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C.V.O.CA'S

NEWS & VIEWS

FOR MEMBERS / SUBSCRIBERS / VOL. 26 - NO. 10 APRIL 2023

From President's Desk...

Dear Professional Colleagues and Readers,

Recently I had a chance to read about India's achievements in the field of Railways. I am referring to our recently added fleet of Train 18, popularly known as Vande Bharat Trains.

The Vande Bharat trains can be traced back to the Indian government's "Make in India" initiative, which was launched by the Modi government in the year 2014. As part of the "Make in India" initiative, the Indian Railways decided to develop a semi-high-speed train that would be designed and manufactured in India. The project was undertaken by the Integral Coach Factory (ICF) in Chennai, which is one of the largest coach factories in the world.

The coach factory started working on the project in the year 2015, and the design of the train was finalized in 2016. The train was named Train 18, as it was expected to be launched in 2018, which marked the 75th year of India's independence. The launch was delayed due to technical issues and safety concerns.

The train is the first of its kind of high-speed train, designed and manufactured entirely in India. The train was designed to replace the Shatabdi trains, which were not equipped with the latest technology and amenities.

Several key components of the train such as the propulsion system, the brakes, and the electrical equipment are manufactured by Indian companies.

The first Vande Bharat train started between New Delhi and Varanasi. The train is an eco-friendly train and is powered by self-propelled electric multiple units (EMU) with a top speed of 180 km/h. The train has a seating capacity of 1,128 passengers and is equipped with features such as air conditioning, adjustable seats, and onboard Wi-Fi etc. Safety features such as automatic fire detection and suppression systems, onboard CCTV cameras, and emergency brakes are mounted in the train.

The technology seems a face lift for Indian technology, and with this India may turn from an importer to a key exporter of High-Speed Train technology. To the best of my understanding, more than 5 nations have already expressed their interest to import our technology.

Further, I would like to take this as an opportunity to announce certain upcoming events:

Association has announced it's mega event "Ramat ji Ramjat" which will be mega games and cultural program. This is an inter-zone competition and some games are dedicated for spouse and kids. I request everyone to please register for the same.

Sathi Haath Badhana:

As you all may be aware, the association has launched an unique program for members to encourage them to charity. Charity is the key foundation for stronger and more cohesive communities. When people come together to support a common cause or help those in need, it fosters a sense of unity and solidarity that can help to strengthen social bonds and promote a sense of belonging.

As on date, more than 60 members have given their charity commitment and have agreed to contribute more than 550 lacs towards charity. I am sure our association members will continue such good work.

Thank you all..... Always in Gratitude

April 1, 2023

CA Amit Chheda

304, Jasmine Apartment, Dada Saheb Phalke Road, Dadar (East), Mumbai - 400 014. Tel.: 2410 5987 I E-mail : info@cvoca.org I Website : www.cvoca.org
Follow us on : @cvocain @CVOCA Association @cvoca YouTube http://bit.ly/cvocayt

SQC & Standards on Auditing

TIME FOR SABBATICAL?

CA Ketan Rambhia
Email : ketan.r@skrambhia.com

FROM THE DESK OF CHAIRMAN

The hot topic of the day, undoubtedly, is criminal conviction under defamation law with 2 years of imprisonment followed by disqualification of Mr. Rahul Gandhi as Member of Parliament. This is real irony in the sense that Mr. Rahul Gandhi himself tore apart in public the then ordinance relaxing rules of disqualification in case of criminal convictions of MPs etc approved by cabinet of then Government headed by his own party, and the ordinance was then withdrawn.

Though such disqualification as MP or MLA etc is not first time in the history of our polity, but the hue and cry generated by the opposition parties is much more this time, evidently for political purposes. On the other hand the Government also has provided its reasons and tried to justify the aftermath of conviction. Further, Mr. Rahul Gandhi created another controversy for not wanting to apologize for his defamatory remarks. We may not deal with righteousness or otherwise of conviction order or disqualification process etc., but this whole episode has divided vertically the whole political arena, media analysts, and so on.

