIN & CO.

Vadodara Office

Thank 'u'