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STANDARDS ON AUDITING_35e

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1. STANDARDS ON AUDITING

SOC-1 “QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS & REVIEWS OF HISTORICAL FINANCIAL INFORMATION AND OTHER ASSURANCE & RELATED SERVICES ENGAGEMENTS”

All firms to have system of quality control that provides reasonable assurance that: (a) Firm & personnel comply with professional standards, regulatory & legal requirements, and (b) Reports issued by firm or partners are appropriate in the circumstances.

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| a. Promote internal culture w.r.t.:  | Establish policies & procedures to reasonable assure that Firm & personnel comply with relevant ethical requirements of:  
- Integrity.  
- Objectivity.  
- Professional competence & due care.  
- Confidentiality.  
- Professional behaviour.  | Policies & procedures should enable;  
- Communication of independence requirements to personal & others  
- Identification of circumstances threatening independence  
- Take appropriate action for elimination of threats / withdrawal from engagement  
- Resolution of breaches of independence  | Establish policies/ procedures to reasonable assure that clients are accepted / continued only where:  
- Client integrity has been considered  
- Firm is completed to perform engagement w.r.t. capability, time & resources.  
- Firm can comply with ethical requirements.  
If any issue raised document how it resolved.  | Establish policies / procedures to reasonable assure w.r.t.:  
- Firm has sufficient personnel with capabilities, competence & commitment to ethical principles; &  
- Responsibility of engagement partner clearly defined & communicated to him/her.  | Establish policies / procedures to reasonable assure w.r.t.:  
- Compliance with professional standards  
- Compliance with laws / regulations.  
- Engagement partner issues reports appropriate in the circumstances.  |
<p>| b. Require CEO/ managing partner to assume ultimate responsibility for QC.  |  |  |  |  |  |  |
| c. Recognise &amp; reward high quality work.  |  |  |  |  |  |  |</p>
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<th>Maintenance of independence of personnel:</th>
<th>Establish Policies w.r.t. withdrawal from engagement and communication requirements, if circumstances warrant.</th>
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<td>• Engagement partners to provide firm with relevant information about client</td>
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<td>Other Points:</td>
<td>Establish Policies w.r.t. withdrawal from engagement and communication requirements, if circumstances warrant.</td>
<td>• Engagement documentation</td>
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<td>• Firm should obtain Annual written confirmation as to compliance with independence requirements</td>
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<td>• Create policies to reduce Familiarity threat: e.g. rotation of engagement partner atleast every seven years in case of audit of listed entities</td>
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SA – 210 (Revised) – “Agreeing the Terms of Engagement”

**Beginning of Audit**

- **Initial audit Engagement**
  - **Limitations Imposed by mngt.**
    - Do not accept unless required by law
  - **No Limitations Imposed**
    - **Ascertain existence of Preconditions**
      - **Exist**
        - Accept Audit
      - **Do Not Exist**
        - Discuss matter with mngt.
  - **Do not accept in case of:**
    - a. Unacceptable F.R. Framework; or
    - b. Mngt. does not agree with responsibilities

**During the Course of Audit**

- **Recurring Audit**
  - **Determine requirements w.r.t:**
    - a. Revision of terms of Engagement:
    - b. Remind the entity of existing terms
    - c. Changes in management
    - d. Changes in nature of business.
    - e. New Pronouncements
  - **Required**
    - Send New Engagement Letter
  - **Not Required**
    - No Further Duty

- **Mngt. Request for changes in terms**
  - **Determine its effect on Level of Assurance & reasonable Justification**
    - **Auditor Satisfied**
      - Record New Terms in Engagement Letter
    - **Not Satisfied**
      - Do not Accept the changes
      - Mngr. not permit the auditor to continue
      - Withdraw & Report to appropriate authority
**SA – 230 (Revised) – Audit Documentation**

**General concepts**

**Meaning:** Record of
- Audit procedures performed
- Relevant audit evidence obtained & Conclusions reached

**Purpose:** Includes the following
- Assist in Planning and performance of Audit
- Direction, supervision & Review of work
- To fix accountability
- Record for future reference
- Quality control review and inspections
- Conduct of external inspections

**Nature:** Documentation must provide for:
- Sufficient and appropriate record of the basis for auditor’s report
- Evidence that the audit was planned and performed in accordance with SAs & other regulatory requirements