It goes without saying that criminals cannot be allowed to be lawmakers of a country, however, whether all kinds of criminal convictions of persons be barred from becoming lawmakers or there needs to be drawn a line, is a question being raised. As present law goes, a line has been drawn to the effect that conviction with minimum two years of imprisonment will trigger disqualification. Is this enough? The debate is also going on for some time on the issue of criminality under defamation law. However, as a matter of fact, public figures must check their vocabulary and avoid making derogatory remarks about any individuals or group of persons or particular caste etc. which are baseless. Mr. M. Rajivlochan observed in his opinion (the Indian Express) about this episode and he says, "Being a politician, a reasonably popular one at that, does not allow anyone to go on and on making irresponsible statements. Making irresponsible statements increases the likelihood of making statements that are also untrue. ...... The usual form of political discourse in India is to make disparaging statements about one's opponents. Withering nit-picking through which politicians seek to delegitimise their electoral opponents, taunting each other, is expected by the people of India. The millions who routinely tune in to the wild TV news channels of India love the resultant spectacle, even while everyone tut-tuts about the decline in standards of public discourse." There is truth in what he says. While accusing political opponents, the lies should stop and accusations shall be based on facts. Hopefully this conviction will make leaders to think twice before what they say or accuse others of. There are different views also about this disqualification, but a lot of false narratives are being circulated in the social media and elsewhere. Unfortunately, even the foreign governments of USA, Germany etc have unnecessarily dragged themselves into this episode to provide avoidable opinions. Foreign media also has provided their views on the subject, but they have their own agenda to fulfill.

In today's times, where a lot of lies can be spread, in fact hammered, through media and social media, it becomes very important for us as citizens to check the facts, evaluate the facts without any biases and then form our informed opinions. Only then we will be able to choose right people for the job of lawmakers. India does face lot of challenges, from within and from outside world, and the challenges will increase with its progress in various fields, it becomes our duty to choose right people, with no criminal backgrounds, for the said job. As for Mr. Rahul Gandhi, I feel it is time for him for a sabbatical.

Thank you all..... Always in Gratitude

CA Ketan Rambhia

STANDARD ON QUALITY CONTROL

CA Divesh Shah
Email : divesh@kkcllp.in
Sujit A
Email : sujit.a@kkcllp.in

Background

The role and responsibilities of a chartered accountants has evolved over a period of time considering changes in business, regulations, expectations of stakeholders, increased compliance, constant scrutiny from regulatory authorities etc.

Especially, role of chartered accountants as auditors has undergone paradigm shift. Some of notable changes in recent years that have increased role of chartered accountants include:

- Regulatory changes in IRDA, companies act, SEBI regulations and Banking regulations
- Convergences to new accounting standards viz. Indian Accounting Standards ('Ind AS')
- Increase in reporting requirements in statutory audit including reporting on internal financial controls, reporting on fraud to central government, reporting on going concern, reporting of Key audit matters ('KAM'), increased reporting Company Auditor's Report Order ('CARO') and reporting on round tripping of funds.
- Increased reviews and actions by NFRA

To cope up with increased scope and role, ICAI has provided guidance and standards such as Standards on Auditing ('SA'), Standards on Review Engagements ('SRE'), Standards on Internal Auditing ('SIA'), Standards on Valuation, guidance notes, implementation guidance etc. These guidance or standards have helped practitioners to execute engagements.

Performing an engagement involves exercising professional judgement and when applicable to the type of engagement, exercising professional skepticism. As role increases, there is increased responsibility on firms to maintain the quality. The Council of the Institute of Chartered Accountants of India (ICAI) issued the Standard on Quality Control 1,"Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance &Related Services Engagements" ('SQC 1'), which is **a mother standard for all other standards and is an all pervasive standard in respect of quality control.** As the name suggests, the SQC 1 contains extensive requirements in relation to establishment and maintenance of a system of quality control ('QC') in the firms including sole practitioners.

The purpose of SQC 1 is to establish standards and provide guidance regarding a CA firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. The firm should establish a system of quality control that consists of policies designed to achieve the objectives and the procedures necessary to implement and monitor compliance with those policies.

