



Paper-6 Auditing And Assurance

CA Megha Chandak

28th and 31ST Oct 2020

1. All About Audit

2. Applicability of Standard practically

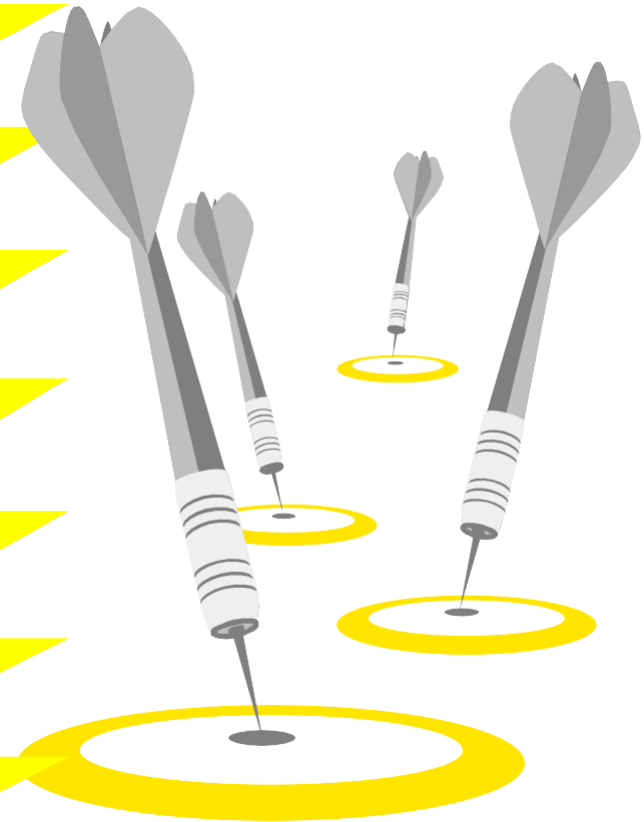
3. How to read Standard

4. SQC 1

**5. All the Applicable Standards of Auditing for
Nov 2020 Examination:**

- SA 200, 210, 220, 230, 240, 250, 299
- SA 300, 315, 320
- SA 500, 501, 505, 510, 520, 53, 550, 560, 570, 580
- SA 610, 700, 701, 705, 706, 710

6. Questions



Audit- Benefits to Management

1.



Identifies the good, bad and ugly in financial, operational and future plans of organization.

2.



Forewarning the management about errors frauds and misappropriations.

3.



Increases profitability.

4.



Reduces the cost due to better efficiency and control.

5.

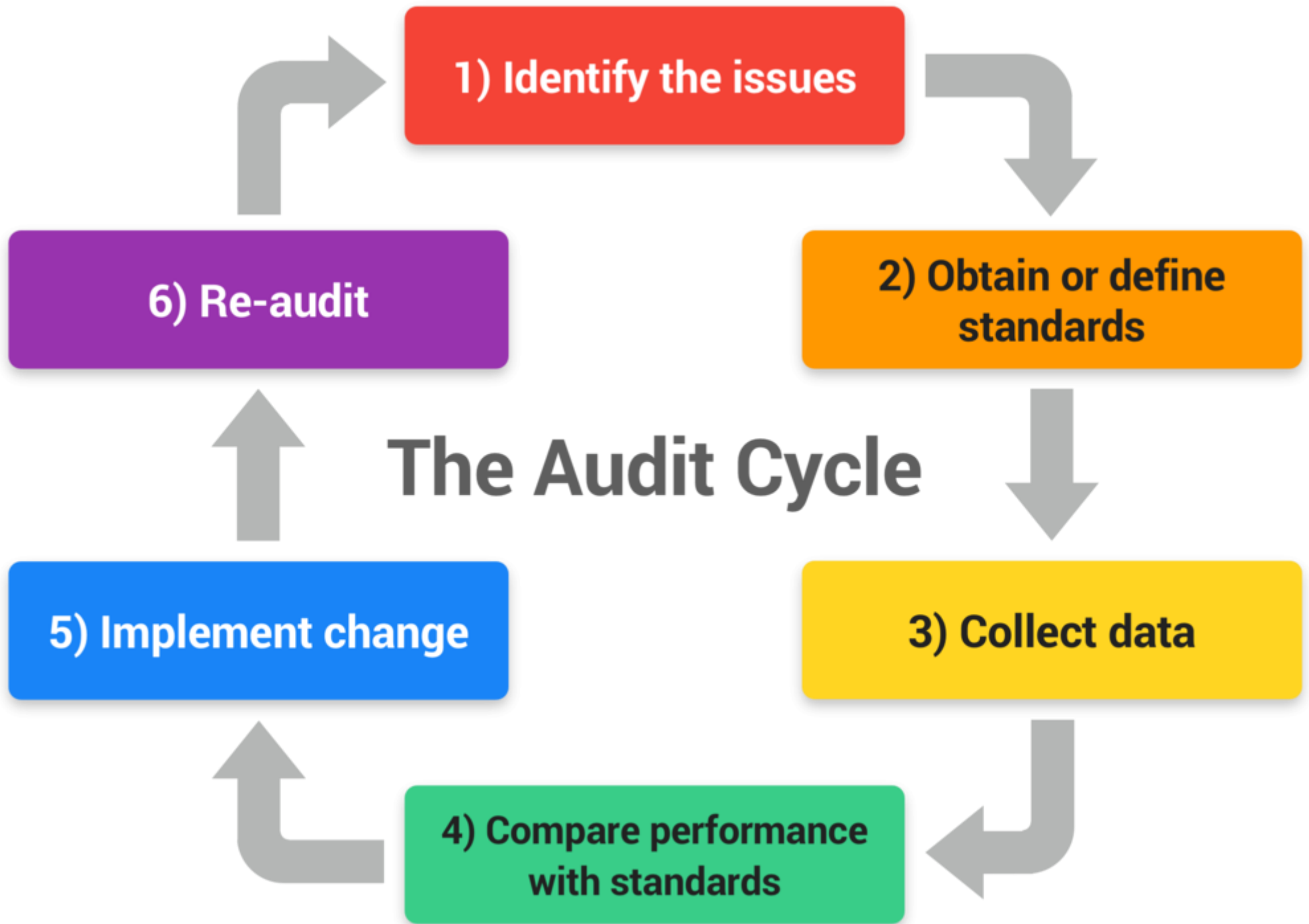


Keeps employees more alert.

6.



Points out management's weakness and recommends better accounting systems.



Why Standard is Required?

To assist professional to provide assurance & related services.
To improve efficiency & effectiveness.
To bring consistency in professional work.
To maintain quality (Reliability).
To Improve trust of society on professional.

Meaning of Standards.

In simplest possible terms, auditing standards represent a codification of the best practice of the profession, which already exist.
Standards are well researched, defined principles issued by authority which guides us on who to perform assurance & related services.

DRAFTING of SA

Section I

INTRODUCTION

DEFINITION

OBJECTIVES

REQUIRMENTS

Section II

EXPLANATORY
GUIDANCE

APPENDICES

Standards on Quality Control (SQC)s

Services covered by the pronouncements of the Auditing and Assurance Standards Board under the authority of the Council of ICAI

Assurance Services

Related Services

Framework for Assurance Engagements

Audits and reviews of historical financial information

Assurance Engagements other than audits or reviews of historical financial information

Standards on Auditing (SAs)

100 - 999

Standards on Review Engagements (SREs)

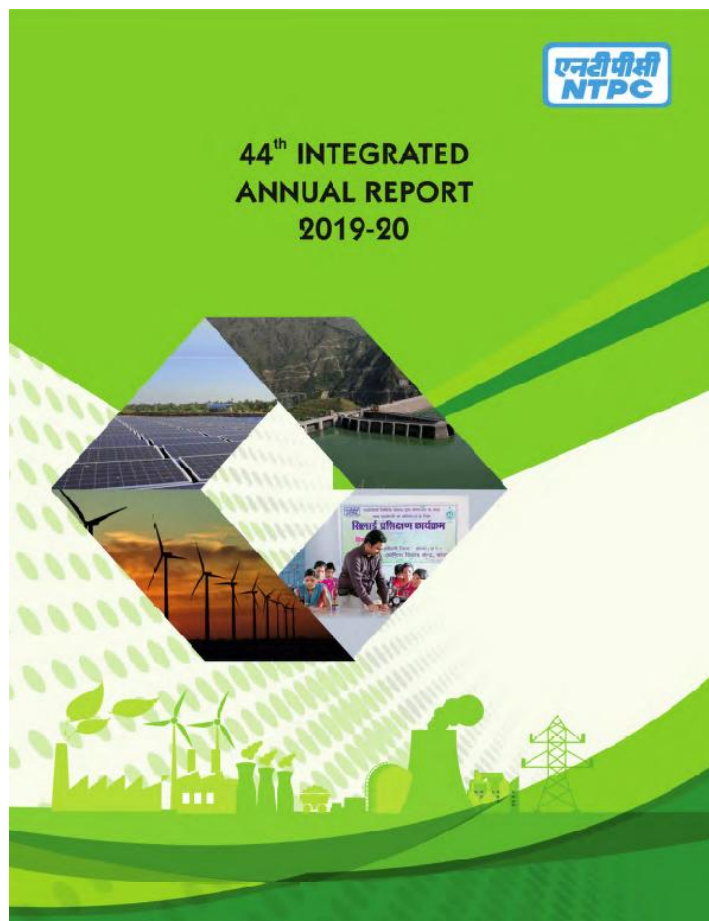
2000 - 2699

Standards on Assurance Engagements (SAEs)

3000 - 3699

Standards on Related Services (SRSs)

4000 - 4699



S.No	SA	Title of Standard on Auditing
1	SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
2	SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
3	SA 210	Agreeing the Terms of Audit Engagements
4	SA 220	Quality Control for Audit of Financial Statements
5	SA 230	Audit Documentation
6	SA 240	The Auditor's responsibilities Relating to Fraud in an Audit of Financial Statements
7	SA 250	Consideration of Laws and Regulations in An Audit of Financial Statements
8	SA 299	Joint Audit of Financial Statements(Revised)
9	SA 300	Planning an Audit of Financial Statements
10	SA 315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
11	SA 320	Materiality in Planning and Performing an Audit
12	SA 500	Audit Evidence
13	SA 501	Audit Evidence - Specific Considerations for Selected Items
14	SA 505	External Confirmations
15	SA 510	Initial Audit Engagements-Opening Balances
16	SA 520	Analytical Procedures
17	SA 530	Audit Sampling
18	SA 550	Related Parties
19	SA 560	Subsequent Events
20	SA 570	Going Concern (Revised)
21	SA 580	Written Representations
22	SA 610	Using the Work of Internal Auditors (Revised)
23	SA 700	Forming an Opinion and Reporting on Financial Statements(Revised)
24	SA 701	Communicating Key Audit Matters in the Independent Auditor's Report (New)
25	SA 705	Modifications to the Opinion in the Independent Auditor's Report (Revised)
26	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (Revised)
27	SA 710	Comparative Information – Corresponding Figures and Comparative Financial Statements

SQC 1 Quality Control for Firms that perform Audits and Reviews of Historical Financial information and other assurance related service engagements.



