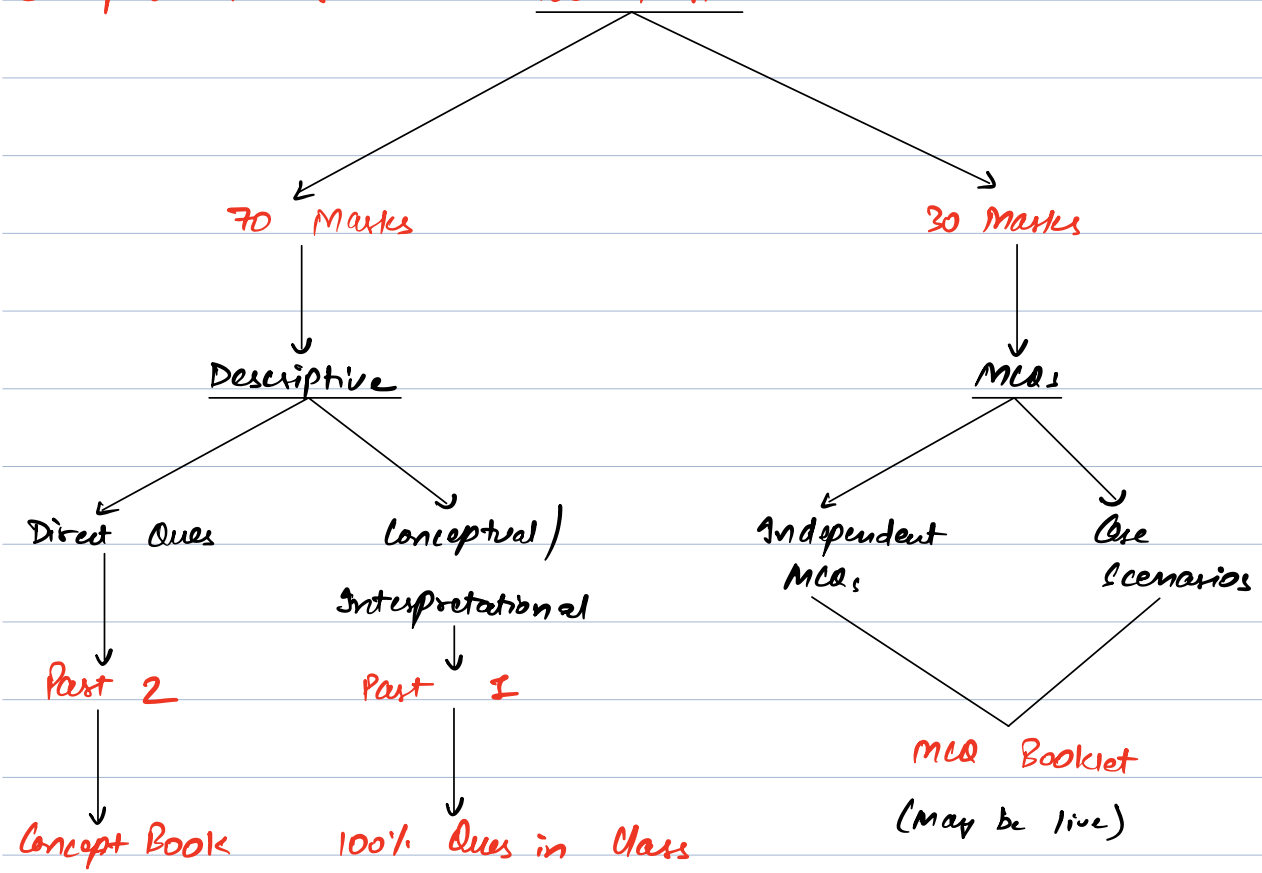
Welcome to 1st Lecture (Intro)

- Study Pattern - Handwritten Notes
  - Concept Book
  - Question Bank
  - Quick Recap video

- Paper Pattern - 100 Marks



- Is My Material Enough? 160 Pages

① Audit → Checking Answer Sheets against Suggested Answer

→ Checking Financial statements (FS) (Profit & Loss Account, Balance sheet, Cash Flow statement, Notes to Accounts)

Against

Applicable Financial Reporting Framework (AFRF)

Process of Preparing FS (Accounting)

Criteria/ Rules Based on which FS are Prepared (Schedule III, IND As, As)

Based on Nature of Entity

(Listed - IND As
Small - As)

Again, Audit = FS v/s AFRF

Difference (Diff) Between (B/w) these 2

Due to ← Misstatement

Fraud Error

Auditor is only concerned with Material Misstatement (Badi)

(Jaise Mummy ki Aadhi Roti)

↓

Subjective

↓

Amount that influences Users of FS

???

↓

Shareholders, Creditors, Govt, Financial Institutions, Employees, General Public

Why Audit? → Investor holding shares
Govt collecting Tax
Bank Giving Loan

→ Rely on FS prepared by ② Management (Mgt)

↓

They can Manipulate FS

↓

So, FS are audited by Auditor

↓

Cannot be connected to Entity in any way

↓

Independent Auditor

Gives ③ Assurance

Risk → Eg. Article filing Bogus Expenses Claims

↓

Control → Eg. Manager Approving Claims

Internal Control → Systems & Processes implemented by Mgt to achieve organisation objectives → If NOT → Deficiencies

Risk Assessment Procedure (RAP) → Further Audit Procedures (FAP)

RAP:
- Inquiries
- Observation & Inspection
- Analytical Procedures

→ Risk of Material Misstatements (ROMM) Identify

FAP:
- Test of Controls (TOC) → D, I
  - ↓ Operating Effectiveness
- Substantive Procedures
  - Test of Details (TOD)
  - Substantive Analytical Procedures

② Management (Mgt) v/s Those Charged with Governance (TCWG)

Mgt → Managing the Entity Day-to-Day Affairs → CEO, CFO, Senior Managers

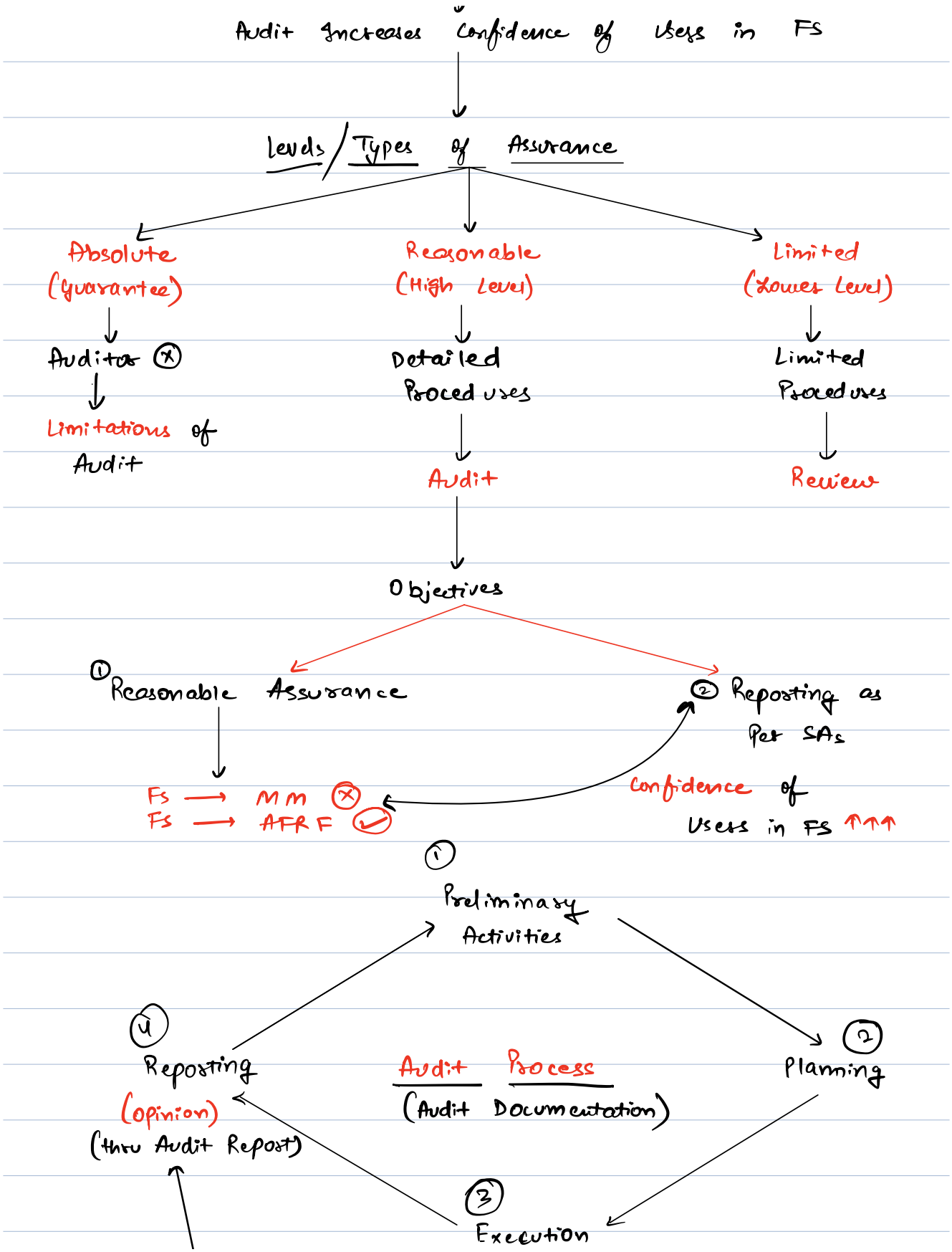
TCWG → Strategic Direction of Entity → Board of Directors, Audit Committee

→ In small Firm, Both are same

③ Assurance – If Assure, you can easily get EXEMPTION after this Batch!

↓

Increase Confidence


Audit increases confidence of Users in FS
Levels / Types of Assurance
Absolute (Guarantee)
Reasonable (High Level)
Limited (Lower Level)
Auditor ✗
Limitations of Audit
Detailed Procedures
Limited Procedures
Audit
Review
Objectives
① Reasonable Assurance
② Reporting as Per SAs
Fs → M m ✗
Fs → AFR F ✓
Confidence of Users in FS ↑↑↑
① Preliminary Activities
② Planning
③ Execution
④ Reporting (opinion) (thru Audit Report)
Audit Process (Audit Documentation)

Based on

Audit Procedures

Audit Evidence

Sufficient & Appropriate Audit Evidence (SAAE)
(Persuasive)

Quantity

Quality

Relevance
(Eg. Inventory Completeness & Existence)

Reliability
(Bank Statement v/s Bank Confirmation)

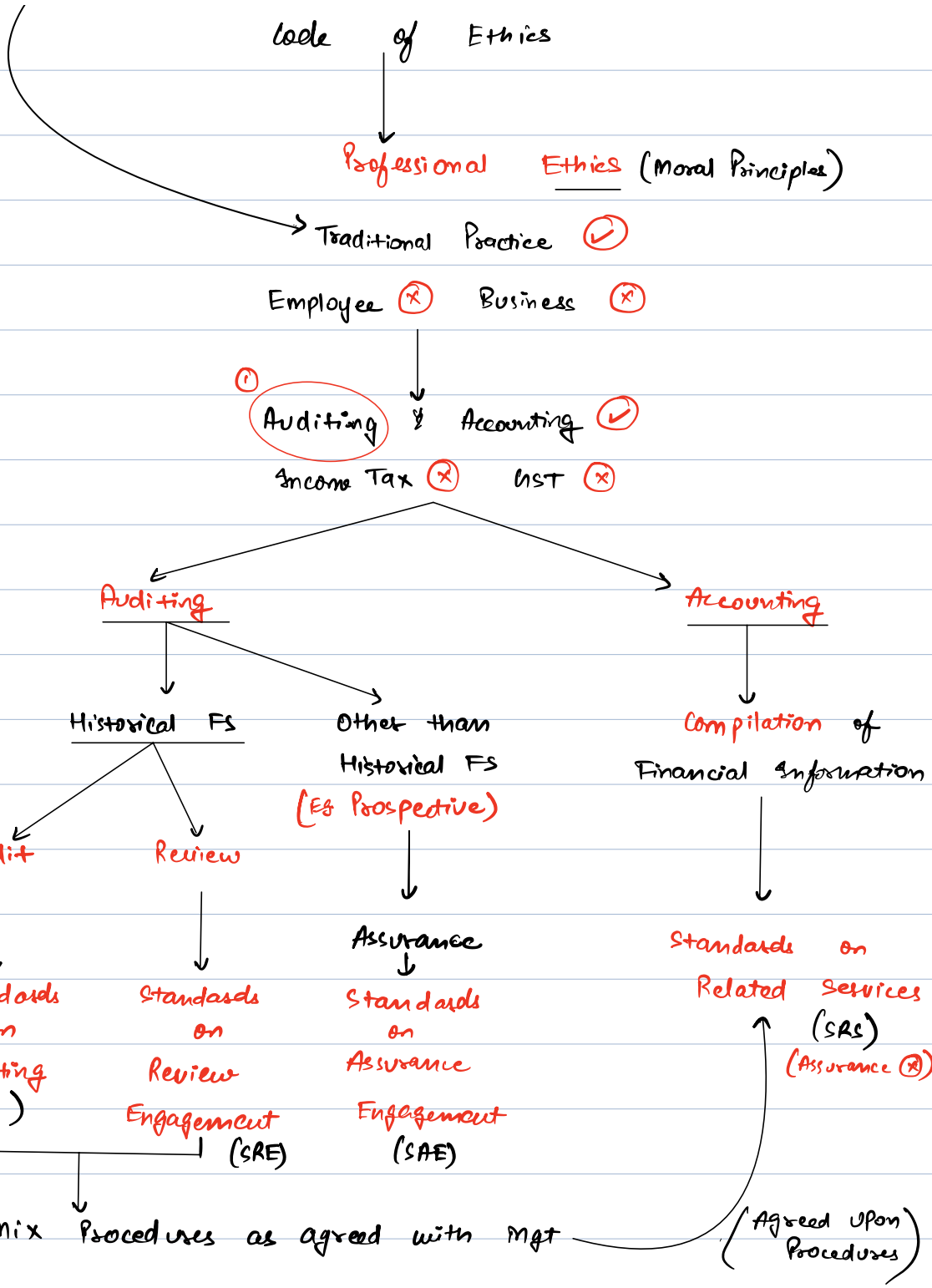
Syllabus

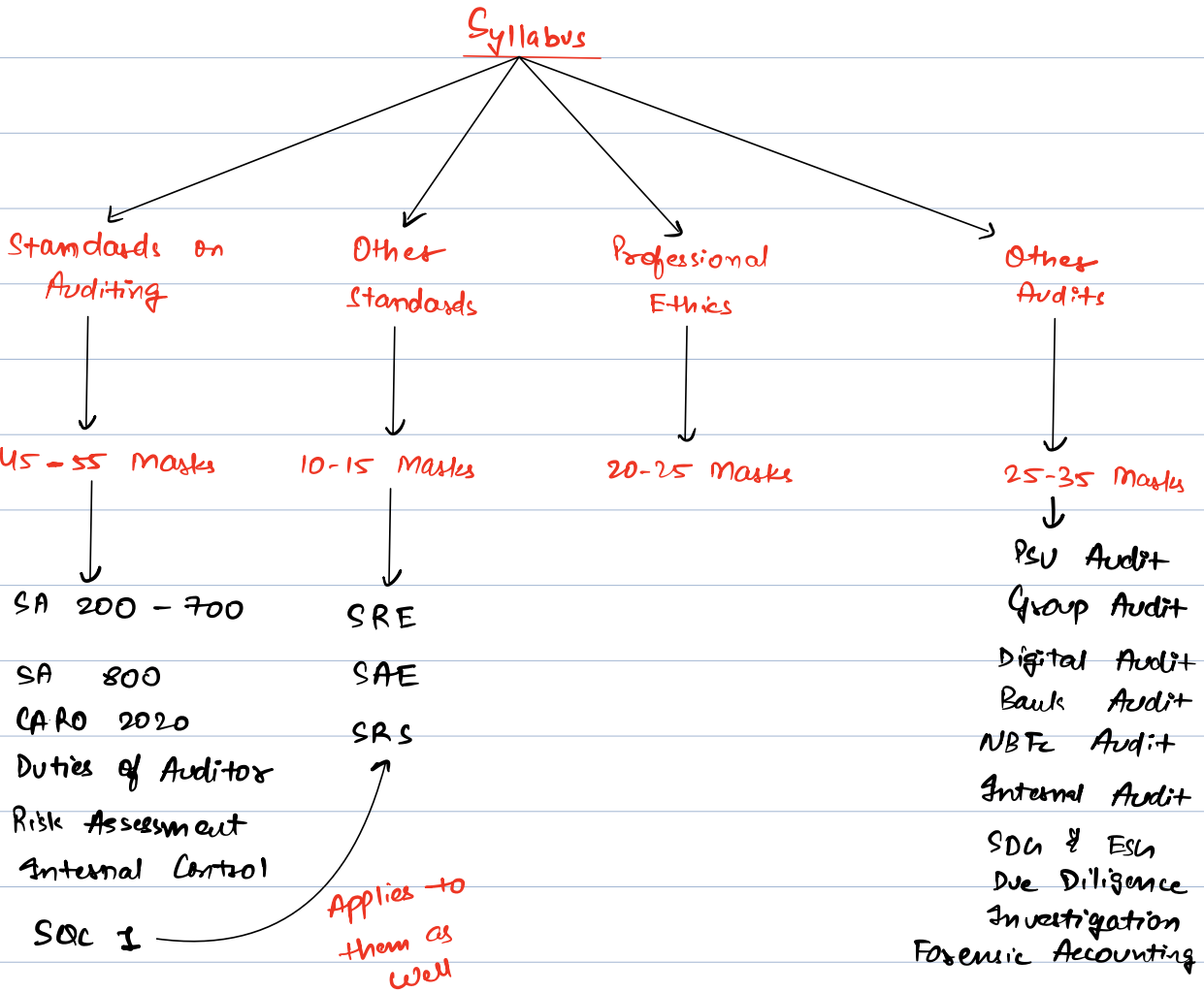
After Clearing CA Final Exams

Membership Certificate

You are a CA

Chartered Accountants Act


Code of Ethics
Professional Ethics (Moral Principles)
Traditional Practice ✓
Employee ✗ Business ✗
① Auditing & Accounting ✓
Income Tax ✗ HST ✗
Auditing
Accounting
Historical FS
Other than Historical FS (Eg Prospective)
Compilation of Financial Information
Audit
Review
Assurance
Standards on Related Services (SRS) (Assurance ✗)
Standards on Auditing (SA)
Standards on Review Engagement (SRE)
Standards on Assurance Engagement (SAE)
Mix Procedures as agreed with Mgt
(Agreed Upon Procedures)



⊙ Firm → Proprietorship, Partnership, LLP .....

Human Resources

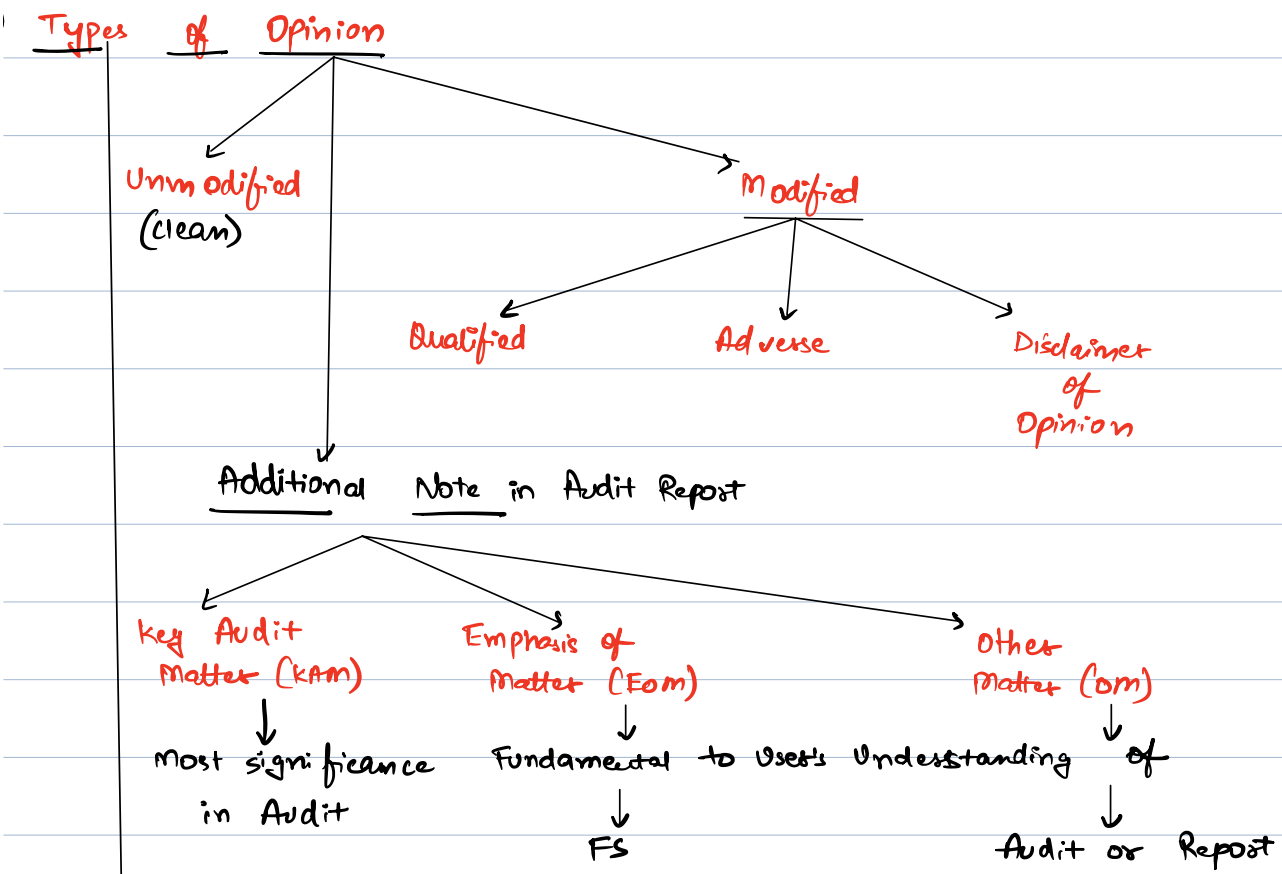
Engagement Partner (EP) → Responsibility for Audit
→ Signs FS

Team Manager

Team Member

↓

Collectively called as Audit Engagement Team



Depends on	Material ✓	Material ✓
Misstatement	Pervasive ✗	Pervasive ✓

SAAE Received →	Qualified	Adverse
SAAE not received →	Qualified	Disclaimer of Opinion

- Limitation on Scope → Material & Pervasive
  - → Disclaimer of Opinion
  - → Withdraw from Engagement
- Going Concern (GC) → Entity will continue to operate for Foreseable Future
  - → Assessment performed by Mgt & checked by Auditor
- Written Representation → Written Acknowledgement from Mgt
  - → Eg. Fulfillment of Mgt's Responsibilities

SQC 1

↓

Quality Control for Firms that Performs Audits & Reviews of Historical Financial Info & Other Assurance & Related Service Engagements

SA 220

↓

Quality Control for Audit of FS

SQC 1

↓

ALL Types of Engagement

↓

Entire Firm

SA 220

↓

Audit Only

↓

Particular Audit

↓

Objectives

↓

Quality Control Systems (QCS)

↓

Reasonable Assurance

↓

Professional, Regulatory

Audit Reports are

& Legal (PRL) Appropriate

---

① Elements of Quality Control (QC)

① Leadership Responsibilities for Quality within Firm (CEO/MD/MP)

QCS → Override → Business Strategy

→ Considerations to Uphold Quality

① Commercial Considerations Not Override Quality → ② Overriding Commitment to Quality

④ Sufficient Resources ← ③ Info about Client

---

① Leadership Responsibilities for Quality on Audit

EP Responsibility → Quality on Each Audit

→ Actions of EP Emphasise

① Quality is Essential (Necessary)

② Importance of Quality

Helps to Comply → ④ Reports are Appropriate (Opinion)

Behar Wali → (a) PRL → (c) Team Raise Concerns without fear

Andar Wali → (b) Firm's ACS

---

(2) Ethical Requirements → Independence (Basic Requirements)

(1) Communicate to All Personnel

(2) Identify & Evaluate threats → If Yes → (3) Actions to Eliminate / Reduce through Safeguard, → Withdraw

(4) Independence Breaches notified to firm

Written Confirmation → Annually (once) → from All Personnel

(1) Familiarity Threat → Same Personnel for Long Time

↓

Safeguard → Rotate or EQCR

Listed Entity → EP Rotated ≤ 7 Years (MCQ)

↓

NOT if Sole Proprietor (5 Years)

---

③ Acceptance & Continuance of Client Relationship

Obtain Info about Client / (Firm)

① Integrity ② Competence ③ Ethical Requirements

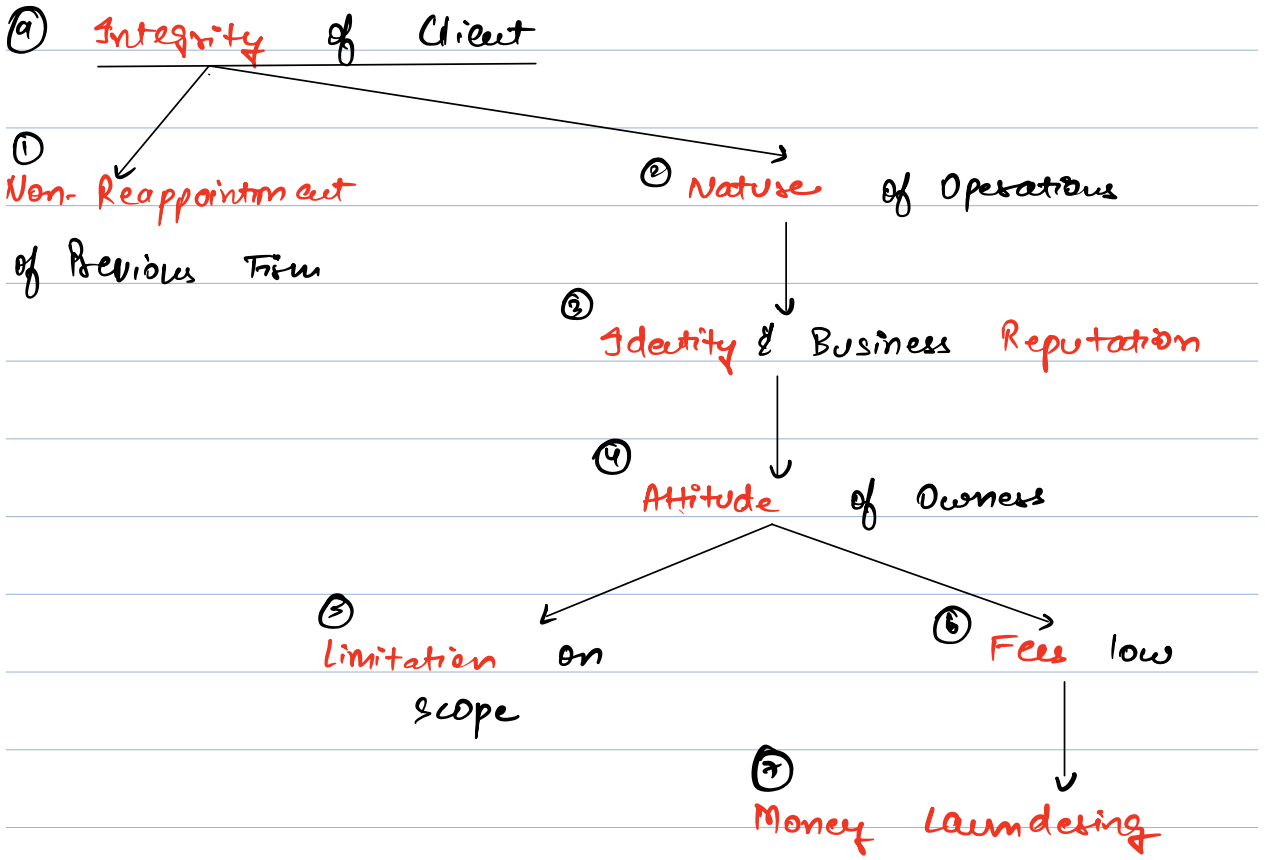
④ Significant Matters (SA 220) (MCQ)

Issues Identified ? → Document How Resolved ?

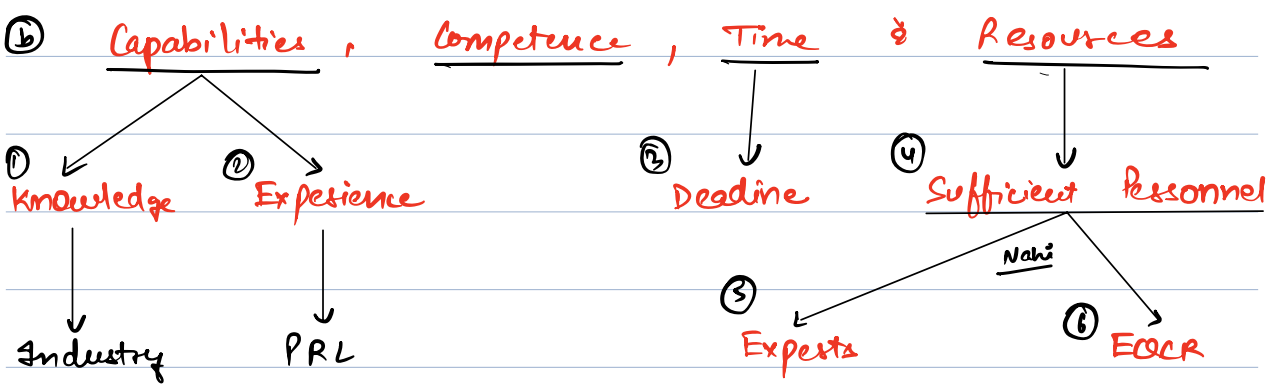
MT - I See Every Shaadi

Integrity | Self-Check (Competence) | Ethical | Significant Matter

---



MT → Rishte ke Pehle 7 Red Flags!



© Info causing to Decline an Engagement

① PRL Responsibilities

Appointment / Regulators

② Possibility of withdrawing

③ Policies on withdrawal

ⓐ Discussing with Mgt

ⓑ Appropriate to withdraw

ⓒ PRL Responsibilities

ⓓ Significant Issues

MT - Break up story

---

④ Human Resources → Most Imp ?

(Sufficient)

EP Responsibilities

ⓐ CC+R

ⓑ Defined & Communicated

ⓒ Communicated to Client

---

⑤ Engagement Performance

Consultations → Difficult / Contentious (Controversial) Matters
→ within / outside Firm

EQCR → (EP Tension)

→ Member of ICAI (MCQ)
→ Suitably Qualified External Person to the team
→ Team of Above
→ Listed → Experience & Authority → To act as EP
→ Listed → Mandatory (MCQ)
Others → Firm's Criteria
→ Significant Judgements Review ✓
Reduce Responsibilities ✗

SQC 1

⑥ Consultations with EQCR
↓
Objective ✓ , Participate ✗ , Decision ✗

EP → MAY Consult ✓

Compromise Objectivity / Eligibility ✗

MCQ – EP himself cannot appoint EQCR

Formal Engagement letter b/w EQCR & EP should be present

If Significant Consultations → EQCR Objective ✓

↓

If ✗

↓

Another Person

↙ ↘

EQCR Consultation

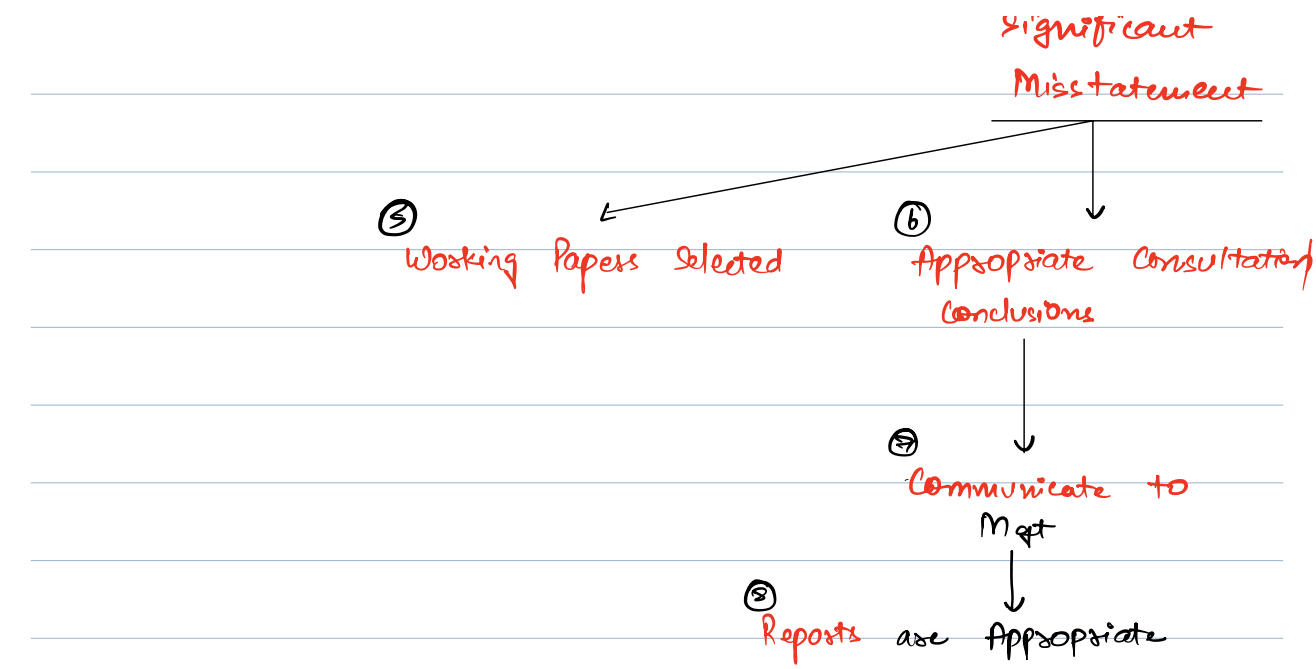
---

① Matters → consider → EQCR → Listed Entities

① Independence → If ✗ → ② Significant Risk → How? → ③ Judgement

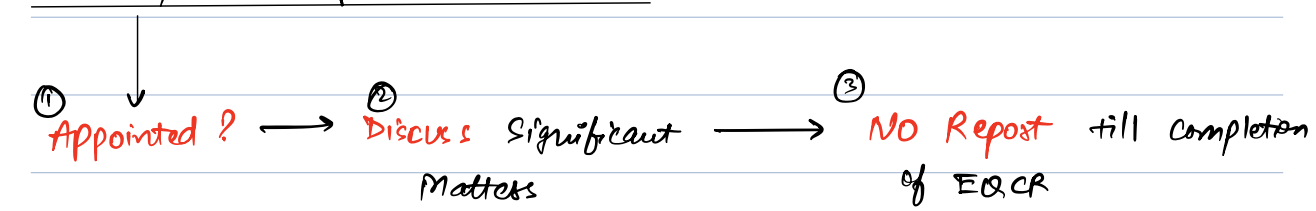
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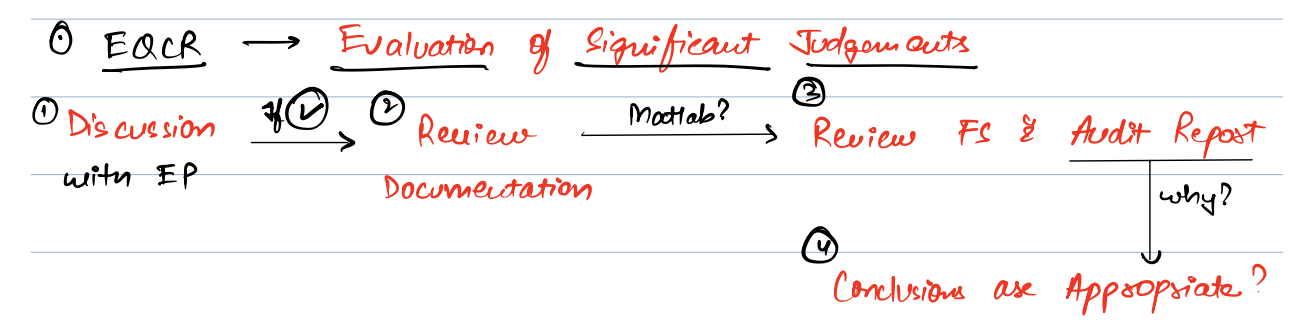
④



SA 220

EP Responsibility wrt EQCR





---

① Matters —Consider→ EQCR ⟶ Listed Entities

↓

Same as SQC 1

① Independence

② Consultations & Conclusion

③ Significant Judgements & conclusion

SQC 1 & SA 220

① EQCR Documentation

↓

① Procedures Performed ? → ② Completed before Audit ?

↓

③ Unresolved Matters → Not Aware → that Significant Judgements were not appropriate

---

SA 220

EP Documentation

↓

① Acceptance & Continuance —If Yes→ ② Independence Complied ? —If ✗→ ③ Issues ? Resolved ?

↓

④ Consultations ? Nature & Scope ?

⊙ Difference of Opinion → EP Vs EQCR

→ Report only after Resolution

→ EP Recommendations ⊗

EQCR satisfaction ⊗

↓

Resolve using → Procedures of Firm (MCQ)

↓ ↓

Another Firm Regulatory Body

---

⑥ Monitoring → QCS → Factors to Consider

↓ Matlab?

ⓐ Appropriately Designed? Effectively Implemented?

↓

ⓑ New Developments → PRL

↓

ⓒ Responsibilities of EP → ⓓ Deal with Complaints & Allegations

↓

Appropriate Remedial Actions

↓ ↓

ⓔ Personnel ⓕ

personnel ⌣ QCs

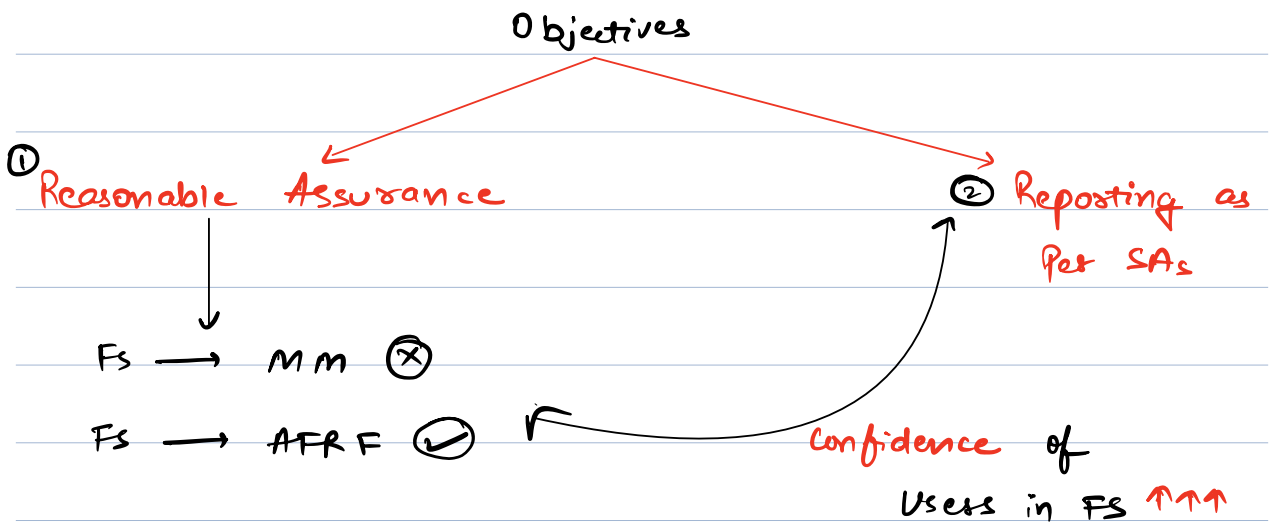
MCQ → Audit Plan & Romm NOT Documented
→ As Reference in IND AS FS
} → SA 220 Violation

Application Part

SA 200

Overall Objectives of Independent Auditor & Conduct of Audit in accordance with SAs

① Objectives → Discussed in Basics Class!



