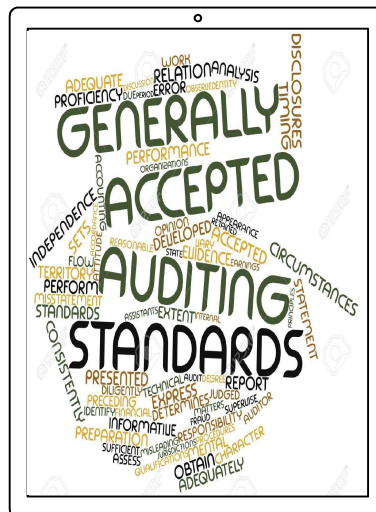




ICAI KOTTAYAM

## HISTORY & EVOLUTION



- ❖ APC set up in 1982 - SAPs
- ❖ Renamed as AASB in 2002 - AASs
- ❖ New Preface in 2008

# NEW CLASSIFICATION

SQC's

Engagement Standards

- SA's
- SRE's
- SAE's
- SRS's

STANDARDS ON AUDITING-AN UPDATE

JOMON K GEORGE

- to expedite audits effectively in accordance with GAAPs
- **to utilize resources effectively**
- to guide, direct and supervise assistants properly
- **to ensure quality control**
- to disprove charges of negligence
- **to face & pass PEER REVIEW**

# WHY

## COMPLY WITH STANDARDS

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# The Companies Act 2013

## Section 143(9)

**Every Auditor shall comply  
with AUDITING  
STANDARDS**

# WHY

COMPLY WITH  
STANDARDS

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## A SHAMEFUL REMARK

We do not expect the auditors to find a needle  
in a haystack but they must see the elephant  
in the room.

Former MCA Secretary

# AUDIT PROCESS

**01**  
OPENING  
BALANCE  
CHECKING

**02**  
IC EVALUATION &  
COMMUNICATING  
FINDINGS TO  
TCWG

**03**  
VOUCHING

**04**  
LEDGER  
ANALYSIS

**05**  
VERIFICATION

## AUDIT PROCESS

**06**  
COMPARING FS  
WITH BOOKS -  
SIGNED TB

**07**  
AS COMPLIANCE

**08**  
SCHEDULE III  
COMPLIANCE -  
INFO FOR  
NOTES

**09**  
ANALYTICAL  
REVIEW

**10**  
CARO POINTS -  
INFORMED  
REPORTING



Overall Objectives of the Independent Auditor  
and the conduct of an audit in accordance with  
SAs.

**Professional Skepticism** - An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.



**Auditor - Can't  
just be a watchdog  
anymore**

**SA  
200**

## Professional skepticism includes being alert to :

- Audit evidence that contradicts other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the SAs.

SA  
200



SOME PRACTICE BASED  
STANDARDS

Are we skeptical enough, Asking Questions, Being a little doubting,  
Doing Deep drills where required. If NOT, Let us

## Agreeing on Terms of Audit Engagement

**SA  
210**

### **Obtain an Audit Engagement Letter covering :**

- the objective and scope of the audit of FS.
- the responsibilities of the auditor
- the responsibilities of management
- identification of the applicable financial reporting framework .
- reference to the expected form and content of any reports to be issued by the auditor

**Are we obtaining Letter of Engagement without fail ... Format in Appendix.  
If NOT, Let us**

## Quality Control for Audit Work

**This SA deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements.**

**This SA is to be read in conjunction with relevant ethical requirements.**

**SA  
220**



# SA 220

**Under SQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that :**

**the firm and its personnel comply with professional standards and regulatory and legal requirements**

**and**

**the reports issued by the firm are appropriate in the given circumstance.**

**Do we have a Quality Perception.. A policy.. Is it being monitored, Are they being reviewed and applied in Execution. How good is our Team**

# SA 230

## Audit Documentation

**The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor to understand :**

- ✓ The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements
- ✓ The results of the audit procedures performed, and the audit evidence obtained;
- ✓ Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

**How good is our documentation. Physical/Digital. Will it stand a test ?**

**Permanent documents and Working Papers ... AWP Template of AASB**

# SA 240

## The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements

Do we evaluate the possibility of fraud ?. If we smell the rat .... Do we reframe the plan ?.. Until we either confirm or dispel the doubt.

# SA 250

The auditor's responsibilities relating to Laws and Regulations in an Audit of Financial Statements

Are the Non Compliances impacting warranting an accounting hit/disclosure ?  
NOCLAR - Whistle Blowing



# SA 260

**Communication with those charged with governance**

**Do we communicate with TCWG. In writing. Observations ?**

**The spirit of KAM**

# SA 300

## Planning an Audit of FS

This SA deals with the auditor's responsibility to plan an audit of financial statements in recurring audits and initial audit engagements.