Leadership responsibilities for quality within Firm

Ethical Requirements

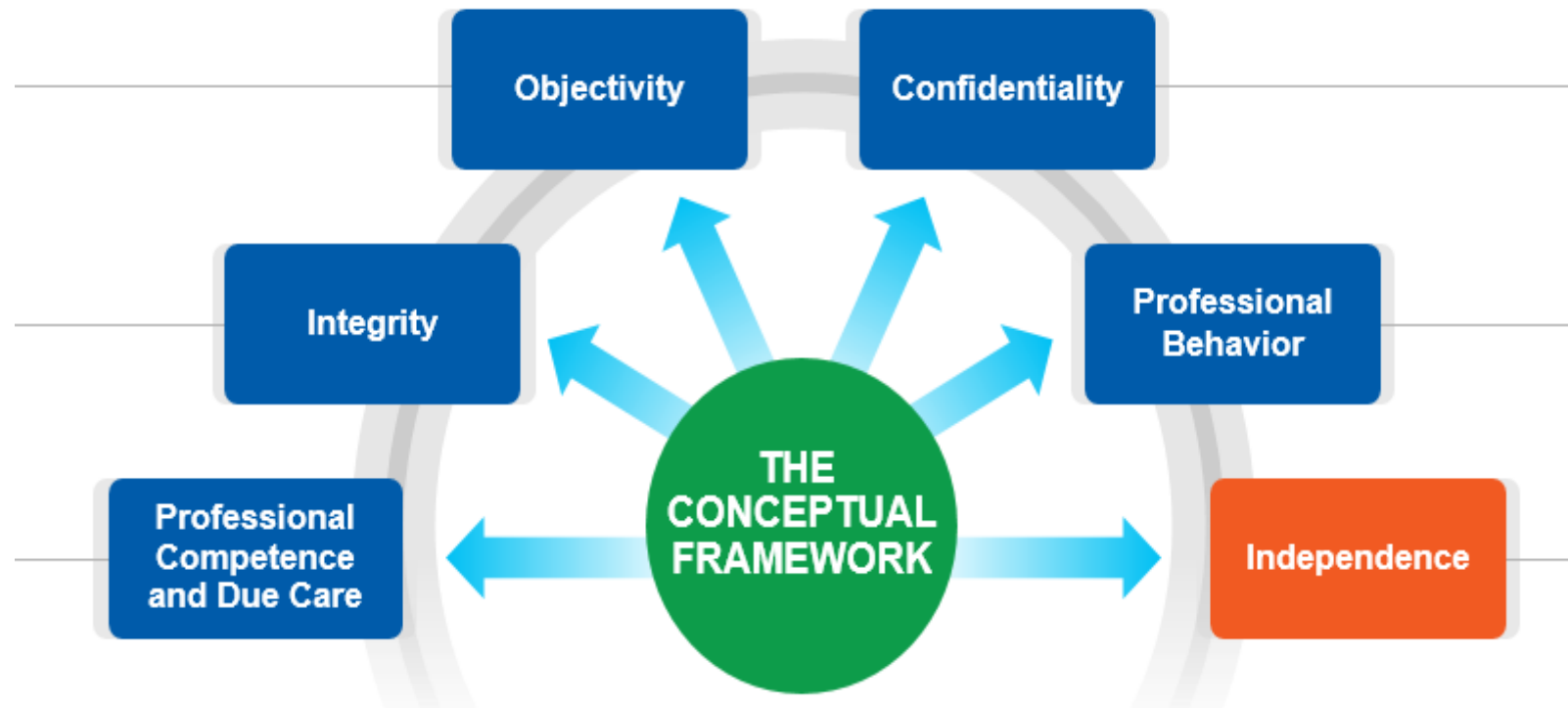
Acceptance and continuation of Client relationship and specific engagements

Human Resources

Engagement Performance

Monitoring

Ethical Requirements



What Does the Human Resources Department

Oversee compensation and benefits

Recruit employees

Monitor performance

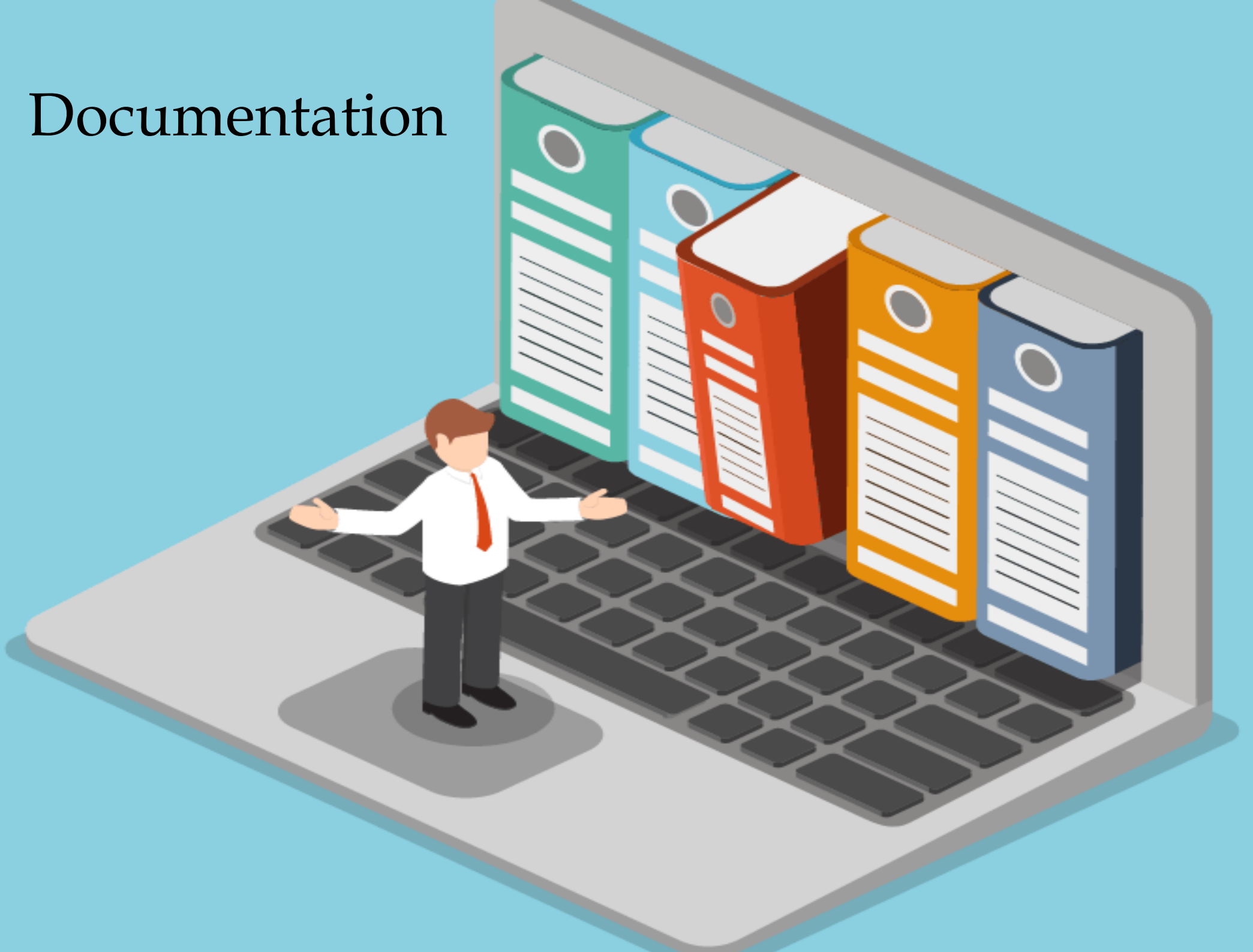
Ensure better company culture

Promote job training and educational development

Balance



Documentation



Common Usage of Certain Terms in Standards

What Terminology is required to be mentioned in your answers

ICAI Material Extract

Evidence

38. The practitioner plans and performs an assurance engagement with an attitude of professional skepticism to obtain sufficient appropriate evidence about whether the subject matter information is free of material misstatement. The practitioner considers materiality, assurance engagement risk, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of evidence-gathering procedures.

Professional Skepticism

39. The practitioner plans and performs an assurance engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter information to be materially misstated. An attitude of professional skepticism means the practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party. For example, an attitude of professional skepticism is necessary throughout the engagement process for the practitioner to reduce the risk of overlooking suspicious circumstances, of over generalizing when drawing conclusions from observations, and of using faulty assumptions in determining the nature, timing and extent of evidence-gathering procedures and evaluating the results thereof.

40. An assurance engagement rarely involves the authentication of documentation, nor is the practitioner trained as or expected to be an expert in such authentication. However, the practitioner considers the reliability of the information to be used as evidence, for example, photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.

Sufficiency and Appropriateness of Evidence

41. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The quantity of evidence needed is affected by the risk of the subject matter information being materially misstated (the greater the risk, the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less may be required). Accordingly, the sufficiency and appropriateness of evidence are interrelated. However, merely obtaining more evidence may not compensate for its poor quality.

42. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. Generalizations about the reliability of various kinds of evidence can be made; however, such generalizations are subject to important exceptions. Even when evidence is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. For example, evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. While recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:

SA 200 Overall objectives of the Independent Auditor and the conduct of an Audit in accordance with Standards on Auditing

Overall Objective:

- a) To Obtain **reasonable assurance** about whether the financial statements as a whole are free from **material misstatement** whether due to **Fraud or error** thereby enabling the auditor to express an opinion on whether the financial statements are prepared in all material aspects in accordance with an applicable financial reporting framework and
- b) To **report on the financial statements** and communicate as required by the SAs in accordance with the auditors findings

Reasonable Assurance

Reasonable assurance a high level of assurance (but not 100%) it is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However **reasonable assurance is not an absolute level of assurance because there are inherent limitations** of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditors opinion being persuasive rather than conclusive

SA 200 Overall objectives of the Independent Auditor and the conduct of an Audit in accordance with Standards on Auditing

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

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

- (b) **Audit evidence** – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the SAs:
- (i) **Sufficiency of audit evidence** is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.
 - (ii) **Appropriateness of audit evidence** is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.
- (c) **Audit risk** – The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

SA 200 Overall objectives of the Independent Auditor and the conduct of an Audit in accordance with Standards on Auditing

Inherent limitations
of Audit

Nature of Financial
reporting

Nature of Audit
procedures

Timeliness of Financial
reporting and the
balance between benefit
and cost

SA 200 Overall objectives of the Independent Auditor and the conduct of an Audit in accordance with Standards on Auditing

Inherent Limitations of an Audit

A45. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting;
- The nature of audit procedures; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

The Nature of Financial Reporting

A46. The preparation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. For example, this is often the case with respect to certain accounting estimates. Nevertheless, the SAs require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and related disclosures, and to the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments¹⁸.