---

① Inherent (Permanent) Limitations of Audit
→ Absolute Assurance ✗

① Nature of FR → Mgt. Judgements & IC Limitations

② Timeliness of FR & Balance Between Benefit & cost → Relevance (Importance) of Info decreases over time

② Nature of Audit Procedures → Practical & Legal Limitations

Practical → Sampling

Legal → Info from Mgt cannot Force

④ Future Events → Adverse uncertain events

③ Not an Investigation

MCQ → Poor Corporate Governance is NOT Inherent Limitation of Audit

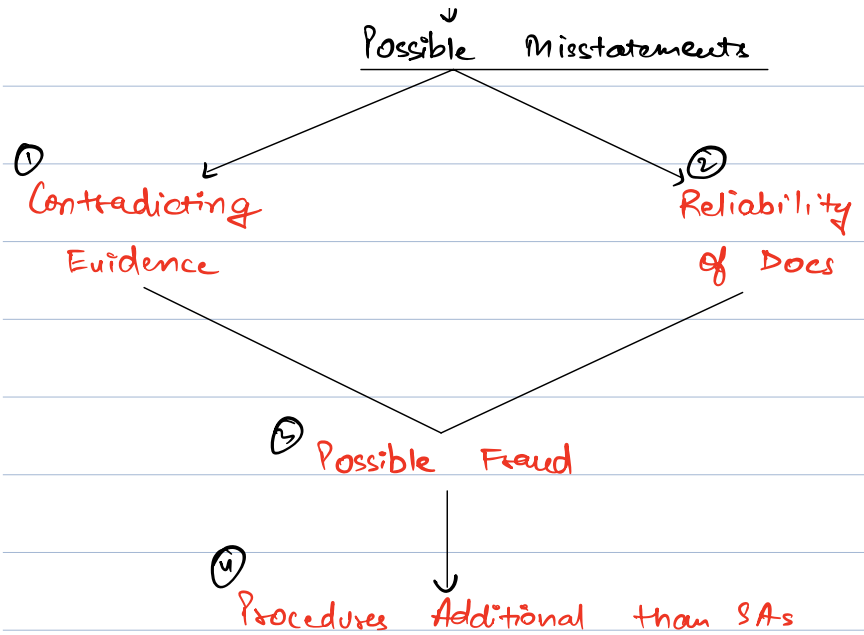
→ Justification for less than Persuasive (Convincing) Audit Evidence ⊗

MCQ → Found IC Satisfactory. No Suspicious Circumstances

→ Fraud not Responsibility of Auditor

⊙ Professional Skepticism

- Questioning Mind
- Alert to Conditions
- Critical Assessment of Evidence



PS is necessary to reduce the risks of

1. Overlooking (Ignoring) Unusual Circumstances → 2. Over Generalising Conclusions → 3. Inappropriate Assumptions

SA 210

Agreeing Terms for Audit Engagements

⊙ Pre-Conditions for Audit

↓

whether Present ?

① FS ⟶ FRF

↓

Acceptable?

② Mgt Understands Responsibility

ⓐ FS ⟶ AFRF ✓

ⓑ IC ⟶ FS ⟶ mm ✗

ⓒ Provide Auditor (PAJ)

ⓘ Access to all Info about FS

ⓘⓘ Additional Info Requested

ⓘⓘⓘ Unrestricted Access to Person

MCA ⟶ 3rd Party prepares entity's FS ⟶ Mgt needs to accept its responsibility ⟶ No Joint Responsibility allowed ⟶ otherwise Don't Accept such appointment

---

⊙ Auditor's Appointment Process

Auditor is Appointed by Shareholders in AGM

↓

TCWN sends Appointment Letter to Auditor

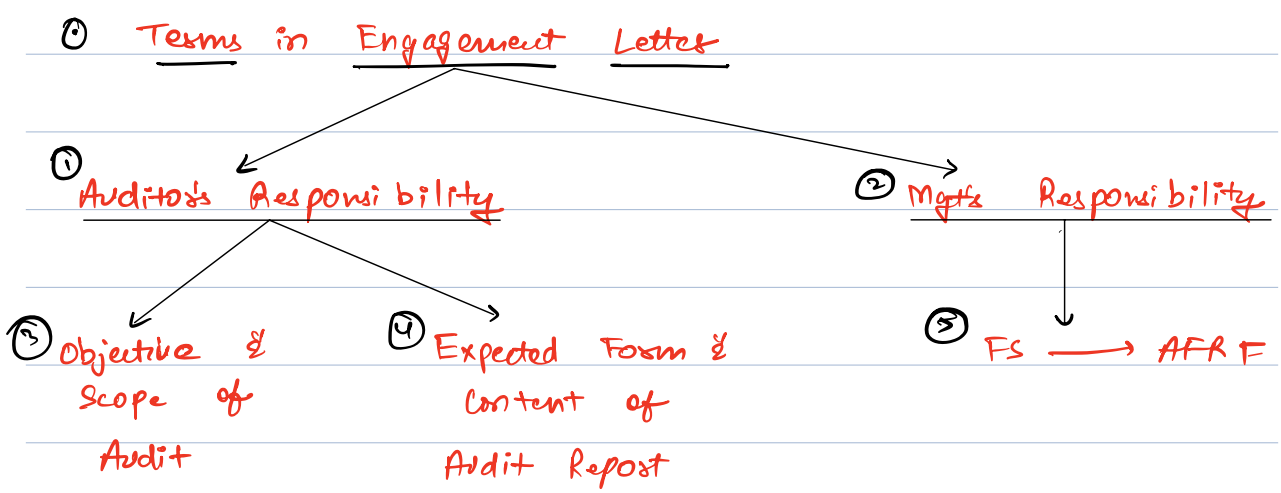
↓

Auditor accepts the appointment letter

↓

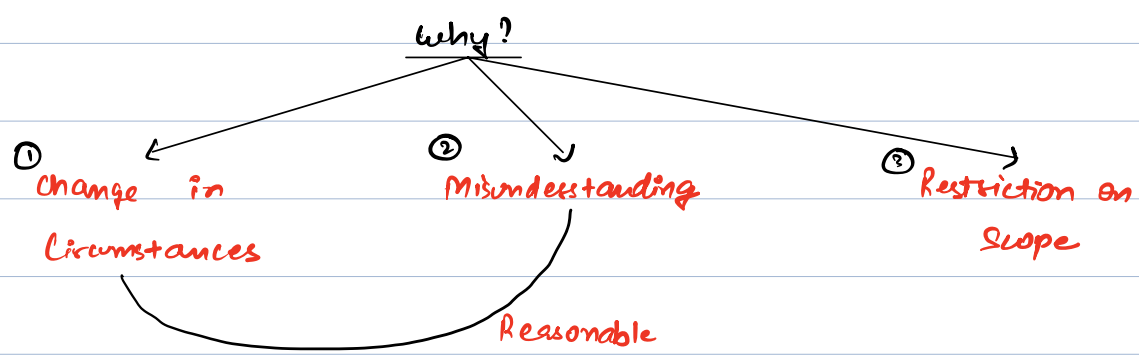
Auditors sends Engagement letter to Client

MCQ → Auditor accepts offer Letter designated as Engagement Letter → Not Allowed → should be a separate Engagement Letter sent by Auditor



---

② Change in Terms of Engagement



Requested to change to lower level?

↓

Reasonable Justification?

Yes → Exclude Reference to
- → Original Engagement
- → " Procedures

No → Withdraw
- → Report Team, Owners, Regulators

---

① Recurring Audits

Whether to revise terms or remind entity of existing terms?

Revise → ② Revised Terms

Remind → ① Entity Misunderstands Objective & Scope

② Revised Terms → Business → ③ Senior mgt / ④ ownership
- ③ → ⑤ Nature / scope

Business → Laws → ⑥ Legal / Regulatory Requirements
- → ⑦ FRF
- → ⑧ other Reporting

SA 230

Audit Documentation

↓

Entity A/c Records ⊗

Assembly of Final Audit File ⟶ ≤ 60 Days after Date of Audit Report (MCQ)

Administrative Process ⟶ New Procedures ⊗

↓

Changes ?

① Evidence obtained Before Report

② Sorting, Collating Cross referencing WP

③ Deleting Superceded Documentation

④ Sign off Completion Checklist

Retention ⟶ ≥ 7 years from Date of

↓

Auditors Reports

Group Auditor Report

Whichever is LATER (MCQ)

→ If 2 Reports on Same Subject Matter → Time Limit apply Separately

Standalone Group

⊙ MCQ → Date of Audit Report – 21.8.22, Regulator called for Proceeding - 20.7.23, Provided thru Editable Excel File – 10.8.23, Modified Report b/w these dates, File Assembly by 21.8.22 +60 Days = 21.8.22 + 10 + 20 + 20 = 20.10.22

⊙ Ownership of Documentation (MCQ)

↓

Property of Firm → May provide to Anyone

↓ Consider

Validity of work & Independence

MCQ – Co. cannot ask back WP of Previous Auditor

⊙ Completion Memorandum / Audit Documentation Summary

↓

Significant Matter identified → How Addressed?

⊙ MLQ → Documentation Near Date of Audit Report

SA 240

Auditor's Responsibilities Relating to Fraud in Audit of FS

① Primary Responsibility → Mgt & TCWG

② Auditor's Responsibility → ① Reasonable Assurance

FS → MM ✗

② Inherent limitations ✓ | Unavoidable Risk ✓ | MM Detected ✗

Not justification for ↓ Persuasive Evidence

③ Risk of Not Detecting MM

Fraud > Error

Mgt Fraud > Employee Fraud

④ Professional Skepticism

⑤ Docs Genuine unless untrary

Docs → Authentic ✗

→ Investigate ✓

2 Types of Fraud

- **Fraudulent Financial Reporting (FFR)** (Mgt level)
  - Manipulation → A/c Records (Maine kiya!) (SA)
  - Misapplication → A/c Policies (Mis ne kiya!) (Repairs)
  - Misrepresentation → Events (Dono ne milke kiya!) (Invoice)
- **Misappropriation of Assets** (Employee level)

---

① FFR → Techniques of Mgt Overriding Controls

① **Complex Transactions** (RP) → ② **Omit, Advance, Delay Transactions** (Returns) → ③ **Concealing Facts** (Legal case)

③ → ④ **Inappropriate Assumptions** (useful life) → ⑤ **Fictitious Journal Entries at Period End** (Fake sales) → ⑥ **Altering Terms** (Sales contract - Fake)

MT → COCA Cola me Fraud ka Flavour

Responses to Risk of Mgt Override of Controls

Irrespective of Assessment of above risk

↓

(C) (1) Outside Normal Course of Business - Rationale

↓

(A) (2) A/c Estimates for Biases

↓

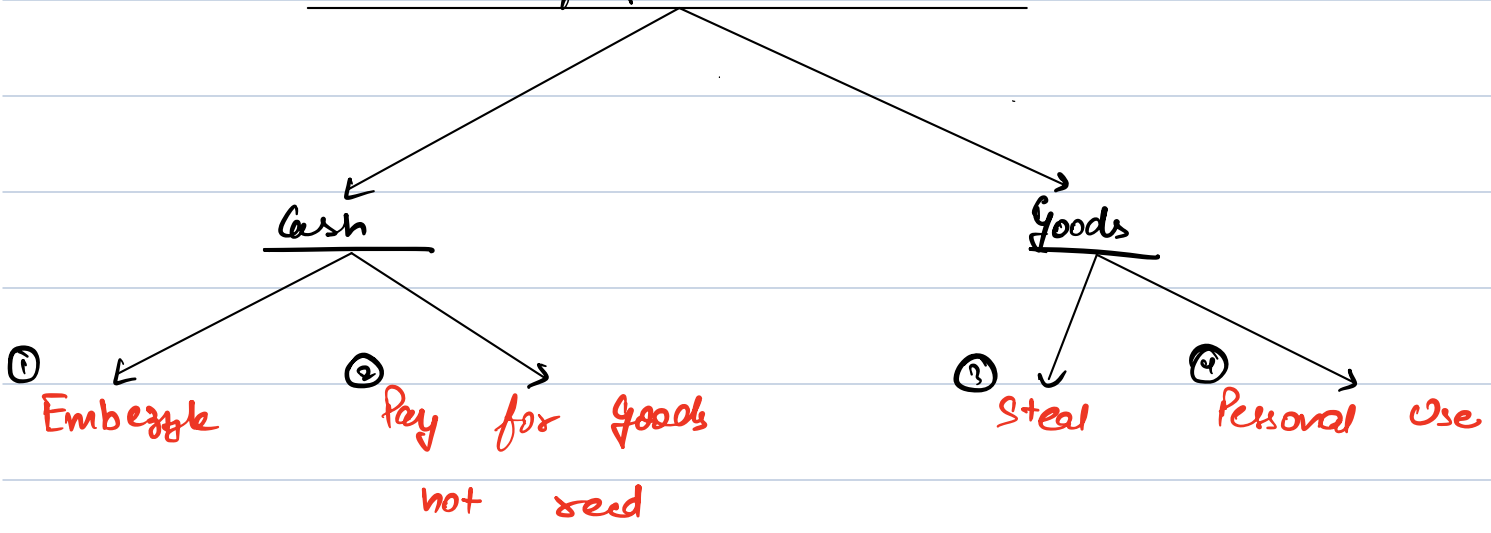
(F) (3) Appropriateness of Journal Entries (X)

↓

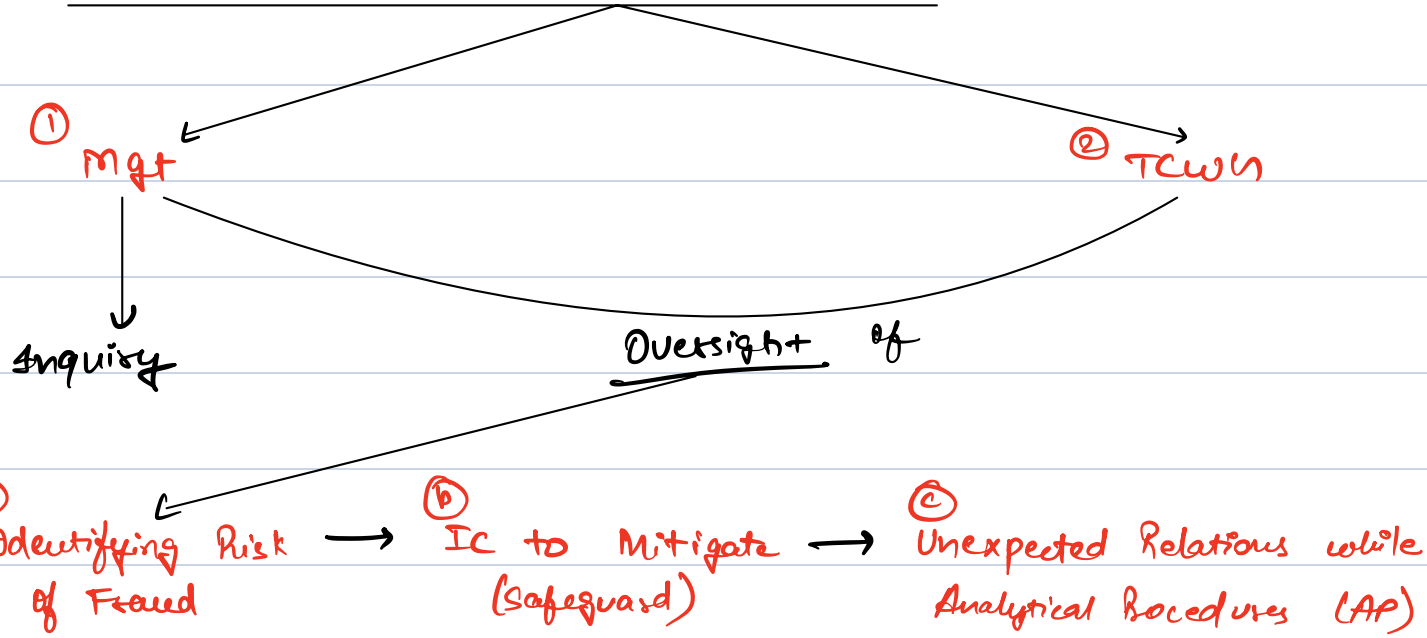
MCQ → Inappropriate JE → Auditor should do a comprehensive review of FR throughout the year → Incl. JE, Consolidation Adjustments & Reclassification

---

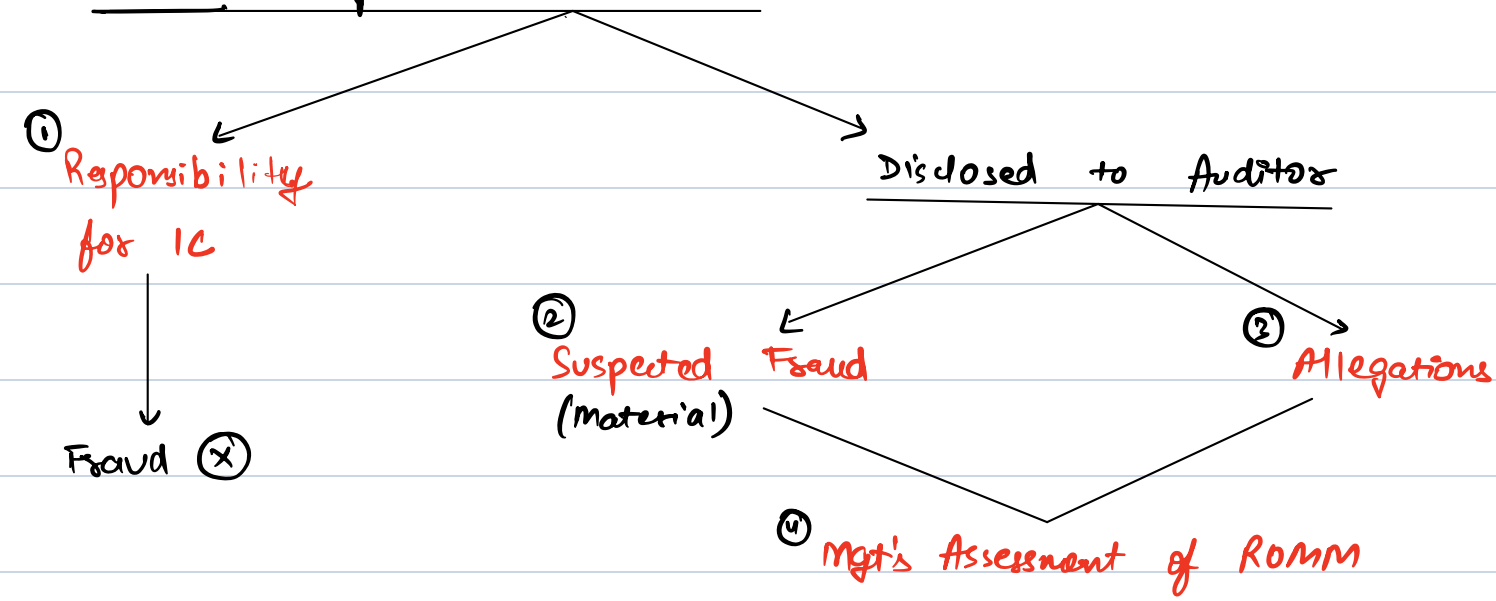
Misappropriation of Assets (Employee level)



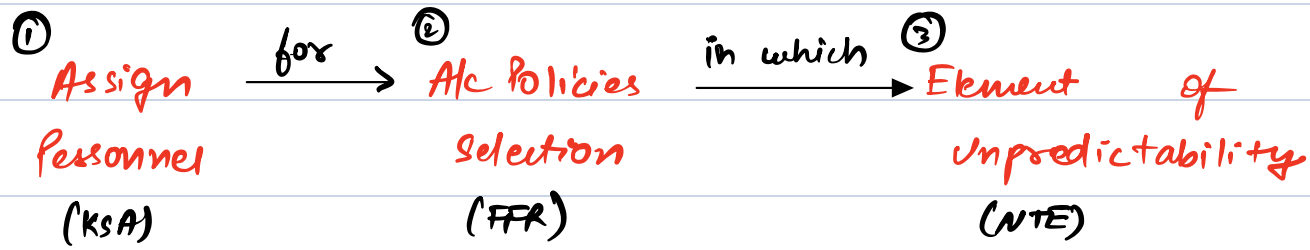
⊙ Risk Assessment Procedures (RAP)



⊙ Written Representations (WR)



⊙ Responses to Assessed ROMM due to Fraud at FS Level



⊙ Engagement Team should discussion among team members on how & where Entity's FS may be susceptible to MM due to Fraud → Irrespective of Past History of ROMM due to fraud (MCQ)

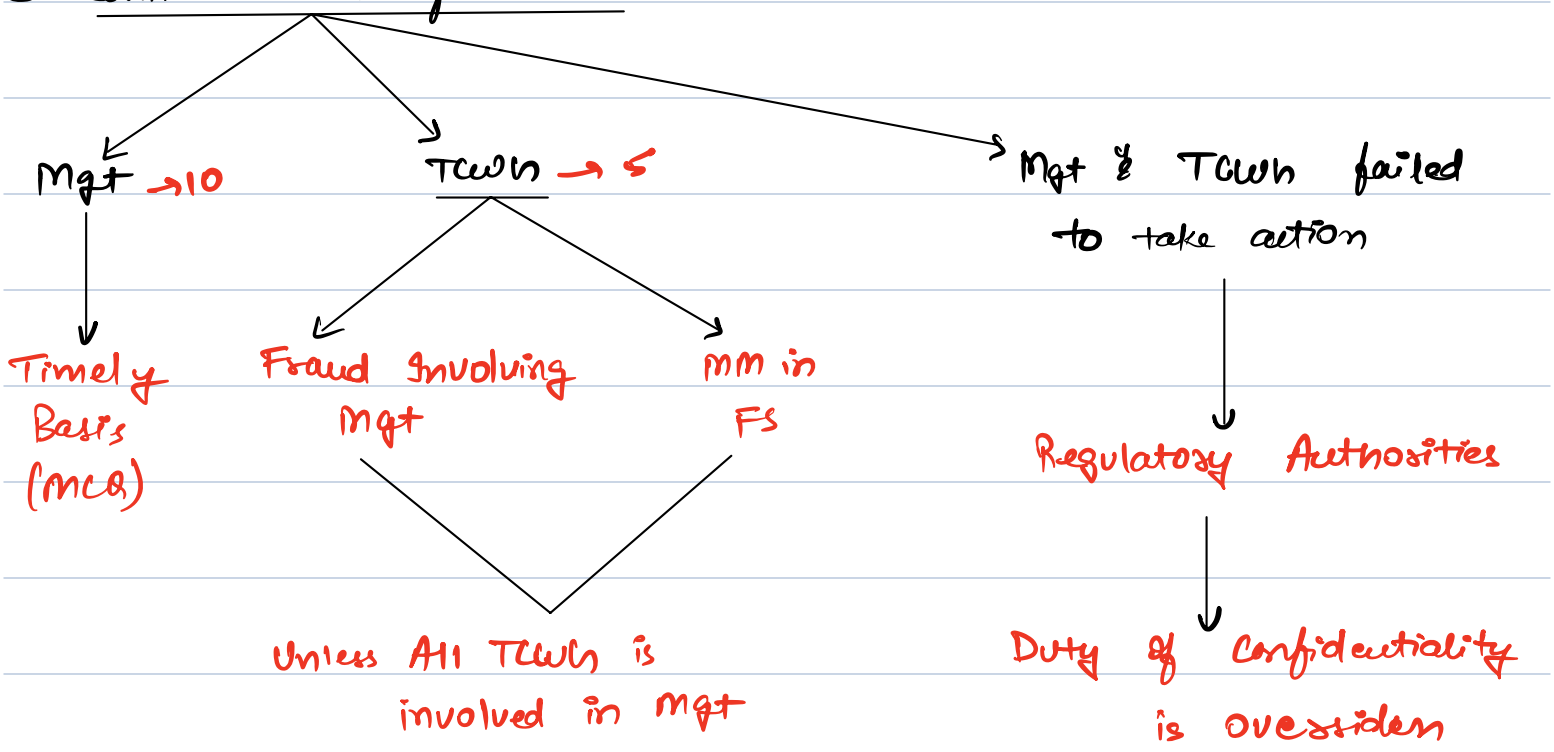
↓
Sensitive

⊙ Assessing ROMM due to Fraud at Assertion Level → NTE ↑↓

↓

Gain further insight on ROMM due to Fraud & decide if additional Procedures are required (MCQ)

⊙ Communication of Fraud



---

⑤ Auditor Unable to Continue Engagement (Similar as Info causing to Decline Engagement is recd)

Due to Fraud → Exceptional Circumstances

① PRL Responsibilities → ② Appropriate to withdraw?

Appointment (CARO 2020)

Regulatory Authorities (143(10))

③ Yes!

Discuss with Mgt & TCWG → Reasons

---

⑥ Documentation

Fraud Communication to Mgt, TCWG, Regulator & Others

Presumption of Romm due to fraud related to revenue recognition is not appilable (Single Simple Revenue Structure)

Document reasons (MCQ)

SA 250

Consideration of Laws & Regulations in Audit of FS (After 240)

⊙ Responsibilities of Mgt

Q → Policies for Prevention & Detection of Non-Compliance

1. Internal Control System (ICS)
2. Legal Advisor (to monitor)
3. Monitor legal requirements
4. Code of Conduct (CoC)
5. Register (significant L & R)
6. Employee understand (CoC)
7. Monitoring Compliance (CoC)

⊙ NCA → Maintaining Register for Significant Transactions not covered above

---

⊙ Auditor's Responsibility → Not for Preventing / Detecting Non-Compliance

Because

Inherent limitations of audit are greater

① Many L&R not affecting FS

② Non-Compliance Concealed

③ Legal Determination by Court

MCQ → After Audit, Notice send by Real Estate Co. that it violated laws regarding floors and areas → Inherent limitations, NOT Auditors Responsibility

---

① When Non-Compliance is identified or Suspected (MCQ)

① Understanding Nature → ② Circumstances → ③ Effect on FS

(Cause we are NOT Expert!) (Our main Objective!)

→ Discuss with Mgt & TCWG

Not Provide Sufficient Info ⊗ & Non-Compliance is Material to FS

① Legal Advice → Not Directly Modify Opinion

② Effect on Opinion, ROMM & WR

③ Action

MCQ → Auditor himself is not required to monitor legal requirement and compliance with code of conduct

MCQ → When Non-Compliance is not material, Auditor withdrew after performing above procedures → Allowed in exceptional circumstances, if allowed by L&R → SA 240

---

2 Types of L&R

- Direct Effect on FS
  - Tax & Labour
- Fundamental to Operations or To avoid Penalties
  - Environmental
  - State Pollution Control (MCQ)

How to identify?

- Affects FS — Both when Complied / Not Complied
  - Obtain SAAE about compliance (Audit)
- Affects FS only when NOT complied
  - Limited to identifying Non-Compliance (Review)

① Inquiring Mgt if complied → ② Inspecting correspondence with Authorities

---

① Reposting of Non-compliance

① TCWG
- Unless all are in Mgt
- Others than trivial (inconsequential)

- Intentional & Material
- Communicate ASAP

- If Mgt / TCWG involved
- Communicate with Next Higher Level

↓

Audit Committee or Supervisory Board

↓

If Not Available (or)

May not be acted upon (or)

Unsure to person to repost

↓

Obtain legal Advice

④ Audit Report

→ Material Effect + Not Reflected
→ Qualified / Adverse Opinion

→ Precluded from SAAE → Limitation on Scope
→ Qualified / Disclaim Opinion

→ Limitation by circumstances (Eg. Fire) but not Mgt
→ Evaluate effect on Opinion

⑤ Regulatory Authorities → Determine if he has responsibility to report

---

Documentation

① Identified / Suspected Non-Compliance

② Results of Discussion with Mgt / others

WR → All Known Non-Compliance having effect on FS are disclosed

Non-Compliance with Laws & Regulations (NOCLAR)

(CPE)

- Non-Compliance → Omission / commission (Act)
  - → Intentional / Unintentional
  - → Contrary to L&R
  - → Committed By
    - Client / Employing Org (Practice)
    - Employees
    - Mgt
    - TCWG

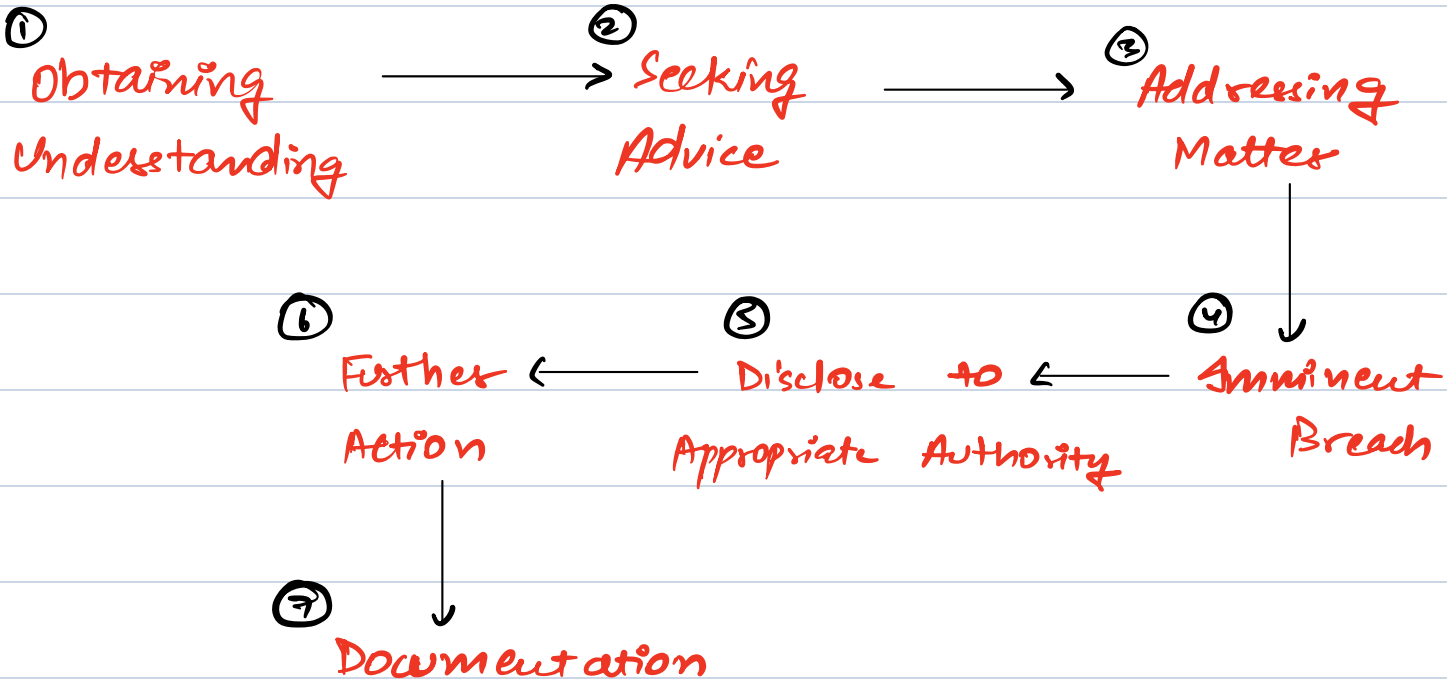
Service → Not Include

- Other than above parties (eg. Debtor)
- Personal Misconduct (other than Business)

Applicability

- Service → KMP → Listed Entity
- Practice → Auditor → Listed Entity on Recognised Stk Exchange India → Net worth ≥ 250 cr

0 Steps to Respond to NOCLAR



SA 260

Communication with TCWG

① 2 way communication blw Auditor & TCWG assists in

① Understanding Audit Matters & Working Relationship

② Obtaining info relevant to Audit

③ Fulfil responsibility to Oversight FR

---

② Matters to be Communicated by Auditor to TCWG

① Scope & Timing (Basic)

② Auditor's Responsibility

③ Significant Findings

② Auditor's Responsibility

ⓐ Opinion on FS

ⓑ Does not relieve Mgt

① Scope & Timing (Basic)

ⓐ TCWG - Understand Auditor's Work

ⓑ Auditor — Understand Entity

③ Significant Findings

ⓐ Checking Significant Qualitative Aspects of Entity's A/c

ⓑ Significant Difficulty (Apni dikkat)

Practices (Client ke matlab ki baat)

Communicate

(c) TCWGs (All are Mgt ✗)

(i) Significant Matters (discussed with Mgt)

(ii) WR Requested (from Mgt)

(d) Circumstances affecting Form & Content of Audit Report (570, 701, 705, 706, 720)

→ (e) Other Significant Matters

MCQ → Mgt has responsibility to communicate matters of significant interest to TCWGs → Communication by Auditor does not relieve Mgt of its responsibility & vice versa!

(b) Significant Difficulty in Audit

(i) Extensive Unexpected Efforts (for SAAE) → (ii) Unavailability of info → (iii) Mgt Unwillingness for the Assessment

(iv) Significant delays in providing info → (v) Unreasonable time to complete Audit → (vi) Restrictions by Mgt

---

(c) Significant Matters discussed with Mgt

(1) Initial & Recurring → (2) Significant Events → (3) Business Conditions

Appointment (Discussions)

Occurred

Affecting ROMM

③ Disagreement with Mgt ← ④ Mgt Consultations (Mc, Audit matters)

---

① Communication of Auditors Independence — Listed Entities

① Complied with Independence

② Relationships to bear on ↑

③ Safeguards to Eliminate | reduce threats

④ Total fees → for Both - Audit | Non Audit Services

→ Firm | Network Firms

→ Entity | Components

→ Allocated to Categories

SA 265

Communicating Deficiencies in IC to TCWG & Mgt

SA 260 → Only TCWG → Other than Deficiencies

SA 265 → Both Mgt & TCWG → Only Deficiencies

Communication to Mgt

- Significant Deficiency → Writing → that are communicated to TCWG (unless inappropriate)
- Other Deficiency → Important for Mgt Attention (Not communicated by others) → May be writing / oral

---

① Letter of Weakness

① Description of Deficiencies → ② Potential Effects → ③ Info to understand context

④ Purpose to express opinion

(b) Not opinion on effectiveness of IC

(c) Limited to only deficiencies that Auditor has identified

MCQ → Timing of above communication

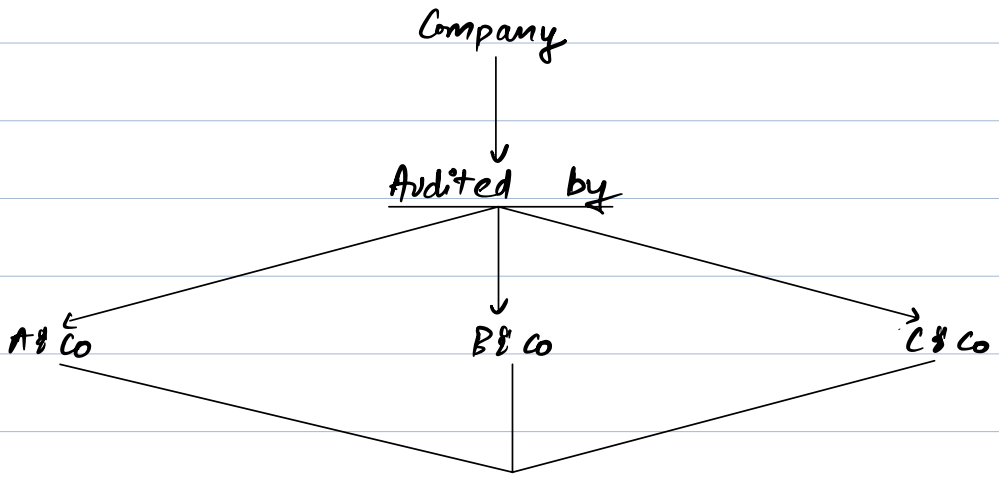
→ Listed Co. → Before Approval of FS

→ Unlisted Co. → Before Assembly of Final Audit File

MCQ → Previous Year Letter of weakness, Not rectified yet → Repeat Description in current Year letter or give reference of previous Year Letter

SA 299

Joint Audit of FS



① Planning & Strategy → Jointly

Prior

① Preliminary Engagement Activities (PEA) → ② Division of Audit Areas & Common Areas

③ Directing Team's Efforts (factors)

④ Reposting Objectives

⑤ NTE of Resources

① Each Joint Auditor → Assess ROMM

→ Communicate to Others

⊙ Discuss NTE of Procedures for → Common Audit Areas
→ Specific Allotted Areas

→ Common Engagement letter
→ Common Mgt Representation (WR) letter

Work Doc → Signed by All
→ Communicated to TCWG

⊙ For Audit work → Responsible for that specific area divided allotted

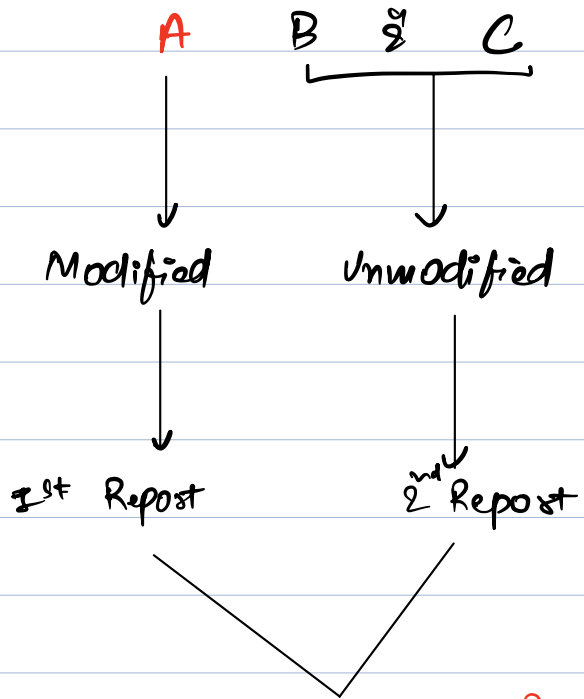
⊙ For Common Audit Area
↓
All Joint Auditors - Jointly & severally Responsible

① Work which is Not Divided → ② Decision for Common Areas → ③ Matters brought to Notice & Agreement

FS
- ④ Compliance with Statutes
- ⑤ Presentation & Disclosure as per AFRF

⑥ Report → As per Statute

→ Responsible only Appropriateness of NTE of Procedures
Individual Execution lies with concerned JA