**Contents**

**Permanent Audit File**
- MOA, AOA
- Agreements
- Significant Ratios & Trends
- Significant Accounting Policies
- List of officers, their powers & Authorities
- List of offices, Godowns, Depots
- Previous years audited Financial Statements

**Current Audit File**
- Minutes
- Audit Program
- NTE
- Communication with auditors, experts and third parties
- Confirmations received
- Reports of branch Auditors, Internal Auditors and Stock Auditors
- Financial Statements and Audit Report
- Material weakness in Internal Controls

**Documentation of matters arising after the Date of Auditor’s Report**
- Circumstance encountered.
- New or additional procedures performed, audit evidence obtained, conclusions reached, and their effect on the auditor’s report.
- When and by whom the changes to audit documentation were made and reviewed.

**Owner ship & Retention period**
- Working Papers are the property of the auditor.
- The retention period is 7 years from the date of Auditor’s report.
- Auditor has to maintain confidentiality.
- It is the discretionary on the part of the auditor, he may or may not produce copies of working papers to the client.
SA 250 (Revised) "Consideration of Laws and Regulations in an Audit of F.S."

**Auditor’s Responsibilities**

- **Basic Responsibilities**
  - Obtain general understanding of
    - Legal & Regulatory Framework applicable
    - Compliance by Entity with that Framework

- **Specific Responsibilities w.r.t.**
  - **Law & Regulation having a direct effect on determination of material amount and disclosures in F.S.**
    - To obtain Sufficient & Appropriate audit Evidence
    - To ensure compliance
    - Obtain Written Representation that all instances of non-compliance or suspected non-compliance have been disclosed to auditor
  - **Other Laws & Regulations that do not affect amount and disclosures in F.S., but compliance with which may be fundamental to operating aspects**
    - To perform Limited Procedures:
      - Inquiring of Mgmt;
      - Inspecting Correspondence with relevant Licensing / Regulatory authority
    - Obtain the following:
      - To identify instances of non-compliance
      - Auditee’s non-compliance
      - Other non-compliance

- **Audit Procedure in case any Non-Compliance is identified/ Suspected**
  - Obtain understanding of the Act
  - Circumstances in which it is occurred
  - Evaluate possible effects on F.S.
  - Discuss with Mgmt & TCWG
  - Obtain legal advice wherever required

- **Reporting Responsibilities**
  - To TCWG
  - To Auditor Report
    - Material Effect on F.S.
    - Unable to Conclude due to Limitation imposed by
      - Mgmt.
      - Q/A
      - Q/D
      - Consider the Effect

- **Indications considered by Auditor**
  - Regulatory & Enforcement Authorities
    - If required by law

- **Matters involving non-compliance**
  - If TCWG is involved, communicate to Higher Level, if any
  - Otherwise, obtain Legal Advice

- Investigation by regulatory bodies
- Payment of fines or penalties
- Payments for unspecified services to consultants, related parties etc.
- Excessive sales commissions or agent’s fees
- Purchasing at prices significantly above or below market price
- Unusual payments in cash
- Unusual payments towards legal and retainership fees
- Payments without proper exchange control documentation
- Existence of an information system which fails, to provide an adequate audit trail or sufficient evidence
- Unauthorized transactions or improperly recorded transactions
- Adverse media comment
SA 260 (Revised) – “Communication with TCWG”

**Meaning of Management & TCWG**
- **TCWG:** Persons with responsibility for overseeing the strategic directions & obligations related to Accountability
- **Management:** Person with executive responsibility for conduct of entity’s operation

**Auditor’s Responsibilities**
- Determine the appropriate person to whom communicate is made.
  - Need to communicate with Governing body, if communicates with subgroup.
  - If all of TCWG are involved in managing the entity, the matters need not be communicated again

**Matters to be communicated**
- e. Auditor’s responsibility in relate to F.S. Audit
- f. Planned scope & timing of audit
- g. Significant findings from audit w.r.t.
  - Accounting Policies
  - Accounting Estimates
  - Material weakness in I.C.
  - Matters discuss with Mngt
  - Other significant Matters
- h. Statement with respect to compliance of ethical requirements regarding independence

**Communication Process**
- In writing when oral communication is not adequate
- On timely basis

**Factors affecting Mode of Communication**
- Size, operating structure, control environment & legal structure of entity
- In the case of an audit of special purpose F.S., whether the auditor also audits the entity’s general purpose F.S.
- Requirements of respective law specifying written communication with TCWG in a prescribed form
- Expectations of TCWG, including arrangements made for periodic meetings or communications with the auditor
- The amount of ongoing contact and dialogue the auditor has with TCWG.
- Significant changes in the membership of a governing body.
SA-265 “Communicating Deficiencies in Internal Control to TCWG & Management”

Meaning of deficiency in internal control

- Inability of I.C. to prevent, detect & correct misstatement
  - Or
  - Absence of control necessary to prevent, detect & correct misstatements.