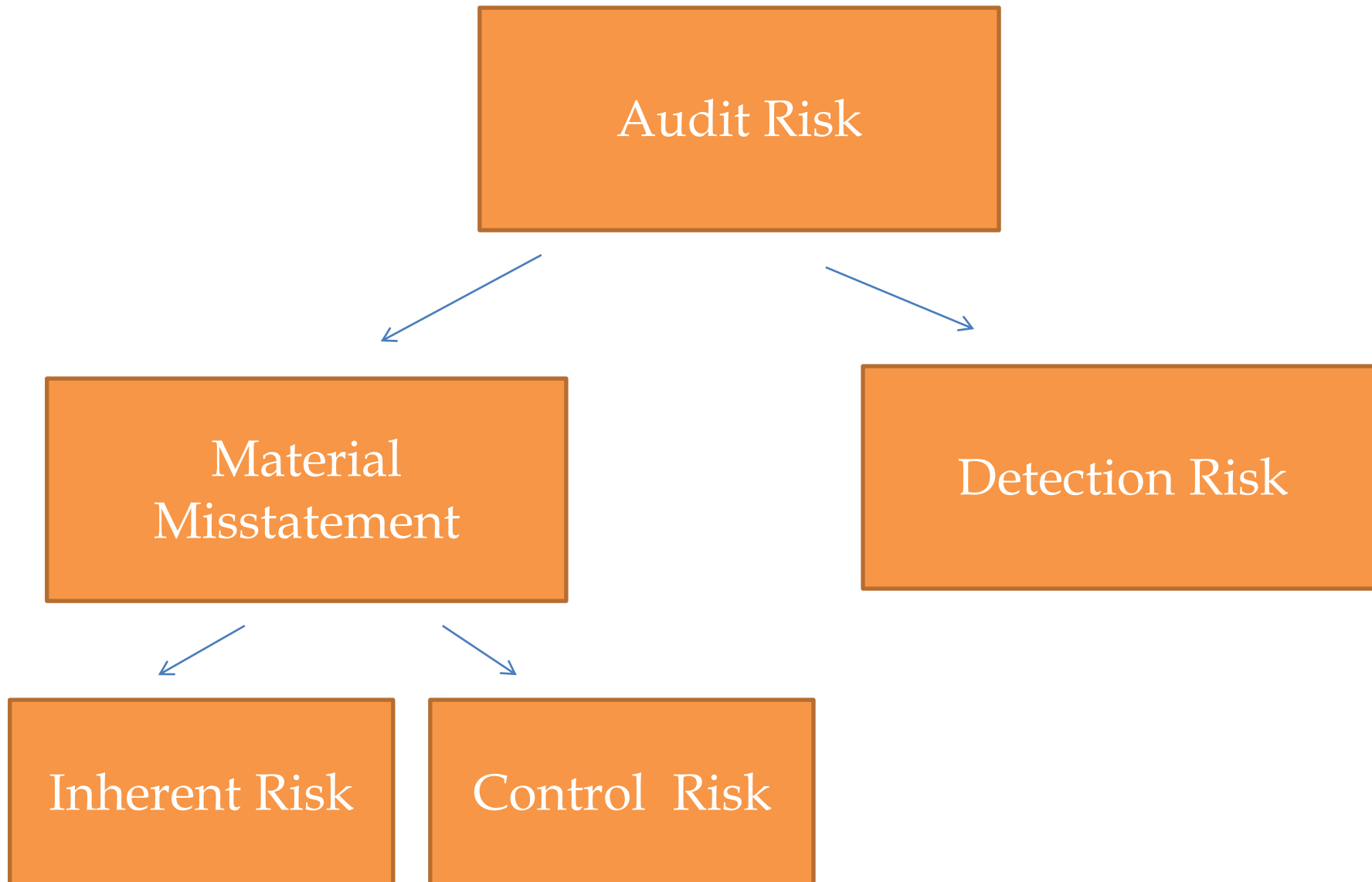
SA 200 Overall objectives of the Independent Auditor and the conduct of an Audit in accordance with Standards on Auditing

A47. There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example:

- There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation and presentation of the financial statements or that has been requested by the auditor. Accordingly, the auditor cannot be certain of the completeness of information, even though the auditor has performed audit procedures to obtain assurance that all relevant information has been obtained.
- Fraud may involve sophisticated and carefully organised schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents.
- An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation.

Nature of Audit
procedures

SA 200 Overall objectives of the Independent Auditor and the conduct of an Audit in accordance with Standards on Auditing



SA 210 Agreeing to Terms of Audit Engagements

1. What are Preconditions of Audit
2. Attributes of Acceptable Financial Reporting Framework
3. Engagement Letter Compulsory
4. What if there is change in Terms
5. Change in level of Assurance

SA 210 Agreeing to Terms of Audit Engagements

1. What are Preconditions of Audit

Financial reporting
Framework for
preparation of
Financials

Internal Control
Present

Access to
Information
and Persons

SA 210 Agreeing to Terms of Audit Engagements

2. Attributes of Acceptable Financial Reporting Framework

Completeness

Relevance

Reliability

Understand
ability

Neutrality

SA 210 Agreeing to Terms of Audit Engagements

3. Engagement Letter Compulsory. The contents:

Objective and
scope of audit

Responsibilities
of Auditor

Responsibilities
of management

Identification of
Applicable
Financial Reporting
Framework

Reference to the
expected Form and
Content of Any
reports

SA 210 Agreeing to Terms of Audit Engagements

4. What if there is change in Terms

External
Changes

Change from
Management Side

Change from
Auditors Side

5. Change in Level of Assurance

An auditor is requested to change the Engagement Terms

SA 220 Quality Control for an Audit of Financial Statements

SQC 1	SA 220
Maintain Systems at Firm Level. Applicable to all Assurance and related Engagements	Firm Level Quality Control System to all Individual Engagement Level. Engagement Partner to Implement Quality Control Procedures

SA 220 Quality Control for an Audit of Financial Statements

How to maintain Quality ?

1. Leadership responsibilities for Quality of Audits

2. Relevant Ethical Requirements

3. Independence

4. Acceptance & Continuation

5. Assignment of Engagement Teams

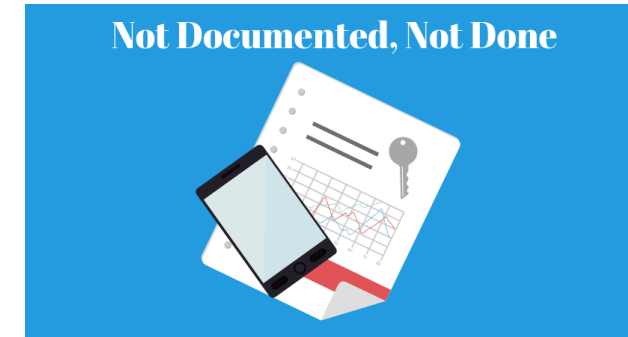
6. Engagement Performance

7. Engagement Quality Control Review

8. Difference of Opinion

9. Monitoring

SA 230 Audit Documentation



It is record of Audit procedures Performed, Audit evidence obtained and Conclusions made by Auditor

Audit Programme

Checklists

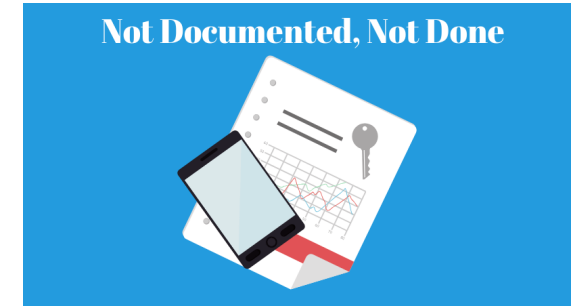
Analyses

Issues

Summaries

Correspondence

Difference types of Audit Files



Permanent Audit File

1. Legal Documents
2. Evaluation of Internal Controls
3. Notes on Significant Accounting Policies, Ratios and Trends
4. Previous years Audited Financials