This SQC applies to all firms. Extent of application depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.

The Six Elements of SQC 1

SQC 1 envisages six elements of system of QC, Leadership responsibilities for quality within the firm, Ethical requirements, Acceptance and continuation of client relationships and specific engagements, Human resources, Engagement performance and Monitoring. All firms are required to implement policies and procedures addressing each of these six elements as described next.

1. Leadership responsibilities for quality within the Firm

The objective of this element of QC is to **promote an internal culture based on the recognition that quality is essential in performing engagements**.Of particular importance in promoting an internal culture based on quality is the need for the firm's leadership to recognise that the firm's business strategy is subject to the requirement for the firm to achieve quality in all engagements that the firm performs. The promotion of such internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management that emphasise the firm's QC policies and procedures.

Following are key matters that shall be addressed with respect to this element:

- **The firm's highest authority and their ideologies sets the tone at the top to commitment to quality**. Policies and procedures of the firm shall identify or designate firm's managing partners, chief executive officer or equivalents to assume ultimate responsibility for the firm's system of QC. Such person shall have sufficient and appropriate experience and ability that enables them to identify and understand QC issues and to develop appropriate policies and procedures.
- The firm should ensure that it devotes sufficient and appropriate resources, time, authority for the development, communication, and support of its system of QC policies and procedures along with its documentation.
- The firms policies, procedure and actions shall address:
  - Assigning of management responsibilities such that **commercial considerations do not override quality**
  - Performance evaluation systems are designed to **recognise and reward high quality work**
- Importance of quality or actions taken by firm with respect to system of QC may be communicated by trainings, meetings, formal / informal dialogue or briefing memorandum
- **Communication of firm's Vision, Mission and Values that demonstrates firm's commitment to quality.**

2. Ethical Requirements

This element envisages that the firm shall have policies and procedures designed so that firm and its personnel comply with relevant ethical requirements. Ethical requirements relating to audits and reviews engagements and other assurance and related services engagements are contained in the Code of Ethics ('Code'). Code establishes the fundamental principles of professional ethics which include integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. The Code also includes a conceptual approach to independence for assurance engagements, including aspects such as threats to independence, accepted safeguards and the public interest.

Firm's may address requirement of this element in following manner:

- The firm may communicate importance of compliance with ethical requirements as envisaged by Code via trainings, briefing by leadership of the firm, consultations on ethical matters faced by firm's personnel.
- The firm may implement separate independence policy that addresses:
  - Independence requirements at firm level, engagement level and personal level.
  - Independence requirements with respect to financial interest, loans, business relationships, family and personal relationships, employment with clients, employments and gifts and hospitality received from the clients.
  - Rotation of partners and senior team members in assurance engagements.
  - Provision of services to the assurance clients that may impair independence
  - Identification and assessment of threats to independence viz. Self-interest, self-review, advocacy, familiarity and intimidation threats.
  - Safeguards that may be taken to eliminate or reduce threats to acceptable level, in case same is not possible withdrawing from the engagement
  - Communication of breach of independence and course of action to remedy the threats
- **At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.**
- Engagement specific independence confirmation which shall be obtained from respective engagement team members and engagement partner for each engagement performed.
- **Personnel are trained on ethics and independence requirements** and providing frequent communication of professional responsibilities to personnel.

3. Acceptance and continuance of client relationships and specific engagements

This element gives guidelines on policies and procedures for the acceptance and continuance of client relationships and specific engagement, designed to provide it with a reasonable assurance whether to undertake or continue relationships and engagements after considering the integrity of the client, is the firm competent to perform the engagement and has capabilities, time and resources to do so; and can comply with the ethical requirement.

A prospective engagement may look lucrative from commercial aspect,but it is very crucial to obtain relevant information about the client and to do a quick diligence of the client. Review of all the relevant information would be helpful for the firm in taking an informed and crucial decision on whether to accept/ continue a particular client engagement.

To address requirements of this element, firms can do following:

- The firm shall have policies and procedures in place for accepting and continuation of client
- The firm shall **consider integrity of clients** and does not have any information that conclude that client lacks integrity. Firm may consider following information with regards to integrity

- The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.