Auditor’s Responsibilities

Identification of deficiencies in Internal Control

- Determine whether individually or in combination they constitute significant deficiencies

Communication of deficiencies in internal Control

Mode of Communication

- In writing
  - To TCWG
  - To Mngt.

Content of communication

- Description of deficiencies
- Explanation of their potential effect
- Sufficient information to explain
  - That purpose is to express an opinion
  - I.C. is evaluated to design further audit procedures
SA 299 “Responsibility of Joint Auditors”

Meaning
When two or more auditors appointed to conduct audit of an entity.

Division of work
By Mutual discussion
On basis of identifiable units or specified areas
If not possible – with respect to followings:
- Assets/liabilities; or
- Income/Expense; or
- Period

Co-ordination
If one auditor comes to know a matter relevant for other, he should communicate it immediately in writing to other joint auditor before submission of report

Responsibilities of joint Auditors
Separate
For work allocated

Joint & Several
- For work not divided
- For joint decision w.r.t. N, T, E of audit procedure
- For matters brought to knowledge of all by any one of them and on which they all agree
- Disclosure requirements in F.S.
- Compliance of audit report with statutory requirement

Reporting
- Generally – a single report
- If disagree separate report
- No one is bounc by Majority
SA 300 (Revised) – Planning in an audit of Financial Statements

**Preliminary Engagement Activities**
- a. Procedures required by SA-220 w.r.t. continue of Client relationship
- b. Evaluate compliance with Ethical Requirements (SA-220)
- c. Understanding of terms of Engagement (SA-2.0)

**Planning Activities**
- Identify the Characteristics of Engagement
- Ascertain reporting objectives
- Significant factors to direct
- Consideration of result of Preliminary Engagement Activities
- NTE of Procedures to be performed
- Need of change in Audit Plan

**Documentation**
- Audit Strategy
- Audit Plan
- Changes in Audit Strategy and Audit Plan and the Reason for the change

**Additional considerations in Initial Audit Engagement**
- Acceptance of the client relationship
- Communicating with the predecessor auditor
SA-315 (Revised)-Identifying and Assessing the Risk of Material Misstatements through understanding the Entity and its Environment

Preliminary Engagement Activities
- Procedures required by SA-220 w.r.t. continues of Client relationship
- Evaluate compliance with Ethical Requirements (SA-220)
- Understanding of terms of Engagement (SA-210)
- Discussing among the engagement team
- Previous experience
- Information from other engagements

Planning Activities
- Identify the Characteristics of Engagement
- Ascertain reporting objectives
- Significant factors to direct
- Consideration of result of Preliminary Engagement Activities
- NTE of Procedures to be performed
- Need of change in Audit plan

Documentation
- Audit Strategy
- Audit Plan
- Changes in Audit Strategy and Audit Plan and the Reason for the change

Additional considerations in initial Audit Engagement
- Acceptance of the client relationship
- Communicating with the predecessor auditor
SA 220 (Revised) “Materiality in Planning and Performing an Audit”

Auditor’s Duties

- Upon establishing the overall audit strategy, the auditor shall determine the materiality for the F.S. as a whole.

- Determine the materiality level for specific transactions for which misstatements of lower amount may be expected to influence the economic decisions of users.

- Determine the performance materiality for the purpose of assessing the risk of material misstatements.

- Revise materiality and performance materiality, wherever required, as audit progresses.

Performance Materiality

- The amount set by auditor at less than materiality for F.S as a whole
- To reduce to an appropriately low level the probability that the aggregate of the uncorrected and uncorrected misstatements.

Concept of Materiality

- Subject to auditor judgement and concept is not subject to discussion present in F.R. Framework.