Current Audit File

1. Current year related
2. Minutes
3. Nature timing and Extend of Audit Procedures
4. Analysis
5. Assistants Work

SA 230 Audit Documentation

What are the contents of Audit Documentation

Identification of Specific Items

Factors effecting Form, Content and Extend of Audit Documentation

Assembly of Audit File

Owner of Working Papers

Completion Memorandum

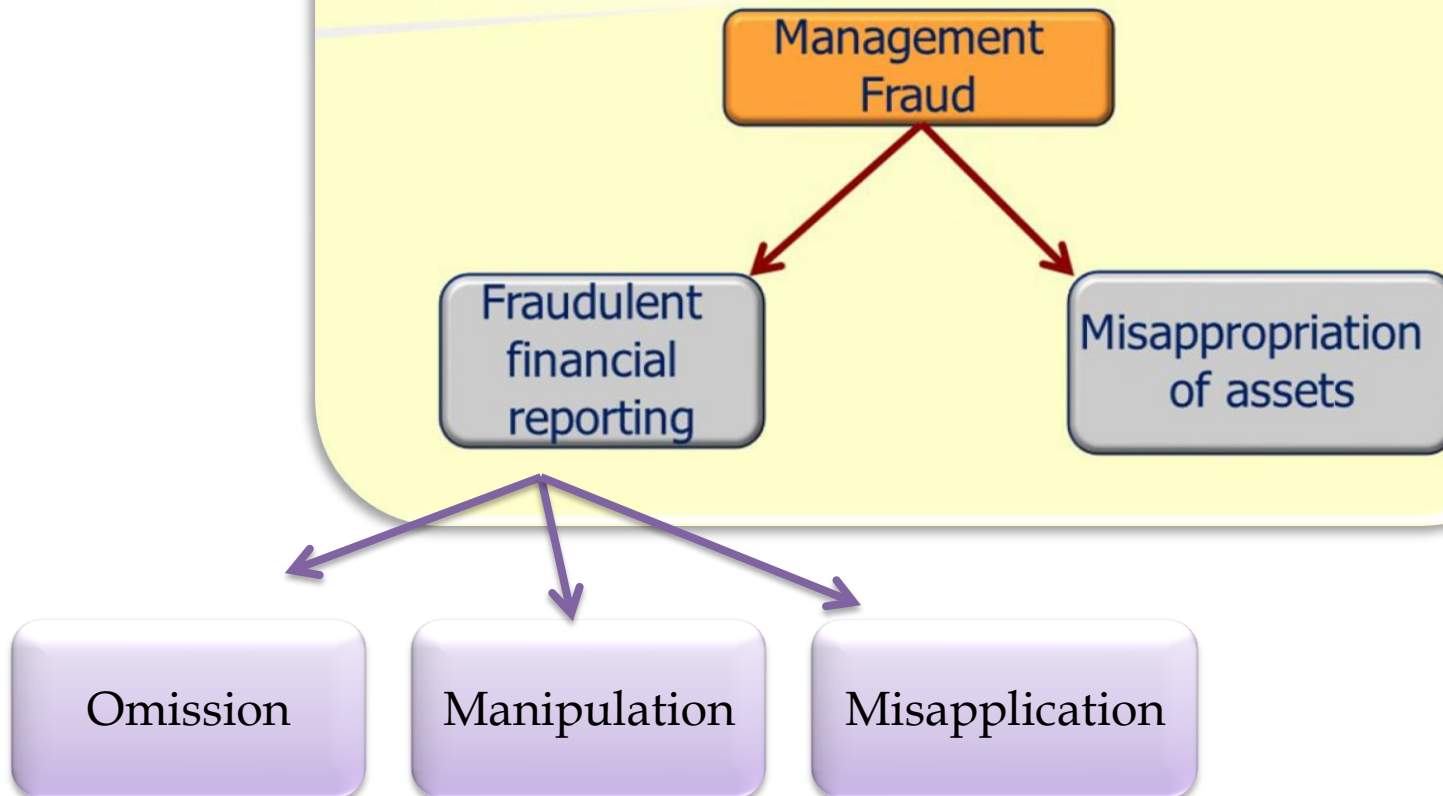
Audit Note Book

Not Documented, Not Done



SA 240 Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements

Types of Fraud



SA 250 Consideration of Laws and Regulations in an audit of Financial Statement

Responsibility of Auditor with respect to various laws applicable to entity



Understand the business and prepare checklist of applicable laws

Direct Effect Check Compliance

Remain alert while performing audit and obtain written representations

Indicators of Non Compliance



Cash Transactions

Related party Payments

Unusual Legal Fees

Audit procedures to be performed if there is non Compliance

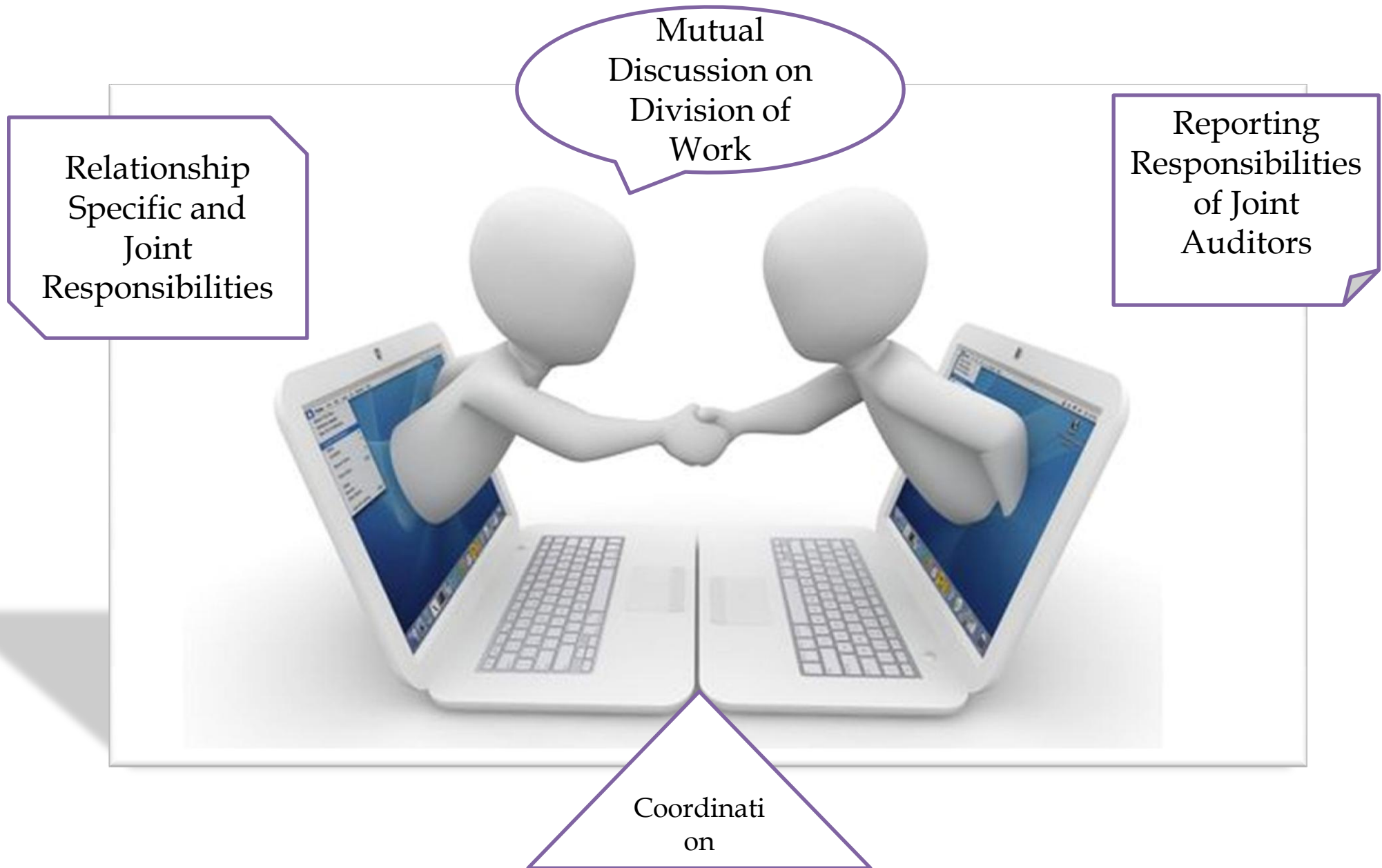


Possible Effect on Financial Statements

Discuss with Management else go for legal Advice

Report

SA 299 Responsibilities of Joint Auditors



SA 300 Planning an Audit of Financial Statements

Preliminary Engagement Activities

- SA 210
- SA 220
- Independence

Establishing The Overall Audit Strategy

- Characteristics of Engagement
 - Reporting Objectives
 - Preliminary Engagement Activities
 - Availability of resources

Development of Overall Plan

- Law and Engagement letter
 - Team
- Materiality and Important area
- Internal Controls and Accounting System
- Evidence and Reporting

Develop an Audit Plan

- Detailed Overall audit strategy
- Planned risk assessment procedures
- Planned further audit procedures at assertion level

Audit Program

- Scope and Limitation of assignment
- Possibilities of error
 - Evidence reasonably available and identify the best evidence
- Co-ordinate the procedures
 - Steps and Procedures

SA 315 Identifying and assessing the risk of Material misstatement through understanding the entity and its environment

Audit Risk



Audit Risk: Risk that an inappropriate opinion is rendered on the Schedule of Overhead due to a material misstatement

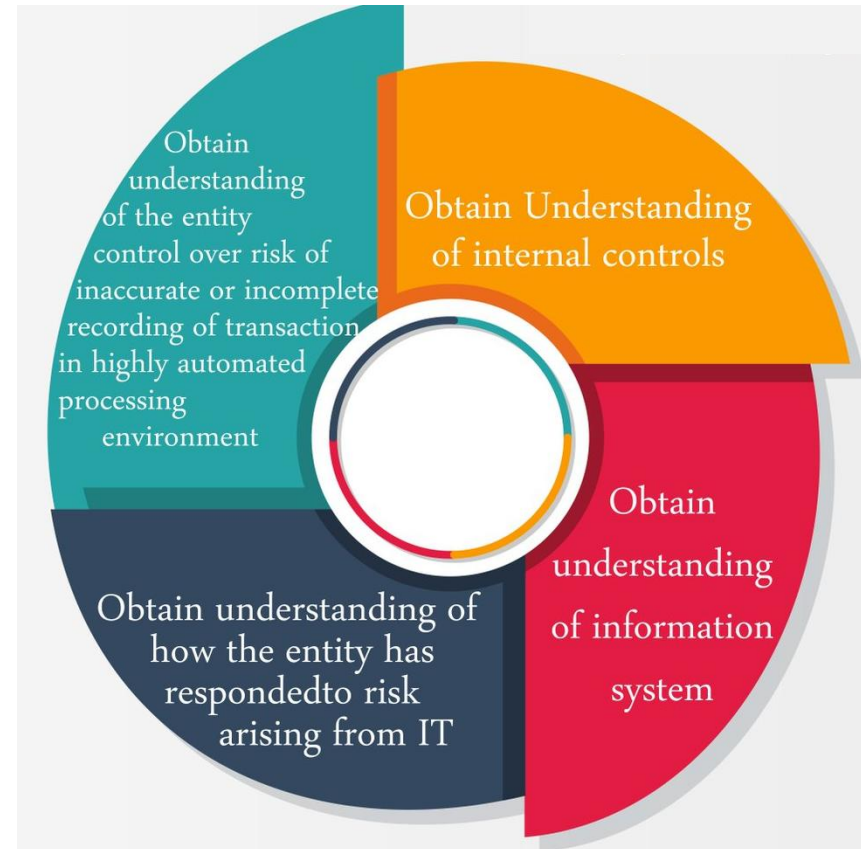
It is a function of risk of material misstatement and detection risk

SA 315 Identifying and assessing the risk of Material misstatement through understanding the entity and its environment

Risk Assessment procedures

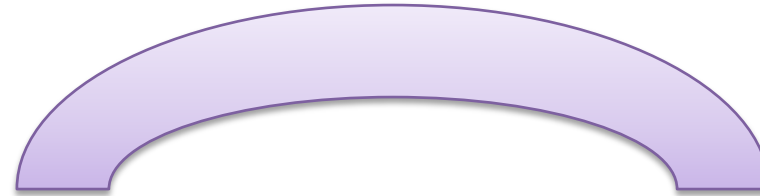


Understanding the Entity and Its Environment



SA 315 Identifying and assessing the risk of Material misstatement through understanding the entity and its environment

Risk of Material Misstatement



Financial Statement Level

Financial Statement as a whole

Assertion level

Class of transactions and Events

1. Occurrence
2. Completeness
3. Accuracy
4. Cut-off
5. Classification

Account Balances

1. Existence
2. Rights and Obligation
3. Completeness
4. Valuation and Allocation

Presentation and Disclosure

1. Occurrence
2. Completeness
3. Classification and Understanding
4. Accuracy and Valuation

SA 320 Materiality in Planning and Performing an Audit

Materiality in the Context of an Audit

2. Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:
 - Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
 - Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
 - Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.² The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Benchmarking

Financial Statement
Level V/s Specific
area Level

Performance
Materiality

Revision of
Materiality

SA 500 Audit Evidence

Objective

The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Definitions

For purposes of the SAs, the following terms have the meanings attributed below:

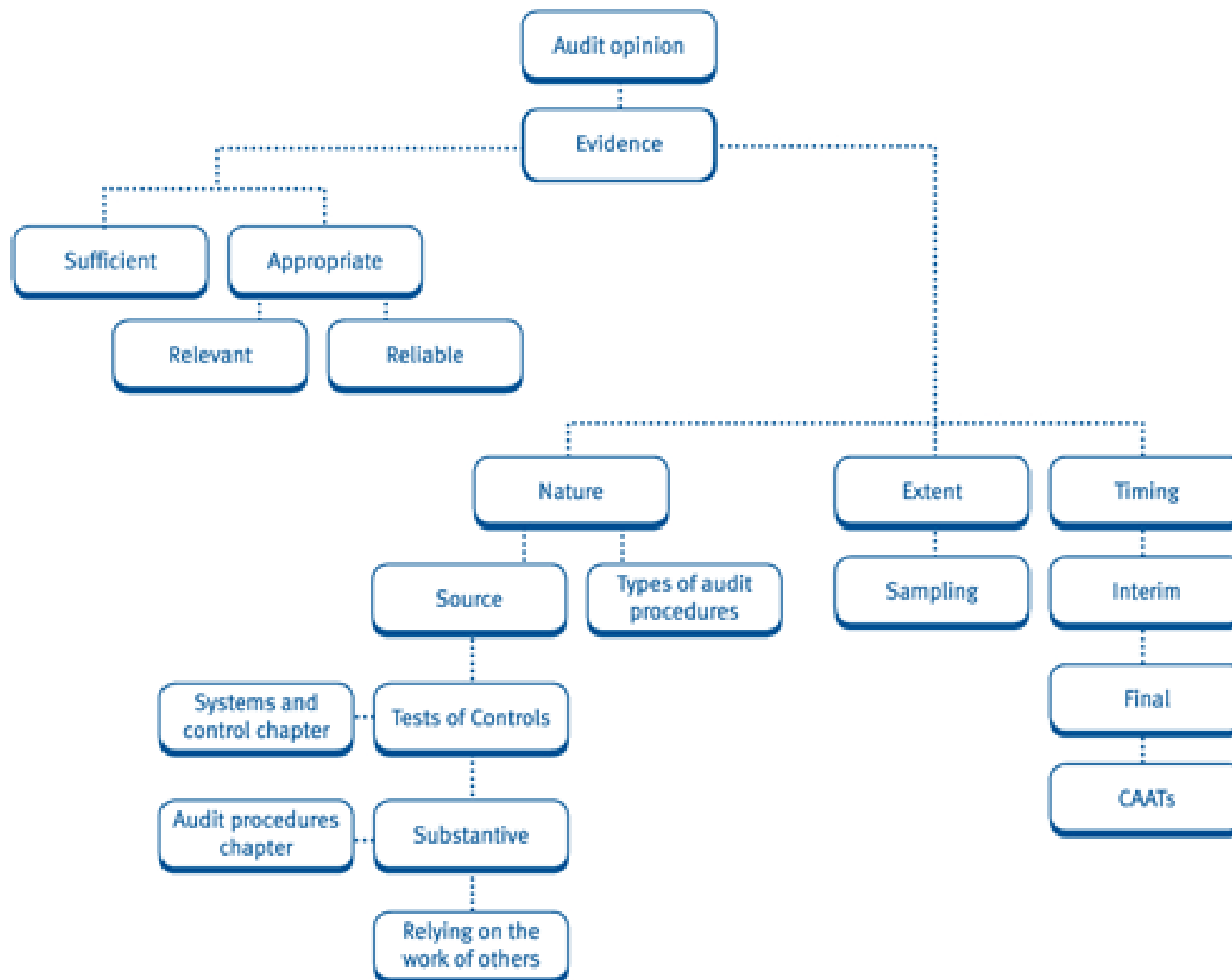
- (a) Accounting records – The records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.
- (b) Appropriateness (of audit evidence) – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.
- (c) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.
- (d) Management's expert – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
- (e) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