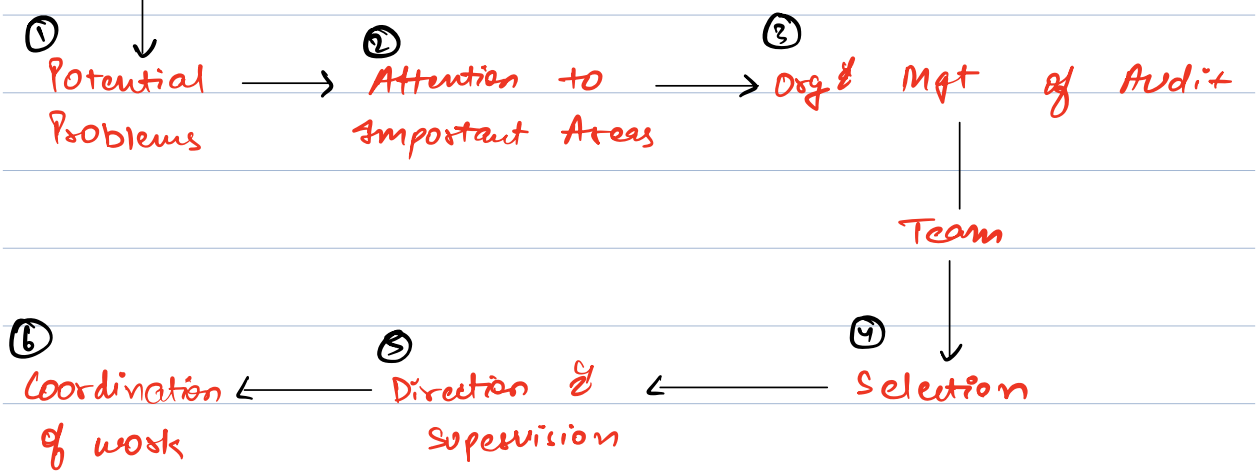
Other Matter Paragraph (SA 706)

1 → 2 , 2 → 1

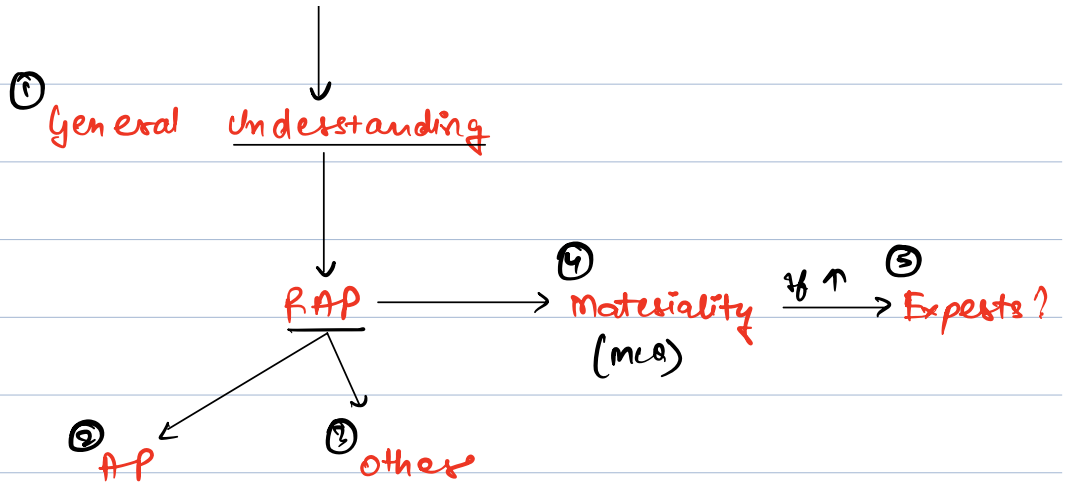
SA 300

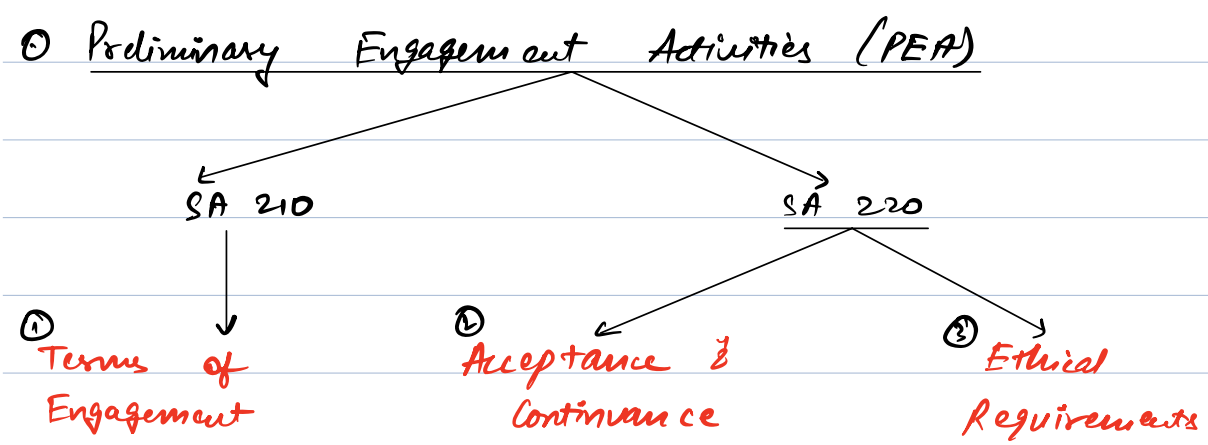
Planning Audit of FS

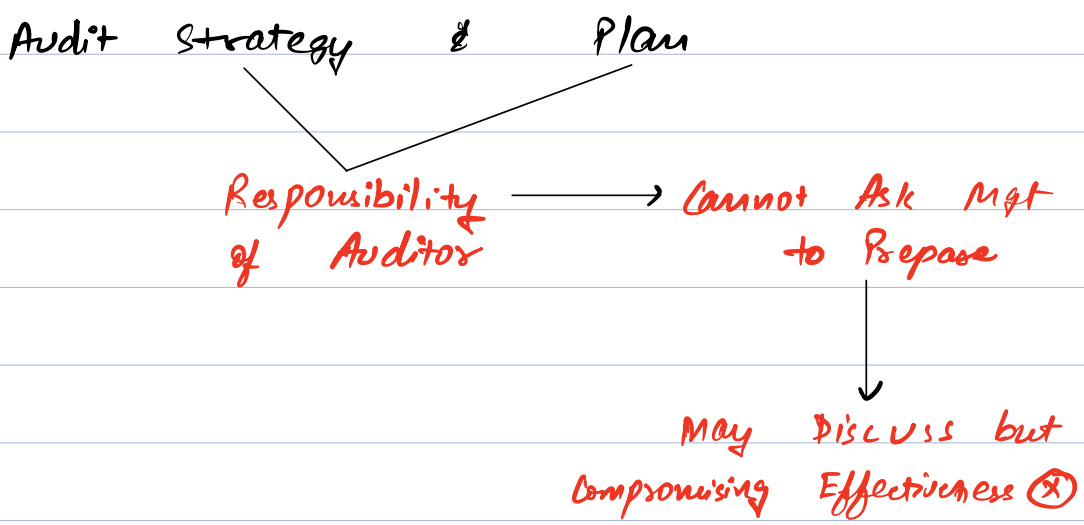
- Strategy – Scope, Timing, Direction
- Planning – Nature, Timing, Extent
- Programme – Verification Procedures
- Why Planning



- Planning – A Continuous Process – (NOT Discrete Phase)
  - It needs to consider (Prior to Assessment of ROMM)


① General Understanding
RAP
② AP
③ Others
④ Materiality (MCQ)
If ↑
⑤ Experts ?


① Preliminary Engagement Activities (PEA)
SA 210
SA 220
① Terms of Engagement
② Acceptance & Continuance
③ Ethical Requirements


Audit Strategy & Plan
Responsibility of Auditor
Cannot Ask Mgt to Prepare
May Discuss but Compromising Effectiveness ✗

Contents of Audit Plan

NTE of

1. Planned RAP (SA 315)
2. Planned FAP (SA 330)
3. Other Procedures

---

① Nature of Planning vary due to

1. Size & Complexity of Entity → 2. Change in Circumstances → 3. Past Experience

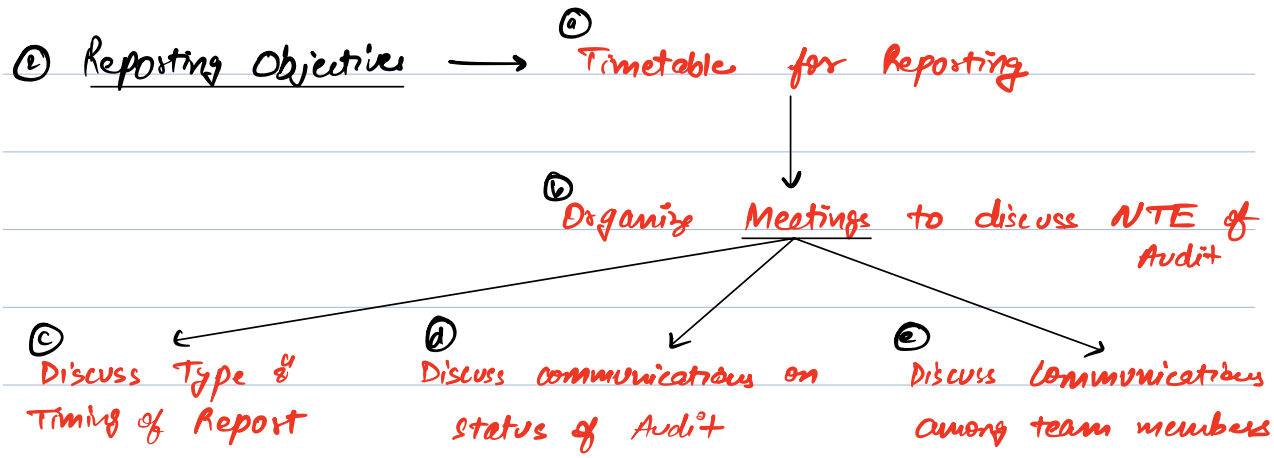
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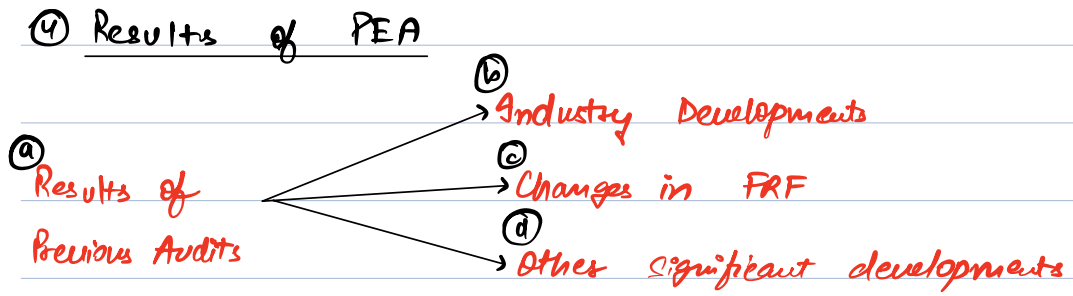
① Factors for Audit Strategy - STD, PEA (SA 299)

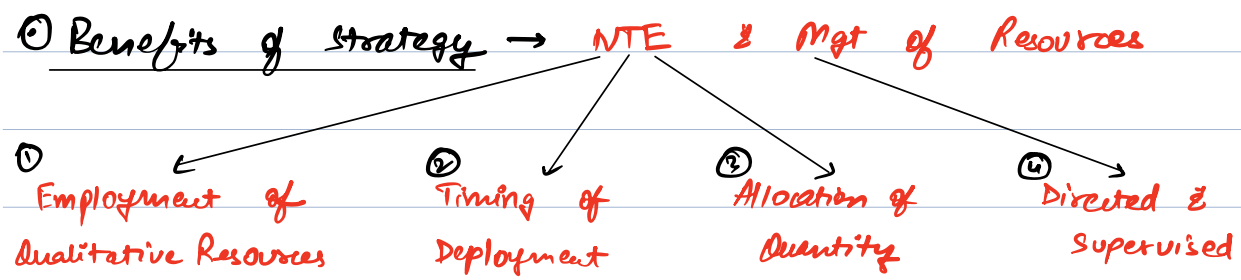
1. Characteristics of Audit
2. Reporting Objectives
3. Team's Efforts
4. Preliminary Engagement Activities
5. NTE of Resources

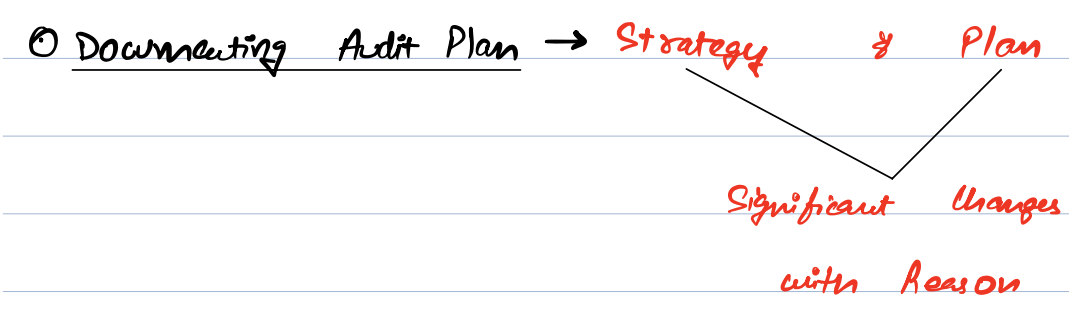
Scope
- a. Audit Coverage
- b. Data Availability → c. Evidence from Previous Audit

Law
- d. Industry specific Reporting
- e. AFRF


① Reporting Objectives
ⓐ Timetable for Reporting
ⓑ Organize Meetings to discuss NTE of Audit
ⓒ Discuss Type & Timing of Report
ⓓ Discuss communications on status of Audit
ⓔ Discuss communications among team members


④ Results of PEA
ⓐ Results of Previous Audits
ⓑ Industry Developments
ⓒ Changes in FRF
ⓓ Other Significant developments


⑤ Benefits of Strategy → NTE & Mgt of Resources
① Employment of Qualitative Resources
② Timing of Deployment
③ Allocation of Quantity
④ Directed & Supervised


⑥ Documenting Audit Plan → Strategy & Plan
Significant Changes with Reason

⊙ Changes with Planning

① Unexpected Events (Enumeration) → ② Changes with conditions (No Cash Transactions) → ③ Evidence obtained → ④ Info differ significantly

---

⊙ Relationship b/w Strategy & Plan

- More detailed
- ⊙ Prepared before
- ⊙ Closely Interrelated

⊙ Audit Programme → Allocate work to team members

↓

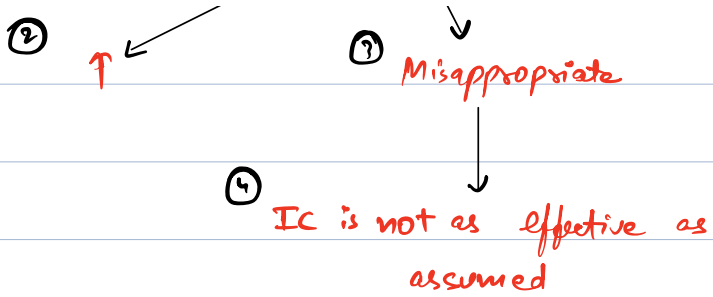
Formulating → O - SONIA

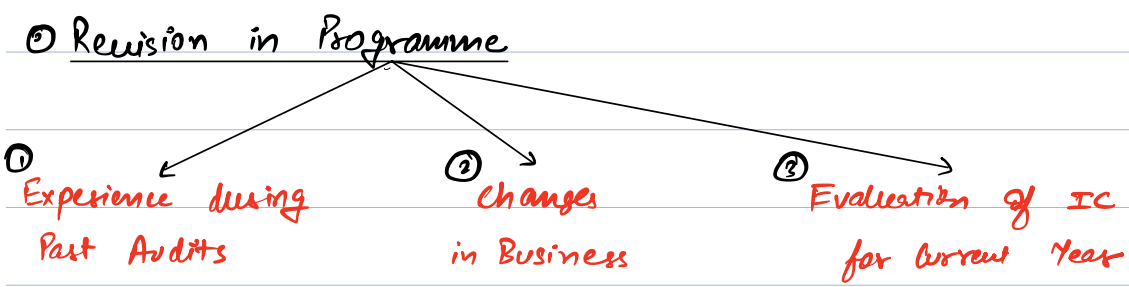
- Overall Plan
- Size of Org
- ICS
- A/c & Mgt Policies
- Info of Org
- Nature of Business

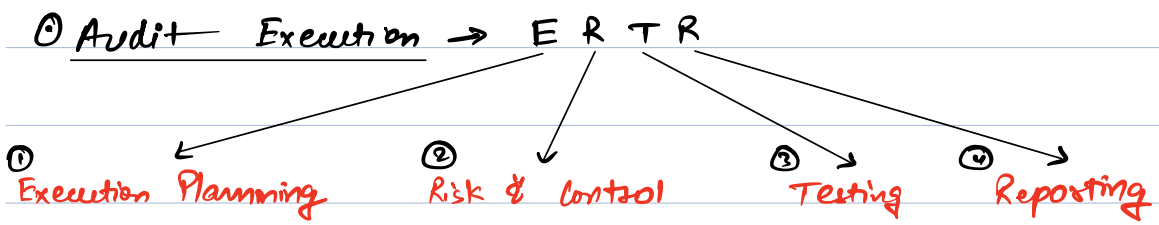
⊙ When Audit Programme altered during Audit?

⊙ Revenue ↑

Assets


2
3
Misappropriate
4
IC is not as effective as assumed


5 Revision in Programme
1
Experience during Past Audits
2
Changes in Business
3
Evaluation of IC for Current Year


6 Audit Execution → E R T R
1
Execution Planning
2
Risk & Control Evaluation
3
Testing
4
Reporting

---

① Assertions → Representations by Mgt

→ Explicit or Implicit

→ Embodied in FS

ⓐ Transactions & Events (OCACe)

Eg. Travelling Expenses ₹50,000

① O - Occurence

② C - Completeness

③ A - Accuracy

④ C - Cut-off

⑤ C - Classification

ⓑ A/c Balances (ERCV)

Eg. Debtors ₹50,000

① E - Existence

② R - Rights & Obligation

③ C - Completeness

④ V - Valuation & Allocation

ⓒ Presentation & Disclosure

①② Occurence & Rights & obligations

③③ Completeness

④④ Accuracy & Valuation

⑤ Classification & Understandability

Negative

Expressed

Stated "No Contingent liability"

Implied

No Contingent liability in B/S

SA 315 → Processes

Identifying & Assessing RoMM through Understanding Entity & its Environment

- Objective of Auditor
  - Identifying & Assessing RoMM → by Understanding Entity
    - FS Level (IPE software)
    - Assertion level (Inv count)
    - Implementing Responses to assessed Risks
  - → Auditor shall
    - (i) Identify Risk while understanding entity → Assess Risk
      - (ii) Likelihood of Misstatement
      - (a) FS Level (Pervasive)
      - (b) Assertion level

- MCQ → Engagement Team should consider 1st Client's Business Environment & should obtain Info about Law & Statute applicable to Client

- MCQ → Communication with External legal counsel is not Part of RAP

MCQ → Understanding Entity does not include asking confirmation letters from Banks

---

① Internal control → Process by Mgt & TCWG

↓

Provide Reasonable Assurance for entity's objectives

↓

CARE

① Effectiveness & Efficiency of Operations

② Compliance with L & R

③ Safeguarding of Assets

④ Reliability of FR (↑)

② Limitation of IC → Only Provide Reasonable Assurance (Collusion)

③ Manual Elements in IC Suitable → Judgements

① Large / Unusual → Non-Recurring Transactions → ④ Errors difficult to Predict

↓

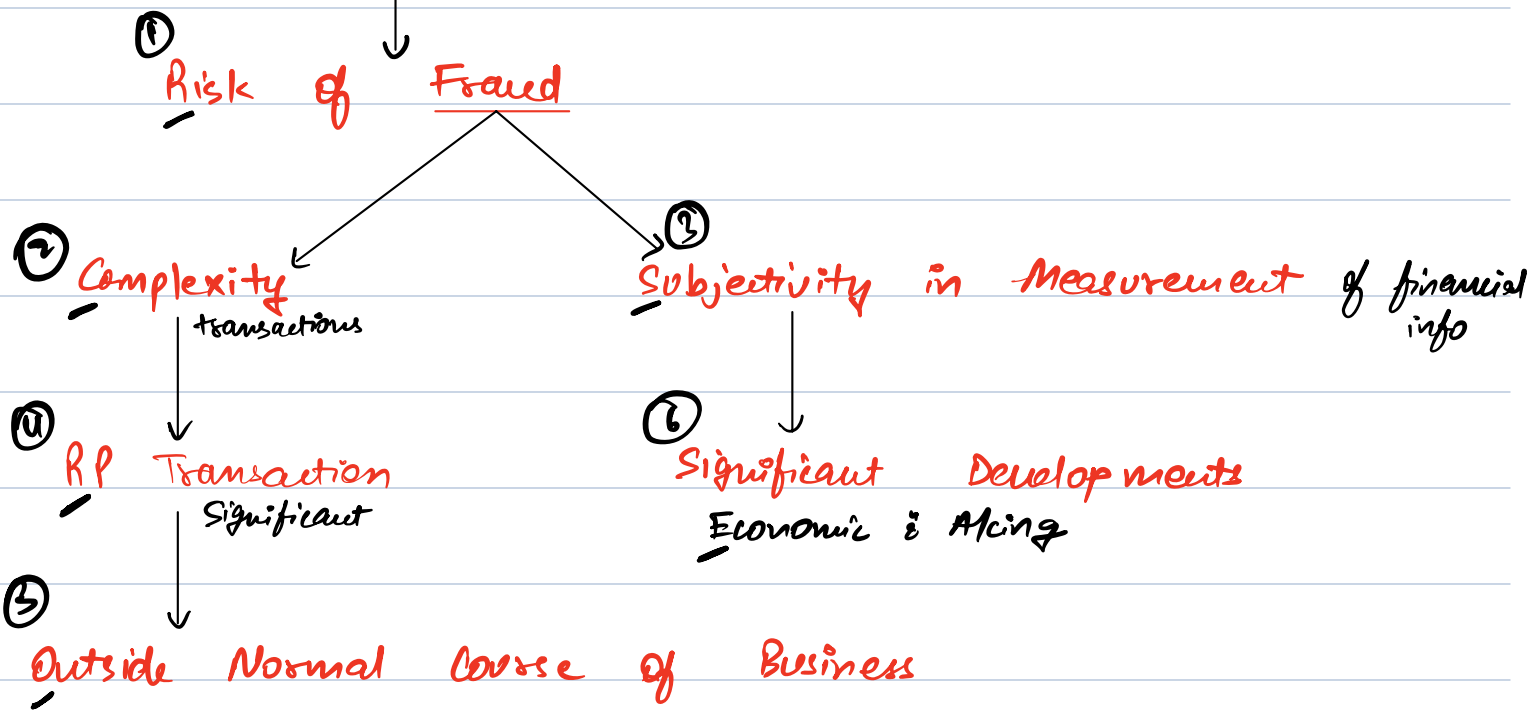
Automated control

② Outside Scope

Control Response

③ Effectiveness Monitoring

⊙ Significant Risk → Judgement → SCORER



⊙ MCQ → Auditor should understand Risk Mgt Policy to identify RoMM that Mgt failed to identify

SA 320

Materiality in Planning & Performing Audit

- Material → Influence Economic Decisions of Users of FS
  - Size
  - Nature
    - Statutory Requirement of Disclosure
      - Income / Expense disclosed Separately
        - Exceeds
          - 1% of Revenue
          - 1,00,000
        - whichever is higher
      - Shares held by each Shareholder holding >5% of shares
  - Circumstance

- Performance Materiality → ↓ than Materiality
  → ↓ Probability that Misstatements Exceeds Materiality (MCQ)
  → Also for ABCD

- Use of Benchmarks to Determine Materiality for FS
  - Factors Affecting Identification → Judgement

① Volitality of Benchmark

② Nature of Entity, life cycle, industry & Economic Environment

② Attention of Users focused on?

④ Ownership Structure & financing

③ Elements of FS

⊙ Revision in Materiality during Audit

① New info (Import) → ② Change in Circumstances (Business Acquired) → ③ Change in Understanding due to FAP (IC Effectiveness ↑↓)

SA 330

Auditor's Responses to Assessed Risk

→ Further Audit Procedures (FAP)

- Test of control (TOC)
- Substantive Procedures
  - Test of Details (TOD)
  - Substantive Analytical Procedures

→ When Designing FAP, Auditor shall

- Consider Reasons for RoMM Assessment level at assertion level
- Higher Assesment = More Persuasive Evidence

○ TOC → Procedure to Evaluate Operating Effectiveness of controls to Prevent or Detect & Correct MM

→ Auditor shall design TOC when

- RoMM Assessments has expectation that controls are operating effectively (Auditor intends to rely)
- Substantive Procedures cannot Provide SAAE alone

- Substantive Procedures → Procedures to detect MM

Even if RoMM is low, they are performed as

- RoMM Assessment is Judgment
- Internal Control has Inherent Limitations

SA 450

300-315-330-450

Evaluation of Misstatements identified during Audit

① Misstatement → Diff. B/w ACPD of → (Amount, Classification, Presentation & Disclosure)

- Reported FS item
- Required as per AFRF

① Types of Misstatement

- Factual
  - No Doubt
- Judgemental
  - Mgt Judgements unreasonable
  - A/c Policies Inappropriate
- Projected
  - Best Estimate of Misstatement in Population

---

① Accumulation of Misstatements

- Other than Clearly Trivial (insignificant)
  - If uncertainty → Not considered Clearly Trivial

⊙ Consider Revision in Strategy & Plan if

① Nature & Circumstances of Identified Misstatements → indicates → Others MM could exist

② Accumulated Misstatement Approaches Materiality

⊙ Communication & Correction of Misstatements

Mgt → Request to Correct

Timely Basis → Unless Prohibited by law

Corrects → Determine if Misstatements remains

Refuses to Correct → Understand Reasons? → Fs free from MM?

⊙ Effect of Uncorrected Misstatements

Prior to this

Reassess Materiality → Determine if they are Material
to confirm

consider
① Size & Nature & Circumstances
② Effect of Uncorrected Misstatement of Prior Period

---

⑤ Communication with TCWG

Uncorrected Misstatements → Effect on Auditor's Opinion

Current Period
Effect of Prior Period

⑥ Written Representation

→ Uncorrected Misstatements are Immaterial
→ Summary of items included

---

⑦ Documentation

① Amount for Clearly Trivial
② All accumulated misstatements corrected / uncorrected
③ Uncorrected Misstatements are material ?

SA 500

Audit Evidence

- Sufficiency
  - Quantity
    - Factors Affecting Above
      1. Materiality ↓ ↓
      2. Romm ↓ ↓
      3. Size & Characteristics of Population →
         - Smaller, Homogeneous → ↓
      - Vice Versa
- Appropriateness
  - Quality
    - Relevance
      (Logical connection with Purpose & Assertion)
      (Env Count - R&D)
    - Reliability
      - Generalisations
        - Reliability ↑ when
          1. Independent sources
          2. If Internal, Controls are Effective
          3. Directly by Auditor
             - (1) Documentary Form → (2) original Docs

① Procedures to Obtain Audit Evidence → AEI²OU

Eg. Inventory Count

① Inquiry (SAAEX) → ② AP (SA 520) → ③ Observation (looking at Process) → ④ Reperformance (Independent Execution of Procedures)

④ → ⑤ Inspection (Examining Docs) → ⑥ Recalculation (Checking Mathematical Accuracy) → ⑦ External Confirmation (SA 505)

---

① Mgt Expert → Others than A/c / Auditing Expert (Actuary)

→ Used in Preparing FS

Audit Evidence is prepared by above → Can we Use?

① Expert → Work

Competence, Capabilities & Objectivity (CCO) (Evaluate)

② Understanding Obtain

③ Appropriateness (Evaluate)

(Evaluate)

C & C

(a) Previous Experience

(b) Knowledge of Expert & Qualification

O

(c) Independence

(d) Employed by Entity ?

(2) Obtain understanding of Expert's work

(a) Internal / External Data used → (b) Assumptions & Methods used → (c) Auditor has expertise to evaluate ?

(3) Evaluate Appropriateness of Expert's Work

(a) Source Data - CAR (Completeness, Accuracy & Relevance) → Relevance & Reasonableness → (b) Assumptions & Methods

→ (c) Expert's Findings

MCQ → Objectivity of Mgt Expert will be lesser if employed by Entity

---

(4) Selecting Items for Testing

(1) All Items

Unlikely in TOC

More common for TOD

Appropriate when ?

(a) Small number of large value items

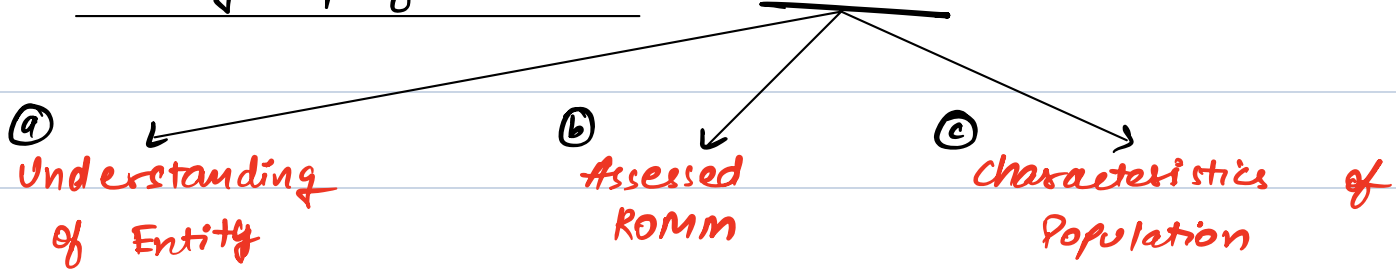
(b) Repetitive calculation automatically by IS

(c) Significant Risk & others do not provide SAAE

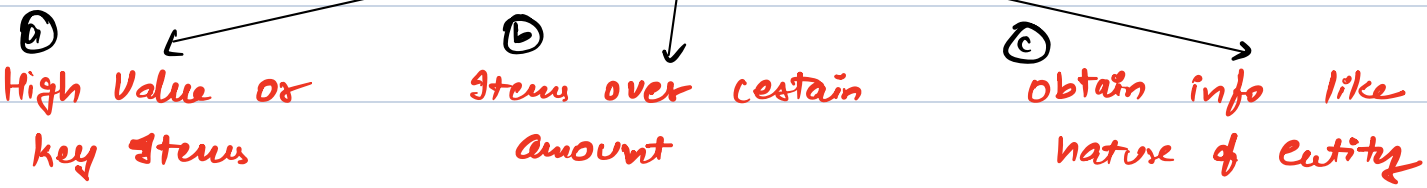
(2) Specific Items

(3) Sampling (SA 530)

② Selecting Specific Items → Factors



Methods



SA 501

Audit Evidence – Specific Considerations for Selected Items

① Inventory → Existence & Condition

② Litigation & Claims → Completeness

③ Segment info → Presentation & Disclosure

Existence & Condition

(a) Attend counting → unless impracticable

(b) Evaluate Mgt's instructions (inquiry)

(c) Observe count

(d) Perform Test Counts
- (i) Copy of Mgt Completed count Records
- (ii) Inventory → tracing → Mgt's count Process

(e) Inspect Inventory (obsolete/ damaged)

(f) Final Records reflects Actual count Results

(g) Evaluate Mgt's Instruction

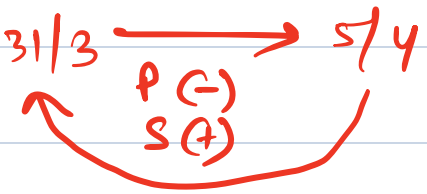
① Physical Qty (Estimate) → ② Existence Control Activities → ③ Over Movement of Inventory

④ Stage of WIP
(Accurate identification)

---

① Counting conducted on other Date / unable to attend due to unforeseen circumstances

→ Count on Alternate Date



→ Changes in Inv b/w count date v/s FS date properly recorded

② Attendance at Counting becomes Impractical

Nature & location

→ Perform Alternative Procedures (subsequent sales)

if not Possible

Modify Opinion

General Inconvenience → Not valid Reason

Difficulty, Time & cost → Not valid basis → Omit procedure for which

Alternative Procedure ⊗ → less than Persuasive Audit Evidence

(SA 200)

① Inventory under Custody of 3rd Party

① Request Confirmation

② Perform Inspection

Doubt about Integrity & Objectivity

① Attend Count / Another Auditor

② Another Auditor's Report on 3rd Party's IC

③ Inspect DOCS

④ Requesting confirmation pledged as collateral

Litigation & Claims (MCQ)

① Inquiry of Mgt & In-house legal Counsel → ② Minutes of Meetings & Correspondence b/w Entity & ELC → ③ Legal Expenses A/c (Review)

---

① Auditor Assessed Romm ② Co. has not disclosed all material cases

Communicate through letter of inquiry

↓

Prepared by Mgt & Sent by Auditor

↓

To external legal counsel to communicate directly

Professional Body or L&R prohibits Legal Counsel → Alternative Procedures

Unlikely to Respond → Specific enquiry Directly

① List of Litigation

② Mgt's Assessment of Outcome & financial estimate

③ Reasonableness of Mgt's Assessment & info if list is incomplete / incorrect

---

① Meeting with Legal Counsel

To Discuss Outcome of Litigation

① Complex → ② Significant Risk → ③ Disagreement b/w Mgt & ELC

→ Mgt's Permission & Representative of Mgt

If → Mgt refuses to communicate or Meet (or)

→ Legal counsel refuses to respond or is prohibited (&)

→ SAAE ⊗ from Alternative Procedures

→ Modify Opinion

⊙ WR → All known actual or possible litigation disclosed to Auditor

→ Accounted / Disclosed as per AFRF

⊙ Segment Info → Presentation & Disclosure

① Understanding of Methods used by Mgt

- Testing Application
- Disclosure as per AFRF

② Performing AP

→ Matters when understanding of Methods

① Sales, transfer & charges b/w segments

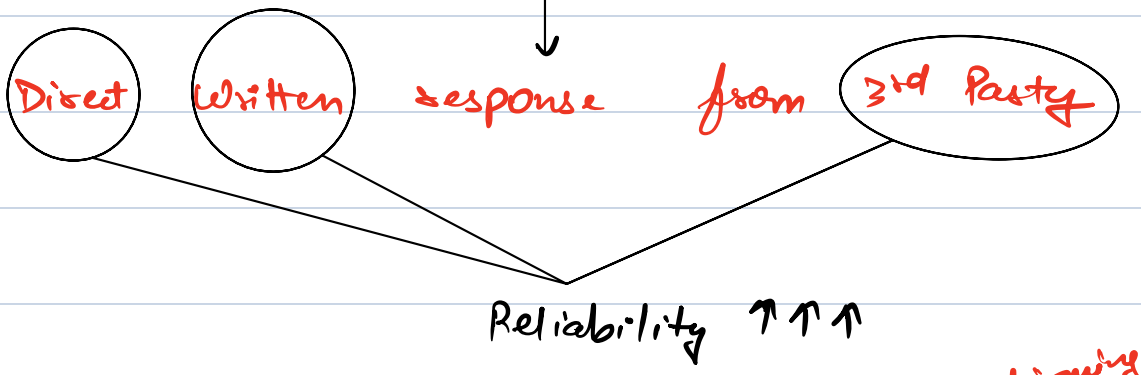
② Comparison with Budgets

③ Consistency with Prior Period & Disclosure of Inconsistencies

④ Allocation of Assets & costs among segments

SA 505

External Confirmations



Confirming Party

Types of Confirmation

- Positive Confirmation Request (PCR)
  - Respond in all cases
  - Agree, Disagree / Provide info
- Negative Confirmation Request (NCR)
  - Only if Disagrees

- PCR → Reliable Evidence
  - → Risk - without verifying info
    - Reduce
      - By not stating Amount
        - Risk
          - Additional Effort → Lower Response Rate

① NCR → Less persuasive evidence than PCR

↓ why?

Failure to receive response not indicate

- Receipt by Confirming Party
- Verification of Accuracy of info

↓

Only Respond when info is not in their favour

① NCR → Sole substantive Procedure ✗

↓ Unless (ALL) are present

① Low → ROMM → Control effectiveness ↑

② → Exception Rate

↓

③ Large No. of Small & Homogeneous Population

↓

④ Not aware of circumstances → Recipient will ignore

① Non-Response → PCR not responded

→ Request Returned Undelivered

① Exception → Diff B/w Info

- Requested to be confirmed
- Provided by Confirming Party

---

② External Confirmation Procedures

↓

Maintain Control over

① Determining info to be confirmed → ② Selecting Confirming Party → ③ Designing Requests → ④ Sending incl follow up

---

③ Mgt's Refusal to Send Request

↓

Inquire Reasons → Implications on Assess RONMM (Risk of Fraud)

↳ (Validity & Reasonableness)

If unreasonable

Alternative Procedures to Obtain evidence

Unable to obtain

Communicate with TCWG (SA 260)

↓

Implication on Opinion (SA 705)

⊙ Results of ECP

→ Doubts Reliability of Response? → Fusthes Evidence

↓

Factors? ← Not Reliable? → Implications on ROMM

ⓐ Received Indirectly

ⓑ Appears not from original intended confirming Party

→ Non Response? → Alternative Procedures (MCQ)

↓

In case of PLR & it's necessary → Implications on Audit & Opinion (MCQ)

→ Exception? → Investigate if indicative of Misstatement

SA 520

Analytical Procedures

100 Rooms × ₹1,000 per day × 200 days × 50% Occupancy

Revenue - 1 cr → OCACC

Gross Profit to Sales Ratio

① AP → Evaluation of Financial Info through analysis of logical Relationship b/w Financial & Non-financial info.

SA 330

Used as Substantive Procedures

① Suitability of Particular AP (ROMM & TOD) → ② Reliability of Data

② Develop Expectation (Precise to identify MM?)

④ Diff Acceptable w/o further investigation

① Suitability

- ⓐ Large volume of transactions (tend to be Predictable)
- ⓑ Effective in detecting MM
- ⓒ Diff AP - Diff level of Assurance
- ⓓ Nature of Assertion & RoMM
- ⓔ TODs are performed on same assertion

② Reliability of Data

Factors?

ⓐ Nature & Relevance of Info → ⓑ Source of Info → ⓒ Controls over Preparation (CAR)

ⓒ → ⓓ Comparability ?