- Overall Audit Strategy
- Detailed Audit Plan

Do we plan an audit? Is there an APM and an Audit Programme  
Is there review during the audit..

Identifying and Assessing the Risks of  
Material Misstatement Through  
Understanding the Entity and its  
Environment

SA  
315

Deals with the auditor's responsibility to identify and assess the risks of **material misstatement in the financial statements**, through understanding the entity and its environment, including internal controls

Do we have good understanding of the business, revenue model etc.

Entity specific, Industry and the Macro-economy.. Risk assessment in that light ?

# SA 500

## Audit Evidence



Deals with the auditor's responsibility to design and perform audit procedures to obtain **sufficient appropriate audit evidence** to draw reasonable conclusions on which to base his opinion.

Do we collect **sufficient appropriate audit evidence** (written, Visual, Oral) and evaluate it for drawing conclusions

## SA 501 - Audit Evidence

### Specific Considerations for Selected Items

**This SA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence with respect to :**

- ❑ Certain aspects of inventory**
- ❑ Litigation and claims involving the entity**
- ❑ Segment Information.**

**Do we attend/supervise/oversee stock verification**

**Enquire about suits ?. Analyse Segment Information**

# SA 505



## External Confirmations

SA 500 indicates that the reliability of audit evidence is influenced by its source and by its nature and states :

**Audit evidence obtained from independent sources outside the entity, directly by the auditor is much more reliable than audit evidence obtained indirectly or by inference.**

**Audit evidence is more reliable when it exists in documentary form, whether paper/electronic.**

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including :

- Selecting the appropriate confirming party and determining the information to be confirmed or requested;
- Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor

**Do we obtain Confirmations for balances/documents/goods ?**

**How do we pick the lot ?... Let us change .... Notes/Qualify/EoM**

**SA 510****Initial Audit Engagements - Opening Balances**

In an initial audit engagement, the auditor should make sure that :

- ❑ Opening Balances do not contain misstatements that materially affect the current period's financial statements
- ❑ Appropriate Accounting Policies reflected in the opening balances have been consistently applied in the current period's financial statements or changes if any thereto are properly accounted for and adequately presented and disclosed.

**Is it only a clerical exercise. Not enough. Are the balances maintainable**  
**The spirit of KAM**



## Analytical Procedures

**Analytical Procedures** means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.

Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amounts

**Do we do ratio analysis/trend analysis and analyse adverse trends ? We must**

## Audit Sampling

**Audit Sampling** is the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.



**When designing an audit sample, the auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.**

**The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.**

**How do we pick the sample. How do we ensure Randomness of the Sample.  
Use rational methods/technology**

**SA 570****Going Concern**

The auditor should obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of **Going Concern** basis of accounting in the preparation of the financial Statements.

Also assess, whether a **material uncertainty exists** related to conditions that may cast significant doubt on the entity's ability to continue as a **Going Concern**.

**Do we think about this and analyse the situation ? Indicators ??**

**SA 580****Written Representations**

The auditor should obtain Written Representations from the management that they believe that they have fulfilled their responsibility for the preparation of the financial statements and that information provided is complete.

WR is to **support other audit evidence** relevant to the financial statements or specific assertions in the financial statements by means of written representations, if determined necessary by the auditor or required by other SAs.

Do we obtain MRL.. Has that been updated 21-22 particularly... We must



## Forming an opinion and reporting on Financial Statements

SA 700 (Revised)	SA 700 (Old)
Title	Title
Addressee	Addressee
Opinion	Introductory Paragraph
Basis for Opinion	Management Responsibility
Going Concern	Auditors Responsibility
Key Audit Matters	Auditors Opinion
Management Responsibility	Other Reporting Responsibilities
Auditors Responsibility	Signature
Other Reporting Responsibilities	Date, Place
Signature	
Date, Place	

**Cant be a COPY PASTE .... Do give keen attention**

## Communicating Key Audit Matters in AR (Listed Co.s)

# SA 701

**Key Audit Matters** - Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Key Audit Matters are selected from matters communicated with those charged with governance.

Are here KAMs. Discuss Sort Out.. Report .... TCWG Communications ??



# SA 705

## Modifications to the Opinion in the Independent AR

- Clean Report
- Qualified Opinion
- Disclaimer
- Adverse

*Are we so used to Clean Reports. Is there a Scare ....  
Issue the most appropriate Opinion*

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report.

SA 706

**EoM Paragraph**

A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

EoM is a safe soft option than a qualification... use it appropriately \*\*\*