SA 500 Audit Evidence

Methods of Obtaining Audit Evidence



SA 500 Audit Evidence



SA 501 Audit Evidence – Specific Considerations for Selected Items

Inventory



1. Existence and Condition of Inventory
2. Counting is conducted at date other than year end
3. Counting is Impracticable
4. Custody and Control of Third Party

Claims and Litigations



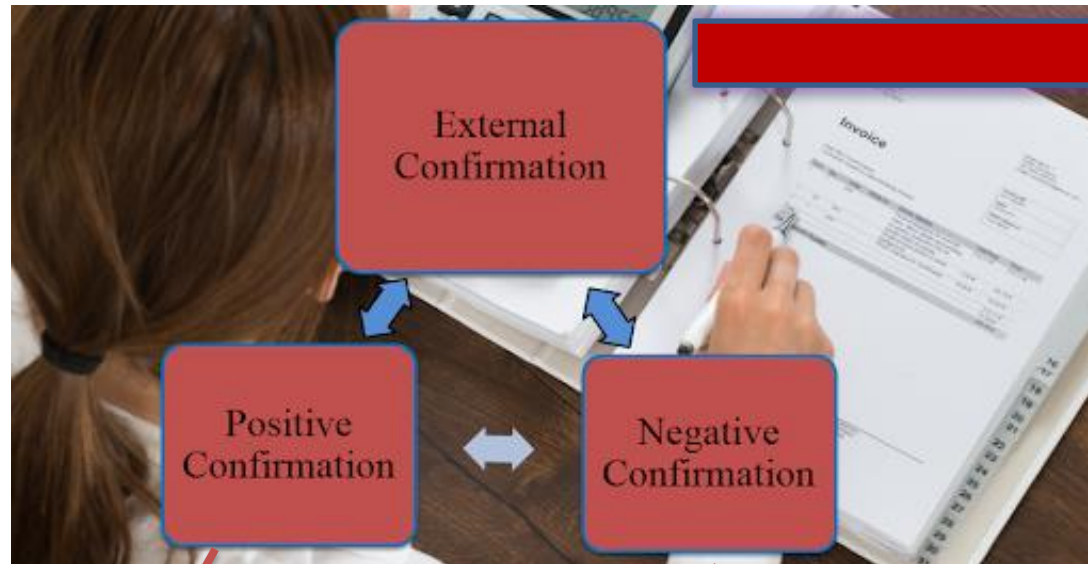
1. Internal Evidence
2. Written Representations
3. Communication with entity's external legal counsel

SA 505 External Confirmations

LEADING THE POWER SECTOR		₹ Crore	
Particulars	Note No.	As at 31 March 2020	As at 31 March 2019
STANDALONE BALANCE SHEET AS AT 31 MARCH 2020			
ASSETS			
Non-current assets			
Property, plant and equipment	2	1,56,273.02	1,25,290.68
Capital work-in-progress	3	73,066.76	90,808.89
Intangible assets	4	538.28	329.94
Intangible assets under development	5	292.52	397.80
Financial assets			
Investments in subsidiary and joint venture companies	6	26,350.61	13,054.02
Other investments	7	50.28	91.92
Loans	8	600.26	544.38
Other financial assets	9	1,425.16	1,424.29
Other non-current assets	10	11,122.62	13,269.30
Total non-current assets		2,69,719.51	2,45,211.22
Current assets			
Inventories	11	10,731.86	7,988.02
Financial assets			
Trade receivables	12	15,668.11	8,433.86
Cash and cash equivalents	13	20.37	24.38
Bank balances other than cash and cash equivalents	14	2,188.74	2,119.96
Loans	15	308.56	305.79
Other financial assets	16	11,529.13	8,331.84
Other current assets	17	8,378.41	14,929.89
Total current assets		48,825.18	42,133.74
Regulatory deferral account debit balances	18	9,122.76	3,406.00
TOTAL ASSETS		3,27,667.45	2,90,750.96
EQUITY AND LIABILITIES			
Equity			
Equity share capital	19	9,894.56	9,894.56
Other equity	20	1,03,674.88	97,513.61
Total equity		1,13,569.44	1,07,408.17
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	21	1,46,538.70	1,19,698.08
Trade payables	22		
Total outstanding dues of micro and small enterprises		10.35	6.41
Total outstanding dues of creditors other than micro and small enterprises		57.66	41.76
Other financial liabilities	23	652.24	1,314.29
Provisions	24	635.69	588.74
Deferred tax liabilities (net)	25	8,093.98	4,200.14
Total non-current liabilities		1,55,988.62	1,25,849.42

STANDALONE FINANCIAL STATEMENTS

SA 505 External Confirmations



Directly confirm the auditor to agree or disagree with the information in the request

Directly confirm the auditor only if the Confirming party disagrees with the information provided in the request

SA 510 Initial Audit Engagements Opening Balances

1. Whether prior period closing balances brought forward correctly
2. Whether opening balances reflect appropriate application of accounting principles
3. Evaluating evidence about opening balances from current period audit procedures and one or both:
 - a. Review predecessor auditor's work
 - b. Perform specific procedures about opening balances

If the last year balance sheet was NOT audited

Sufficient Appropriate Audit Evidence

Application of Appropriate Accounting Policies

Ex: Physical verification of Fixed Assets check the date of Acquisition to find out whether they existed in Opening , Same thing for investments

SA 520 Analytical Procedures

Sources of Data for Analytical procedures

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graph TD; A[Sources of Data for Analytical procedures] --> B[Application of Analytical Procedures]; B --> C[Analytical Procedures in Planning the audit]; C --> D[Analytical Procedures used as Substantive test]; D --> E[Analytical Procedures used in the overall review and Investigating results of Analytical procedures];
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Application of Analytical Procedures

Analytical Procedures in Planning the audit

Analytical Procedures used as Substantive test

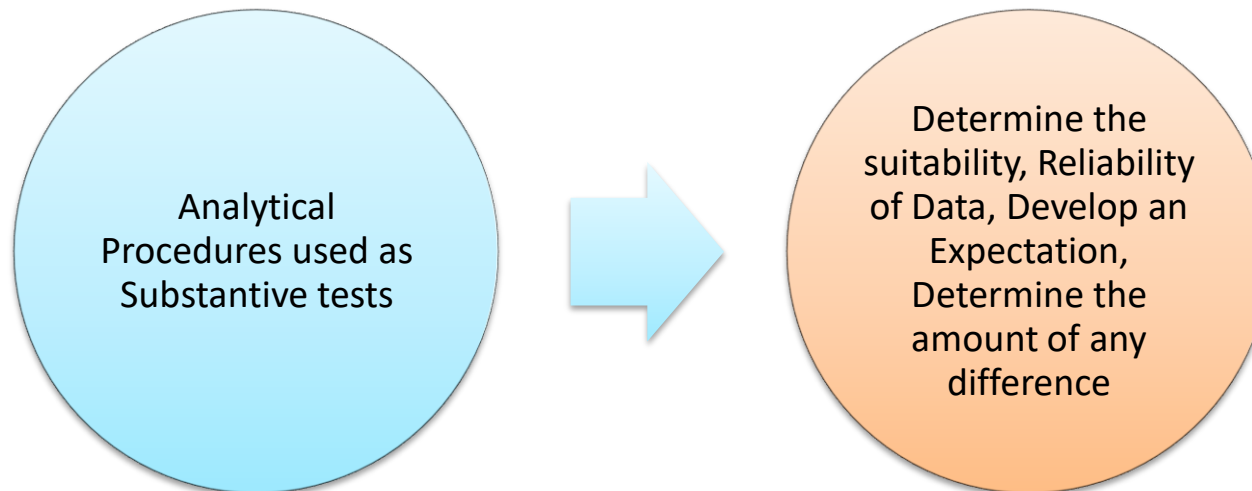
Analytical Procedures used in the overall review and Investigating results of Analytical procedures

SA 520 Analytical Procedures

The Reliability of the Data (Ref: Para. 5(b))

A12. The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- (a) Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity⁴;
- (b) Comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;
- (c) Nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (d) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.



SA 520 Analytical Procedures

Trends

- Account fluctuations on comparison of current with previous year

Reasonableness

- Relationship of certain account balances with other balances
- Ex: Raw Material to Consumption
- Wastage and Scrap against Raw material productions

Ratios

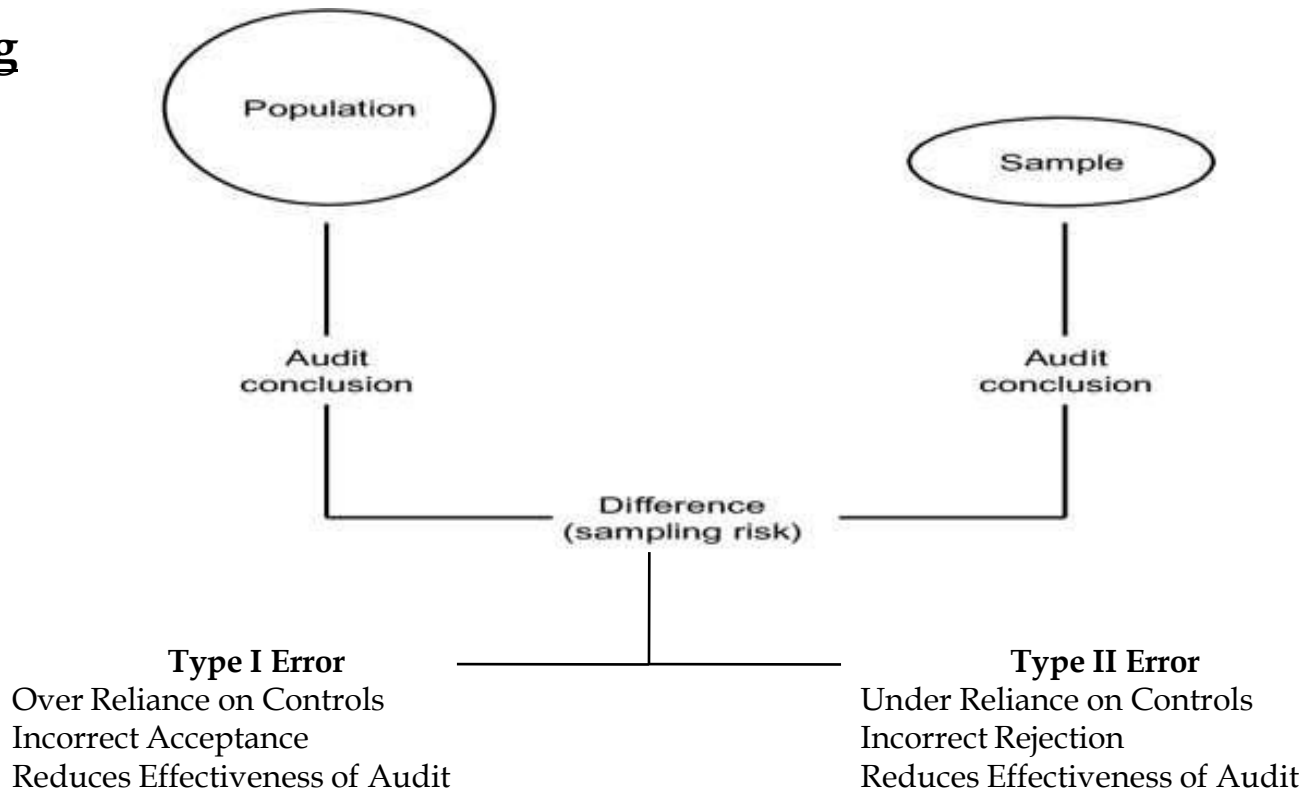
- GP Ratio
- NP Ratio
- Accounts Receivable
- Inventory Turnover