Judgement of materiality provides a basis for:

- Identifying and assessing risk of material misstatements
- NTE of further audit procedures

If F.R. Framework does not include a discussion following can be referred:

a. Misstatements including emissions expected to influence the economic decision of users
b. Size or nature of misstatement & surrounding circumstances
   - Common financial information needs of the users as a group
SA-330 "Responses to assessed Risks"

Tests of Control
- Procedures designed to evaluate the operating effectiveness of controls
  - Obtain audit evidences w.r.t
    - Application of controls
    - Consistency of application
    - By whom & by what means they applied
  - Evaluate the audit evidences
  - Material weaknesses identified
  - Communicate to Mnct. & TCWG-on timely basis

Substantive Procedures
- Procedures designed to detect material misstatements at assertion level. It comprises of:
  - Test of details (of classes of transactions, Account balances and disclosures) and
  - Substantive analytical procedures

Cosing Process
- Reconciling the F.S. with underlying Accounting records
- Examine Material Journal Entries & other adjustments made during the course of preparing the F.S.

Significant Risks
- Procedures that are specifically responsive to that risk needs to be applied

Sufficiency & Appropriate of Audit Evidence
- Obtained
  - Draw conclusions & report accordingly
- Not obtained
  - Obtain further audit evidence
  - Not able to collect
  - Qualified opinion or Disclaimer of opinion
SA 402 (Revised) – Audit Consideration relating to an Entity using a Service Organisation

**Auditor's Objective**
- To obtain an understanding of nature and significance of services provided by the service organisation and their effect on the user's entity internal control relevant to the audit, sufficient to identify and assess the risk of material misstatement.
- To design and perform audit procedures responsive to those risks

**Obtaining understanding of services provided by service organisation**
The user auditor shall obtain an understanding of how the user entity operates, including:

a. Nature of service provided by the service organisation and the significance of those services to the user entity.
b. The nature and materiality of the transactions processed or financial reporting process affected by service organisations
c. The degree of interaction between activities of service organisations and those of the user entity.
d. The nature of relationship between user entity and the service organisation

**Auditor’s considerations**
- The user auditor shall evaluate the design and implementation of relevant controls of user entity that relate to the services provided by service organisation.
- The user auditor shall determine whether a sufficient understanding of nature and significance of services provided by service organisation and their effect on the user entity internal control relevant to the audit has been obtained.
- If user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures:
  a. Obtaining a Type 1 or Type 2 Report, if available
  b. Contacting the service organisation, through the user entity, to obtain the sufficient information
  c. Visiting the service organisation
  d. Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation

**Reporting**
- If auditor unable to obtain sufficient audit evidence then he has to modify the opinion

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**User Auditor**: An auditor who audits and Reports on the financial statements of a user entity

**User Entity**: An Entity that uses a service organisation and whose financial statements are being audited

**Type 1 Report**: Report on the description and design of internal controls at a service organisation

**Type 2 Report**: Report on the description, design and operating effectiveness of controls at a service organisation
SA 450 "Evaluation of Misstatements Identified during the Audit"

Meaning of Misstatements

Identified Accumulation of Misstatements

Communication to management & request them to correct

Determine whether any revision required in Audit Strategy/Plan

Management corrects

Perform Additional Procedures to determine whether misstatements remain

Management refuses

Understand the reason for not making the corrections

Determine the materiality

If material, communicate uncorrected misstatement and their effect on his opinion to TCWG with a request that uncorrected misstatements to be corrected

If not corrected

Obtain a written representation from management/TCWG w.r.t. their believing that effect of uncorrected misstatements are immaterial
SA-519 (Revised) “Initial Audit Engagements: Opening Balances”

Initial Audit Engagement
- Prior period FS not audited
- Prior period FS audited by predecessor auditor

Opening Balance
- Read most recent F.S. and auditor report thereon
- Obtain S.A. audit evidence w.r.t. existence of any material misstatement by
  - Determining correct b/f of prior period closing balance
  - Determining application of appropriate accounting policies
- If any misstatement detected perform additional procedures to determine their effect on current period financial statements
- If misstatement exists in current period F.S. communication to Mngt & TCWG

Audit Procedures
- Consistency of Accounting policies
  - Obtain sufficient & appropriate Audit Evidence
    - w.r.t. consistent application of Accounting Policies & disclosure for charges

Modification in predecessor Auditor’s report
- Evaluate the effect of modification
- In assessing risk of material misstatement in current period F.S.