- The firm shall have mechanism to **assess and assign risk to client and engagements**. Based on such assessment, a firm may decline a engagement or accept / continue the engagement with adequate safeguards.
- **Comply with the know your client (KYC) norms of the Institute as mentioned in the Code.**
- The firm shall assess its capabilities, competence, time and resources to continue or accept an engagement considering knowledge of industry, experience and sufficiency of firm personnel, time of engagement etc.
- In case of audit engagements, Firm shall **communicate with previous auditors** as per requirements of the Code and any other regulatory requirement.
- **Prepare a written engagement letter for each engagement** documenting all the aspects of the engagement with the client and obtain the client's signature on that letter, thus minimizing the risk of misunderstanding regarding the nature, scope, and limitations of the services to be performed.
- The firm shall have policies and **procedures on withdrawal from an engagement or client relationship** which considers communication with client management and TCWG, regulatory requirements for the firm to withdraw together with reason for withdrawal and documentation of significant issues and consultation with respect to withdrawal
- The firm shall review of existing or changes in conditions that trigger the requirement to re-evaluate a specific client or engagement.
- The firms shall document their assessment of client acceptance and continuation, issues identified and their resolution, communication with client, previous auditors or external parties and reason for withdrawal from an engagement or client relationship.

4. Human resources

The biggest asset a professional firm would have is the human resource.The objective of this element of SQC 1 is to provide the firm with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements.

The responsibilities of each of the personnel should be fixed based on their experience and skill set they possess. Right from the article assistants to members and partners, all are continuously required to undergo some amount of professional training to upgrade their skill set to do existing and new engagements.

The firm shall establish policies and procedures for managing the human resource function addressing activities such as,

- Managing the human resource function including the evaluation of firm's personnel need.
- **Maintaining and updating details of all the personnel containing details such as qualifications, experience, integrity, knowledge, skills, etc.**
- Recruitment process and setting guidelines for the additional procedures to be performed when hiring entry level or experienced personnel (qualifications, integrity, competence, attributes, achievements, and experiences desired).
- **Properly determine capabilities and competencies required for an engagement, including those required of the engagement partner**. So that responsibility is assigned for each engagement to an appropriate engagement partner and the engagement team is appropriately selected who has the appropriate industry experience, knowledge, skills capabilities, competence, authority, time to perform the role, nature and the extent of supervision needed to perform the engagement. Some of the other factors which shall be considered are type of engagement, size, significance, complexity, specialized experience required
- Career development through evaluation of personnel,assessment of their progress, proper guidance and training of personnel.
- **The firm shall ensure that personnel participate in general and industry-specific continuing professional education and development ('CPED') activities and other training(in house or external) that enable them gain relevant knowledge and skills to accomplish assigned responsibilities.**
- Performance evaluation by establishing criteria for evaluating personnel at each professional level, and rewarding with promotion and compensation.

5. Engagement performance

This is the most important aspect of SQC. The firm should ensure that there is uniformity in quality and engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances. Overall,this element requires the firm should establish policies and procedures around matters such as consistency in the quality of engagement performance, supervision, review, consultation, engagement QC review, dealing with differences of opinion, and engagement documentation.

Engagement performance comprehends all aspects of an engagement including planning, allocation of budget and resources, performing the engagement, supervision, documentation, reporting, consultations, difference of opinion and QC review. Accordingly, it is termed as most important aspect of SQC.