Sources of Information

- Interim Financial Information
- Budgets
- Vat returns
- Bank and Cash records

SA 530 Audit Sampling

Sampling Risk



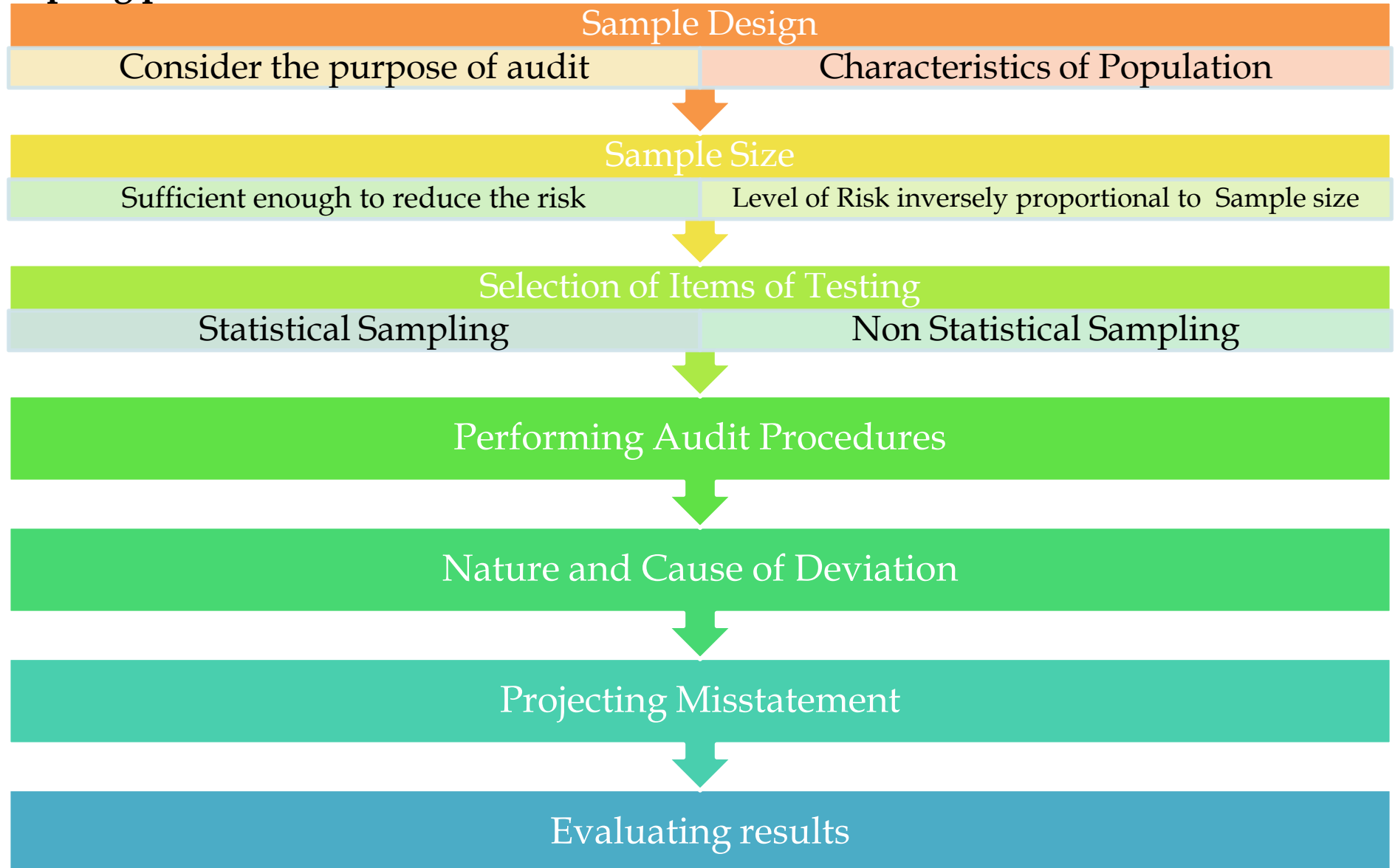
Non- Sampling Risk

The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

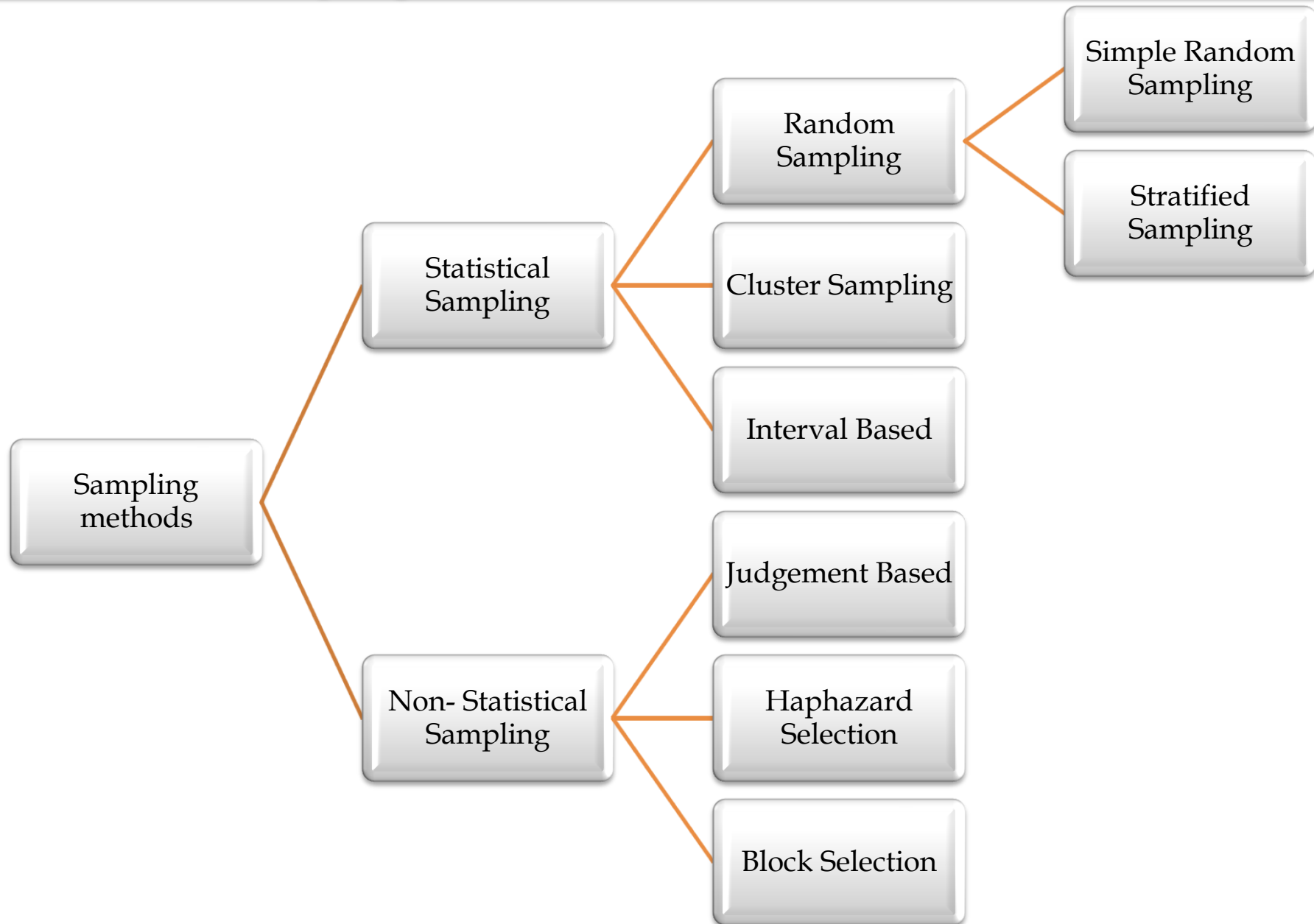
Examples: Inappropriate audit procedures, Misinterpretation of audit evidence and Failure to recognise a misstatement or deviation.