Audit Conclusion & Reporting
- Opening Balance
  - Unable to obtain sufficient & appropriate audit evidence
  - Contain material misstatements not properly accounted / disclosed in current year F.S.
  - Inconsistency exists
    - Or changes not properly accounted or disclosed

Qualified/ Disclaimer
- Qualified / Adverse Report

Consistency of Accounting Policies
- Modification in predecessor auditor’s report
  - Modification remains relevant & material for current period F.S.
  - Modify current Year audit report accordingly
SA-53 (Revised) "Audit Sampling"

Meaning of Audit Sampling
- Application of audit procedures to < 100% of items within a population

Sampling Risk
- Risk that auditor’s conclusion based on a sample may be different from the conclusion if the entire population were subjected to same audit procedures

Auditor’s Duties
- Sample design, size and selection of items

Sample Selection Methods
- Random Sampling
- Systematic Sampling
- Monetary Unit Sampling
- Haphazard Sampling
- Block Sampling
- Cluster Sampling

Test of Controls
- Controls are more effective than they actually are
- Controls are less effective than they actually are

Test of Details
- Material misstatements does not exist when in fact it does
- Material misstatements exist when in fact it does not

Affects audit efficiency as it would lead to additional work to establish that initial conclusions were incorrect.

Affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.
SA-550 (Revised) “Related Parties”

- Meaning of Related Party (RP)
  - A RP as defined in applicable FRF (AS 18)
  - Where applicable FRF establishes minimal or no RP requirements.
  - a. A Person/entity having control / significant influence, over reporting entity;
  - b. Entity over which reporting entity has control / significant influence, and
  - c. Entity under common control with reporting entity, through:
    - Common controlling/ ownership
    - Owners who are close family members
    - Common key Mngt.

- Auditor’s Procedures
  - Specific Procedures in case FRF establishes accounting & disclosure for RP relationship & Transactions
    - Obtain an understanding of RP Relation and Transactions:
      - a. To recognize Fraud Risk Factors.
      - b. To conclude whether F.S. in so far as they are affected by those relations and transactions achieve
        - True and fair presentation and
        - Not misleading.
    - Perform audit procedures to identify, assess & respond to Risk of Material Misstatement.
    - Evaluate Whether the identified RP relationship and transactions have been appropriately accounted for and disclosed as per FRF
      - Obtain WR from Mngt. / TCWG w.r.t.
      - Disclosure to auditor the identity of RP of which they are aware; and
      - Appropriate accounting & disclosure as per FRF.
  - Auditor’s Procedures in case of identification of unidentified / undisclosed RP or RP transaction
    - Name of Identified RP.
    - Nature of RP relationship
  - Documented:
    - a. Promptly communicate relevant info to other members of engagement team.
    - b. Where FRF establishes RP requirements:
      - Request mgmt to identify all transactions with newly identified RP for further evaluation.
      - Inquire reason for failure of entity’s controls to identify/disclose RP relationships & transactions.
    - c. Perform appropriate substantive audit procedures relating to newly identified RP or significant RP transactions.
    - d. Re-consider risk that other RP or significant RP or significant RP transactions may exist that mgmt has not previously identified / disclosed.
    - e. If non-disclosure by mgmt appears intentional, evaluate implications for audit.
Risk assessment Procedures and Responses to assessed Risk w.r.t. Related Party

**RAP and Related Activities (as per SA 315 & SA 240)**
- Understanding the Entity’s RP relationship and Transactions
- Maintaining Alertness for RP information when reviewing Records / Documents
- Identifying Fraud risk Factors
- Design and Perform further audit procedures to obtain SAAE about assessed Risk of material Misstatements

**Responsess to Assessed Risks**
- Domination of mgmt by a single person or small group of persons without compensating controls is a fraud risk factor.
  - Indicators of dominant influence
    - RP has voted significant business decision taken by mgmt or TCWG.
    - Significant transactions are referred to RP for final approval.
    - No/little debate among mgmt or "CWG regarding business proposal initiated by RP.
    - Transactions involving the RP are rarely independently reviewed / approved.

**a. SA 315 & SA 240 require Engagement Team discussion.**
**b. Auditor to inquire management regarding:**
  - Identity of entity’s RP, changes from prior period.
  - Nature of relationships between entity and RP.
  - Type & purpose of transactions with RP during the period.
  - Perform appropriate RAPs to obtain understanding whether managements has established controls to:
    - Identify, account for & disclose RP relationships & transactions.
    - Authorise & approve significant transactions / arrangements with RP.