---

③ Investigating Results of AP

If

- Relationship are inconsistent
- Differ by significant Amt

Investigate

① Inquiring Mgt & Obtaining Evidence for Responses

② Perform other Procedures

- ⓐ Unable to Provide Explanation
- OR ⓑ with audit evidence, is not adequate

① Techniques Available as AP

① Trend Analysis → most commonly used (MCQ)

→ comparison with prior period or trend

② Ratio Analysis → Relationship with other A/c

③ Reasonableness Tests → Unlike Trend, relies on Non-financial Data

④ Structural Modelling → Statistical Model

→ Predicts CY Balances

SA 530

Audit Sampling

→ Application of Procedure < 100% items in Population
↓
equal chance of selection

→ Provide Reasonable basis of Conclusion (RBC) for entire Population

⊙ Tolerable Misstatement (PM) → Assurance that Amt is > Actual Misstatement

⊙ Tolerable Rate of Deviation → Assurance that it is > Actual Rate of Deviation from IC

Types of Sampling

- Statistical
  - ↓
  - Random Selection
  - use of Prob theory
  - ↓
  - Unbiased, not Prejudged
- Non-Statistical
  - ↓
  - Personal Experience & knowledge of Auditor

① Sample Must be Representative → Closely Similar to whole Population

② Sampling Risk → Diff b/w Conclusion based on Sample & entire Population

→ Sample was not representative

2 types of erroneous conclusions

	Appears	Actual	Impact
①			
TOC — Controls Effective	↑	↓	→ Effectiveness ↓
TOD — mm	✗	✓	→ Audit Risk
②			
TOC — Controls Effective	↓	↑	→ Efficiency ↓
TOD — mm	✓	✗	

MCQ → Auditor doing TOC failed to notice lack of adherence to certain parameters for placing such orders (↓ Purchase) — Non-Sampling Risk

MCQ → Sampling to test IC is based on frequency of functioning of IC

⊙ Non-Sampling Risk → Any Reason unrelated to Sampling Risk

⊙ Sample Size → lower risk willing to accept, larger the sample size

	TOC	TOD	SS
→	↑ reliance on operating effectiveness of controls	↑ assessment of RONM	↑
→	↑ tolerable rate of deviation	↑ tolerable misstatement	↓
→	↑ expected rate of deviation	↑ expected misstatement	↑
→	↑ desired assurance, tolerable rate of deviation > actual rate	↑ desired assurance, tolerable misstatement > actual misstatement	↑

→ Negligible Effect on SS due to increase in Sample Units

---

① Sample Selection Methods

① **Random Sampling** → All items have known chance of selection

- ⓐ **Simple Random** → Equal Chance of Selection
  → Homogeneous Population, Similar Range
- ⓑ **Stratified** → Heterogeneous into Homogeneous sub Pop
  → Sub Pop is called Stratum
  → Units in sub Pop called Strata

② **Interval or Systematic Sampling** → $\frac{\text{No. of Sampling Units}}{\text{Sample Size}}$ = Sampling Interval

↓

Ensure not correspond with pattern in Pop

③ **Monetary Unit** → Value-weighted selection
→ large value items → ↑ chance of selection

④ **Haphazard Sampling** → No structured technique
→ Not appropriate in Statistical Sampling

⑤ **Block Sampling** → Block of contiguous items
→ Cannot be used generally

- Performing Procedures → On each selected item
  - → if not applicable → replacement item
  - Unable to Apply
    - TOC → Deviation , TOD → Misstatement

- Projecting Misstatements → broad view scale of misstatement
  - If Anomaly → Excluded
    - → If uncorrected , included with projected non-Anomalous misstatements
  - → For TOD → Project misstatement to Population
  - → For TOC → Sample Deviation Rate = Population Rate

- Nature & cause of Deviation & Misstatement → Investigate
  - → Anomaly
    - high degree of certainty
    - Not representative of Population

- Evaluate Results of Sample & if RBC for Population
  - If Not
    - Request Mgt to investigate identified Misstatement & potential Misstatements
    - OR
    - Tailor NTE of FAP

SA 540

Auditing Alc Estimates (AE), Including Fair Value (FV) AE & Related Disclosures

↓

Approximation of Amounts (Eg. Court case)

↓

Most common terms - Method, Model, Assumption, Estimation Uncertainty

Q How to Minimize ROMM in AE?

↓

RAP (understanding)

① How Mgt Identify TEC Need for AE?

② How Mgt Makes AE?

③ AFRF Requirements

① Transactions

- ⓐ New Type
- ⓑ Terms Changes (ROU)

② Events

↓

L & R Changed

- ⓒ Alc Policies
- ⓓ Regulatory changes

③ Conditions

↓

New

⊙ Estimation Making Process - How Mgt makes AE?

① Method & Model → ② Assumptions → ③ Experts used

③ Changes from Prior Period

⑤ Control

④ Effect of Estimation Uncertainity Assessed?

⊙ FAP → Responses to Romm

Determine

① Applied AFRF → ② Method Appropriate & Consistently Applied → ③ Changes are Appropriate

⊙ FAP Procedures

① Test Check Data used → ② Methods Appropriate Assumptions Reasonable → ③ Subsequent Events Provide SAAE for AE

TOC

Data → ⑦ Recalculating & Reviewing Info

⑥ Control Effectiveness

Internal External

(b) Accurate, Complete & Relevant

(c) Source, Relevance & Reliability

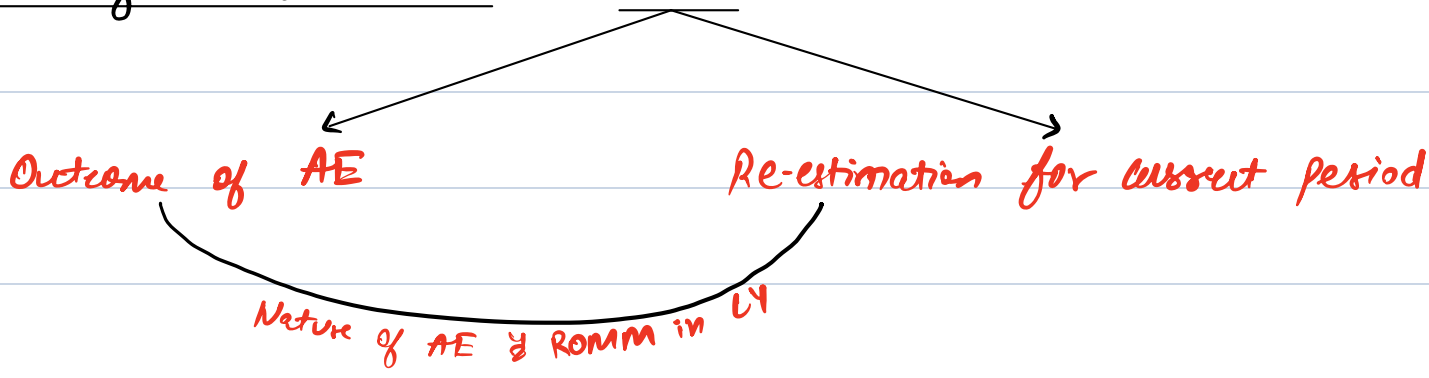
- AE having Significant Risk (High Estimation Uncertainty)
  - Assumptions
    - (a) Alternatives? Why Rejected?
    - (b) Significant – Reasonable?
  - (c) Mgt's intent for Action & Ability
  - (d) Not adequately addressed Effects
    - Develop Range to evaluate Reasonableness of AE

- Degree of EU varies based on
  - (1) Nature of AE
  - (2) Generally Accepted Method
  - (3) Subjectivity of Assumptions

- Evaluation of Outcome of AE
  - Diff B/w outcome & AE → Not necessarily misstatement
    - As affected by Subsequent Events

---

① AE of Prior Period → Review



→ Not to Question judgements made in PY

Outcome will diff. from AE in PY

→ TO obtain Audit Evidence



② EU to disclose in Fs

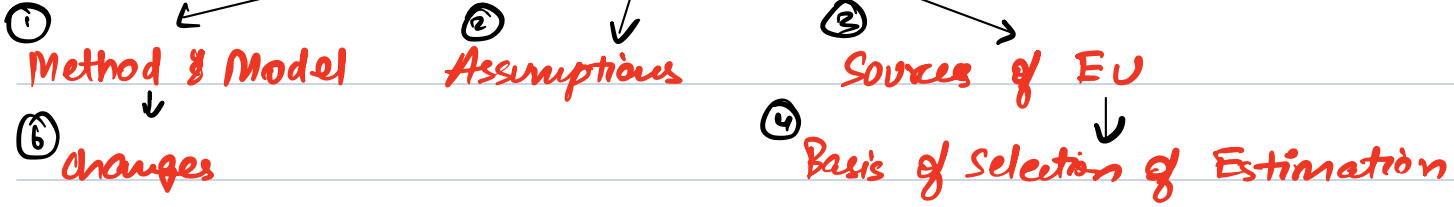
→ Identify ↑ susceptibility in Possible Mgt Bias

→ Professional Skepticism

Disclosures



Presentation



③ → For Signi Risk – May conclude Disclosure of EV is inadequate

① WR → Signi Assumptions are reasonable

① Documentation

① Conclusions for Reasonableness for AE

② Indicators of possible Mgt Bias

SA 550

Related Parties

↓

As defined in AFRF

↓

If Not Defined

Financial & operating Policies

Power to Govern

Power to Participate

Other Entity ← Control | Significant Influence ① → Reporting Entity

② Directly | Indirectly through intermediaries

③ Common Control

ⓐ Ownership

ⓑ Close Family Members

ⓒ Key Mgt

→ Exception – State (Govt)

↓

Unless Significant → Transactions

→ Resource Sharing

FRF has requirements

yes → RoMM → failure to A/c for RPT → Identify, Assess & Respond

No → Understanding of RPT → Fs - M ⊗, T & F view

① Engagement Team Discussion about RP

① Nature & Extent of RPT

② Records for Existence of RPT Relationships

④ Circumstances indicate existence of RP that Mgt has not disclosed

③ Maintain Professional Skepticism

③ Importance of Appropriate A/c of RP to Mgt & TCWG

---

① Identification of Previously Undisclosed RP

① Confirm Existence of such transactions → ② Communicate with Team → ③ Reconsider Risks for other RPs

④ Request Mgt to identify

All transactions

(b) If Non-Disclosure by Mgt is Intentional → Implications (FRF)

(3) Perform Substantive Procedures

⊙ Identified Significant RPT o/s Normal Course of Bus.

(1) Inspect Contracts

(a) Business Rationale (FRF)

(b) Terms consistent with Mgt Explanations

(c) Properly A/c? → (2) Authorized & Approved

⊙ WR → All RPTs disclosed to Auditor

→ All RPTs A/c & disclosed in FS

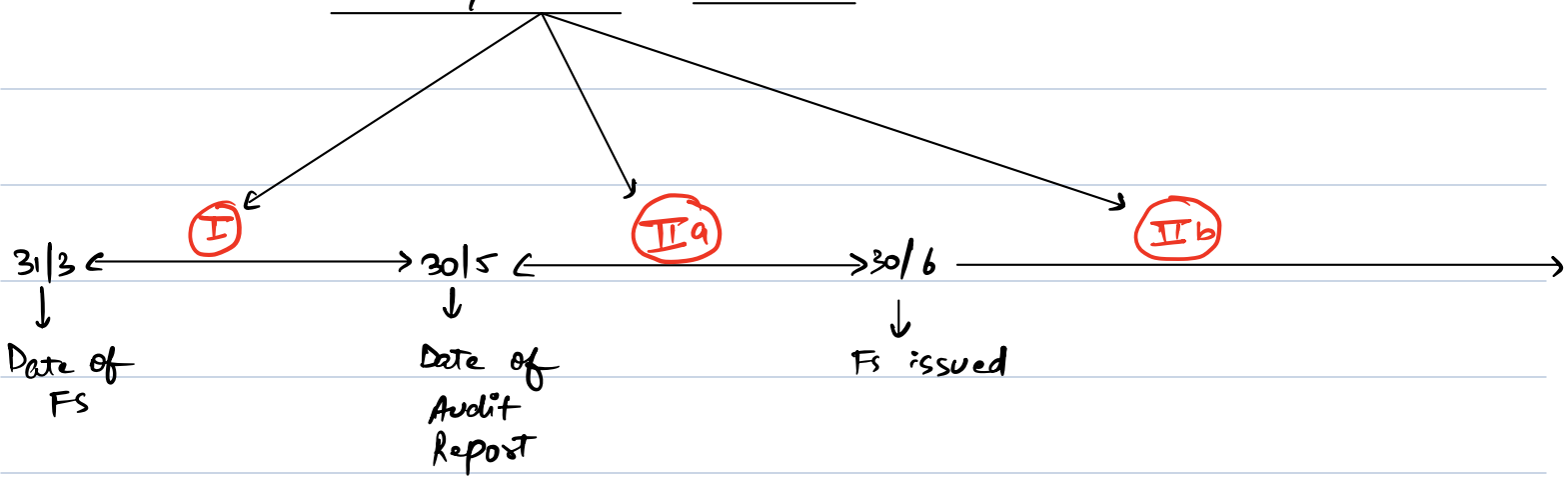
⊙ Communication with TCWG → Signi Matters wrt RP

⊙ Documentation → Names of RP

→ Nature of Transactions

SA 560

Subsequent Events



AS 4
IND AS 10
→ Adjusting Events & Non-Adjusting Events

Provide Evidence of Conditions that

Existed at Date of FS → Eg. Insurance Claim Settled → Adjusted

Arose after Date of FS → Eg. Fire → Disclosed (mca)

Whether in FS?

① Objectives of Auditor - (i) Obtain SAME

(ii) Respond to events after Date of Report that may have caused auditor to amend Report

① Procedures for (I)

① Inquiring if occurred → ② Understanding of Mgt Procedures → Reading

③ WR - Adjusted / Disclosed

④ Latest Subsequent Interim FS

⑤ Minutes of Meeting after Date of FS

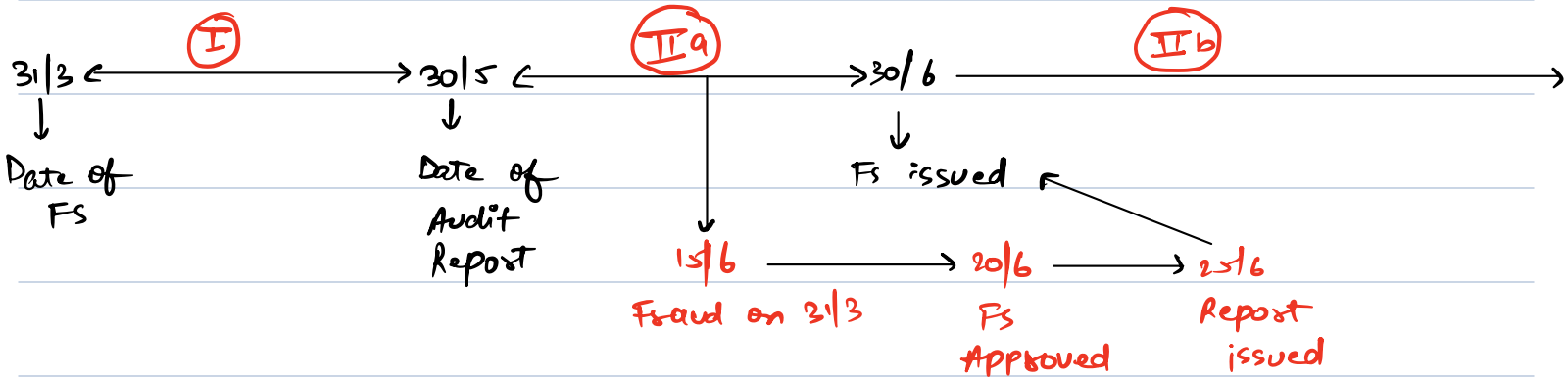
(IIa) Facts after Report but before Fs are issued - Case 1

(IIb) Facts after Fs are issued - Case 2

→ No Obligation to perform any Procedures

→ Facts become known

① Discuss with Mgt? → ② Fs needs Amendment? → ③ Inquire how to address?



Situation 1

Case 1 → If Mgt Amends FS

① Procedures on Amendment (Fraud)

② Extend Procedures in (1) to New Report Date (25/6)

③ Provide New Report Not earlier than FS approval

Case 2

④ Mgt steps to inform Recipient of situation

⑤ Include EOM/OM Para for Reason for Amendment

Situation 2 – L&R, FRF allows Mgt to restrict Amendment to Subsequent Events

Auditor is Allowed to Restrict Procedures

Amend Report to Include Addn Date 30/5 + 25/6

(OR)

New Report with EOM/OM Para that Procedures are restricted

Case 1 – If Mgt Does NOT FS

If Report is Not Provided

If Report is provided

Modify Opinion

Notify Not to issue FS

↓

If issued FS

↓

Action to prevent reliance on Report

Case 2 - If Mgt Does Not take Steps to inform others

&

Does Not amend FS

↓

Notify Mgt to Prevent Reliance on Report

SA 570

Going Concern

↓

Fundamental A/c Assumption

Entity will continue for a forseeable future

FS are prepared as → Assets realised
→ Liabilities discharged
→ Normal course of Business

Unless

Mgt intends to liquidate entity or cease operations (OR) Has no realistic alternative but to do so

FS are prepared on Liquidate Basis → Eg. of E/c

⊙ Responsibility for Assessment of GC

↓

Mgt's → Even if FRF does not include explicit requirement
→ Involves making judgements about future outcomes

⊙ Responsibility / Objectives of Auditor

Aaj → SAFE Appropriateness of Mgt's GC use

Kal → whether Material Uncertainty exists about GC

Likelihood → Magnitude

→ Even if FRF not include requirement for Mgt

SA 200 (R16) → Potential Effects of ILA on auditor's ability to detect misstatements is significant for Future E/c — Signi doubt → on IC

→ ∴ Absence of MU in Report cannot be viewed as guarantee for IC

⊙ Risk Assessment Procedures (RAP)

↓

Mgt Assessed IC?

Yes → Discuss it & How Mgt plans to address E/c

No → Discuss with Mgt → Basis for use of IC & if E/c exist

→ Professional Skepticism

⊙ Evaluating Mgt's Assessment

Lack of Analysis by Mgt → (when entity has healthy Profits)

↓

Not Auditor's Responsibility to rectify it

→ Auditor may conclude → IC is appropriate

Evaluating Mgt's Process → to make Assessment

Future Plans & its feasibility

Assumptions used in Assessment

→ If assessment < 12 M → Request to extend it to from date of FS at least 12 M

① Addⁿ Procedures when E/c identified

↓

To determine if MU exists

→ No Mgt Assessment → Request

→ Evaluate Future Plans & its feasibility

→ If Cash flow forecast prepared & Analysis is significant

- Data Reliability
- Support for Assumption

→ Addⁿ info available?

→ WR → Future Plans & its feasibility

---

② Disclosure when E/c identified & MU exists

Determine whether FS

→ Adequately disclose E/c & Mgt's Plans

→ Disclose clearly about MU

→ Above Disclosures include

1. Mgt's Evaluation of E/c significance to Meet its obligations
2. Mgt Signi Judgments in its Assessment
3. Magnitude of Potential impact of E/c & Likelihood & timing of Occurence

- **Disclosures when E/c exists but no MU**
  - ↓
  - Evaluate if FS adequately disclose these E/c

- **Communication with TCWG** → About E/c

- **Signi Delay in Approval of FS**
  - → Inquire Reasons
  - → If Believe due to E/c → Perform Addn Procedures
    - → Effect on Conclusion

- **Implications for Report**

→ Mgt Unwilling to Make / Extend its Assessment → Qualified / Disclaimer of Opinion (when Requested by Auditor)

→ Use of GC is Inappropriate & FS are based on GC (irrespective of disclosures about it) → Adverse opinion

→ GC is appropriate but MU Exists

- MU is Adequately Disclosed
  - ↓
  - Unmodified Opinion with "MU Related to GC" section
    - Draw attention to Note in FS
    - Stating MU Exists & Opinion isn't modified
- MU is not adequately disclosed
  - ↓
  - Qualified / Adverse Opinion
  - ↓
  - In Basis, State MU exists & FS don't adequately disclose

SA 580

Written Representations

↓

Written Statement by Mgt

- To confirm certain matters
- To support other evidence

Not include FS, Assertions, Books etc.

→ It is necessary evidence

→ But not SAAE on their own

→ May request updated WR for WR obtained during audit

---

① WR about Mgt's Responsibilities → involves

Preparation of FS

↓

Mgt may include qualifying language "To best of its knowledge & belief"

↓

May Accept if satisfied that WR is from people having appsopriate responsibilities and knowledge

Info & Transactions

↓

→ Provided all info & access as agreed in terms

→ All transactions are reflected & recorded in FS

⊙ Why WR about Mgt Responsibilities are necessary?

↓

Evidence obtained is not sufficient without confirmation from Mgt

May Ask Mgt to reconfirm acknowledgement & understanding of Responsibilities in subsequent years when

① Terms prepared previous year

② Changes in Circumstances

② Replacement of those who signed Terms

④ Mgt misunderstand its responsibilities

⊙ Description of Mgt Responsibility in WR

↓

Same as in Terms of Engagement

⊙ Date of WR → Date of Report

As near as Practicable

↓

Subsequent Events

But Not After

↓

Necessary Evidence

⊙ Period of WR → All Fs Period as Mgt reaffirms that WR remain appropriate

→ Even when current mgt was not present in All periods

⊙ Form of WR → Representation letter addressed to Auditor

→ L&R requires written public statements (same as WR)

↓

Not be included in Rep letter

⊙ Doubt about Reliability of WR

↓

If WR is inconsistent with other evidence → Resolve Matter

↓

If Unresolved

Reconsider assessment of ICE of Mgt

- Integrity
- Competence
- Ethical Values

Effect on other WR & Evidence in general

→ If WR not reliable — Appropriate action incl Disclaimer of Opinion

⊙ Requested WR not provided

→ Discuss with Mgt

→ Re-evaluate ICE of Mgt & effect on other WR & Evidence in general

→ Appropriate action incl Disclaimer of Opinion

MCQ → WR need to be obtained from CFO

SA 620

Using Work of Auditor's Expert

→ Other than Mc / Auditing Expert ✗

- Mgt's Expert ✗ (SA 500)
- Auditor's Expert
  - FR
    1. Complex FI (Valuation)
    2. Actuarial Calculation of Liab.
  - Tax
    3. Interpretation (contracts, L&R) of Tax (Complex compliance issues)
    4. Oil & Gas Reserves (Estimation)

→ Auditor has Sole responsibility for audit opinion

→ Not reduced by Use of Auditor's Expert's work

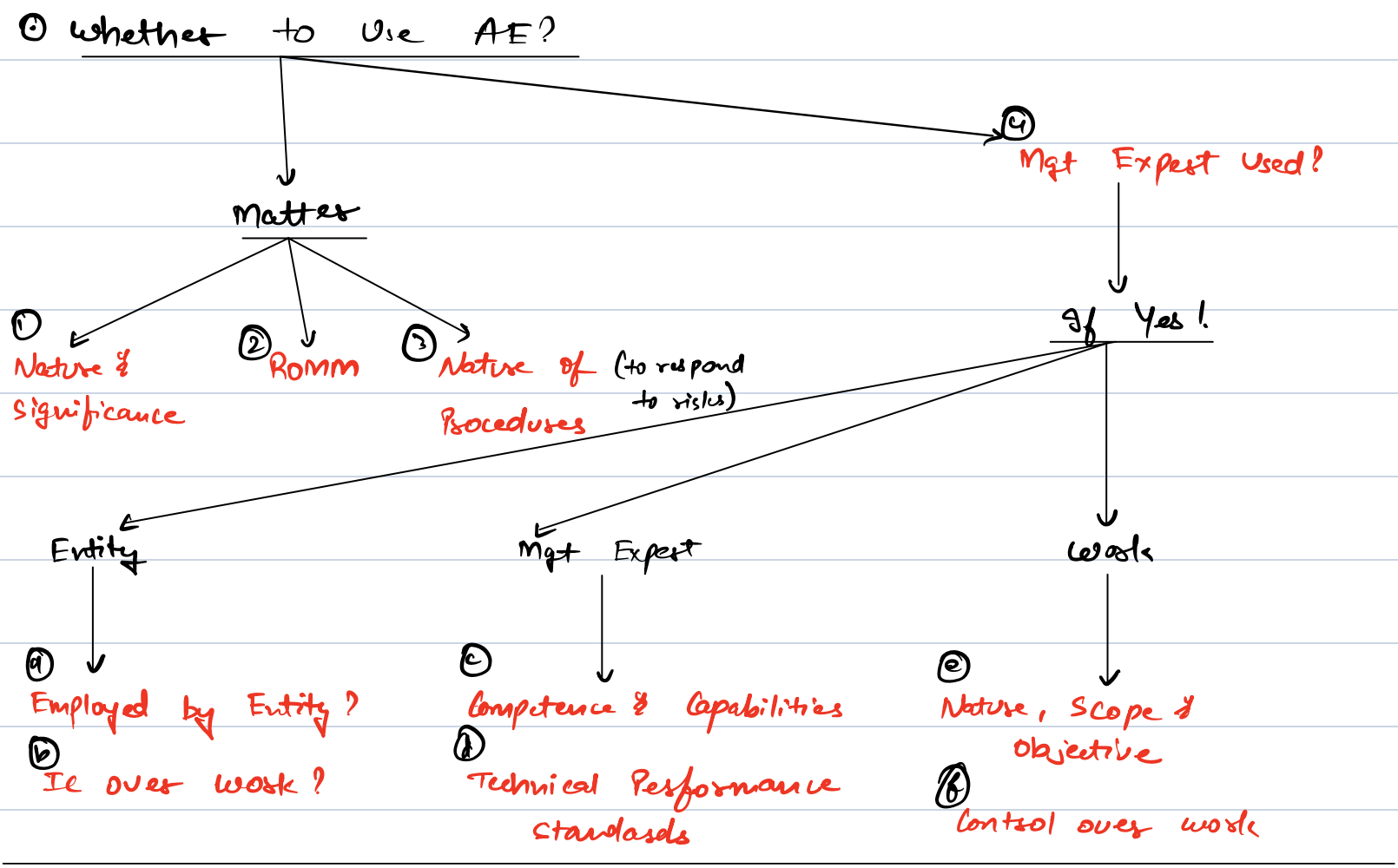
→ Can be Internal Expert / External Expert

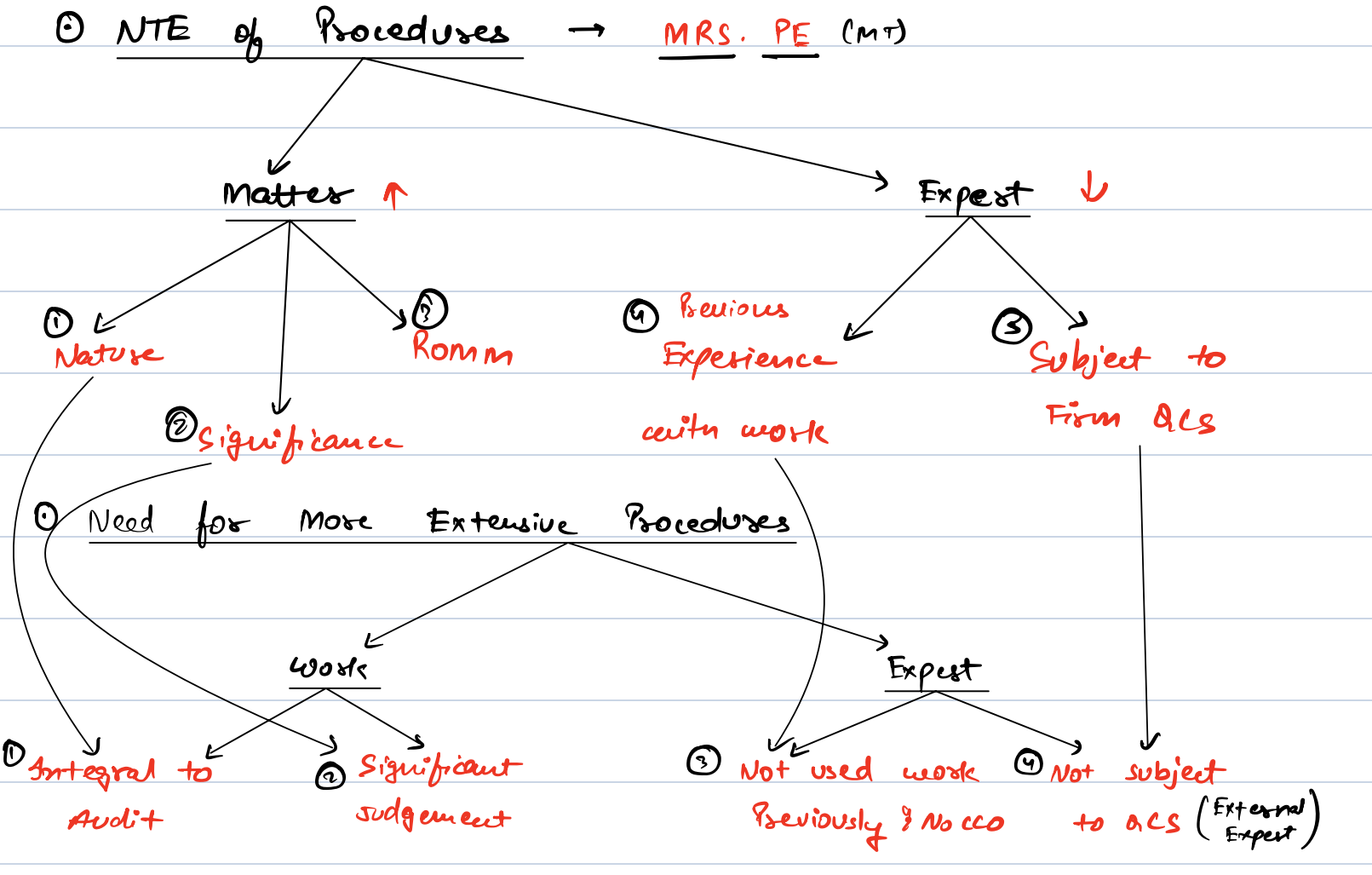
- Internal Expert → Temporary staff of Network firm
- External Expert → Prospective firm member (MCQ)

---

① Need for AE ? → Knowledge ✗ → ✓

- SA 315
  1. Understanding of Entity & IC
  2. RoMM (Assess)
- SA 330
  3. Responses to Risks
  4. FAP
- SA 500
  5. Evaluating SAAE


① Whether to Use AE?
Matter
① Nature & significance
② RoMM
③ Nature of Procedures (to respond to risks)
④ Mgt Expert Used?
If Yes!
Entity
Mgt Expert
Work
a Employed by Entity?
b Is over work?
c Competence & Capabilities
d Technical Performance standards
e Nature, Scope & Objective
f Control over work


① NTE of Procedures → MRS. PE (MT)
Matter ↑
Expert ↓
① Nature
② Significance
③ RoMM
④ Previous Experience with work
⑤ Subject to Firm QCs
① Need for More Extensive Procedures
Work
Expert
① Integral to Audit
② Significant judgement
③ Not used work Previously & No CCO
④ Not subject to QCs (External Expert)

① Evaluating Objectivity

① Interests & Relationships (Inquire Entity)

② Adequate Safeguards ? (Discuss with Experts)

ⓐ Financial

ⓑ Business & Personal

ⓒ Provision of other Services by Experts

ⓓ WR from Auditor Expert

---

② Agreement

① Nature, Scope & Objective

② Roles & Responsibilities of Auditor & AE

③ Communication (NUTE)

④ Confidentiality Requirements

③ Need for Detailed Agreement → Shaadi ka Expert (MT)

Pehli baar → ① Work not used Previously

Kaam → ② Greater significance ③ Highly complex

→ ④ Confidential info

⊙ Evaluating Adequacy of AE work (SA 500)

ⓐ Source Data – CAR → Relevance & Reasonableness → ⓑ Assumptions & Methods

Completeness, Accuracy & Relevance

ⓒ Expert's Findings

① Generally Accepted v/s ② Specialised Model

③ Consistent with AFRF & Mgt

If not → Reason for Diff

⊙ Specific Procedures to Evaluate Adequacy

① Inquiring AE → ② Reviewing WP & Reports → Discussion

③ Another Expert (If AE inconsistent with audit evidence)

④ Mgt (AE Report)

→ ③ Corroborative (Supportive) Procedures

ⓐ Observing (AE work)

ⓑ Published Data (Examine)

ⓒ 3rd Parties (Confirming Matters)

ⓓ Reperforming (Calculations)

ⓔ AP (Performing)

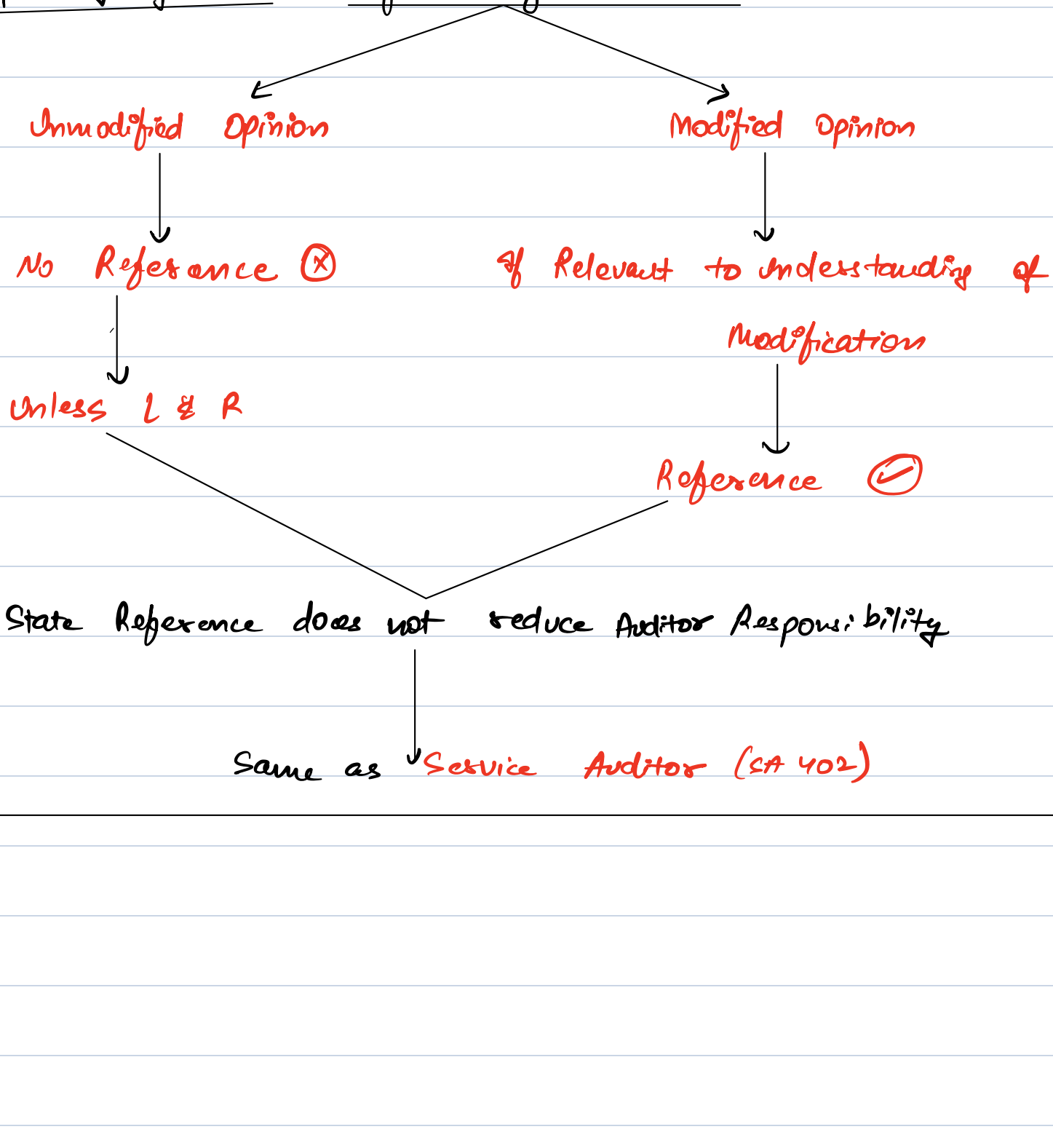
⊙ When AE work is not adequate

Agree Nature & Extent of further work by AE

Perform FAP

→ If cannot resolve matter – Express Modified Opinion

⊙ Reporting by Auditor – Reference of AE work



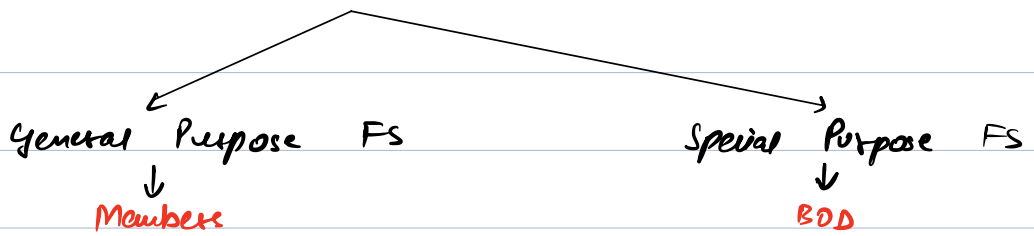
SA 700

Forming Opinion & Reporting on FS

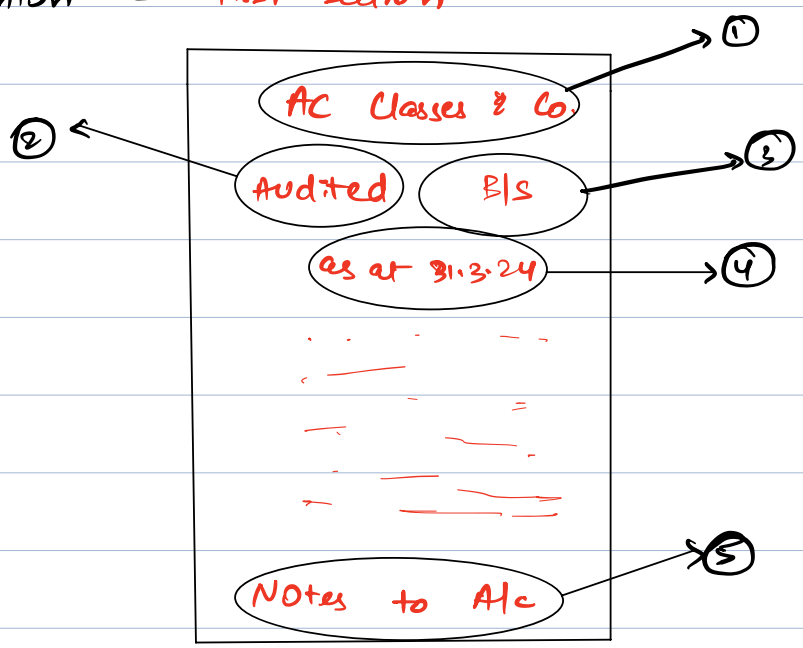
⊙ Basic Elements of Report

① Title – Independent Auditor Report

② Addressee – Circumstances



③ Opinion – First Section



① Basis for Opinion → After "Opinion" Section

① SAAE → ② Auditor's Responsibilities → ③ As per SAs

④ Independent

② Going Concern – SA 570

③ Key Audit Matter – SA 701

④ Other Info – SA 720

⑤ Responsibilities of Mgt for FS – SA 210 & SA 570

① Auditor's Responsibilities for Audit of FS

② Location of Description of Auditor's Responsibility

- Within Body of Report
- As Appendix to Report
- Website of authority, if L&R expressly permits

③ Other Reporting Responsibilities – Report on other L&R requirements
Eg. CARO

④ Sign – Name - Personal & Firm
Number - Membership & Registration & UDIN

⑤ Place - City of signing

⑥ Date - SAAE ✓ FS Prepared ✓
Responsibility for FS ✓

⊙ Report prescribed by L & R

↓

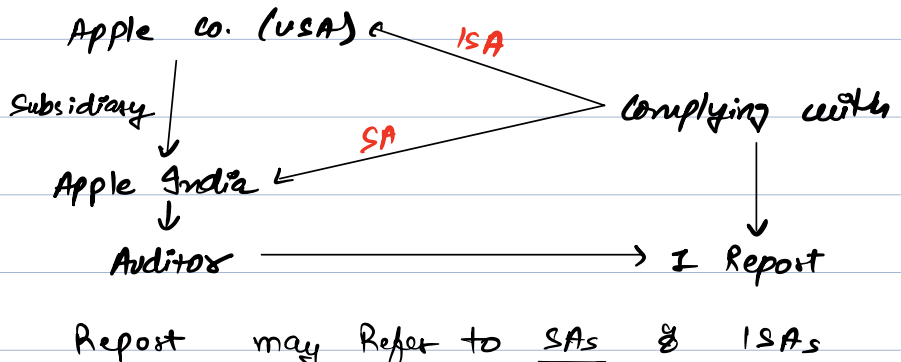
If L & R - Use specific layout / wording of Report

↓

Refer SAs ONLY if Report includes MINIMUM

- All Elements above
- Except - Other Info (720), Location of Auditor Responsibilities & Other Reporting Responsibilities

⊙ Report for Audit as per Both SAs & International SAs or SAs of other Jurisdictions



Report may Refer to SAs & ISAs

↓

ONLY if

① No conflict b/w SA & ISA
- (a) Diff Opinion
- (b) Not to include EOM/ OM Para required by SAs

② Report includes minimum elements discussed above

→ If doing so - including Jurisdiction of other standards

⊙ Supplementary Info presented with FS

↓

If not required by AFRF → Integral Part? → Nature
How it is presented

If Yes → Add'n Notes

↓

Cover by Auditor Opinion

If No → Add'n PL

↓

Sufficiently & clearly Differentiated from Audited FS?