SA 530 Audit Sampling

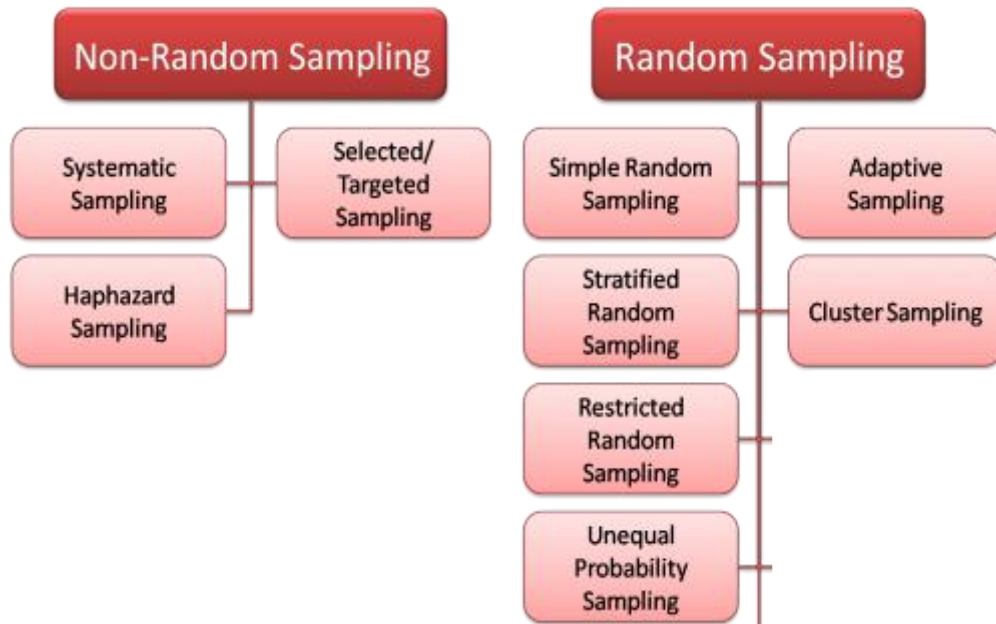
Sampling process



SA 530 Audit Sampling



SA 530 Audit Sampling



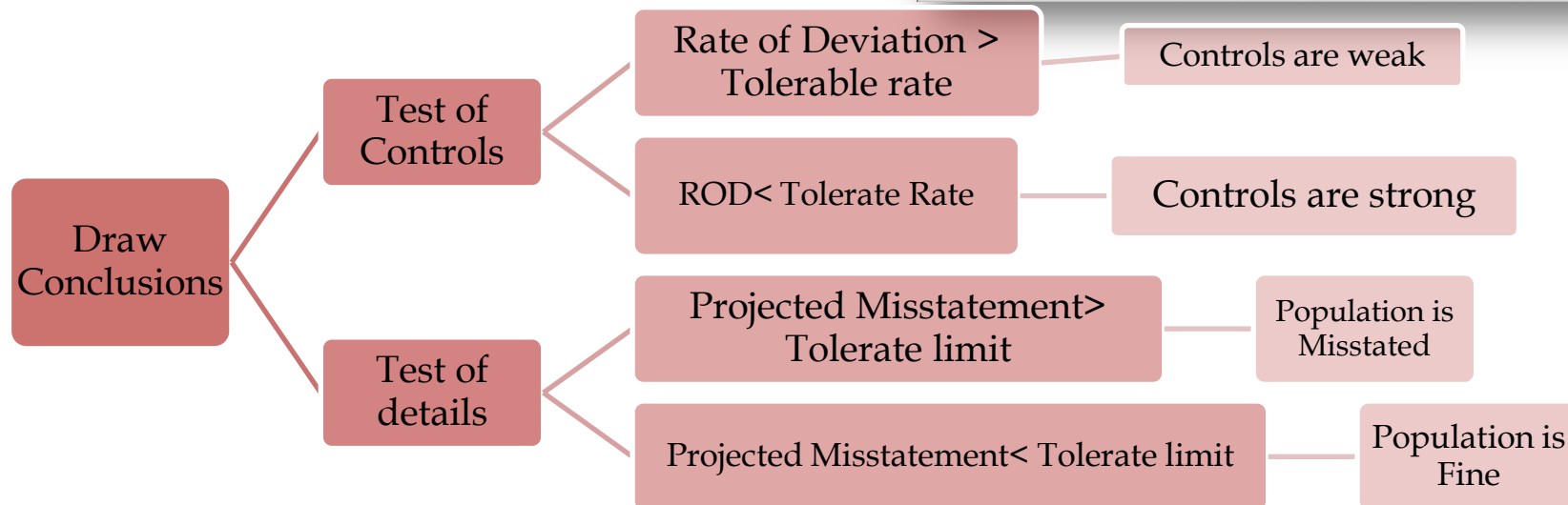
Statistical vs. Non-statistical

Statistical

- Through the application of mathematical rules.
- It allows the quantification (measurement) of sampling risk in planning the sample and evaluate the results.
- Example: Statistical result at a 95% confidence level provides a 5% sampling risk)

Non-statistical

- Auditor does not quantify sampling risk.
- Instead, those sample items that auditor believes will provide the most useful information in the circumstances are selected.
- Conclusions are reached about populations on judgmental basis. Thus selection of nonprobability samples is often termed judgmental sampling



SA 550 Related Parties

❖ Definition of Related Party

- a) Any Party Controlling (More than 50% Ability to Decide financial and Operating Policies) or Having Significant influence (20% or more ability to participate in Financial and Operating Policies) over entity (Direct or through Intermediaries i.e subsidiaries)
- b) Any Party who is under significant influence or control of entity
- c) Parties which are under common control with entity because of common ownership, common KMP or Owners are close friends and relatives

❖ Be Alert and collect related party information

❖ Related party transactions outside normal course of Business

SA 560 Subsequent Events

Covers events occurring after the Balance Sheet Date or Audit report date

Events occurring between the Date of Financial Statement and the date of Auditors Report

Inquiring
Reading Minutes
Subsequent interim
Financial Statements

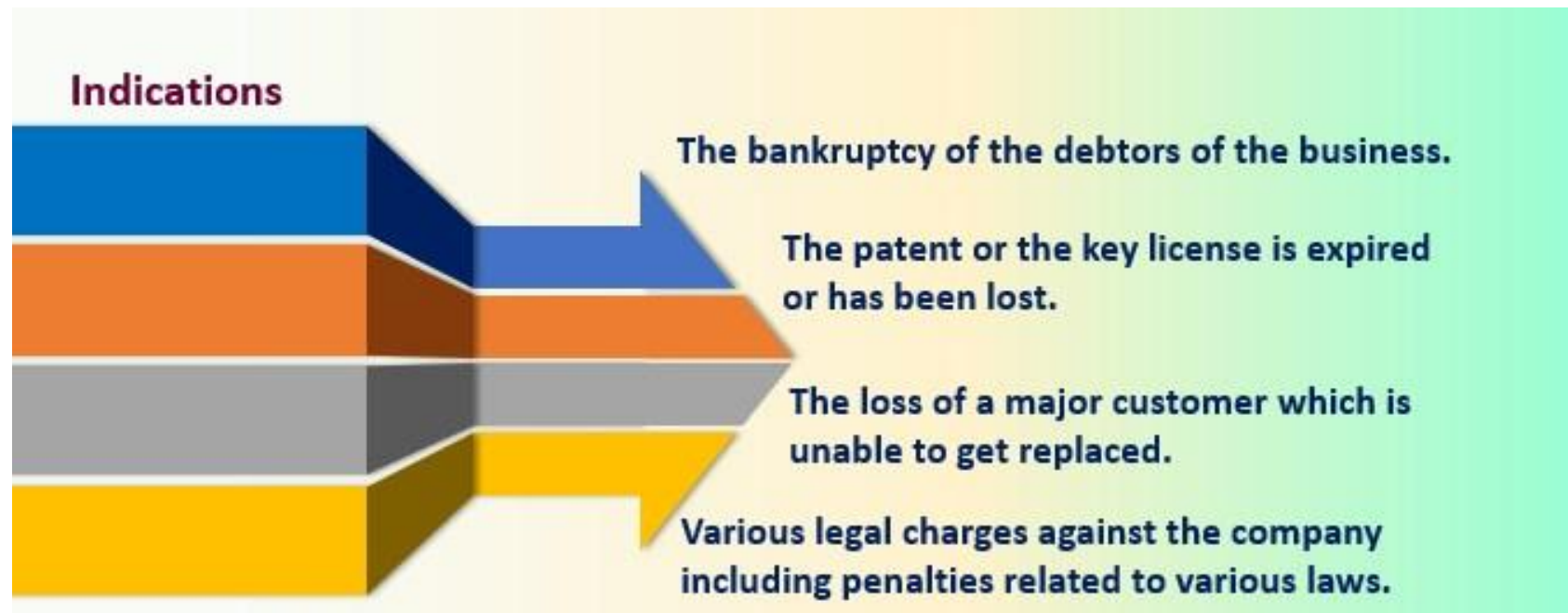
Facts that become known to the auditor after the auditors report.

- No Obligation to perform ..
Auditor May
1. Discuss the matter with Management
 2. Whether the FS shall be amended

SA 570 Going Concern

Events or conditions creating significant doubt over going concern:

1. Financial
2. Operating
3. Other



SA 570 Going Concern

Additional Audit procedures when events or conditions are identified:

1. Requesting management to make assessment
2. Evaluation management's plan for future actions
3. Analyze the cash flows
4. Consider any additional facts or information becoming available
5. Requesting written representations

Auditors Conclusions and reporting:

Based on the audit evidence the auditor shall conclude whether in the auditors judgment a material uncertainty exists.

1. Disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
2. Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern
3. Adequacy of disclosures when events or conditions have been identified but no material uncertainty exists.

SA 580 Written Representations

It's a tool for Audit Evidence

Written Representations as Audit Evidence

Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based.¹ Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

But it is not a substitute of regular audit procedure



SA 610 Using Work of Internal Auditors

1. Scope and Objectives of the Internal Audit Function
2. Objectives of SA
3. Relationship between Internal Audit Function and external Auditor
4. Can and How to use the work of internal Auditor
5. Can we take direct assistance of Internal Auditor
6. How to use direct assistance of Internal Auditor

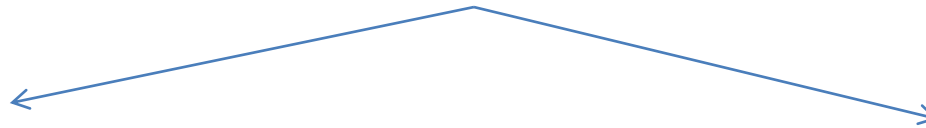
Scope and Objectives of Internal Audit Function:

1. Activities Relating to Governance
2. Activities relating to Risk Management
3. Activities relating to Internal Control
4. To determine whether the work of the Internal Audit function or direct assistance from internal auditor can be used.
5. Adequate for the purposes of Audit
6. Direct , supervise and review their work



SA 610 Using Work of Internal Auditors

Can we use work of Internal Auditors



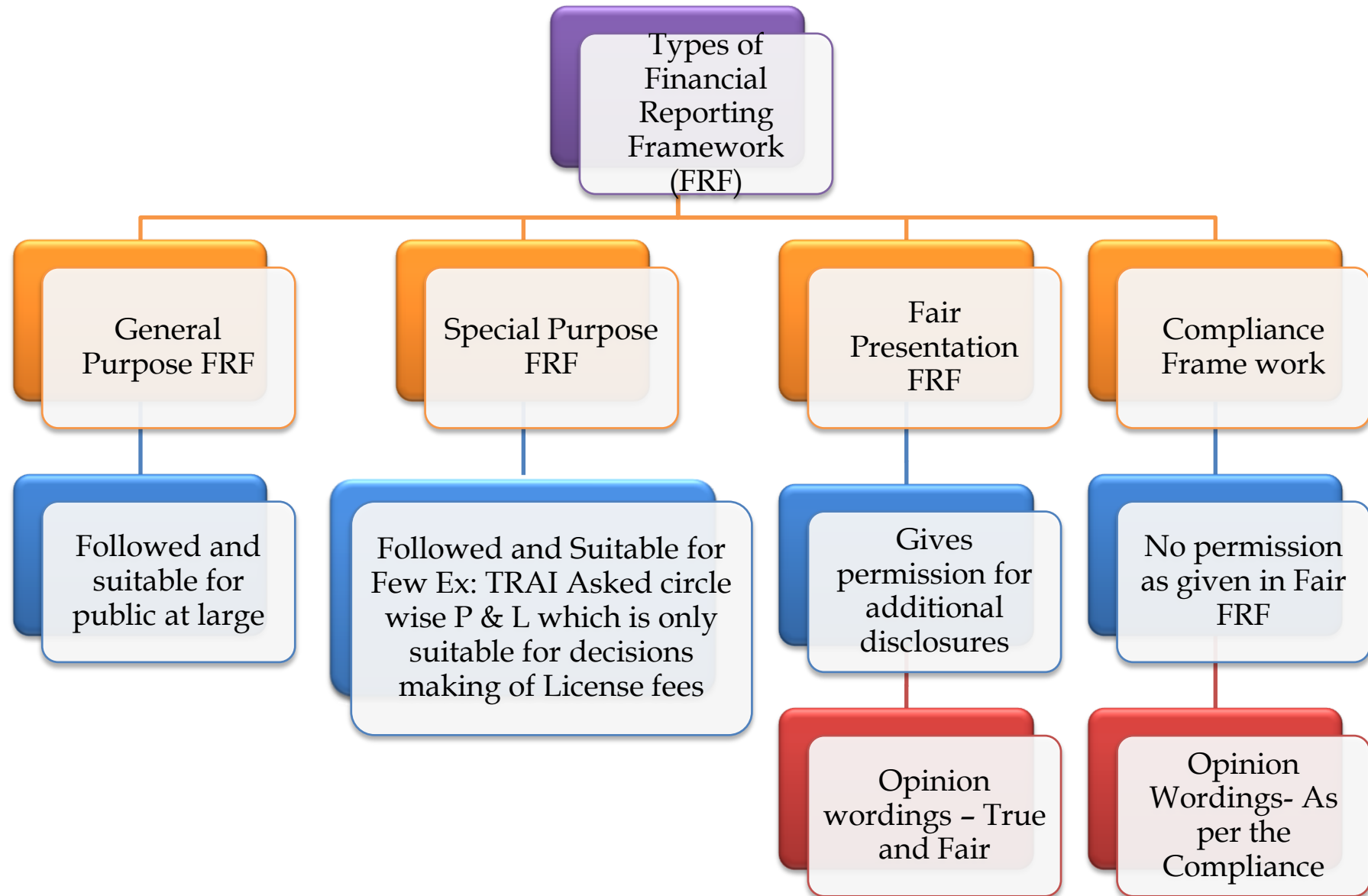
Evaluate Internal Audit Function

- a) Extent to which the internal audit function's organisational status and relevant policies and procedures support the **objectivity** of the internal auditors
- b) The **Level of Competence** of the internal audit function
- c) Whether the internal audit function applies a **systematic and disciplined approach** including quality control

Which Work can be used

- a) Nature and scope of work to be performed
- b) Relevance of the External auditor's overall audit strategy and audit plan
- c) Check whether it is prohibited by law

SA 700 Forming an Opinion and reporting on Financial Statements



SA 700 Forming an Opinion and reporting on Financial Statements



Unmodified: The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting Framework.