**c. If auditor identifies significant transactions outside entity’s normal course of business:**
  - Inquire of management about:
    - Nature of these transactions and
    - Whether RP could be involved.
  - Identify of unidentified / undisclosed RP or RP transaction.
  - Identificd significant RP transactions outside Entity’s Normal course of Business.
  -Assertions that RP transactions were conducted or terms equivalent to those prevailing in an arm length transactions.

**Arm Length Transaction:**
- Transaction conducted on such terms & conditions;
- As between a willing buyer and willing seller;
- Who are unrelated; and
- Acting independently and pursuing their own best interest.
SA – 570 (Revised) “Going Concern”

For this purpose auditor is required to
a. Cover the same period as that used by management.
b. Consider whether management has considered all relevant information of which auditor is aware

- Request management to make its assessment of entity’s ability to continue as going concern.
- Evaluating management plans for future.
- Consider the availability of additional facts or information since the date of management assessment.
- Requesting written representations from Mngt. regarding their plans for future action

**Audit’s Responsibilities**
- Assess the entity’s ability to continue as a going concern.
- General purpose F.S. are prepared on a going concern basis unless management intends to liquidate the entity or to cease operation.
- In case F.S. are not prepared on going concern basis, the fact would need to be appropriately disclosed.

**Auditor’s Duties**
- To obtain sufficient appropriate audit evidence about the appropriateness of management’s use of going concern assumption
- Identified Events that cast significant doubt
  - Perform additional Procedures

**Flowchart**
- Meaning
  - Entity is viewed as continuing in business for the foreseeable future
- Mngt. Responsibilities
  - Assess the entity’s ability to continue as a going concern.
  - General purpose F.S. are prepared on a going concern basis unless management intends to liquidate the entity or to cease operation.
  - In case F.S. are not prepared on going concern basis, the fact would need to be appropriately disclosed.

- Auditors Duties
  - To obtain sufficient appropriate audit evidence about the appropriateness of management’s use of going concern assumption
    - Identified Events that cast significant doubt
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- Evaluating management plans for future.
- Consider the availability of additional facts or information since the date of management assessment.
- Requesting written representations from Mngt. regarding their plans for future action

- Going Concern Assumption Appropriate but Material Uncertainty exists
  - Determine whether F.S. Makes Relevant
    - Yes
      - EOM
    - No
      - Ignore

- Going Concern Assumption Inappropriate
  - Adverse Option
    - Consider the implications on Auditor’s Report
Types of Indicators

Financial Indicators

i) Negative Net worth/working capital;
ii) Arrears/discontinuance of Dividends;
iii) Adverse financial ratio;
iv) Substantial operating losses;
v) Borrowing approaching maturity without any chance of renewal/repayment;
vi) Short term borrowing for long term asset financing;
vii) No payment to creditors on due date.
viii) Non compliance with terms in loan agreement;
ix) Negative cash flow from operations;
x) Rearrangement with creditors for reduction in liability; or
xi) Change from creditors to cash on delivery transaction with supplier.

Operating Indicators

i) Management intentions to liquidate the entity or to cease operations.
ii) Loss of key management and no replacement available;
iii) Loss of major market or supplier;
iv) Labour difficulties, strikes etc; or
v) Loss of major licence, franchise, etc.
vii) Shortages of important supplies
vii) Emergence of a highly successful competitor.

Other Indicators

i) Pending legal proceedings;
ii) Change in law or regulations or Government Policy affecting the entity adversely; or
iii) Non - compliance with Statutory requirements
SA-600 “Using the Work of Another Auditor”

Applicability: In situation where a auditor (principal auditor-PA), reporting on the financial information of an entity, uses the work of another auditor (AA) w.r.t. to the information of one/more components (Division, Eranch Subsidiary, J.V.etc.), included in the financial information of the entity.

Non applicability: (a) Joint auditors (b) Auditor’s relationship with a predecessor auditor.

1. Consider the professional competence of Another Auditor, if Another auditor is not a member of ICAI.
2. Visit component and examine books of account, if essential.
3. Obtain sufficient appropriate evidence, that work of Another auditor is adequate for principal Auditor’s purposes.
4. Discuss audit procedures applied by Another Auditor.
5. Review a written summary of Another Auditor’s Procedures and findings through questionnaires / checklist.
6. Consider significant findings of Another Auditor:
   - Discuss audit findings with AA and Mgt.of component.
   - Perform supplemental tests if necessary.
7. In case Another auditor is not a professionally qualified auditor-for instance, where a component is situated in foreign country:
   - Procedures mentioned above assume added importance

   1. Components whose FS are audited by Another Auditor and their significance to the financial information of the entity as a whole.
2. Names of the Another auditors.
3. Any conclusions reached that individual components are not material.
4. Procedures performed regarding components.
5. Conclusions reached.