↓

If No - Ask Mgt to change Presentation

↓

If Refuses - ~~Modified~~

- Explain in Report it is not audited

SA 701

Communicating Key Audit Matters (KAM)

↓

Most Significant in Audit of CY

↓

From Matters Communicated to TCWG

↓

Based on Auditor's Judgment

Objective

- Users understanding matters which were most signi
- Enhance communicative value by Providing greater transparency

① **Applicability** → Complete Set of GPFS of Listed Entity

→ L&R requires

→ When Auditor decides

Prohibited → When issuing Disclaimer of Opinion

KAM is Not a Substitute for

① Disclosures in FS

② SA 570 - Going Concern (MURU)

Opinion

③ Modified

④ Separate

⊙ Placement for KAM

Basis for Opinion

↓

Material Uncertainty (MU)

↓

KAM / EOM (May be Before / After)

↓

Mgt Responsibility

⊙ Communicating KAM → Intro Language

- Most Significance in Audit of CY
- Addressed in a separate Audit & not Opinion

⊙ KAM not communicated in Report

- L&R precludes Public Disclosure
- Adverse consequences > Public benefit of Communication
  - National security Risk - Missile system
  - ↓
  - Not apply if entity has publicly disclosed

⊙ Determining KAM — From Matters communicated to TCWG

↓

① Significant Events / Transactions (Effect on Audit) → ② Significant Judgements (Auditor & Mgt) → ③ ROMM (Identified by Auditors)

⊙ KAM —May be→ Matters not disclosed in FS

↓

Signi Auditor Attention (Eg. New IT System)

Audit Strategy

SA 705

Modifications to Opinion

- Objective → Express Modified Opinion when
  - SAAE ✓ MM ✓
  - SAAE ✗ MM ✓ ✗
- Pervasive → Effects (Possible) of Misstatements on FS
  - Not confined to specific A/c
  - If confined → Represent Substantial Portion of FS
  - Disclosure are Fundamental to users understanding (Eg. MURC)

	M ✓ P ✗	M ✓ P ✓
SAAE ✓	Qualified	Adverse
SAAE ✗	Qualified	Disclaimer

- SAAE ✗ due to → Mgt. Imposed Limitation
  - Request to Remove → If Refuses
    - Communicate to TCWG
    - Alternative Procedures

→ Possible Effects - M✓ P✗ - Qualified Opinion

- M✓ P✓ → Withdraw (compulsory)

↓

If Not Possible → Disclaim Opinion

Before - Communicate - Matters requiring modification to TCWG

SEBI

↓

If Auditor Proposes to Resign

< 45 days from end of Qtr	> 45 days	3 Qtrs
↓	↓	↓
Report for that Qtr	that Qtr + Next Qtr	Full year

→ Except when disqualified u/s 141 of Co. Act, 2013

→ Clear reasons for resignation - not just "professional preoccupation"

Eg. Resigns on 15 Nov

↓

30th Sep + 31 + 14 = 14 Nov + 1 Day

= 15 Nov

↓

Report to be issued for Q3 & full year

MCQ → When Auditor withdraws / Resigns, he need to file ADT-3 within 30 Days from Date of Resignation

---

⊙ When Report is Modified

"Opinion" section → "[Modified]" Opinion

→ Qualified Opinion → "Except for effects (Possible) of matter" described in Basis for Qualified Opinion, Fs ....

- Fair Presentation → (give true & fair view) present fairly, in all material respects
- Compliance Framework → are prepared, in all material respects

→ Adverse Opinion → "Because of the significance of matter" described in Basis for Adverse Opinion

→ Disclaimer of Opinion

- Opinion ✗
- SAAE ✗
- FS audited ✗ we were engaged to audit Fs ✓

⊙ "Basis for Opinion" section → "Basis for [Modified] Opinion"

- Description of Matter
- Quantification of Financial Effect
  - ↓
  - State if not possible

→ MM of Disclosures? – Explain how misstated?

→ MM of Non-Disclosure of Info?

- Discuss with TCWG → Describe Nature of omitted info → Include Omitted Disclosure
  - if Practicable
  - SAAE ✓

→ If Disclaimer then Basis not include

- SAAE ✓ ✗
- Reference to Auditor Responsibilities

⊙ Auditor's Responsibilities when → Disclaimer – include only

- Responsibility – As per SAs
- SAAE ✗
- Independence ✓

⊙ Communication with TCWG → Circumstances & Wording

SA 706

Emphasis of Matter & Other Matter Para

- Disclosed in FS
  - Fundamental to Users Understanding of FS
- NOT Disclosed
  - Fundamental to Users Understanding of Audit Report

Include → Draw Users Attention → through Add'n Communication

Modify Opinion ⊗ KAM ⊗

- Separate Section - "EOM"
- Reference to Note in FS
- State Opinion is not Modified

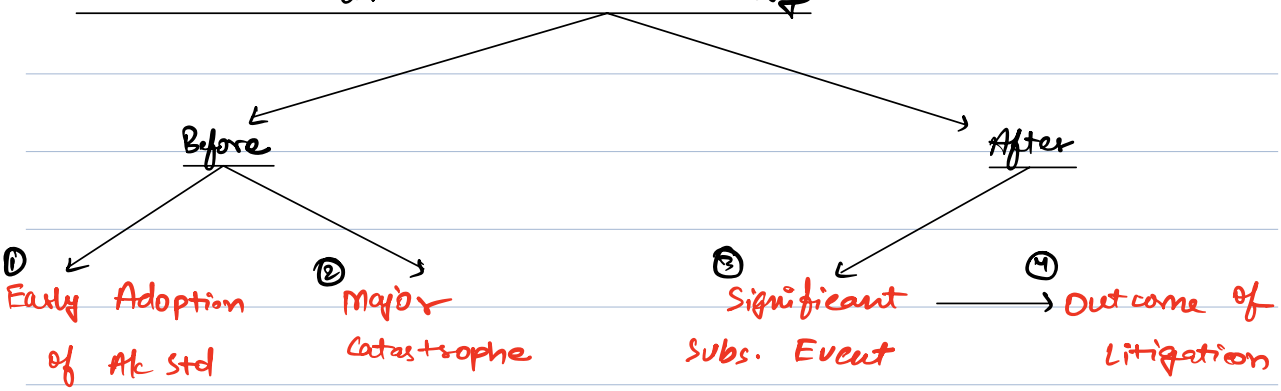
EOM is not Substitute for

- Disclosures in FS
  - SA 570 - GC
- Modified Opinion
  - ~~Separate Opinion~~

EOM Circumstances (SAs)

- SA 560 (New Report)
- SA 210 - FRF unacceptable but L&R prescribed
- SA 800 - SPFS

① Circumstances when EOM is necessary



② MCO → Modified Opinion → EOM for other matters ✓

③ OM Para → Separate Section

Not Prohibited by L&R

KAM ✗

④ Communication with TCWG – Expectation & Wording

SA 510

Initial Audit Engagements - Opening Balances

- Prior Period FS not audited
- Prior Period FS audited by Predecessor Auditor → Diff. Audit Firm

FS amounts
disclosures

Objectives - SAAE

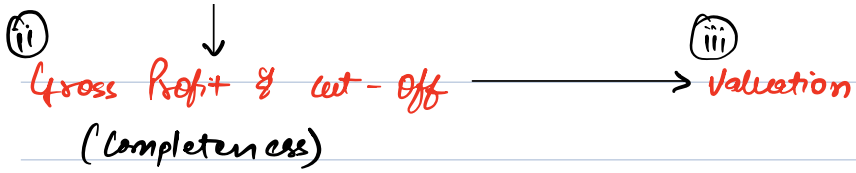
1. No Misstatements in Op Bal
2. Alc Policies Applied Consistently & changes Disclosed (MUS)

SAAE about Opening Balances by

1. Appropriate Alc Policies
2. Bal correctly Brought Fwd
   - Adjustments are disclosed as Prior Period item
3. Performing
   - a. Reading Prior Period Audited FS
   - b. Current Period Audit provide Evidence?
     - c. Specific Procedures to Obtain Evidence

Opening Inventory

i. Inventory Count & Reconciling to opening (Existence)



⊙ PPFS audited by PA → Read Audited PPFS

↓

Can place reliance → Except possibility of misstatement in Op Bal.

↓

If Modification → Effect on Current FS

↓

Relevant & Material → Modify Opinion

⊙ Communication with Mgt & TCWG

If yes

Op Bal has misstatements → Add^n Procedures to determine effect → Exist in Current FS ?

⊙ consistency of Alc Policies

↓

Not Consistently Applied or Change not Properly disclosed → Qualified / Adverse Opinion

⊙ Reporting

↓

SAAE for Op Bal ⊗ → Q / D opinion

Op Bal MM - Not correctly disclosed → Q / A Opinion

SA 710

Comparative Info - Corresponding Figures & Comparative FS

- Opinion → Refer to Current Period Only
- Opinion → Refer to Both Periods
  - which one? → L&R & Terms

Audit Procedures - Same as SA 510

① Agrees with Amount of Prior Period

② A/c Policies are consistent
- ③ If changes - Properly Disclosed

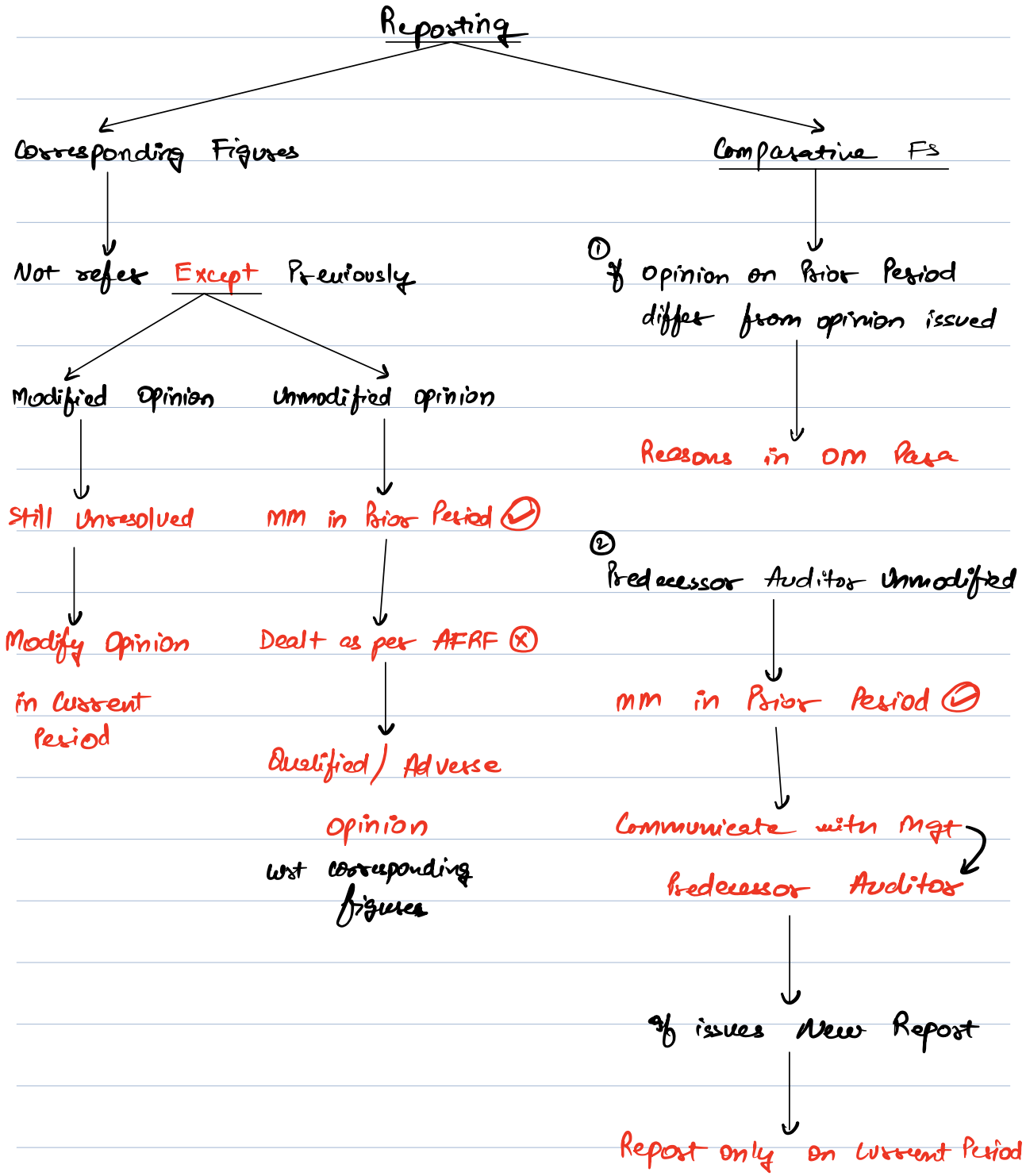
If MM

① SAAE

② If Audited Prior Period FS
- SA 560 - Subsequent Events

---

① WR → For All periods
→ Specific for Prior Period item in current P/L


Reporting
Corresponding Figures
Not refer Except Previously
Modified Opinion
Unmodified opinion
Still Unresolved
MM in Prior Period
Modify Opinion in Current Period
Dealt as per AERF
Qualified / Adverse opinion wrt corresponding figures
Comparative FS
① If opinion on Prior Period differ from opinion issued
Reasons in OM Para
② Predecessor Auditor Unmodified
MM in Prior Period
Communicate with Mgt
Predecessor Auditor
If issues New Report
Report only on Current Period

Common Reporting

Prior Period FS → Predecessor Auditor ✓

Report shall state in OM Para (MLR)

① Prior Period FS → Predecessor Auditor ✓

② Type of opinion

③ Date of Report

0 If PPFs not Audited → Disclose in OM Para

Responsibility for SAAE about op Bal ✓ (SA 510)

SA 720

Auditor's Responsibility Relating to Other Info

- To check
  - Materially Inconsistent
    - FS
    - Auditor's Knowledge
- Annual Report
  - Financial
  - Non-Financial
  - FS & Report ⊗

→ Not Apply → Preliminary Announcements of Financial Info

→ Securities Offering Docs (Prospectus)

① Obtaining Other Info

Determine Annual Report & timing of issuance → Obtain → Final Annual Report before Date of Audit Report

If not available

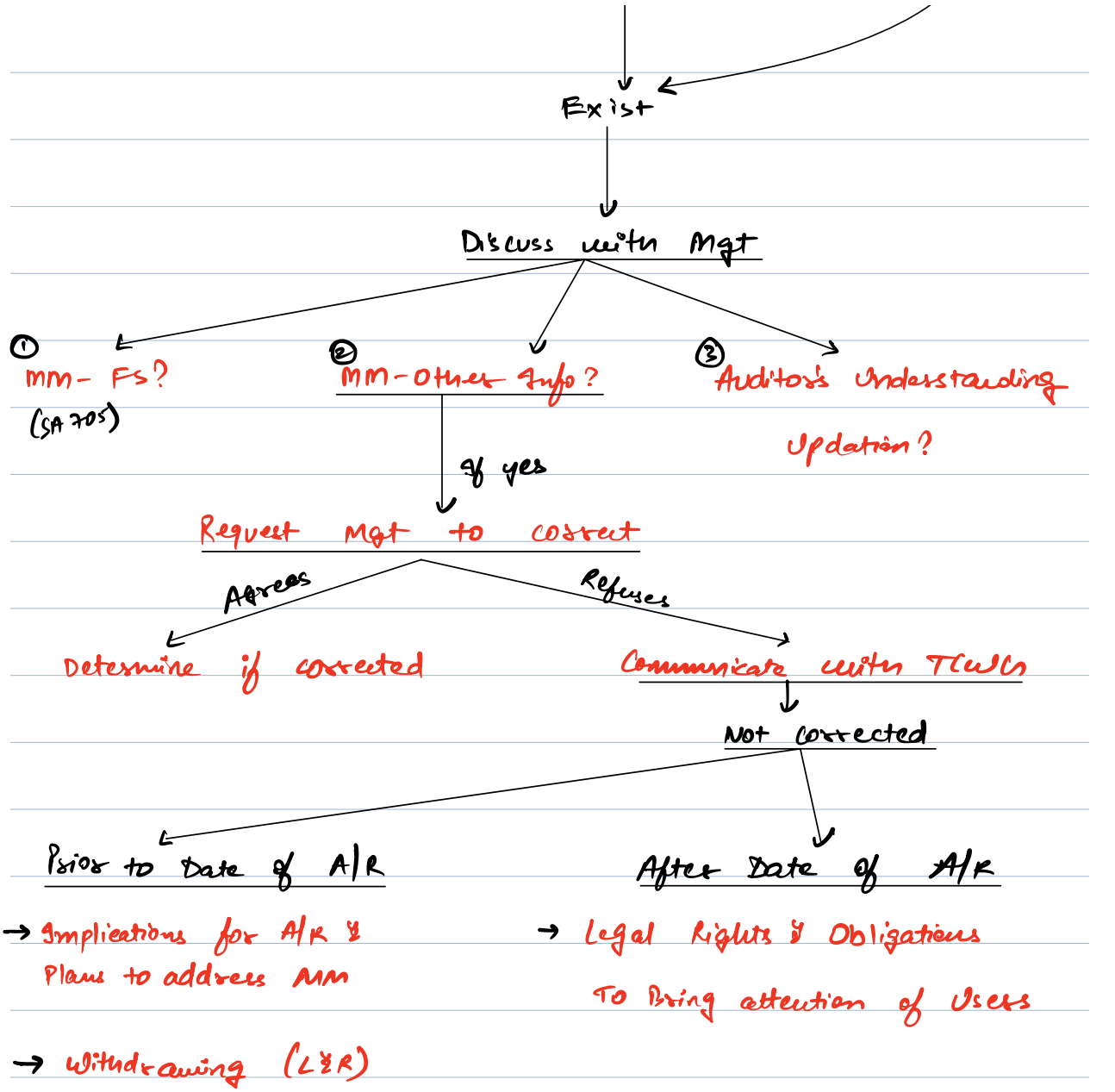
OR that it will be provided to Auditor Prior to its issuance

② Reading & considering → Material Inconsistency

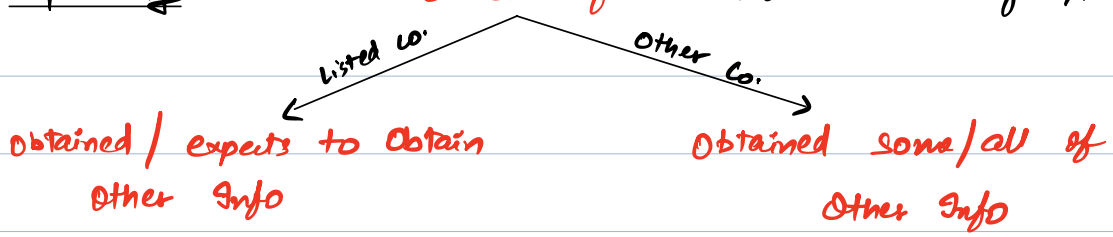
① Other Info v/s FS

② Other Info v/s Auditor's knowledge

③ Alert that other info may have MM



⊙ Reporting → Section "Other Info" when at Date of A/R



⊙ Reporting by L & R

↓ Specific wording & Layout

↓ Refer to SA ONLY if - minimum

- ↓ Identification of Other Info obtained by Auditor Prior to Date of A/R
- ↓ Description of Auditor's Responsibilities
- ↓ Outcome of Auditor's work

SA 800

Special considerations – Audit of FS prepared as per Special Purpose Framework (SPF)

Financial info needs of specific users

- GPF → Common financial info needs of wide range of users
- OMCA → Even when accessed by all, since only FS available

Eg

- Cash Basis of A/c & Cash flow info for Creditor
- FR provisions established by Regulator
- FR Provisions of Contract

○ **Accepting Engagement** → Acceptability of FRF

Financial info needs of specific users → key Factor

- Authorized Std. setting Org → Presumed Acceptable, if est. & transparent process
- L&R → Presumed Acceptable, in absence of contrary indication
- Contract Acceptable if Attributes of Acceptable FRF

○ **Planning & Performing Audit**

→ SA 200 → Independence

→ All SAs relevant to Audit

If NA → Perform Alternative Procedures

+60

→ SA 260 → Appropriate Person responsible for Oversight of SPFs → may not be same as GPFS

+60

→ SA 320 → Materiality based financial info needs of common users (✗) intended users (✓)

→ threshold agreed b/w Mgt & users → Auditors still determine Materiality as per SA 320 (MCQ)

→ SA 315 → Understanding of Signi Interpretations of Contract

when another interpretation produces material difference in FS

---

② Description of AFRF

→ Purpose of FS & Intended Users (or)

Refer to note in FS about info (MCQ)

→ Mgt choice → Multiple FRFs

Explain Mgt Resp → FRF is acceptable

→ If KAM is included → SA 701

→ Reports containing SPFS → Considered Annual Reports per 720

To provide info to Owners & Similar Stakeholders
↓
specific users

→ Report on SPFs —may refer in OM Para→ Report on GPFs (Eg. MURG)

① Alert Para → SPFs used for other than intended purposes
↓
To avoid misunderstandings
↓
Alert users through EOM Para
↓
FS are prepared SPF & not suitable for other purpose (MCQ)
(+)

Report is solely for specific users &
Restricting Distribution / Use of Report (MCQ)

② Auditor of GPFs —Same→ Auditor of SPFs

include this matter EOM para → (OM)

SA 805

Audit of Single FS (SFs) & Specific Elements, Accounts or Items of FS (SEFs)

- Eg Cash Flow Statement
- Eg. Cash or Trade Receivables

SFs → OPF, SPF (800) v/s Complete set of FS (includes Note of A/c Policies & Other Info)

→ Not Apply to Component auditors Report at request of Auditor of CFs (600)

① Accepting Engagement

① Application of SAs → Comply with All SAs

If Auditor does not audit Complete set of FS

Evaluate if SAs can be complied?

May Not to praticable because

Not have same understanding of Entity & Ic → Need further evidevence for A/c Records

General Quality of A/c info (No Evidence) — Work on SEFs (Eg. TR-inc) may be disproportionate

If Not Practicable → Discuss with MGt for Another Type of Engagement (SRS 4400 - AUP)

② Acceptability of FRF

→ Adequate disclosures to understand info & its effects?

→ FRF by authorised org for Complete set is acceptable if

Includes all requirements of AFF relevant to SFS / SEFs

① Planning & Performing Audit → Adapt all relevant SAs

Specially 240, 550 & 570 (Fraud) (RP) (GC)

SA 260 (Same as SA 800)

→ Audit Evidence → obtained from Complete set FS audit

May also be used

→ obtain SAAE for SFs / SEFs

→ Inter-Relation → Unable to consider SFs/SEFs in isolation

→ Procedures for interrelated items in Complete FS

→ Materiality → may be lower than Complete FS

→ Affect NTE of procedures & SA 450 evaluation

⊙ Form of Opinion

→ FRF by authorized org for complete FS

↓

May not provide presentation for SFS / SEFS

↓

Consider if Expected form of opinion is appropriate per AFRF

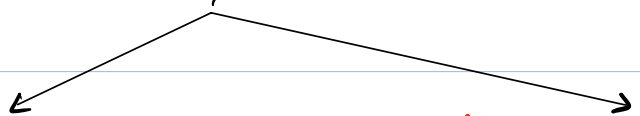
→ Whether to use "Present fairly" or "give true & fair view"

↓

factors affecting

→ AFRF is restricted to preparation of complete FS

→ whether SFS / SEFS



Comply fully requirements of framework

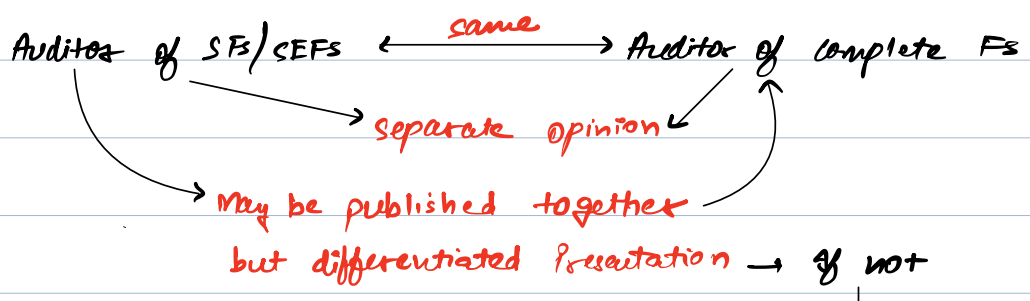
For fair presentation, disclosures beyond/ depart from framework requirement

→ Apply 700 & 800 - adapted as necessary in circumstances

→ CC - Mgt Responsibility Description adapted as necessary

→ Reports on SFS/SEFS - Same as 800 - SA 720

→ Sign - Same as SA 700



↓

Ask Mgt to Rectify

↓

NOT issue Report until satisfied with differentiation

→ Opinion on CSFs is Qualified / EOM / OM / MURL / Uncorrected MM of Other Info (SA720)

↓

Consider implication on Audit of SFs / SEFS - Relevant?

↓

Factors

① Nature of Matter & Extent of Relation with SFs / SEFs

② Pervasiveness of Matter

③ Diff b/w AFRFs → Nature & Extent

④ Diff b/w Period covered by CSFs & SFs / SEFs

⑤ Time elapsed since Date of AR on CSFs

→ Even if do not have implications

↓

May Refer in OM Para in Report on SFs / SEFs (Eg MURL)

Adverse / Disclaimer on complete set of FS

↓

Unmodified opinion on

SEFs ⊗

↓

Unless ALL below is present

① Not Prohibited (Y)

② Separate Report than (Y)

③ SEFs does not

SFs ⊗

↓

⊗

by L&R — Adverse / Disclaimer (not published together) — Constitute major portion of complete set

CSFs → Disclaimer on Results of Operation & Cash Flows (P/L) (CFS)

→ Unmodified on State of Affairs is permitted (B/S)

SA 810

Report on Summary (Abridged) FS

Report on SUMFS ← Same Auditor (mandatory) (MCQ) → Report on FS from which SUMFS is derived

Contains less details than Audited FS but providing structured representation (MCQ)

① Engagement Acceptance

→ Only when Same Auditor as above

Otherwise No knowledge to discharge Responsibility

Before accepting

① Determine if applied criteria (~~FRF~~) is acceptable?

→ Mgt is responsible – SUMFS are consistent with or represent fair summary of Audited FS

→ SUMFS contain aggregated info & limited disclosure

Risk – Necessary info ⊗ Misleading ✓

↓

Increases when – Criteria does not exist

Factors Affecting Acceptability of Applied Criteria

① Nature of Entity

② Purpose of SUMFS

③ Info needs of Users

④ Whether SUMFS would not be misleading

→ Criteria established by

Authorised Org → Presumed Acceptable ← L&R

→ If Criteria don't exist - Developed by Mgt

→ If Criteria is unacceptable / Mgt don't agree as below

↓

Not accept Engagement, Unless L&R

↓

Indicate Non-Compliance of SFs in Report &

Also in terms of engagement (mcq)

→ Adequate Disclosure of SUMFs & Title as

"SUMFs prepared from Audited FS"

② Mgt Understands its responsibility

ⓐ Preparation of SUMFs as per criteria

ⓑ Include report on SUMFs in doc containing SUMFs &

indicate Auditor has reported on them

ⓒ Ensure Audited FS are available to users of SUMFs w/o undue Difficulty

Factors Affecting

ⓘ SUMFs decide from → ⓘⓘ Public record → If not → ⓘⓘⓘ Process to access Audited FS (established by mgt)

whom / whose Audited Fs will be available

→ If L&R - Audited Fs available ⓧ - Describe L&R

① Nature of Procedures to be Performed

SUMFS Disclose

① → Summarised Nature & Audited FS

② → Citesia
↓
③ Prepared as per Citesia

④ → Info necessary to not be misleading

Audited FS

⑤ → Available to users of SUMFs? (unless L&R)

⑥ → Not accompany SUMFS → Describe
- From whom/where
- L&R need not made available

⑦ → Compare with SUMFs, if they agree

---

② Form of Opinion → Use one in cases of Unmodified Opinion

Consistent, in all material respects, with Audited FS

Fair summary of Audited FS

→ If L&R prescribes diff wording

Further Procedures to express prescribed opinion

If Users might misunderstand opinion → Explaination
↓
If cannot → Not accept engagement, unless L&R
↓
Indicate Non-Compliance with SA in Report

③ Heading Readers for Basis of A/c & Restriction on Distribution/Use
↓
If included in Audited FS – include in SUMFS as well

① Comparatives (710)

→ Audited FS (1) SUMFs (2) - Omission Reasonable ?

If unreasonable - Effect on Report

→ If Reported by Another Auditor - Include matters as per 710 as included in Audited FS

② Modification / Eom / om on Audited Fs

Qualified / Eom / om / MURU / KAM / 720

But SUMFs are Consistent

① → State Audited Fs contains above

② → Describe

(a) Basis for Qualified Opinion & Others

(b) Its Effects on SUMFS or Doc containing SUMFS

Adverse / Disclaimer

① → State Audited Fs contains above opinion

② → Describe Basis

③ → Inappropriate to Express opinion on SUMFs

③ Modified Opinion on SUMFs → SUMFs are not consistent with Audited Fs

→ Mgt not agree to make changes

→ Express Adverse Opinion on SUMFs

⊙ Unaudited Supplementary Info presented with FS

↓

Clearly differentiated from SUMFS?

↓

If not – Ask Mgt to change – Refuses – Explain that it is covered by Repost

⊙ Other Info in Docs containing SUMFS

↓

Read → Check → Material Inconsistency b/w OI & SUMFS

↓ yes

Determine if OI / SUMFS needs to be revised

↓

Discuss with Mgt → Mgt Refuses

↓

Implications on Repost

⊙ Events Subsequent to Repost on Audited FS

↓

Repost on SUMFS → after → Repost on Audited Fs

↓

Not required to



Obtain add" evidence on Audited FS

Repost on effects of events subsequent to Repost on Audited FS

→ Repost on SUMFS → States that → SUMFS & Audited FS do not reflect effect of subsequent events

→ Aware of Facts that existed at Date of Report

↓

Not issue repost on SUMFS until

consider facts vst Audited Fs as per SA0

⊙ Auditor Association

↓

Entity state Auditor has reported on SUMFS in

→ Doc containing SUMFS but not include A/R - Request Mgt

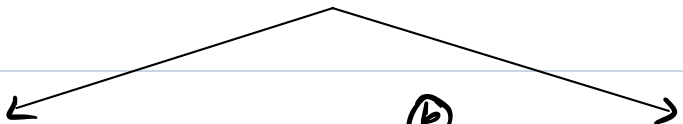
→ If Mgt does not - prevent Mgt from inappropriately associating Auditor with SUMFS

Audit of Fs ✓ Audit of SUMFs ⊗

Entity → Refer to Auditor in Doc

→ State that SUMFs are derived from Audited Fs

→ Auditor be satisfied that



ⓐ Reference is for Audited Fs ONLY

ⓑ Statement - No Impression that he has reported on SUMFs

→ If ⓐ or ⓑ not satisfied - Request Mgt

→ Change Statement (or) Reference ⊗ (or)

Engage Auditor to repost on SUMFs

↓

If Mgt does not do anything as above

→ Prevent Mgt from inappropriately refusing to Auditor

SRS 4400 ⟶ SQC 1 ⟵ SRS 4410

Agreed Upon Procedures

Issue Report on Factual Findings

Eg of Related Services

① Tax Returns

② Consulting

③ SRS

Compilation Engagement

Assists Mgt in Preparation of Compiled Financial Info

NOT an Assurance Engagement

↓

Expressing Conclusion to enhance confidence of users

↓

Independence ✗ Auditor ✗

SRS 4400

Engagements to Perform Agreed Upon Procedures (AUP)

Eg Bank Loan

① Objective

↓

① No Assurance Provided

- Users Draw own Conclusions

(Diff from Audit) (MCQ)

② Perform Agreed procedures of Audit Nature & Report on Factual Findings

③ Report is restricted to Parties that agreed

→ Opinion? - then SAS 05

① AUP to Evaluate A/c Payables

① Names & Amounts ⟷ (Compare) Trial Balance

In List

② Suppliers Statements & Confirmations → ③ Compared with Trial Balance

② General Principles of AUP

Code of Ethics - 5 Principles + Technical Standards

Independence ⓧ - Statement in Report

↓

Unless Terms or Objective

③ Terms of Engagement - Matters to be Agreed

① Nature of Engagement

(Audit ⓧ, Reviews ⓧ, Assurance ⓧ)

② Purpose of Engagement

(Work) ③ Identify financial info

④ NTE of Procedures

⑤ Limitation on Distribution of Report

If contradicts L&R - Not Accept

④ Engagement Letter - Matters Included

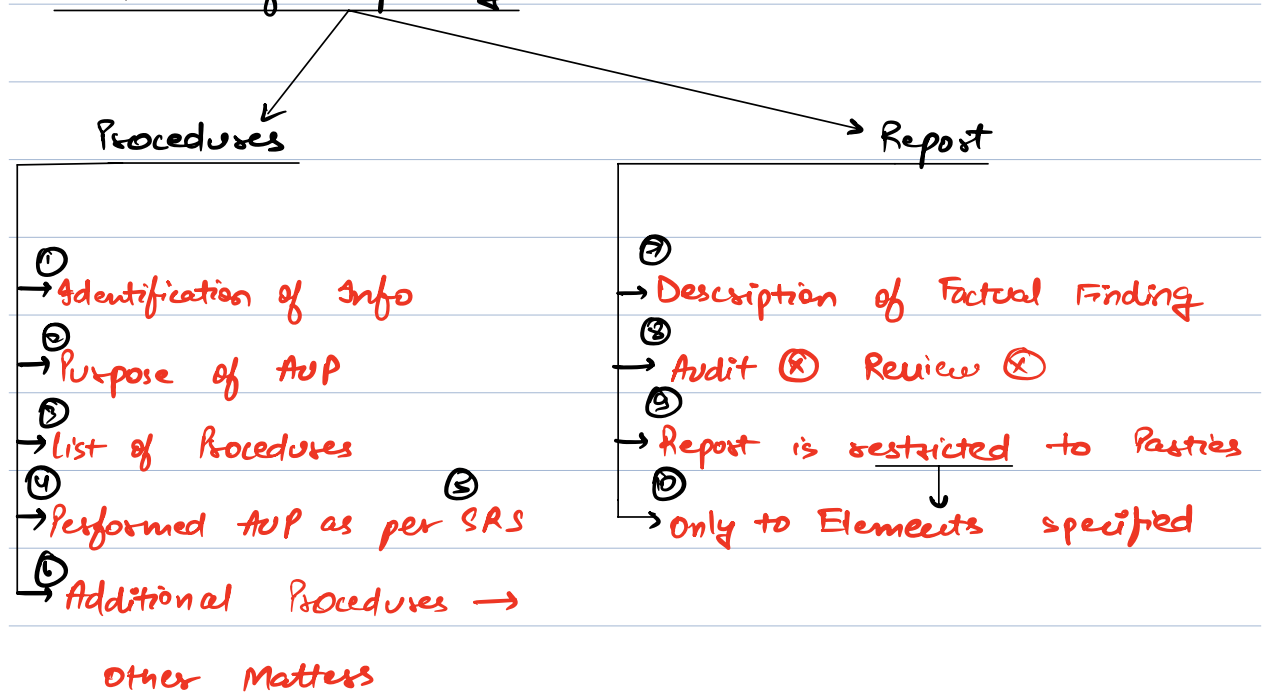
↓

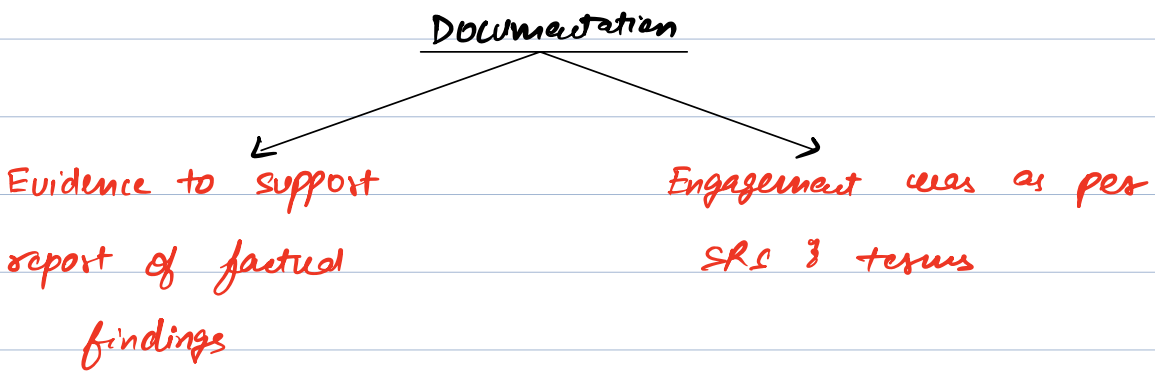
Auditor sends

List of Procedures

Statement about this

① Elements of Reporting





SRS 4410

Compilation Engagement

Practitioner → Alc Expertise → Assist Mgt → Preparation of Financial Info

(Auditor ✗)

May Apply SRS 4410 after adaptation (MCQ)

Other than Historical ← of → Historical

Non-Financial ← of → Historical

① Compilation Engagement is Required for?