Modified: If the auditor:

- Concludes that based on audit evidence obtained the FS as a whole are not free from material misstatement
- Is unable to obtain sufficient appropriate audit evidence to conclude that the FS as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with SA 705

What is Fair Presentation Framework: If the FS prepared in accordance to the requirements of framework do not achieve fair presentation the auditor shall discuss the matter with management and depending on the requirements of the applicable FRF modify the opinion in the auditor's report.

What is compliance Framework: FS shall be prepared in accordance to compliance framework the auditor is not required to evaluate whether the FS achieve FRF.

SA 700 Forming an Opinion and reporting on Financial Statements

Basic Elements of Audit Report

Title : Clearly indicate that it is the report of an Independent Auditor

Addressee : As per the engagement letter

Auditor's Opinion: State that the FS have been audited, Identify the entity, Title of each statement, Refer to notes, Specify the date or period covered

Wordings: Fair presentation framework, Compliance Framework

Basis of Opinion: It is conducted in accordance with the standards on auditing, Audit evidence

Going Concern

Key Audit Matters

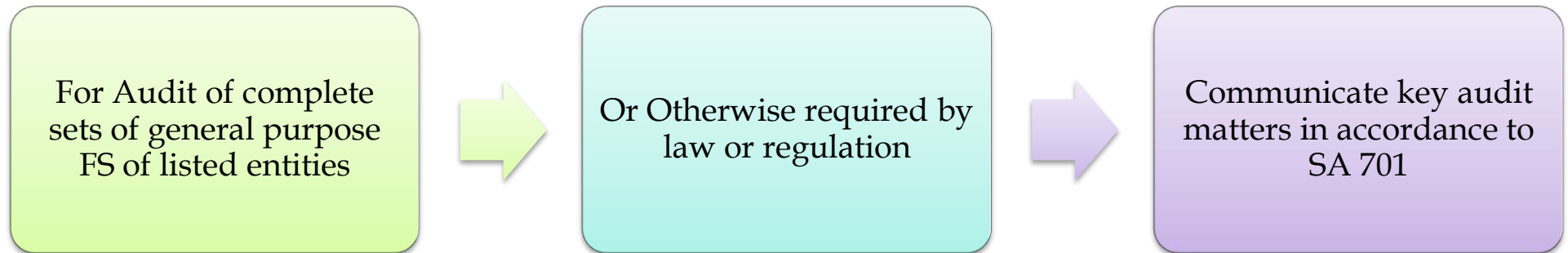
Responsibilities for the Financial statements

Auditors responsibilities for the Audit of the FS

Other reporting Responsibilities

Signature, Place and Date of Auditor's Report

SA 701 Communicating Key Audit matters in the Independent Auditors Report



Key Audit Matters:

Those matters in which the auditors professional judgment were most Significant in the audit of the FS of the current period

Communicate Key Audit Matters:

- ❖ Separate sub heading Key Audit Matters
- ❖ Description of Individual Key Audit Matters
- ❖ Auditor shall describe each key audit matter unless barred by any law or regulation or it may lead to adverse consequences of doing so.
- ❖ If no points in key audit matters still the same shall be communicated under this heading with a statement.

SA 701 Communicating Key Audit matters in the Independent Auditors Report

Key Audit Matter is not a substitute for expressing modified opinion.

If reporting is required under SA 705 then need not mention in Key Audit matter

Qualified under SA 705 - Don't Include in Key Audit Matter

Adverse under SA 705 - Don't include in Key Audit matter

Disclaimer under SA 705 - Don't include in KAM

Emphasis/ Other Modified opinion SA 706 - No Need in KAM



SA 705 Modifications to the Opinion in the Independent Auditors report

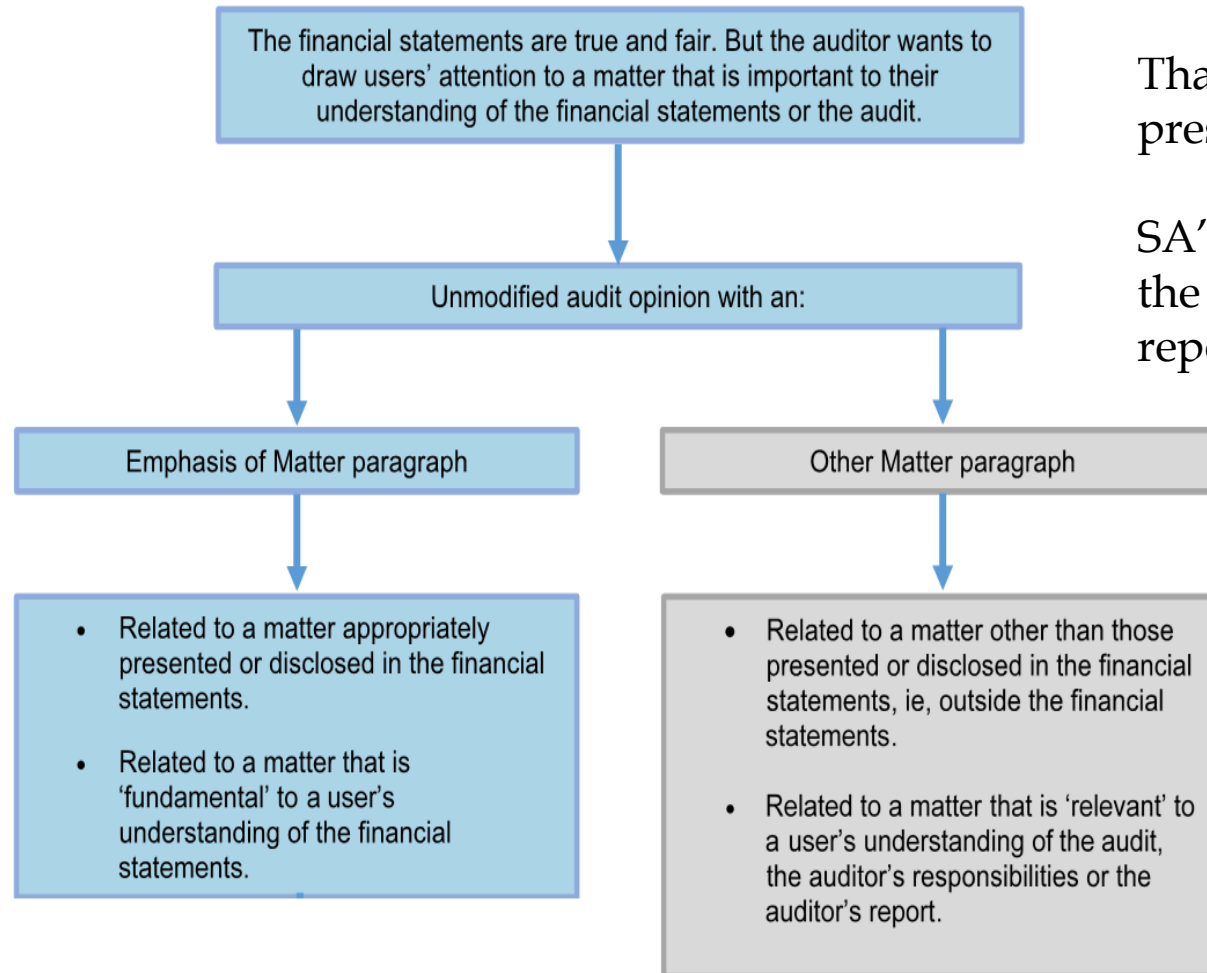
Types of Modification:

- ❖ Circumstances when a modification to the Auditor's opinion is required
 - Not free from material misstatements
 - Auditor is unable to obtain sufficient appropriate audit evidence to conclude that the FS as a whole are free from material misstatement.

- ❖ Types of Modification
 - Qualified Opinion:
 - Obtained sufficient appropriate audit evidence concludes that misstatements, individually or in aggregate are material but not pervasive* to FS
 - Unable to obtain sufficient appropriate audit evidence
 - Adverse Opinion:
 - Obtained sufficient appropriate audit evidence concludes that misstatements individually or in the aggregate are both material and pervasive
 - Disclaimer of Opinion:
 - Unable to obtain sufficient appropriate audit evidence

* Pervasive A term used in the context of misstatements to describe the effects on the FS of misstatements or the possible effects on the FS of misstatements or the possible effects on FS of misstatements , that are undetected due to an inability to obtain sufficient appropriate audit evidence.

SA 706 Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditors report



That refers to a matter appropriately presented or disclosed in the FS

SA's that contain specific requirements for the auditor to include EOM in the auditors report

SA 710 Comparative Information – Corresponding Figures and Comparative Financial Statements

STANDALONE BALANCE SHEET AS AT 31 MARCH 2020

Particulars	Note No.	₹ Crore	
		As at 31 March 2020	As at 31 March 2019
ASSETS			
Non-current assets			
Property, plant and equipment	2	1,56,273.02	1,25,290.68
Capital work-in-progress	3	73,066.76	90,808.89
Intangible assets	4	538.28	329.94
Intangible assets under development	5	292.52	397.80
Financial assets			
Investments in subsidiary and joint venture companies	6	26,350.61	13,054.02
Other investments	7	50.28	91.92
Loans	8	600.26	544.38
Other financial assets	9	1,425.16	1,424.29
Other non-current assets	10	11,122.62	13,269.30
Total non-current assets		2,69,719.51	2,45,211.22
Current assets			
Inventories	11	10,731.86	7,988.02
Financial assets			
Trade receivables	12	15,668.11	8,433.86
Cash and cash equivalents	13	20.37	24.38
Bank balances other than cash and cash equivalents	14	2,188.74	2,119.96
Loans	15	308.56	305.79
Other financial assets	16	11,529.13	8,331.84
Other current assets	17	8,378.41	14,929.89
Total current assets		48,825.18	42,133.74
Regulatory deferral account debit balances	18	9,122.76	3,406.00
TOTAL ASSETS		3,27,667.45	2,90,750.96
EQUITY AND LIABILITIES			
Equity			
Equity share capital	19	9,894.56	9,894.56
Other equity	20	1,03,674.88	97,513.61
Total equity		1,13,569.44	1,07,408.17
Liabilities			

The amounts and disclosures included in the FS in respect of one or prior periods in accordance with the applicable Financial reporting framework

You've got 2 choices:
DO IT NOW OR
REGRET IT LATER

**Have
you
learnt?**



Any questions?