   1. Sufficient liaison/co-ordination between principal and Another auditor.
2. Principal auditor may require Another auditor to answer a detailed questionnaire.
3. Another Auditor should coordinate with Principal Auditor:
   - Adhering to time-table
   - Bringing to the attention of PA any significant finding.
   - Compliance with relevant statutory requirements.
   - Respond to detailed questionnaire.

   1. Express a qualified / disclaimer of opinion because of scope limitation:
   - If principal auditor concludes that he cannot use the work of Another auditor.
   - PA unable to perform sufficient additional procedures regarding FI of the component audited by AA.

2. Report should state clearly division of responsibilities between PA and AA.
SA 610 (Revised) “Using the work of internal Auditors”

Meaning & Scope of Internal Audit Function
- Meaning: an
  - Appraisal activity.
  - Established/provided.
  - As a service to entity.
- Also Include
  - Examining
  - Evaluating &
  - Monitoring
- Adequacy / effectiveness of internal control.

Scope of internal Audit:
- Monitoring of I.C.
- Examination of financial & Operating information.
- Review of operating activities.
- Review of compliance with laws & regulations.
- Risk Management.
- Governance

Relationship between internal Audit Function & External Auditor
- Role of objectives of internal audit function determined by Mgt/TCWG.
- Irrespective of the degree of autonomy/ objectivity, internal audit function is not independent of entity.
- External auditor has sole responsibility for audit opinion, and that responsibility not reduced by use of work of internal auditors.

External Auditor’s Procedures w.r.t. Evaluation of Internal Audit Function
- Determine
- Adequacy of internal Audit work for external Auditor’s Purpose- By evaluating the following:
  - Objectivity of the internal audit functions:
  - Technical competency of internal auditors:
  - Professional care with which the internal auditors works;
  - Communication between internal auditors & external auditor.
  - Status
  - Planning
- If adequate, consider its effect on N.T.E. of External auditor’s Procedures.
  - Nature of specific work performed by internal auditor.
  - Assessed Risk of Material Misstatement:
  - Degree of subjectivity in evaluation of audit evidence by internal auditor.

Documentation
- Conclusions regarding the evaluation & adequacy of work.
- Audit procedures performed on internal auditor work.
- Using Specific work of internal auditor
  - Evaluate & perform audit procedures on the work to determine its adequacy:
    - Work was performed by IA having adequate technical training & proficiency.
    - Work was properly supervised, reviewed & documented.
    - Adequate audit evidence obtained by internal auditor.
    - Conclusions reached are appropriate & internal auditor reports are consistent with results of work.
    - Exceptions / unusual matters disclosed by internal auditor are properly resolved.
SA 720 (Revised) – The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements

**Purpose:** Auditor is not required to express an opinion on other information in documents containing audited F.S. (Ex. Annual Report), however auditor reads the other information because creditability of F.S. may be undermined by material inconsistencies between the audited financial statements and other information.

**Auditor’s Procedures:**

- Make appropriate arrangements with Management & TCWG to obtain the other information prior to the date of auditor report & read the information so obtained. If information is not available prior to date of auditors report, read the other information as soon as practicable.

- Material Inconsistencies identified in other information

- Material Misstatements of Facts find cut. Misstatement of facts: Other information that is unrelated to matters appearing in audited F.S. that is correctly stated.

- Prior to the Date of auditor’s Report
  - Revision of audited F.S. becomes necessary but Mgmt refuses
  - Auditor shall modify the opinion in accordance with relevant SA

- Subsequent to the Date of auditor’s report
  - Revision of other information is necessary but Mgmt. & TCWG refuses
  - Mentioned in other Matter paragraph
  - The auditor shall follow the relevant requirement of SA 550

- Revision of audited financial statements becomes necessary
  - Revision of other information is necessary but management refuses.

- Discuss the matter with Management
  - Request management to consult with a qualified third party and auditor shall consider the advice received.

- Auditor concludes existence of material misstatement of facts, but management refuses to correct.

- Auditor shall notify his concern to those charged with governance and take the appropriate action.