① Mandatory

Periodic FR Requirement of L & R

② Other Purposes

Internal → Mgt / TCWG

External → Parties under Contract

Eg. Bank Loan

③ Transactional

Eg. Merger

① Assurance Engagement ✗

① Verify Accuracy / Completeness of Info ✗

② Express Audit opinion or Review Conclusion ✗ (MCQ)

① Scope of CE → Varies

→ Mgt may have already prepared info in Draft form

→ Mgt responsibility for financial info, basis of preparation, Judgement, Alc Policies & Estimates

→ FRF adopted depends on Nature of Entity & use of info

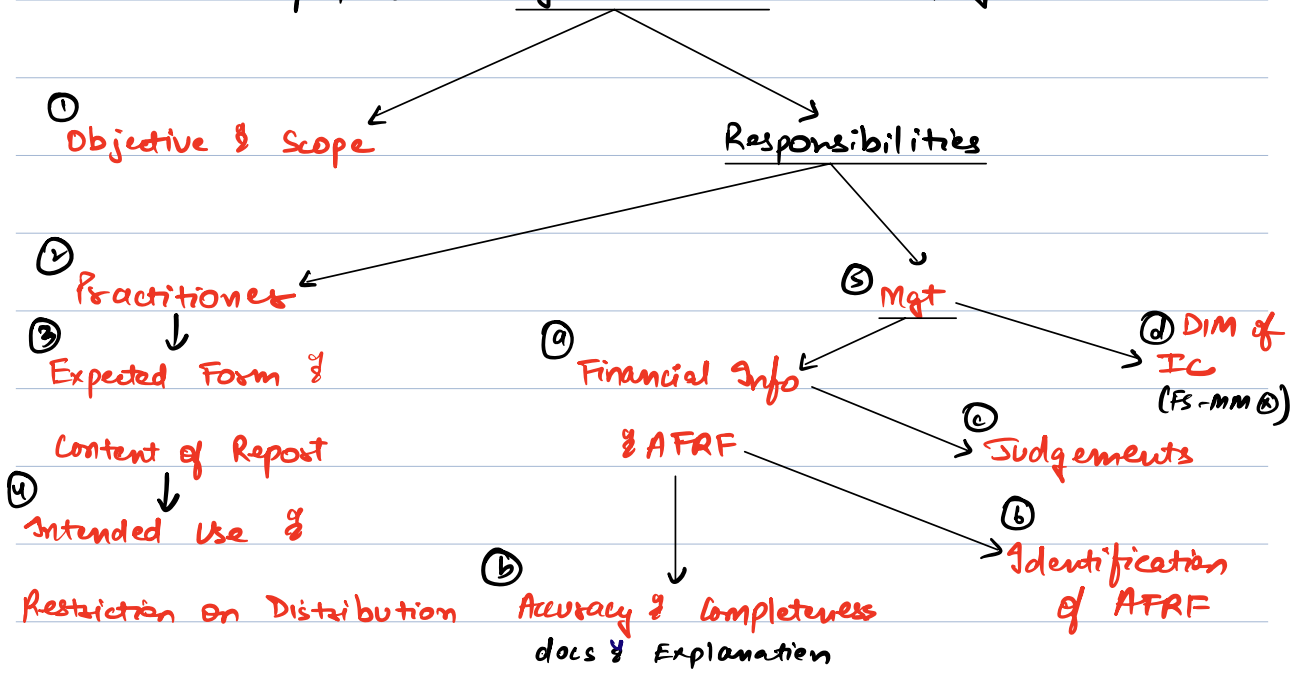
① Ethical Requirements → Comply

→ Independence ⊗ unless L&R

① Engagement Acceptance

↓

Not Accept, unless agreed terms with Mgt



→ Recurring Engagements → Terms to revise / remind Mgt of existing terms

① Communication with Mgt & TCWG

↓

All matters sufficient attention to merit attention of Mgt/TCWG

① Engagement level QC → EP take responsibility

Quality of each engagement

Performing as per Firm's QCS

⊙ Documentation

① Signi Matters & How addressed

② Final compiled info & Repost

③ How compiled info reconciles with docs & explanations

④ Trial Balance, Signi A/c Records or other Info

⊙ Performing Engagement

① Obtain Understanding
- (a) Business & Operations
- (b) AFRF (Industry Application)

② Compile Financial Info (docs, explanation & Judgments)

③ Discuss Significant Judgments with Mgt

④ Prior to completion, Read compiled Info (in light of understanding)

---

2 Cases for Withdrawal → not a Responsibility

If DOCs, Explanations, Judgments

Incomplete, Inaccurate, Unsatisfactory

Request Mgt – Addn / correct Info

If Unable to complete CE as Mgt failed to provide

If compiled Info

⊙ Not describes AFRF

⊙ mm

⊙ Misleading

Propose Amendments to Mgt

Mgt Declines

Withdraw ↓

Inform Mgt of Reasons

Withdraw ↓

If NOT Possible, see PRL Responsibilities

→ Acknowledgement from Mgt → Responsibility for Final compiled info

Elements of Report

Responsibilities

① Practitioner

② CE Requires what?

③ Compiled Financial info
based on info provided

④ Explanations

ⓐ Verify Accuracy
& Completeness ⓧ
Assurance ⓧ

ⓑ Audit ⓧ
opinion
Review ⓧ
conclusion

⑤ Mgt

ⓑ Identification / Date of Financial info
(Title)

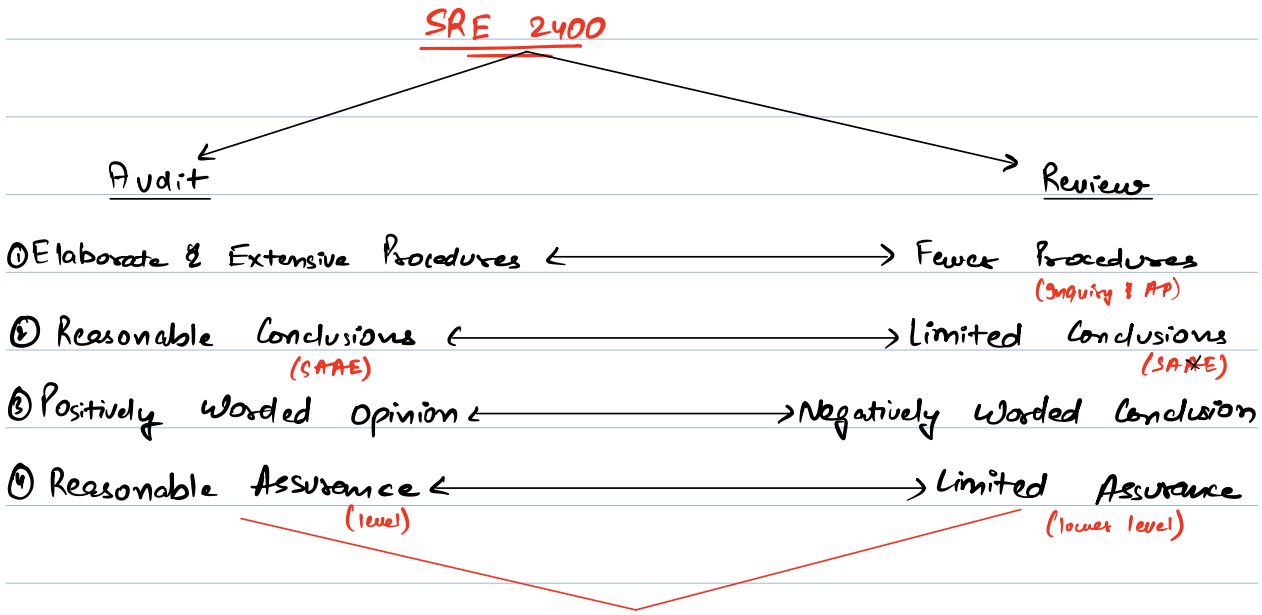
⑦ Identification of AFRF

⑧ If Special Purpose FRF

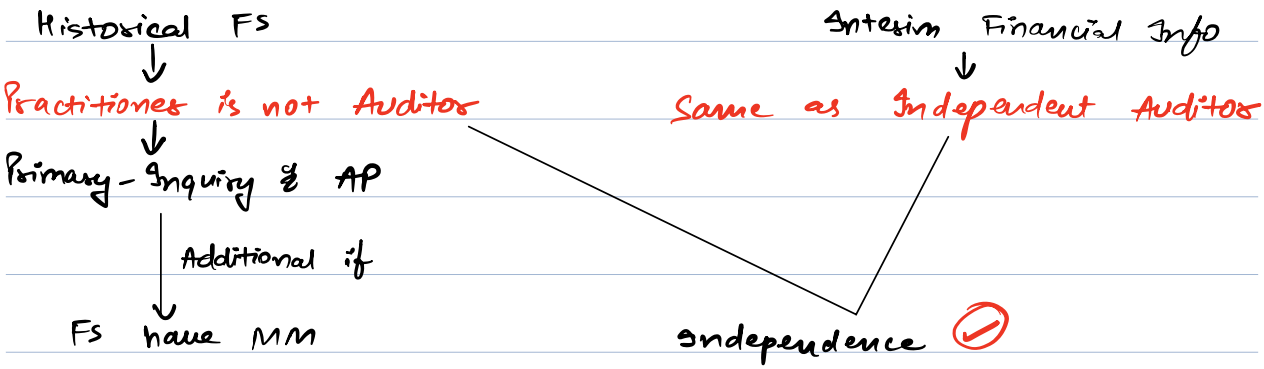
ⓐ Describe Purpose
& Users
(or refer to note in FS)

ⓑ Not suitable for other Purposes
(As per SPF)

SRE 2400



SRE 2400 ⟶ SQC 1 ⟵ SRE 2410



① Objectives (SA200) → Limited Assurance - FS - MM ✗ AFRF ✓

→ Report on FS as per SRE

If → Limited Assurance cannot be Obtained

→ Modified Conclusion is insufficient

→ Disclaim Conclusion or Withdraw (L&R)

① Ethical Requirements & Engg Level QC

↓ Comply — Independence ✓

↓ EP responsibility — Quality for each Review

---

① Factors Affecting Acceptance of Engagement

↓

Shall not Accept if he is not satisfied

① Rational Purpose of Engg ✓

↓

Not Present if

ⓐ → L&R requires Audit

ⓑ Signi → limitation on Scope

ⓒ → Association of his Name is inappropriate

② Review is appropriate

↓ If Not

Recommend Another Type of Engagement

ⓐ Audit is more appropriate

ⓑ If Prohibit Assurance ↓ Recommend Compilation/ Other Engg

③ Ethical requirements - not satisfied

④ Mgt imposed limitation → disclaiming conclusion

⑤ Doubts Mgt's integrity → affect Review

⑥ Info → Unavailable & Unreliable

---

① Inquiry → Seeking info from Mgt & others

- Actions taken at Meeting of Owners/Trustees (affect info in FS)
- communications recd regulatory agencies
- Matters in other Procedures

① Why Inquiry → Principal evidence for Mgt Intent (Eg. Bonus)

Past History of Performing | Reasons for choosing | Ability to Pursue Action

→ Professional Skepticism – FS - MM ?

→ Update Understanding of Entity – Areas for MM ?

① Why AP → "

→ Inconsistency from expected trends

→ Addn Procedure – FS - MM ✓

→ Corroborative evidence for Inquiry / AP performed

① Addn Procedures when FS have MM

Addn Inquiry & AP | Other Procedures (TOD / Confirmations)

greater detail | affected items

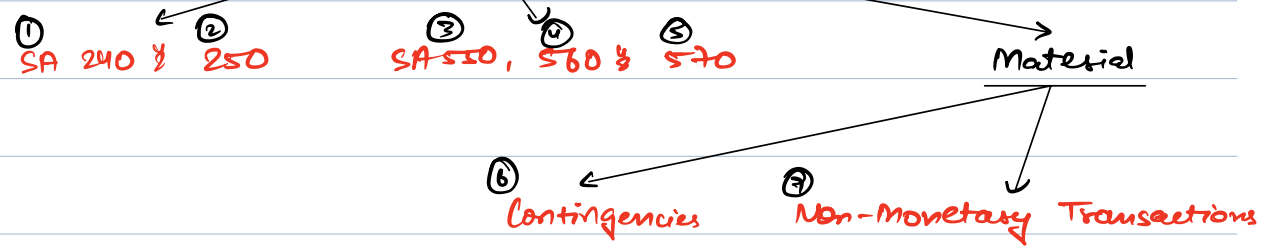
ⓐ Conclude - FS - MM ✗ | ⓑ Conclude - FS - MM ✓

No further Procedures

→ If unable to conclude ⓐ or ⓑ

Continue performing Addn Procedures until he reaches ⓐ or ⓑ | If Not able to reach - Scope limitation ✓ Unmodified Conclusion ✗

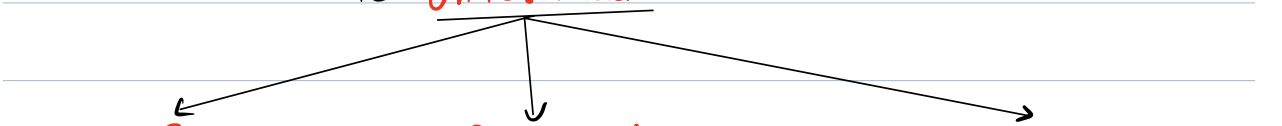
Mgt's WR About (to be inquired as well)



Documentation → Sufficient for experienced Practitioner

→ with NO previous connection

→ to understand



→ who performed & Date

→ who reviewed - period & extent of review

→ Discuss Mgt & TCWG

→ Inconsistency with findings? How addressed

SRE 2410

Review of Interim Financial Info by Independent Auditor

↓ shorter than FY

⊙ Understanding Entity – Update understanding

① IFI Preparation Process → ② Changes in Business & ③ IC → ④ Mgts Assessment of Risk of Fraud

↓

⑤ Signi Risks in PY FS ← ⑥ MM in PY Fs (corrected / uncorrected)

⊙ Inquiry, AP & Other Review Procedures

Read Minutes of Meeting (matters affect IFI) → Matters – Modification in PY Fs → Communicate with Component Auditors

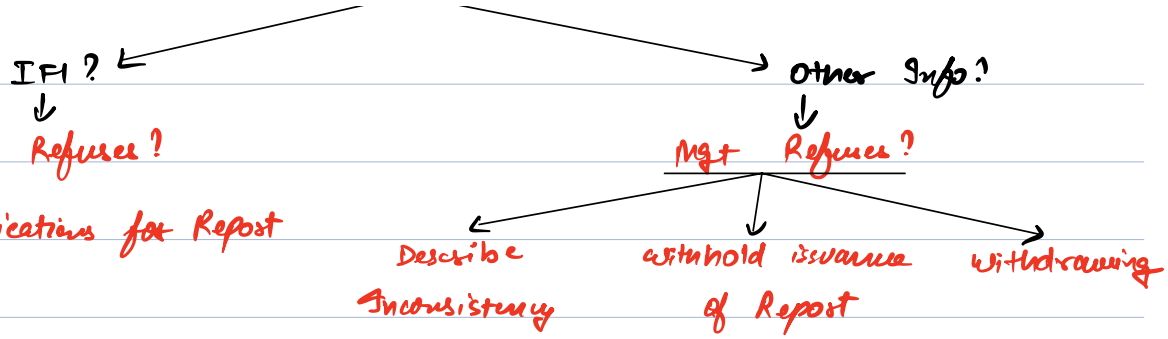
Inquiry

① IFI – AFRF?
② New A/c Principle?
③ changes?
④ Suspected Fraud
⑤ Allegations of Fraud
⑥ NOCLAR

⊙ Other Info → Read if Materially Inconsistent with IFI?

↓ if yes

What needs to be amended?



Other Info - MM of Fact ? - Discuss with Mgt

- Valid Diff of Judgment ?

- Consult Qualified 3rd Party for Resolution ?

Mgt Refuses - Correct MM of Fact

- Notify TCWG & Obtain legal advice

⊙ Communication with Mgt & TCWG

→ Material Adjustment in IFI necessary ? - Communicate with Mgt ASAP

not respond within reasonable time ?

TCWG ASAP, orally / writing

Nature, Sensitivity, Significance, Timing

not respond within reasonable time ?

Consider

Modify Report? Withdraw from IFI? withdraw from Annual FS?

→ If Fraud / NOCLAR - Communicate Mgt ASAP

- TCWG & implication on Report ?

⊙ Departure from AFRF

↓

→ Material Adjustment req in IFI to be as per AFRF?

Qualified / Adverse Conclusion

→ IFI materially affected by → Modify Conclusion

Departure from AFRF & Mgt don't correct

Nature of Departure

Effects on IFI

→ IFI Adequate Disclosure ⊗ → Modify & Include Info (if Practicable)

↓

Add Explanatory Para & Qualifying Conclusion

→ Departure M ✓ P ✓ → Adverse Conclusion

Documentation

Sufficient & App basis for conclusion

Evidence – Review as per SRE & LSR

⊙ Limitation on Scope - Unable to Complete Review

↓

Communicate writing → Mgt & TCWG

Reason why Unable to complete

whether app. to issue report

• Imposed by Mgt → Review Complete ⊗ Not Accept

→ If after accepting? → Mgt Refuses?

Request Mgt

writing Mgt & TCWG

L&R requires repost ← Reason why Review complete ⊗

↓

Disclaim conclusion

Repost reason why review completed ⊗

- Other LoS → confined M ✓ P ⊗ → Modify Report

  ↓ Expl Para ↓ Qualifying Conclusion

→ Latest Annual Fs Qualified due to LoS?

Still exists? Implications for Repost?

⊙ QC

→ MU exists ✓ Adequate Disclosure ✓ – EOM Para ✓

→ Prior Audit / Review report had EOM Para for MU?

↓

MU still exists ✓ Adequate Disclosure ✓ – EOM Para highlight continued MU ✓

→ Adequately Disclosed ⊗ – Qualified / Adverse Conclusion & Refer MU

⊙ In DOC of IFI – Report ⊗ – legal advice for action

↓

Modified? ✓ – Resign from Annual Fs

⊙ Condensed set of IFI ——not all info——→ complete set

↓

Signi Events & changes since annual date – presumed user access to latest audited Fs (Eg. Listed)

↓

If not – statement to be read with latest audited Fs → In absence

↓ IFI is misleading? → Implications?

	Audit	Review	Assurance
Historical FI	✓	✓	✗
Assurance	Reasonable	Limited	Limited / Reasonable
Independence	✓	✓	✓

① Assurance → Practitioner expresses conclusion about
→ Outcome of evaluation of subject matter (CFs)
against criteria (AFRF)
→ to enhance degree of confidence of users

SAE 3400

Examination of Prospective Financial Info (PFI)

FI Based on

Statutory Auditor ✗
Limited Assurance Engg - Moderate level of Assurance ✓

Assumptions for Future Events

Possible Entity Actions (Eg orders)

Highly subjective & Judgmental

3 Forms

① Forecast (Best-Estimate)

② Projection (Hypothetical)

③ Combination of Both

Assumptions & Actions are

based on experience

Expected to take place

Not expected to take place

① Scope of SAE 3400

↓

Not apply to PFI in narrative terms (Para form) → Annual Report

↓

Other SAs are also applicable MDA section

② Nature of Assurance → PFI will be achieved ⊗

③ Can CA be associated with PFI?

PE - C3 P1 s2 - Estimate of Earning ⊗ Vouch Accuracy ⊗

→ CA can participate & can review PFI

↓

Can Clearly indicate in Report

① Basis of Forecast/Projection → ② Major Assumptions → ③ Sources of Info

④ Mgt Responsibility for Preparation & Presentation of PFI

↓

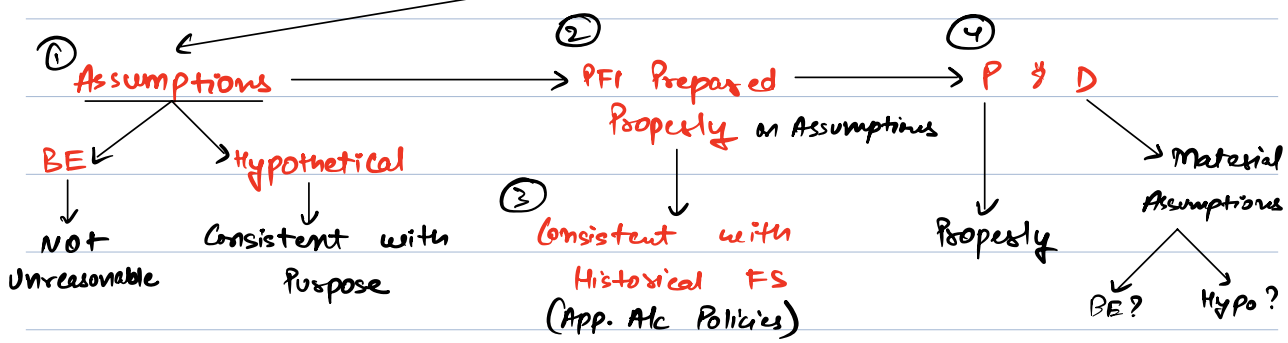
① Assumptions → ② Forecast Basis → ③ PFI Identification & Disclosure

⑤ Documentation

→ Evidence to support report on examination of PFI

→ Evidence that Examination was as per SAE

⊙ Auditor's Responsibilities → obtain SAFE

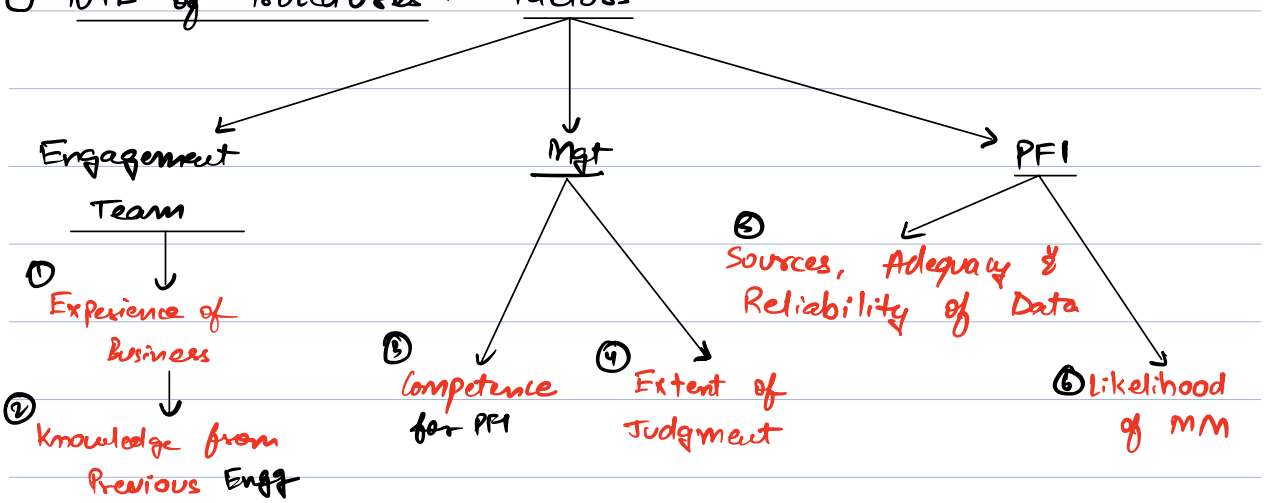


⊙ Precautions Before Accepting Engagement

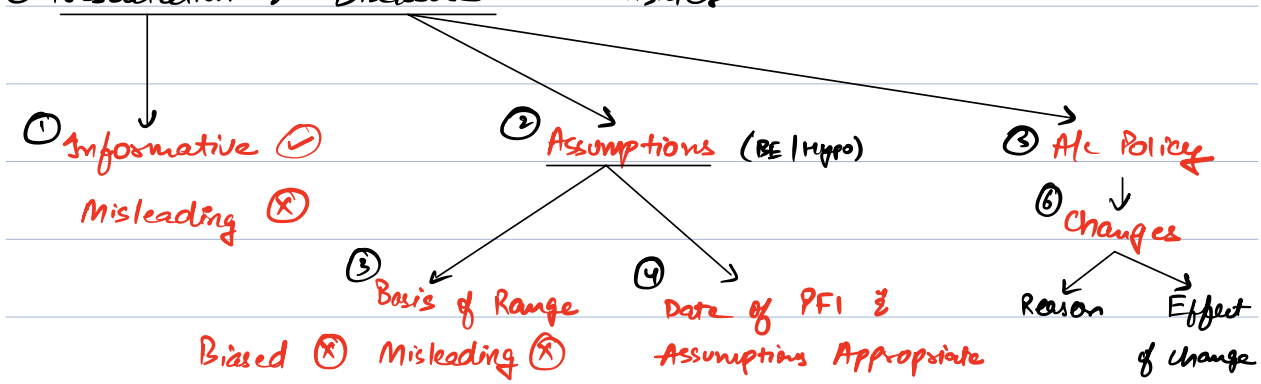


→ Formalize terms of Engg - Sending Engagement letter

⊙ NTE of Procedures – Factors



⊙ Presentation & Disclosure → Consider

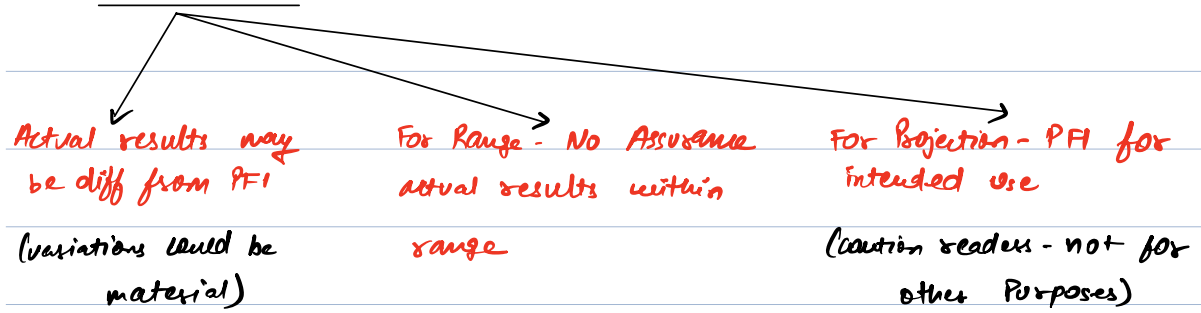


⊙ Report that

→ Anything Attention – Assumptions don't provide reasonable basis

→ Express Opinion – PFI prepared as per Assumptions & AFRF

→ State that



→ P & D not adequate – Q & A or withdrawal

→ Signi Assumptions don't provide Reasonable basis for PFI – A with reasons or withdraw

→ Conditions preclude necessary Procedures (SAAE ⊗) – D or withdrawal
– Describe scope limitation

SA 402

Audit Considerations Relating to Entity using Service Org

Reliance ltd → Outsourced → ABC & Co.

User Entity (UE) → User Auditor (UA) → SA 402

Payroll Processing ✓

Housekeeping ✗

Service Org (SO) → Service Auditor (SAu) → SAE 3402

→ See POV of Ques Asked :
If Asked from UA's POV - SA 402 applicable
SAu's POV - SAE 3402 applicable

① Services are relevant to UA if they are part of UE's IS relevant to FR → If they Affect

① Signi Events & Transactions → How is captures? → UE FS

② Signi Events & Transactions → UE FS

③ Procedures to Report & ④ Related A/c Record

⑤ Journal Entry Controls

⑥ FR Process prepare UE FS

SAu provides 2 types of Report to UA/UE

Type 1 Report

① Description & Design of Controls

② Written Assertion by SO

(a) Description fairly Presents system

(b) Controls are suitably Designed

at Specified Date

③ SAu Assurance Report conveying Reasonable Assurance for above

Type 2 Report

① Operating Effectiveness (+) (c) Controls operated Effectively

Specified Period

(+) Including TOE & Results

↓ Useful in Only RAP

↓ Useful for RAP & FAP

MCQ → If SAU uses work of IAF (Internal Audit Function) in TOCs, then include IA's work & SAU's Procedures on that work

⊙ RAP - Understanding of Services by SO

① Nature & Significance of services to UE → ② Nature & Materiality of Transactions → ③ Degree of Interaction → ④ Nature of Relationship b/w UE & SO

③ → UE control over SO processing

→ UA determines if sufficient understanding of services & effects on UE IC is obtained to assess ROMM

↓

⊙ If UA is unable to obtain above understanding from UE

① Obtain Type 1/2 Report → NA → ② Contact SO (thru UE) → ③ Visit SO & Procedures Perform → ④ Use Another Auditor

↓

Use? Determine SAAE

↓

① SAU Competence (CA®) & Independence → ② Adequacy of Std.

↓

Use to Obtain Understanding?

↓

① Description & Design of Control At Date / For Period? → ② SAAE for understanding UE IC → ③ Complementary UE IC are Relevant? (Designed & Implemented?)

↓

Controls that SO assumes will be implemented by UE

MCQ → Even when SO is ISO certified, we need to take Assurance report on SO's control

---

Responding to Assessed Risk

SAAE is available from Records at UE? → If not → FAP to obtain SAAE at SO ⊙ Use Another Auditor

① FAP → TOC → when UA Expects that controls at SO are operating Effectively (MCO)

① Type 2 Report —NA→ ② TOC at SO → ③ Using Another Auditor

Using? SAAE about Effectiveness of controls?

① Description & OE At Date/ For Period → ② Complementary UE IC are Relevant? (Designed & Implemented? Yes - Testing op Eff) → ③ Adequacy of Time Covered by TOC & Time elapsed since performed

④ TOC performed by SAU provide SAAE

① Reporting by UA - Reference of SAU work (same SA 620)

Unmodified Opinion → No Reference ⊗ → Unless L & R

Modified Opinion (SAAE ⊗) → If Relevant to understanding of Modification → Reference ✓

State Reference does not reduce UA's Responsibility

SSO

SAU Report include / exclude controls at SSO

Inclusive Method → Nothing to do

Carve Out Method → Controls at SSO are relevant?

NO ! ← Controls at SSO are relevant? → YES !

YES ! → Apply SA 402 to SSO as SO

SAE 3402

Assurance Repost on Controls at Service Org

Scope of SAE 3402

Applies only when

SO is responsible for design of controls

Not when reporting only on

- Controls operated as described
- Controls relevant for UE IC FR ⊗

① Acceptance of Engagement - Before Accepting

- SAu
  - ↓
  - Competence & Capabilities ✓
- SO
  - ↓
  - Criteria is suitable & available to UE & UA (MUQ)
  - Scope of Engagement & Description is ⊗ Limited (Not useful for UE/UA)

① WR from Responsible Party (SO)

① Reaffirm Assertion of Description → ② Provide SAu with all info → ③ Disclosed to SAu (if aware) ⊗

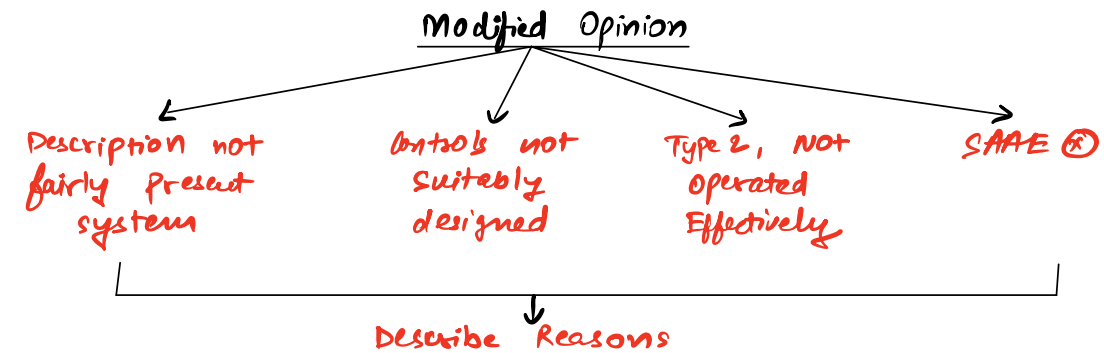
- Controls
  - ⓐ Design Deficiencies
  - ⓑ OE ⊗
- SAs
  - ⓐ SA 240
  - ⓐ SA 250
  - ⓐ SA 560

---

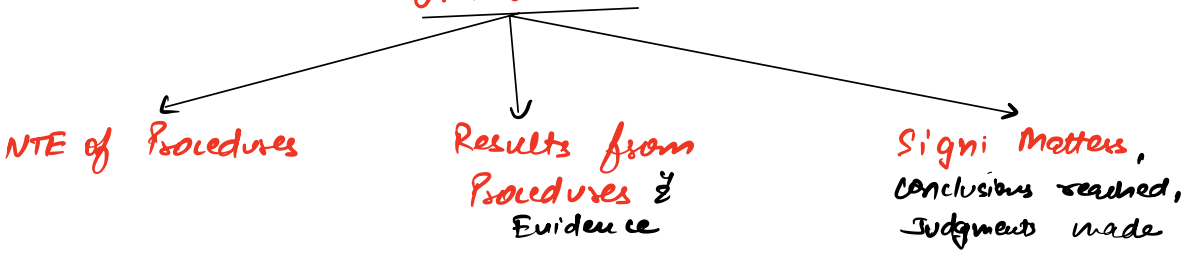
① Add" Reposting in Type 2 Report

Separate section — TOC & Results

- Which controls? All or samples? Nature of Tests?
- Deviations? — Extent of Testing
  - No. & Nature of Deviations
  - ↓
  - Repost even if control Objective achieved (minor deviations)

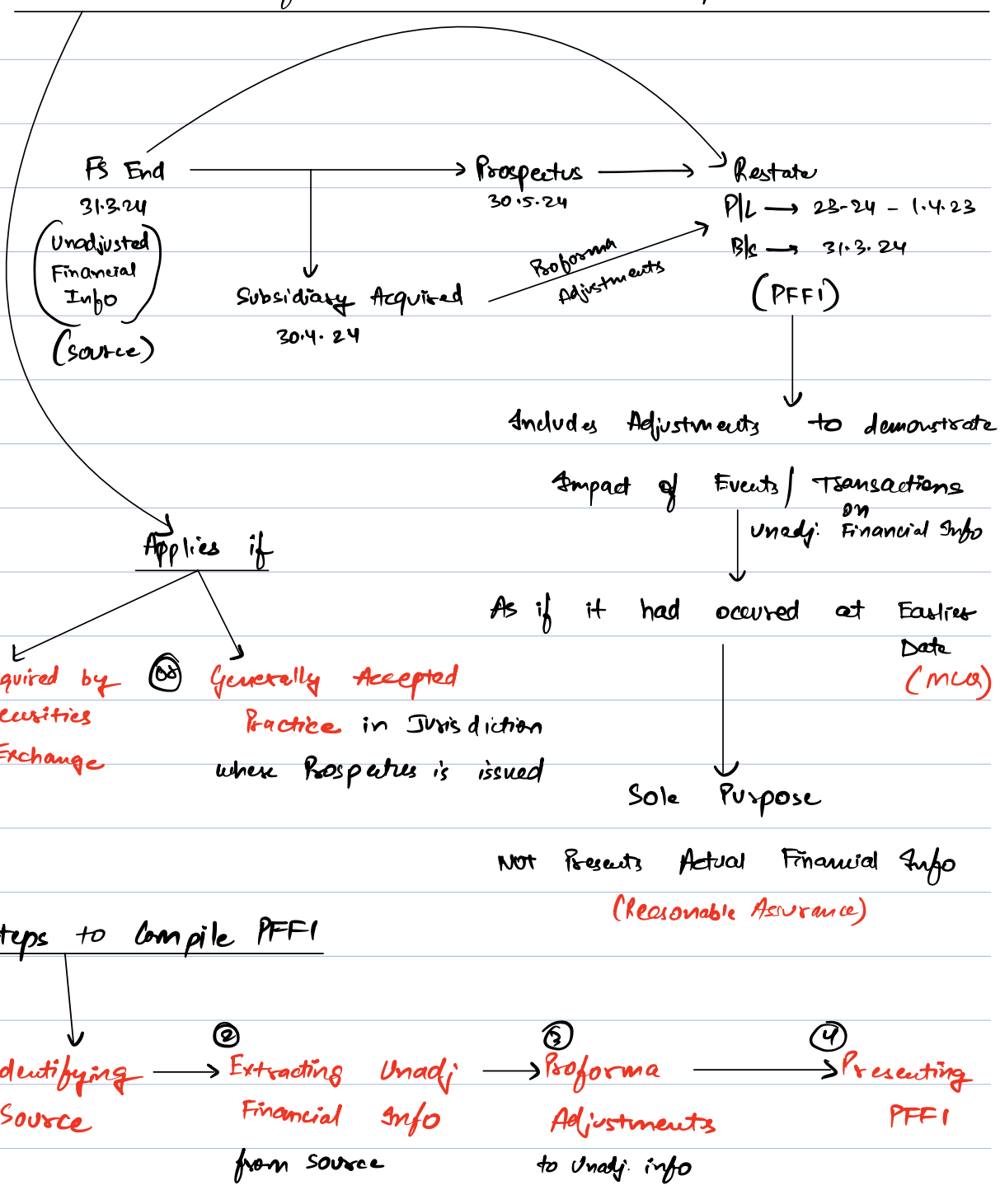


Documentation → Sufficient for experienced Practitioner
→ with NO previous connection
→ to understand



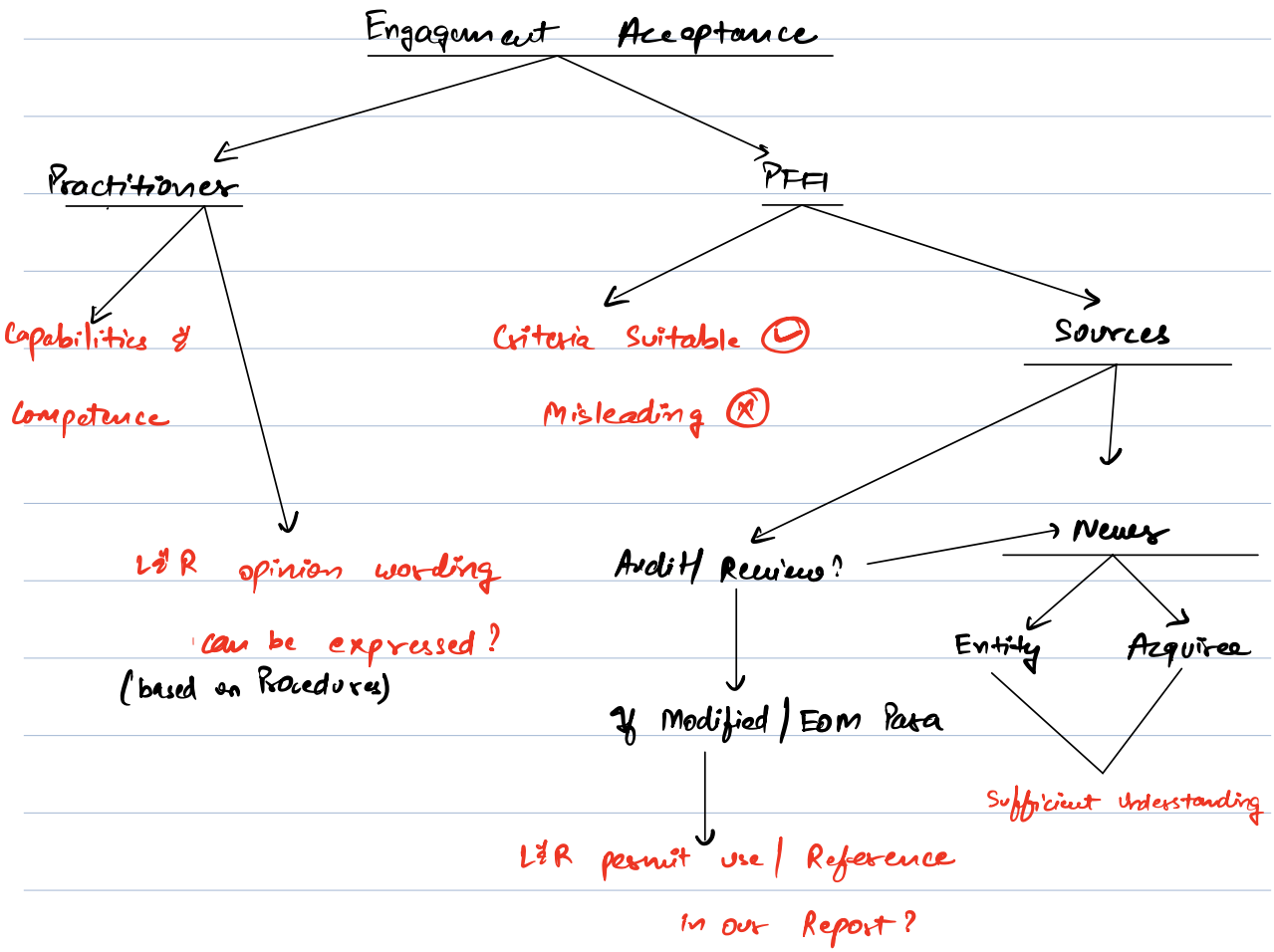
SAE 3420

Assurance Engagement to Report on Compilation of Pro Forma Financial Info (PFFI) Included in Prospectus



Steps to Compile PFFI

1. Identifying Source
2. Extracting Unadj. Financial Info from source
3. Proforma Adjustments to Unadj. info
4. Presenting PFFI



⊙ Practitioner's Responsibility

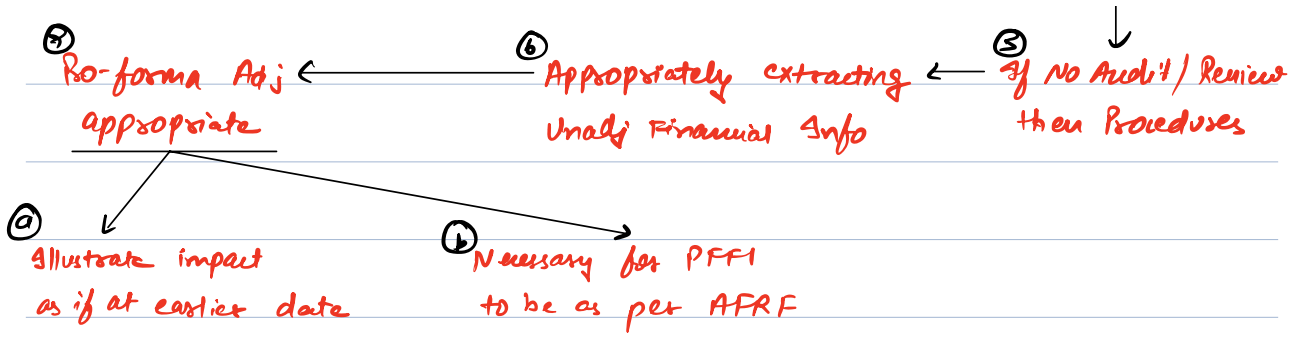
→ Report, PFFI compiled on basis of applicable criteria &

if Criteria provides reasonable basis

Authorised org | L&R | Not exist – Mgt developed

⊙ Planning & Performing Engagement – Practitioners shall

① Criteria Suitable? → ② Consider Materiality (PFFI – Criteria?) → ③ How PFFI compiled? → ④ Source Appropriate?



① WR → Identified All Proforma Adj

→ PFFI compiled on basis of Applicable Criteria

① Unmodified Opinion → "same"

① Modified Opinion

↓

L&R prohibits → Discuss with RP → Not Agree to changes

withdraw or Legal Advice

Professional Ethics

↓

Moral principles governing person's behaviour

Job vs Practice vs Entre. ∝

↓ ↓

CA in service CA in Practice (CAiP)

Fundamental Principles

→ Meri ① Integrity aur ② Objectivity pe shak mat karna,

→ main ③ professionally competent hu aur ④ confidentiality rakh ke,

→ ⑤ professionally behave karunga

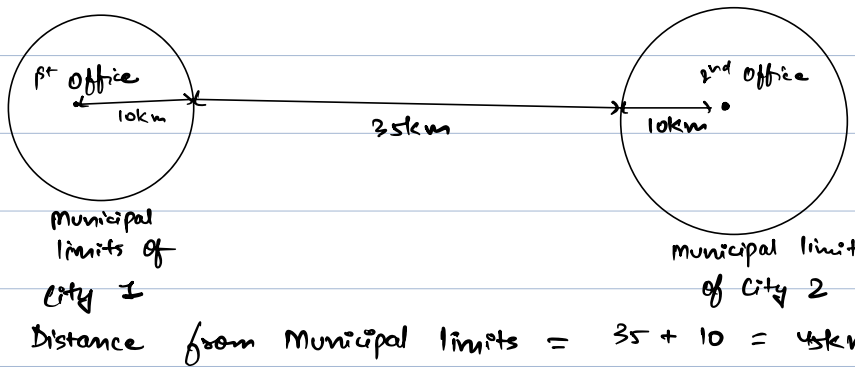
Threats

① Familiarity → ② Self-Review → ③ Self-Interest → ④ Advocacy

↓

⑤ Intimidation

NOLLAR is covered with SA 250



Distance from Municipal limits = 35 + 10 = 45km ✓

Clauses Memory Technique

SI → PI

(1) Practice in his Name ⊗

(12) Sign in his Name ⊗ (Except Routine Docs)

(2) Na Dene ka
(3) Na Lene ka
→ Share of Profits (Except Regulation 53A)

(4) Na Partnership me enter karne ka → Regulation 53B

(5) Na Galat tareeke se kaam ko secure karne ka

(6) Na Solicit karne ka → By CAiP – Circular, Ad, Interview or Personal communication
(7) Na Advertise karne ka → Professional Attainments, using Other designations, Professional Docs

(8) Purane Auditor ko communicate karne ka

(9) see 139 & 140 ki compliance ko ensure karne ka

(10) % Basis pe fees nahi charge karne ka → Regulation 192

(11) Dusre business me enter nahi karne ka → Regulation 190A

SI PII

① Na Dene ka → Share of Salary (Exception Relatives)

② Na Lene ka → Share of Profits

SI PIII

① Aukaat Nahi bhulne ka → Fellow CA ✗

② Jo info maanga hai chup chap de dene ka

③ Write up false nahi bharne ka

SI PIV

① Warna 6 months ki jail ho jayegi

② Institute ko badnaam nahi karne ka

SII PI

1. C → Confidentiality
2. C → Certification when No Examination
3. C → Contingent Upon Future Events (SAE 3400)
4. O → Opinion when substantial interest
5. M → Material Fact Not Disclosed
6. M → Material Misstatement in FS
7. G → Grossly Negligent
8. Evidences bhi nahi liye
9. SAs comply bhi nahi kiya → Material Departure from CAPA
10. Client ke paiso ko separate bank account me bhi nahi daala

SII PII

1. C → Contravention of Act/ Regulations/ Guidelines
2. C → Confidentiality for CA in service
3. False info diya
4. Client ke paise ko embezzle kiya

SII PIII

1. Ab to 6 months se jyada ki saza hogi

CARO - 2020 → other I&R Requirements!

Applicability → Not Applicable to →

① One Person has Purchased Insurance from Bank for his Small iPhone 8

② Private Co.

→ NOT subs / Holding of Public Co.

→ NOT Capital + R&S > 1cr as on B/s Date

→ NOT Borrowings from Bank / FIs > 1cr at any point of time

→ NOT Revenue (incl. discontinuing) > 10cr

③ CFS except clause (xxi)

Para 3 → ① PPE & IA - (a) Proper Records (b) Physically Verified (c) Title Deeds (d) Revaluation (e) Benami Property

	Dwld	factory	PPE
	100	100	200
	95	50	145

② IND AS 2 → Inventory - (a) Physical Verification (b) Working Capital > 5cr

BOA 100, PV 90, 10

③ 3rd Day is LEN Day → LICs - (a) LICs Provided (b) Not Prejudicial to interest (c) Regular Receipts (d) Overdue (e) Renewed / Extended (f) Repayable on Demand

④ Continue LICs - 185 & 186

⑤ Kharcha karne ke baad Deposit on 5th Date - 73 to 76

⑥ Khareche ke life maintain Cost Records — 148

⑦ S se 7, s se Stat Dues — ⓐ o/s >6M ⓑ Dispute

⑧ Income Tax ne laga di humaari vaat - Unrecorded Income

⑨ Ulta Phulta Clause of ③ — Loans & Borrowings — ⓐ Default
ⓑ Wilful Defaulter ⓒ Applied for Purpose ⓓ Short & Long term
ⓔ obligations of SAT ⓕ Pledge shares of SAT

⑩ Tan Tana Tan, humaara IPO lag gaya - ⓐ IPO/FPO
ⓑ Preferential Allotment

⑪ Mulko ki Police, Don ko pakad sahi hai - Fraud — ⓐ Fraud
ⓑ 143(12) ⓒ Whistle-blower

⑫ 12th std me Nidhi thi — ⓐ NOF : Dep : 1:20 ⓑ 10% Unencumbered Deposits ⓒ Default

⑬ Usko Related Party banana tha - 177 & 188

⑭ Lekin wo Internal Auditor wikli — ⓐ IAF ⓑ Reports of IA

(15) Usne Non-Cash Transactions pakde - 192 → Acquire of Assets

(16) RBI se Cash leke aaye - (a) US IA (b) NBFC / HFC (c) CIC (d) >1 CIC

(17) Aur Cash loss ho gaya - in Current & Previous FY

(18) To Statutory Auditor ne Resign kar diya

(19) Aur Going Concern pe khatra aa gaya - Due < 12 Months

(20) Ab CSR bhi nahi kar sakte - (a) Ongoing Project (x) - 6M
(b) Ongoing Project (✓) - Special A/c

(21) CFS - Adverse Remarks, Para Numbers

SA 600 - Using Work of Another Auditor

- Principal Auditor
  - Auditor of Entity
- Other Auditor
  - Auditor of Component
    - Division, Branch, Subsidiary, JV or Associates

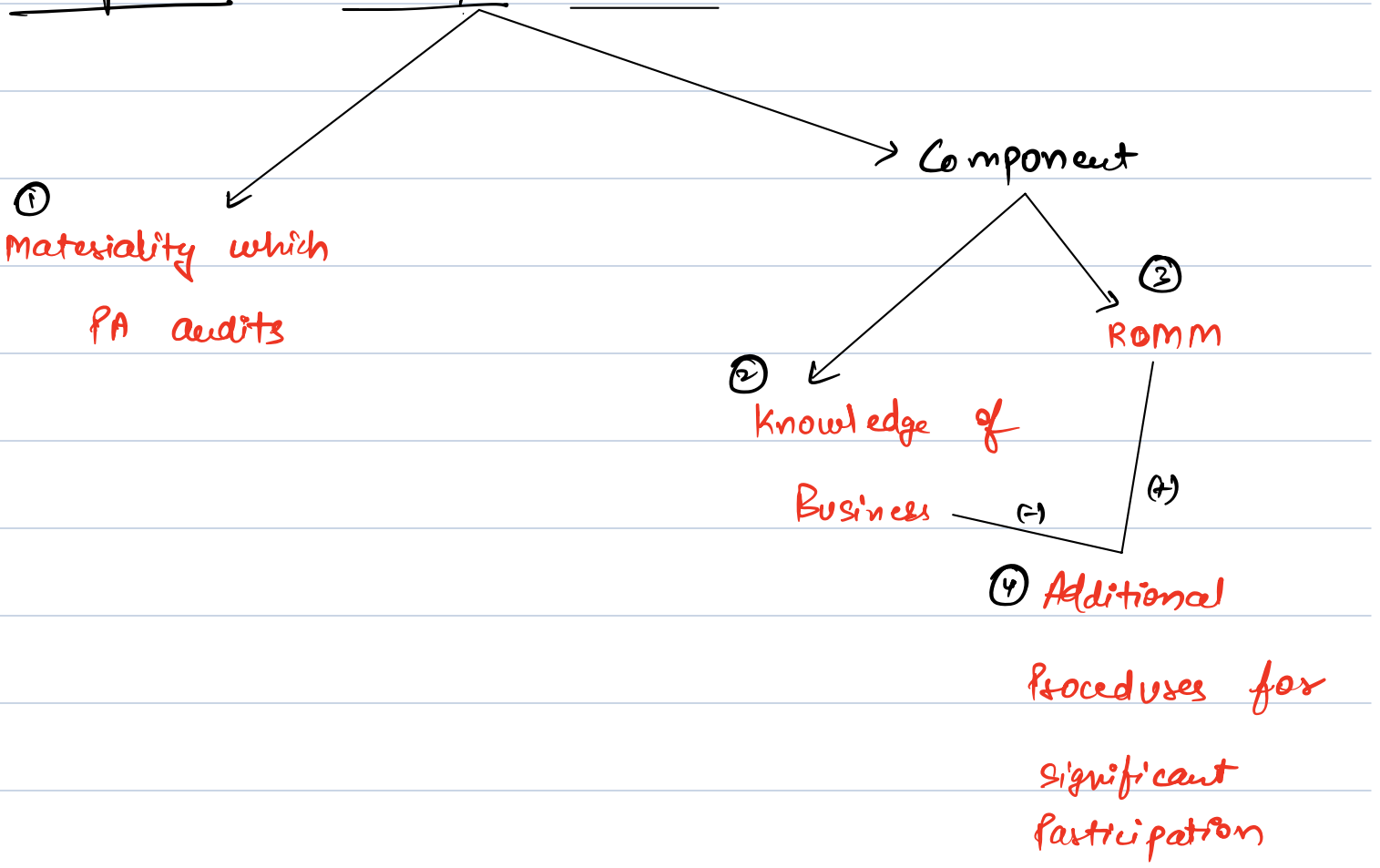
① Principal Auditor's Procedures → SAAE that work is adequate

Advise Other Auditor

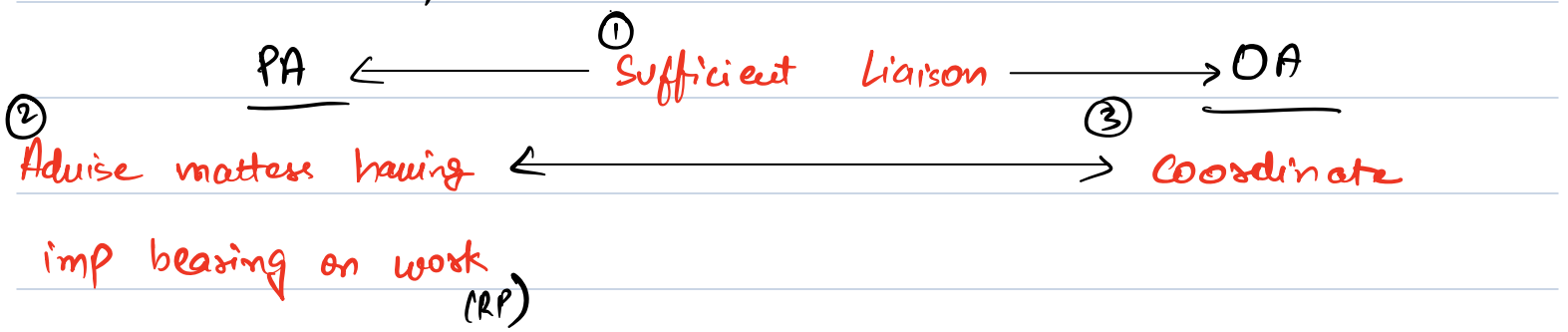
① For Coordination at Planning Stage
- (a) Inter-Component Transaction (identification)
- (b) Special consideration areas
- (c) Timely completion of Audit

② A/c, Auditing & Reporting Requirements
- Compliance
- WR

① Acceptance as Principal Auditor



② Coordination b/w

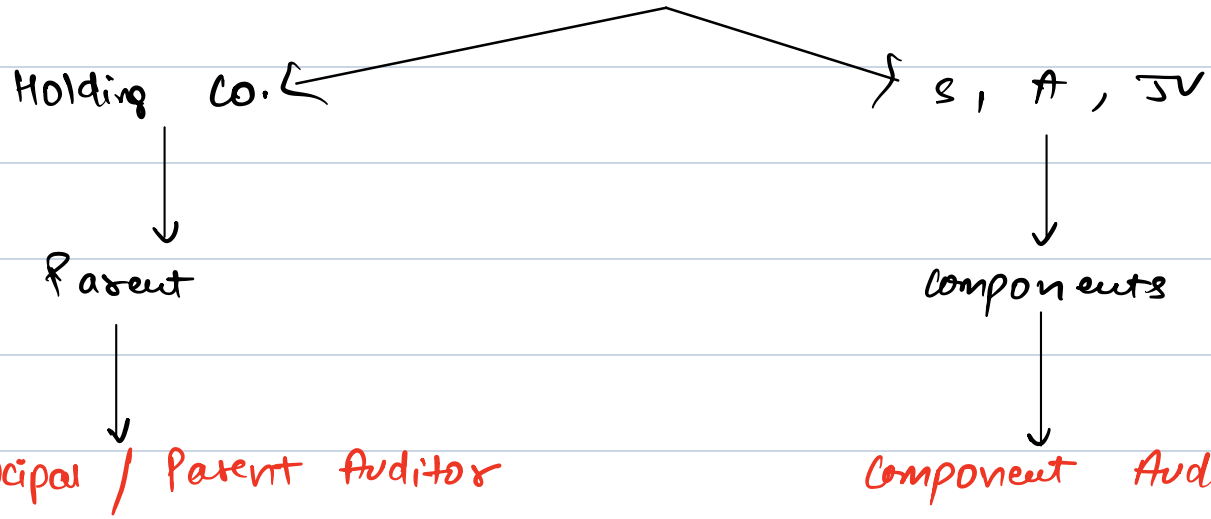


③ Ownership of Audit Documentation → OA

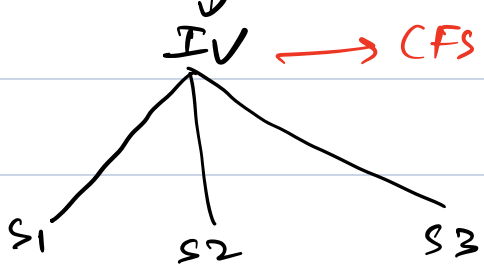
Group Audit

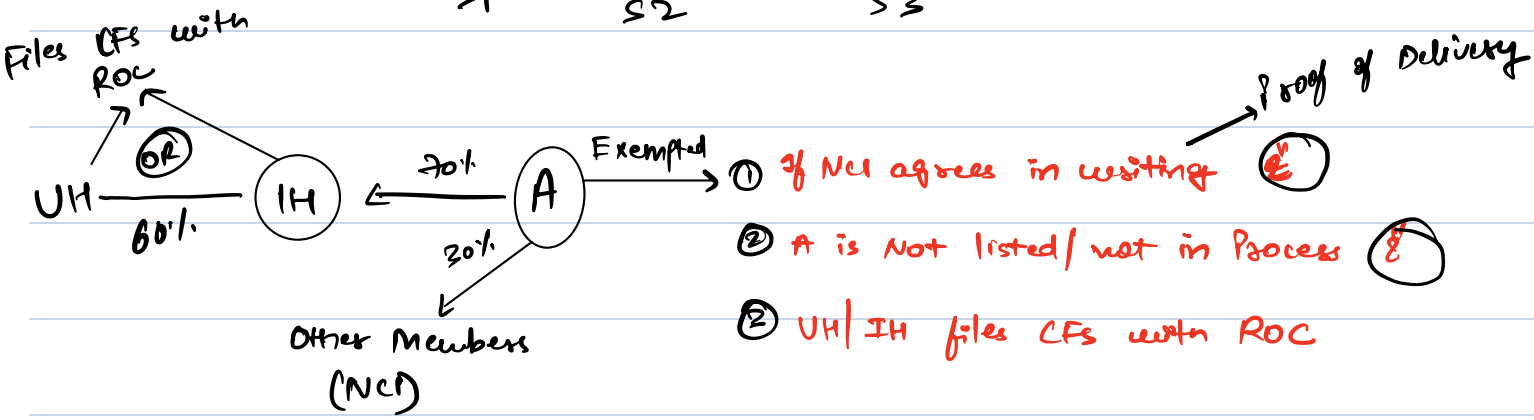
CFS → Entity having Subsidiaries, Associates, JVs

Prepare FS as Single entity (FR)



P of IV → CFS includes P, IV, S1, S2, S3





---

① Responsibility of Parent for CFS / WR from Parent's Mgt

Pehle identify karunga mere badhne (① components) kon hai, unse puchhunga unki gf (② RP) kon hai → Unse saari (③ complete) info lekr ④ segmental reporting kar dunga

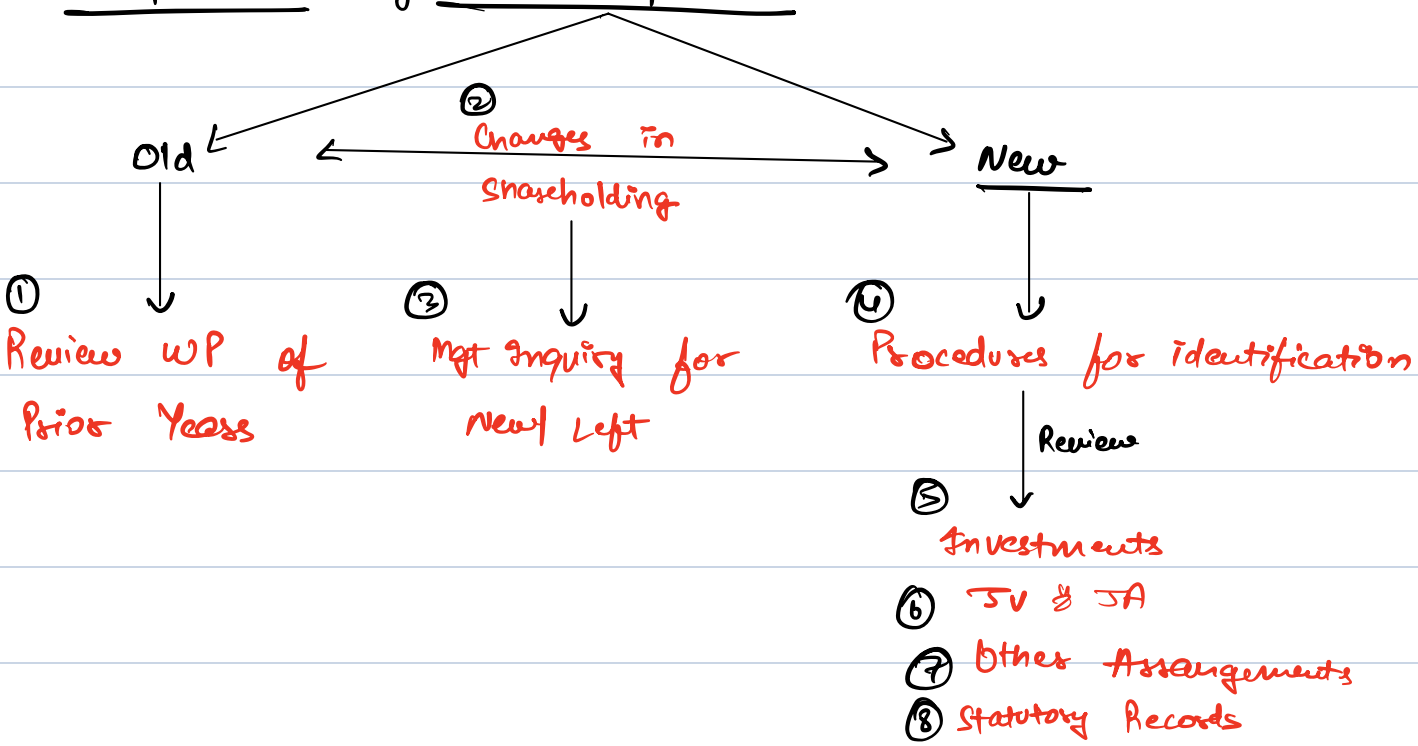
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② Materiality for CFS

Pehle ① Materiality for Group as a whole, fir materiality for ② each component → Dono ③ compare - if Material ? → ④ confirmations from component Auditors

---

③ Completeness of All Components



⊙ Consolidation Methods

	AS	IND AS
① Subsidiary	Line-by-line	Line-by-line
② Goodwill / CR / NCI	As 21	IND AS 103
③ Consolidation Adjustments	"	IND AS 110
④ Associates	Equity Method (AS 23)	Equity Method (IND AS 28)
⑤ Joint Control / Joint Venture	Proportionate (AS 27)	"
⑥ Joint operation	✗	As part of SFs (IND AS 111)
⑦ Common Control	✗	Pooling of Interest (IND AS 103)
⑧ In stages	✗	Remeasure at FV (103)

⊙ Planning for CFs

- Understanding
  - ① Group structure & controls → ② A/c Policy
- Determine
  - ③ NTE of Procedures
  - ④ Use of other Auditor's work
    - ⑤ Coordinating Work

⊙ Disclosures in SFS not to be included in CFS

① MSME bhi ② shares issue karke ③ money lete hai, Foreign ④ investments ke liye. Fir foreign currency se saare ⑤ expenses, ⑥⑦ import, export aur ⑧ earnings karne ke baad, FC me ⑨ dividend bhi pay karte hai

SDh & Esh Assurance

① Sustainability Reporting → Public Reporting

- E — Economic
- E — Environmental
- S — Social

↓ & ↓

Contribution for SD → Sustainable Development

→ Benefits

① Understanding Org Performance → ② Long Term Value Creation → ③ Improve Business Continuity

---

① 6 Cs of Integrated Reporting - FM-NISH

① Finance (₹) aur ② Human ke ③ intellect ko use karke, ④ Nature se ⑤ Society ko ⑥ Manufacture karo

---

09 Principles of BRSR — ES-ES-HE-PEC

Agar ① Ethics aur Transparency ke saath kaam karke ② Safe & Sustainable feel karenge ③ Employees aur ④ Stakeholders,

tabhi ⑤ Human Rights ke promotion aur ⑥ Environment ke Protection ke liye ⑦ Public ko influence kar paayenge, taaki ⑧ growth & equitable development ho aur ⑨ Consumers ko value provide kar sake

---

① ⓐ Policy Ethics Not Compromised → ⓑ Made Available to Stakeholders → ⓒ Value chain adopt principles

ⓓ Respond to outside Entities violating 9 Principles ← ⓔ Adverse Effects Disclose

---

③ Employees

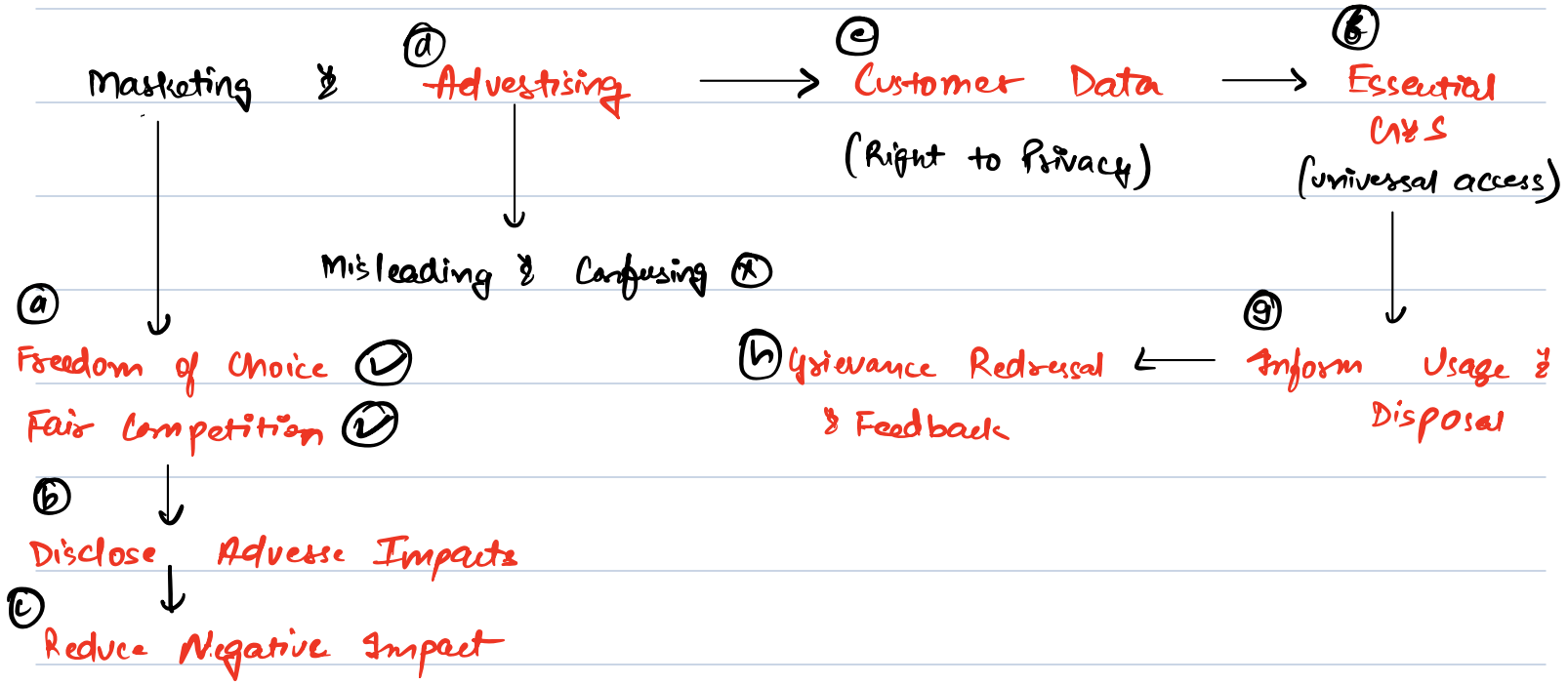
- Child
  - ① Child labour ⓧ
- Senior Citizen
  - ② Respect Dignity
- Adult
  - ③ Work life Balance
  - ④ Career Development
  - ⑤ Timely Payment of wages
  - ⑥ Living wages → Needs & Security

---

⑧ ⓐ Identify & Address Impact of Activities → ⓑ Review Adverse Impact & make Action Plans

- ⓒ Displacement of Communities → Fair Compensation
- ⓓ Creative Products → ⓔ CSR Activities

⑨ Value to Consumers — Value Chain



PSU Audit

Basic Elements

① 3 Parties
- (a) Auditor
- (b) Responsible Entity
- (c) Intended Users

② Subject Matter
- (a) Subject Matter
- (b) Criteria
- (c) Subject Matter Info

③ Types of Engagement
- (a) Attestation
- (b) Direct Reporting

C&AG's Role - Friend, Philosopher & Guide

C&AG Report (Dept/ Ministries) → ① → Committees → ② Report (Observations/ Comments) → Parliament / State Legislature

Parliament / State Legislature (Reprimand)

Committees → ④ ✗

Committees → ③ Action Taken Report → Parliament / State Legislature

Dept/ Ministries → ② Inform Action Taken → Committees

Due Diligence

↓

Investigation

↓ into

Details of Potential Investment

⊙ Importance | Reasons of DD

① Confirm ② 'Deal killer' defects (Mgt integrity) → ③ Valuing Assets & ④ Investment (as per criteria?)

⊙ Classification of DD

DD ko classify karne ke liye CPT ki FILE bana do

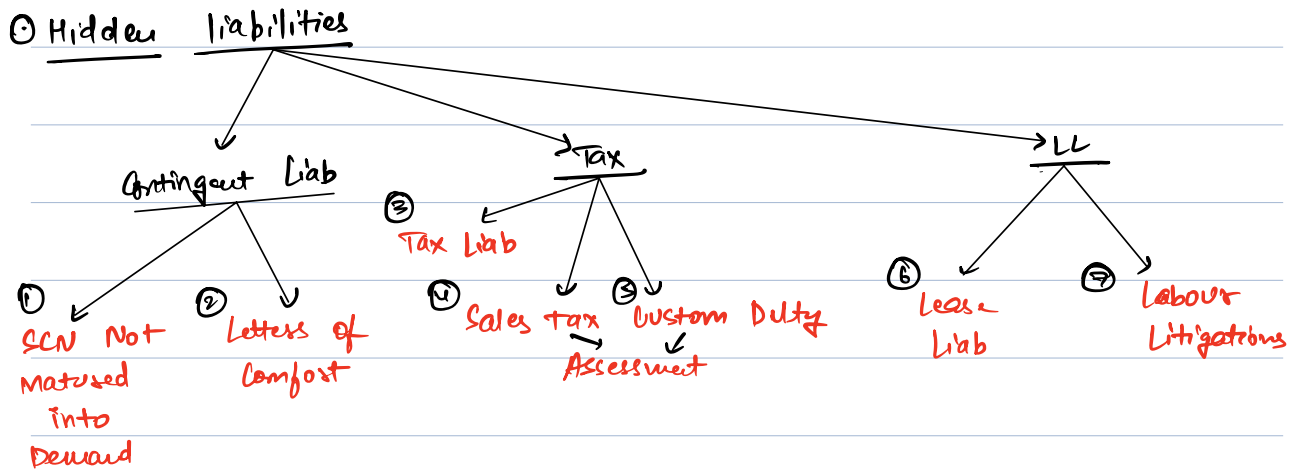
⊙ Scope of FDD | Individual Areas of Verification

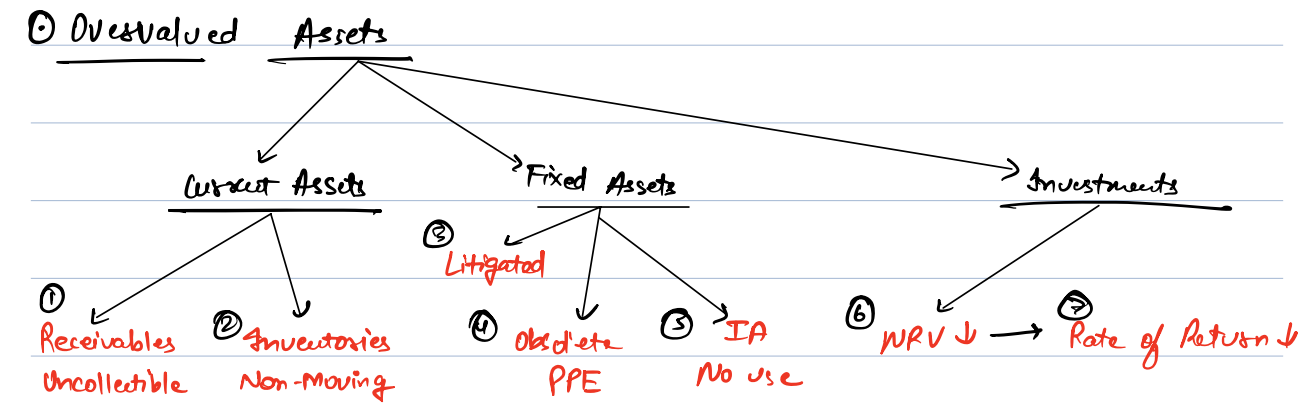
① History of Co. & Background of Promoters (Past) → ② Mgt & Employees

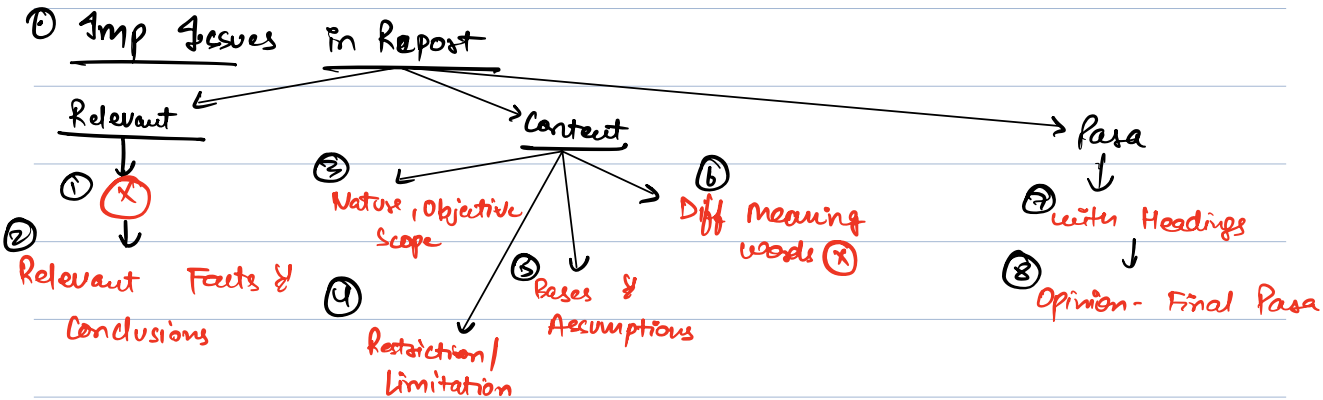
③ FS (current) → ④ Statutory Compliance → ⑤ A/c Policies

③ FS → ⑥ Cash Flow → ⑦ Taxation

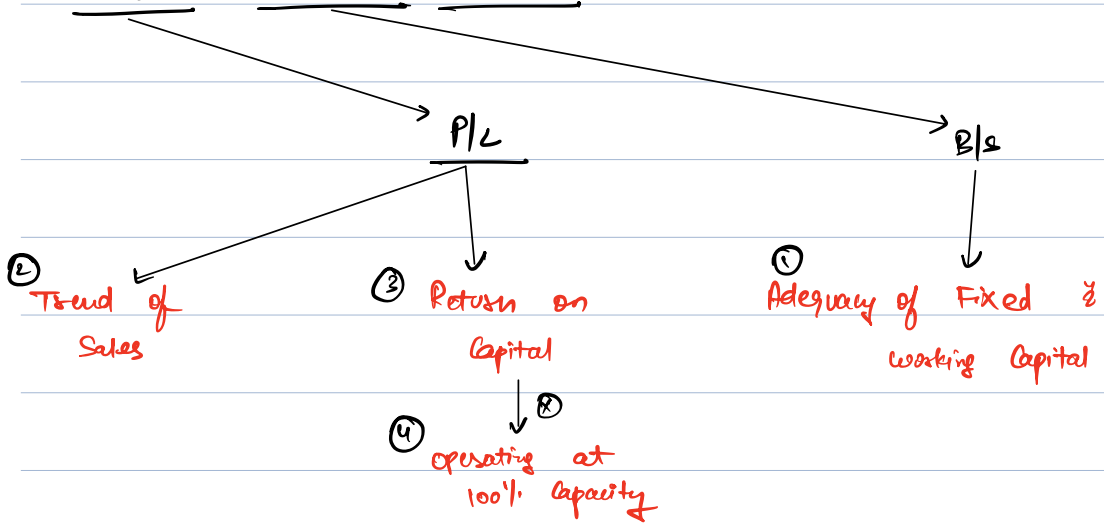
③ FS → ⑧ Financial Projection (Future)


① Hidden liabilities
Contingent Liab
Tax
LL
① SCN Not matured into Demand
② Letters of Comfort
③ Tax Liab
④ Sales tax
⑤ Custom Duty
Assessment
⑥ Lease Liab
⑦ Labour Litigations


② Overvalued Assets
Current Assets
Fixed Assets
Investments
① Receivables Uncollectible
② Inventories Non-Moving
③ Litigated
④ Obs'lete PPE
⑤ IA No use
⑥ NRV ↓
⑦ Rate of Return ↓


③ Imp Issues in Report
Relevant
Content
Para
① X
② Relevant Facts & Conclusions
③ Nature, Objective Scope
④ Restriction/ Limitation
⑤ Bases & Assumptions
⑥ Diff meaning words X
⑦ with Headings
⑧ Opinion - Final Para

① Economic & Financial Position



---

① Corporate Fraud ke liye Advance me Dummy Co. banaake Money-Laundering kar di

---

① Indicators of Fraud

① A/c Records ② Missing ③ Unacceptable

---

① Ability to Detect Fraud — Elements

Bade Bade logo ne ② Skill wale logo ke saath mil ke
① (seniors) ⑤ (collusions)

chhoti chhoti bahut saari chorriyaan kari!
④ (size) ⑤ (Frequency)

---

① Investigation for Incoming Partner



---

① Forensic Aficing v/s Others Audits

SEBI → Stock Verify (Shares) karne ke liye OTP diya tha, unhone market Off karke Adverse loss kar diya

---

① FA Services → ① Fund Divest karne ke liye ② RP ke saath ③ Suspicious transaction karke ④ Money Laundering kar di → jisse ⑤ Tax Evade ho gaya lekin ⑥ Loss ho gaya

---

Risk Assessment & Internal Control

Audit Risk ⟶ Inappropriate Opinion

↓ when

FS are Materially Misstated

↓

Any Material Risk at all? — Inherent Risk

↓ Yes

Caught by Control? — Control Risk

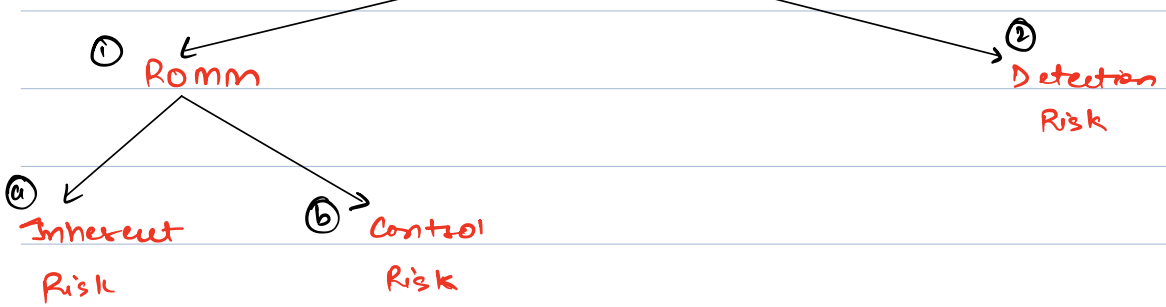
↓ NO

Caught by Auditor? — Detection Risk

↓ No

Wrong Opinion — Audit Risk

Components of Audit Risk



Risk of Particular Concern to Auditor

① Technological Developments → But ② Declining Industry → ③ Lack of Working Cap → ④ Inventory

④ Inventory → ⑤ A/c Estimates → ⑥ Complex Calculation

Steps for Risk Identification → After Identification

① Assess Significance of Risks

① Assess Significance of Risks → ② Assertions Affected
① Assess Significance of Risks → ④ Unique Characteristics

② Assertions Affected → ③ Impact on Each Assertion

④ Unique Characteristics → ⑤ Significant Risks

⑥ Likelihood of Occurence → ⑦ Mgt's Response → ⑧ ICS Effectiveness

Steps for Risk Assessment

① Client Acceptance → ② Planning → ③ RAP → ④ ROMM Assessment → ⑤ Informed → ⑥ Significant Risks → ⑦ IC → ⑧ Material Weaknesses

① Risk Response - Consider

① FAP addressing → ③ Ic - Need for SP ↓

② Significant Risks → SP → ④ Alone → ⑤ Unpredictability

⑥ SAP

Internal Control

① Mgt Policy → for → ② Safeguarding ③ Records & ④ Financial Info

Adherence

From

⑤ Fraud or Error

---

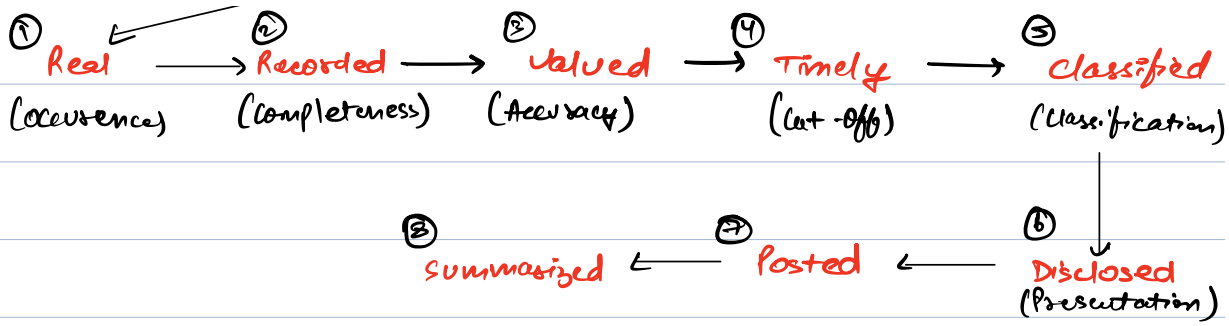
① Objectives of ICS

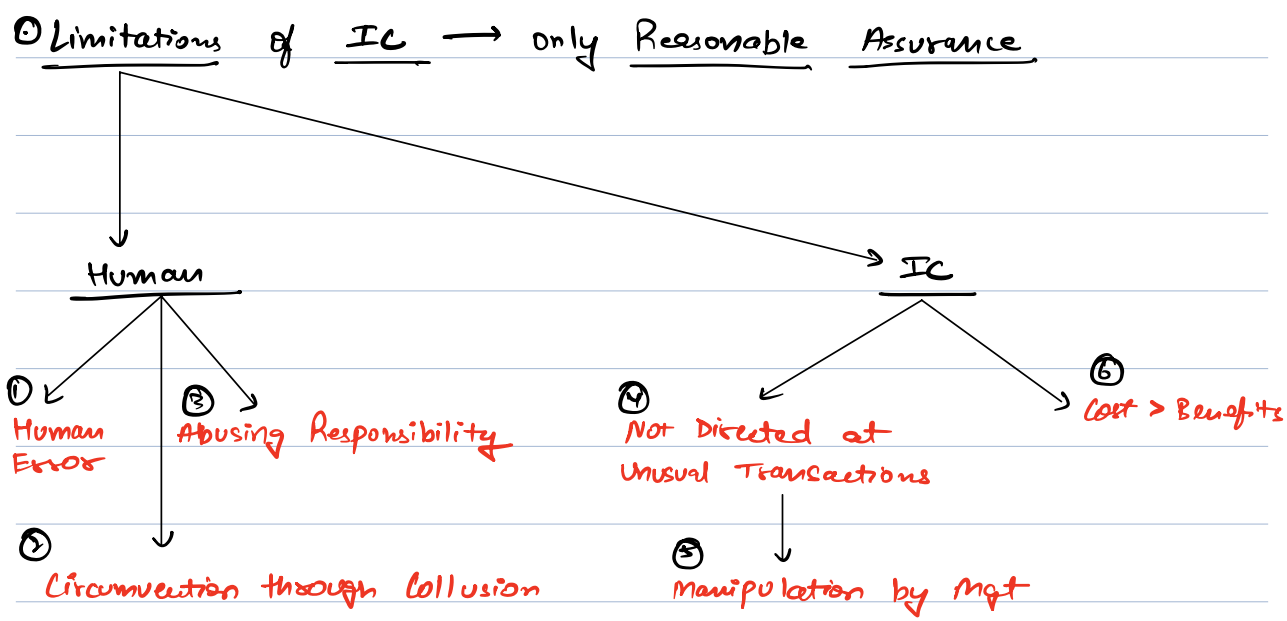
Transactions → ① Promptly Recorded → After → ② Authorization

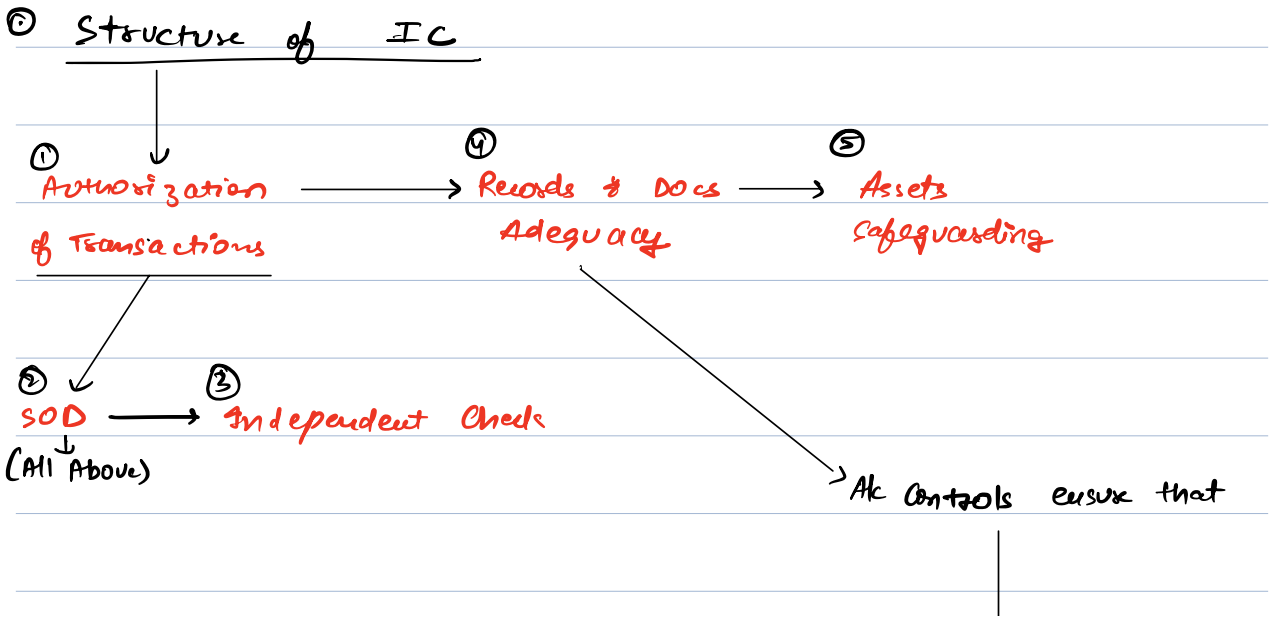
Assets → ③ Verified → & ④ Safeguarded

① Basic Objectives of A/c Control System

Ensure All transactions are


① Real (Occurrence)
② Recorded (Completeness)
③ Valued (Accuracy)
④ Timely (Cut-off)
⑤ Classified (Classification)
⑥ Disclosed (Presentation)
⑦ Posted
⑧ Summarized


① Limitations of IC → only Reasonable Assurance
Human
IC
① Human Error
② Circumvention through Collusion
③ Abusing Responsibility
④ Not Directed at Unusual Transactions
⑤ Manipulation by Mgt
⑥ Cost > Benefits


② Structure of IC
① Authorization of Transactions
② SOD (All Above)
③ Independent Checks
④ Records & Docs Adequacy
⑤ Assets Safeguarding
All Controls ensure that

Same as Objectives of ICS

↓

Extra

⑤ Classification

⑥ Accountability for Assets

---

① Internal Check System – Objectives

① Protecting Integrity & ② Efficiency for staff ↑ By → Errors | Fraud

③ Avoid & Minimize

⑤ Detect

⑥ Locate Responsibility Area

③ Avoid & Minimize → ④ Misappropriation of Cash

---

① General Condⁿ pertaining to Internal Check

⑧ → Leave once a year

SOD

① No 1 Person complete control

② Work under Review of Another

③ Job Rotation

④ Custody & Access to BOA ✗

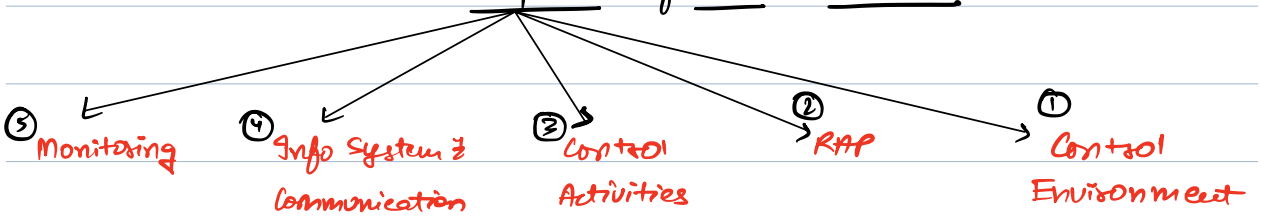
Assets

⑤ Periodical Inspection

⑥ Inventory Counting Trading suspended

⑦ Loss of Cash ✗ Mechanical devices

Components of IC - MICRA

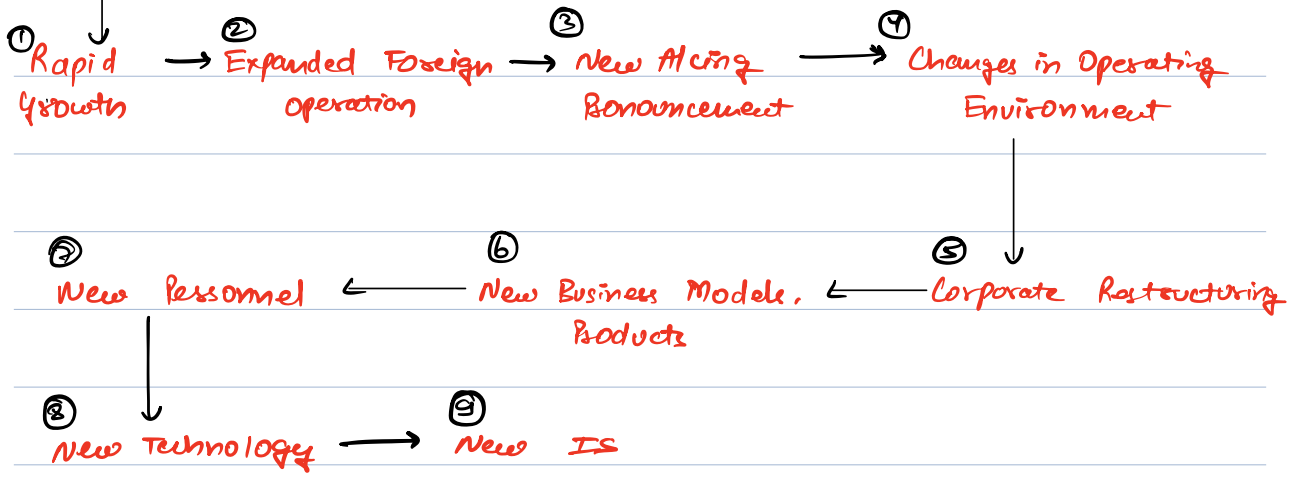


① Control Environment - Elements → Not components

① Team (Participation) & ② Mgt (Philosophy) ki ③ Integrity (& Ethical Values) ki ④ Commitment (to Competence) ko check karne ke liye ⑤ Org Structures me ⑥ Authority & Responsibility (Assignment) aur ⑦ HR Policy check karni padegi

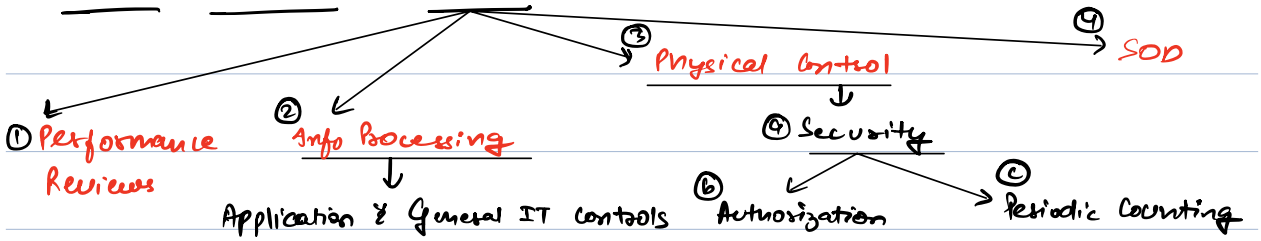
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② Risk can arise / change due to



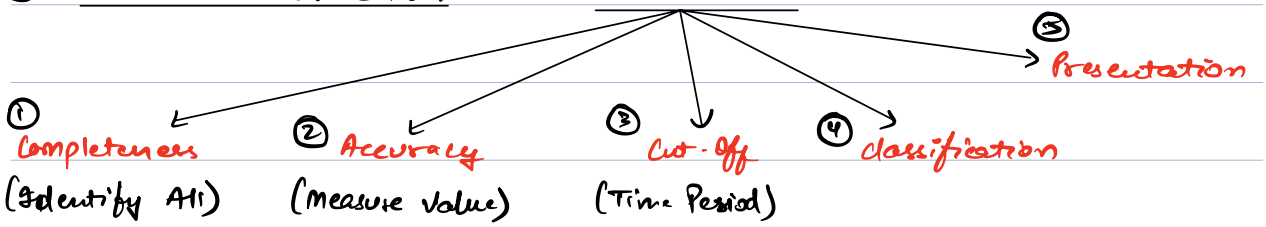
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③ Control Activities – PIPS



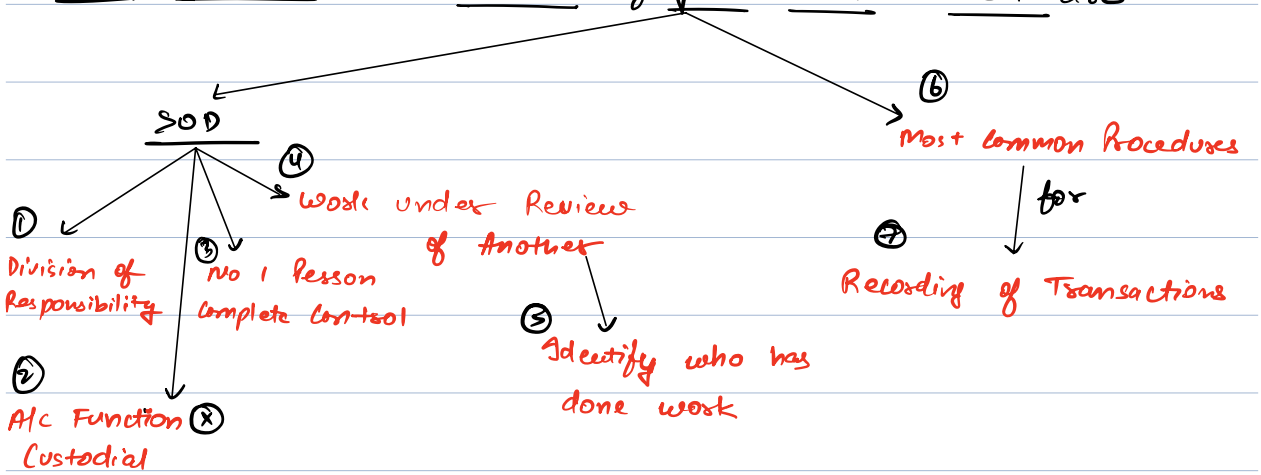
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④ IS & communication → Transactions



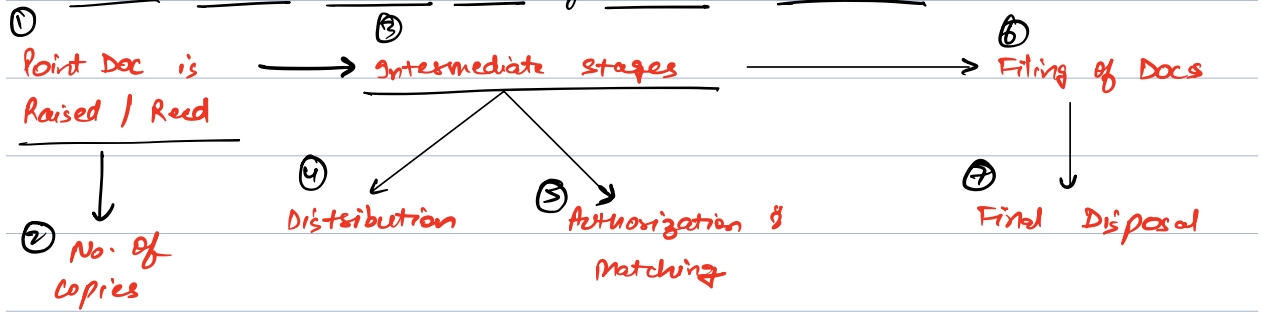
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⑤ Basic Assumptions about elements of good control in ICQ are



---

⑥ Flow Chart shows Flow of Docs & Activities



① SOP Considers / Components (NOT Elements) to Assess & Evaluate Control Environment

① Enterprise Risk Mgt → ② IT Controls → ③ SOD

③ SOD → ④ Job Rotation
③ SOD → ⑤ Delegation of Financial Powers DOCs

---

② Letter of Weakness / Mgt Letter

① Area of Weakness & Suggestions → ③ Minimize legal liability → ④ Only weaknesses that come to Auditor's Attention

① Area of Weakness & Suggestions → ② Valuable Reference for Mgt

---

Internal Auditor

① Using work of IAF

② Using IA to provide Direct Assistance

⊙ EA Responsibility for Audit

↓

Not Reduced ⟶ As IA are ⓧ Independent

⊙ Objective

① IAF work ⟶ ② Adequate?

① IA DA ⟶ ③ DSR

⊙ IAF Work ⟶ Can be used? — CCO

① Objectivity?

② Competence?

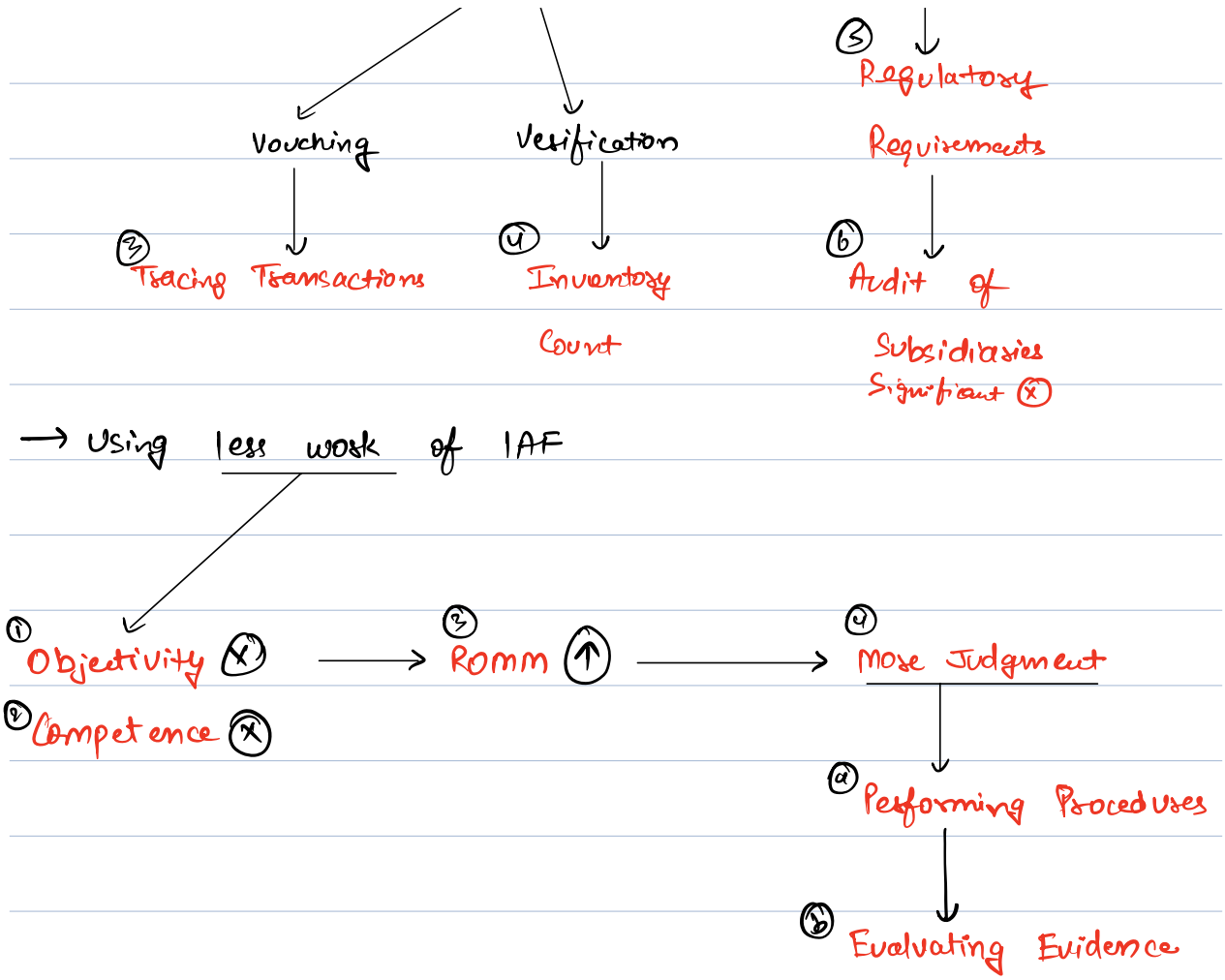
③ Approach

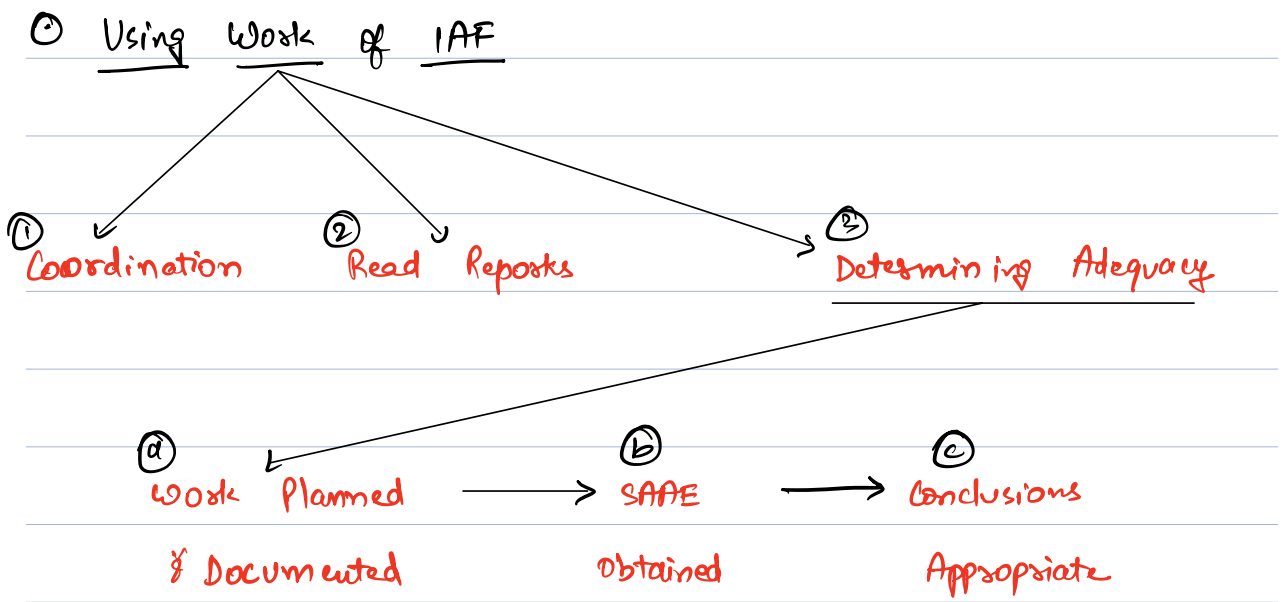
Systematic & Disciplined?

⊙ Nature & Extent of Work — Work can be used

① TOC

② Substantive Procedures - Limited Judgment


Vouching
Verification
3 Regulatory Requirements
2 Tracing Transactions
4 Inventory Count
6 Audit of Subsidiaries Significant (X)
→ Using less work of IAF
1 Objectivity (X)
2 Competence (X)
3 Room (↑)
4 More Judgment
a Performing Procedures
b Evaluating Evidence


① Using Work of IAF
i Coordination
ii Read Reports
iii Determining Adequacy
a Work Planned & Documented
b SAAE Obtained
c Conclusions Appropriate

⊙ IA for Direct Assistance → whether can be used?

L & R Prohibit ? → If not → Objectivity & Competence

Objectivity & Competence

↓

Interests & Relationships

Evaluating Threats to Objectivity

↓

① Organizational Status → supporting Objectivity

Relationships → ② Personal
③ Departments
Entity
④ Financial Interest

⊙ Direct Assistance ✗

↓

Objectivity ✗

Competence ✗

⊙ Nature & Extent of work

① Objectivity → ② Romm → ③ Judgment

Competence

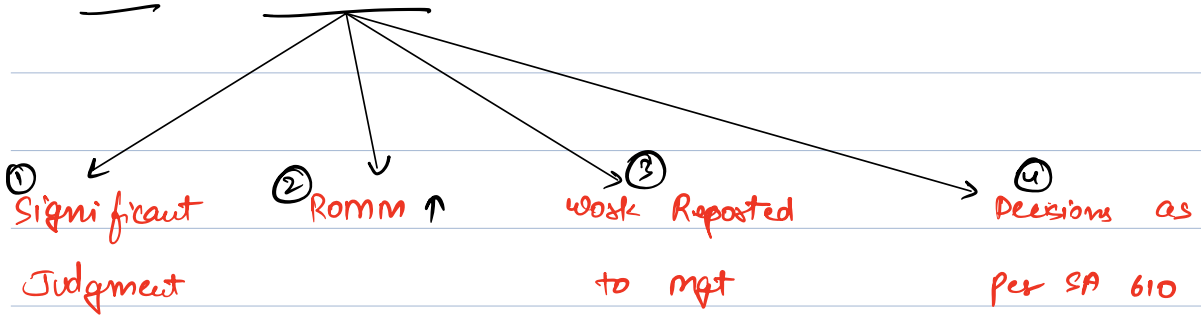
↓

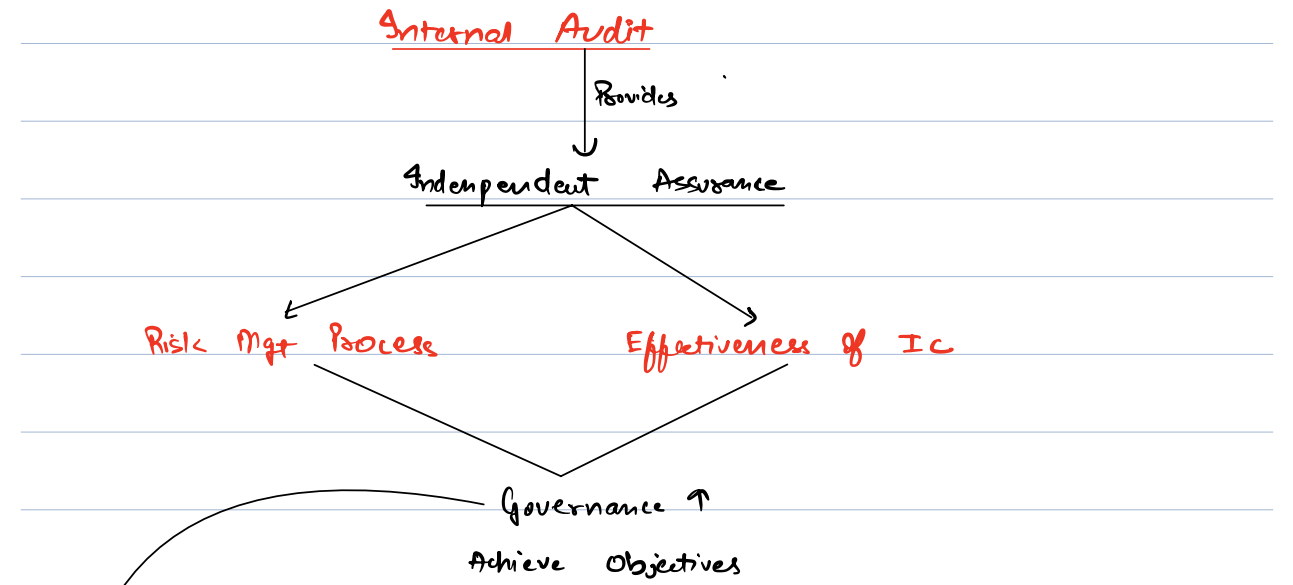
④ Performing Procedures

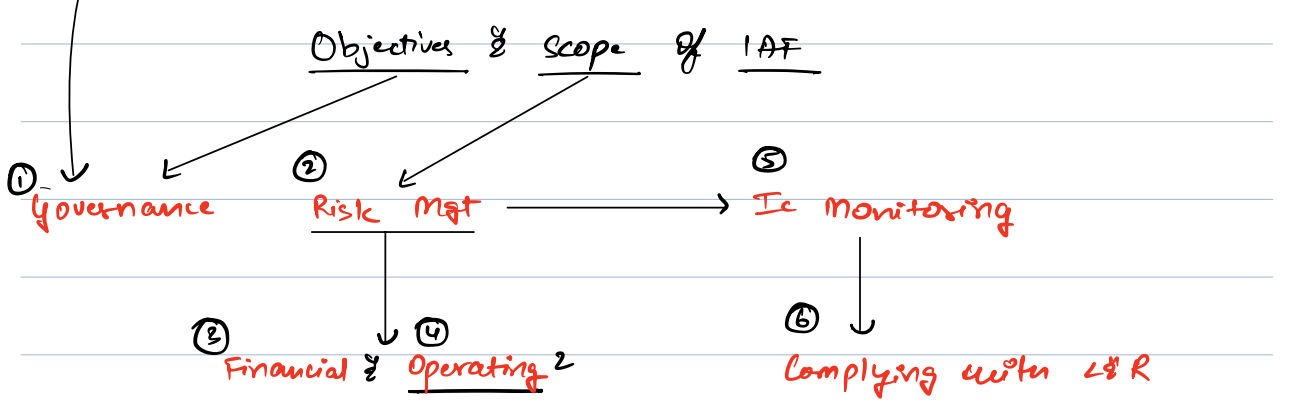
↓

⑤ Evaluating Evidence

① Not Use DA


① Significant Judgment
② Romm ↑
③ Work Reported to Mgt
④ Decisions as per SA 610


Internal Audit
Provides
Independent Assurance
Risk Mgt Process
Effectiveness of Ic
Governance ↑
Achieve Objectives


Objectives & Scope of IAF
① Governance
② Risk Mgt
③ Financial
④ Operating
⑤ Ic Monitoring
⑥ Complying with L&R

Applicability

→ Listed co.

→ Unlisted Public – Deposits ko POT me daalo Preceding FY me

Deposits		Paid up Capital		o/s Borrowing		Turnover
↓		↓		↓		↓
=> 25 cr	OR	=> 50 cr	OR	> 100 cr	OR	=> 200 cr
At any time		At End		At any time		At End

→ Private Co. – 2 Big Condn — 200 cr (↓ Turnover) OR 100 cr (↓ o/s Borrowing) — Same as above

---

⊙ Activities performed by IAF to achieve its objectives

① Plan → hire ② Staff & ③ External Experts → ④ Perform Audit with ⑤ Quality

After completion

⑥ Communicate with Stakeholders

⊙ Responsibilities of IA → Atc Function

Independent → sch ko ④ Adequacy of ICs for Assets

① Enjoy Ind. ② Ind. from Atc

If Deficiencies

Status ↓ Staff

② Not Perform Executive Functions

Door ↓

⑤ Observe Facts
Bring to Notice of Authorities

Pass ↓

⑥ Associate Closely with Mgt → Upto Date Info

⊙ IA Plan should covers

① Effort (Involved) → ② All auditable areas → ③ Risk & ④ Risk Appetite → ⑤ Value

---

⊙ Qualities of IA → Specialised knowledge & Expertise

⑦ Inter ↳ Commerce, laws, ↳ tax, costing, Eco

Mgt
- ① Evaluate Mgt Control
- ② Understanding Mgt Technique
- ③ Confidentiality Assurance

④ Accounting & Financial
- ⑤ Understanding Ak software
- ⑥ Evaluate Financial & Operational Controls

⊙ IA Scope – Reviews of

① ② ③ I C C ka ④ Org Structure itna ⑤ reliable h, ki unke ⑥ Objectives achieve aur ⑦ resources utilise ho jaate hai

---

④ Org Structure → In line with Objectives

① Org Chart → ② Manner of Grouping Activities → ③ Span of Control Reasonableness

③ → ④ Dual Responsibilities

④ → ⑤ Overlap b/w HQ & Operating units

⑤ → ⑦ Managerial Development

④ → ⑥ SOD

⑤ Key Elements of IA Report

① Objectives (Scope) → ② As per SIA → ③ Assurance (Nature) → ④ Summary of Observations → ⑤ Corrective Actions

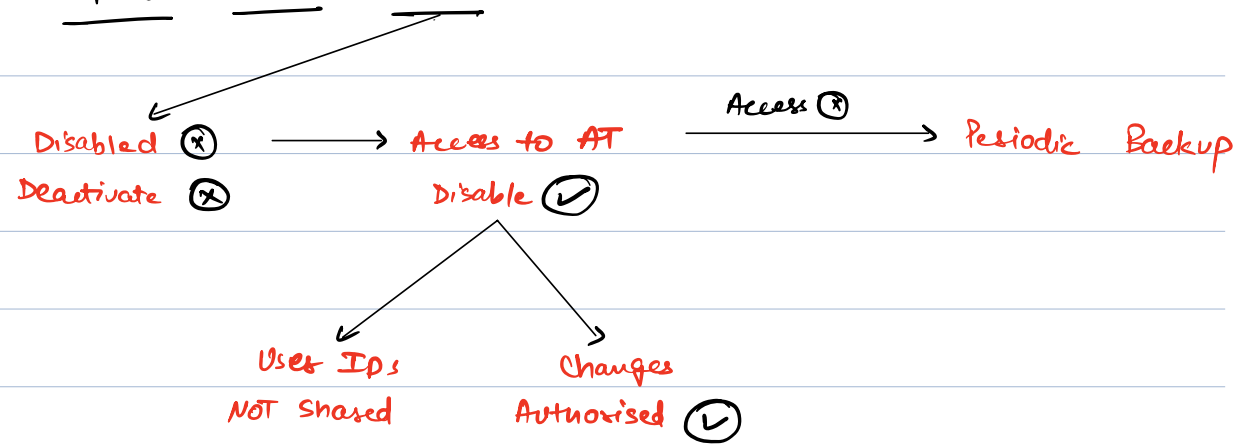
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⑥ Diff. b/w IA & EA

① Users ki ② Reporting ke ③ Examination me jo ④ Perform karega usska ⑤ Appointment hoga aur usey ⑥ Status of Auditor diya jayega

---

⊙ Audit Trail IC



→ MCQ – Internal Auditor may be Individual, Partnership Firm or Body Corporate

Digital Audit

↓

Assurance on Effectiveness of IT

Consideration / Challenges of Digital Audit

① Digitalization Strategy → for ② Governance & Data Security → ③ Targeting Right Processes → to ④ standardized → ⑤ Change is Difficult ← but ⑥ Business Benefits

---

① Advantages of DA

① Improved Risk Assessment → ③ Efficiency & Effectiveness ↑ → ⑤ Cost ↓

② Analytics

④ Audit quality ↑

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② Key Features of DA

① Future Digital Strategy → use ② Technological Advancements → to ③ standardise Processes → to ④ Save time, Cost & Efforts

⑤ Compsehensive overview → To ⑥ Informed Decision → so ⑦ More Reliable Audit Repost

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① Types of IT Dependencies

① Inter me ② Security ke liye ③ Automated Controls ④ calculate karke, ⑤ Report karte the

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② Impact of Cyber Risk

① Data Loss → ② Breach of Privacy ∓ → ③ Incident Response Cost → ④ Ransom

⑤ Fines & Penalties ← ⑥ Regulatory Costs

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③ Managing Cyber Risk

① Holistic understanding → ② Risk & Controls → ③ Assess Cybersecurity

④ Align objectives

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④ Remote Audit → Advantages

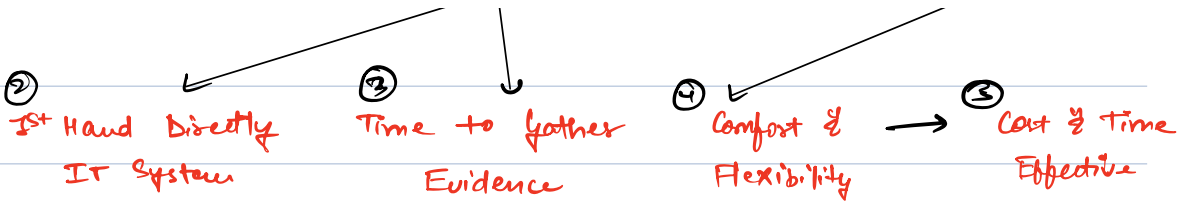
Entity

① Wide Selection of Auditor

Auditor

Evidence

Team


2
1st Hand Directly
IT Systems
3
Time to gathers
Evidence
4
Comfort &
Flexibility
1
Cost & Time
Effective