Firms can undertake the following with respect to engagement performance:

- **An engagement shall be adequately planned.** Planning process and planning document for each engagement is properly carried out it may vary depending on the size and complexity of the engagement.
- Planning shall consider:
  - Assessing staffing and specialisation requirements of the engagement and assigning responsibilities to appropriate personnel
  - Developing and updating background information of client
  - Preparation of proposed work programs tailored to specific engagement
  - Assessment of risks, including fraud considerations, affecting the client and the engagement and how the risks may affect the procedures to be performed.
  - A budget that allocates sufficient time for the engagement to be performed in accordance with professional standards and the firm's QC policies and procedures.
- **Providing adequate supervision** during the course of an engagement, including briefing the engagement team on the objectives of their work and maintain details of work performed by each personnel of the engagement team.
- **Written work programme** is used and monitored for all engagement.
- There should be consistency in the quality of engagement performance. Consistency may be accomplished **through written or electronic manuals, software tools, checklists, templates, models or other forms of standardized documentation,** and industry or subject matter-specific guidance material.
- Based on the issues and risk identified arising during the engagement, considering their significance, appropriate modification should be made to the planned approach.
- Form and content of work performed shall be standardised across the firm. **Standardisation can be achieved via standardised report, checklist and questionnaire.**
- Suitable **audit summary memorandum** shall be documented and kept among the engagement working papers to provide a history of the planned risks (including fraud risks), by what audit procedures those risks were mitigated, conclusions on controls and substantive testing, and whether the extent and quality of audit evidence examined supports the audit opinion.
- There should be effective review by experienced and qualified team members of work performed by other team member on a timely basis.
- The firm shall **establish procedures for consultation**. Also, sufficient and appropriate resources are available to enable appropriate consultation as required. The conclusions resulting from such consultations are documented and implemented.
- The firm shall deal with and **resolve and document differences of opinion** and conclusion reached and does not release the report till the matter is resolved.
- **The firm shall establish policy and procedure for enabling engagement QC review**. Such policy shall define criteria which engagement require QC review, eligibility of reviewer and extent of involvement of reviewer.

- There should be **effective documentation of workpapers** involved in engagement. Documentation shall complete assembly of final engagement files on timely basis. Such a time limit is ordinarily **not more than 60 days after the date of the auditor's report**.
- Engagement documentation shall be retained for a period of time sufficient to meet the requirements of the applicable professional standards, laws and regulations. The Firm shall maintains the confidentiality, safe custody, integrity, accessibility, and retrievability of such engagement documentation. **The retention period ordinarily is no shorter than seven years from the date of the auditor's report.**

Firm may employ technology to effectively perform the engagements. With usage of technologies many processes can speed up and firm can focus on critical areas of engagement.

6. Monitoring

Monitoring envisages policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of QC are relevant, adequate, operating effectively and complied with in the firm.

For the purpose of this element, firms shall:

- Entrust responsibility monitoring process to a partner or partners with sufficient and appropriate experience and authority in the firm
- **Inspect select completed engagements on cyclical basis**. Such inspection shall cover atleast one engagement for each engagement partner which may span over not more than three years. Inspection cycle may differ considering size of firm, number of offices, nature and complexity of firm's practice and risk associated with firm's client and engagements. Small firms and sole practitioners may use a suitably qualified external person or another firm to carry out inspections.
- Evaluate deficiencies noted in monitoring process, communicate such deficiencies and take appropriate remedial action.
- **Establish procedures to deal with complaints and allegations** with regard to any work performed by firm that fails to comply with professional standards and regulatory requirements and non-compliance with the firm's system of QC
- Review system of QC to reflect new development in professional standards and regulatory requirements and result of previous monitoring

The conclusion

As said earlier, SQC gives a framework on how quality control within a firm needs to be established. The six elements of SQC 1 as mentioned in the preceding paragraphs are interrelated.

ICAI has issued Implementation Guidance to SQC 1 which helps firms to implement SQC 1. Guidance also provides set of illustrative policies that firm may adopt with or without modification. It is for each individual firm to adopt their own policies and procedures to ensure compliance with SQC requirements. The firm should not only establish such policies and procedures but also ensure that the same is followed within the firm. It is very important that all the policies and procedures and with respect to SQC 1 are documented and communicated to its personnel. There should be message that each individual of the firm has a personal responsibility for quality.

As we move forward, SQC 1 is getting further highlighted in CA practice. Some of notable developments in quality control are as under:

- **Internationally, ISQM 1 replaced the existing standard ISQC 1 w.e.f. 15 December 2022**. ISQM 1 aims to enhance the robustness of the firm's system of quality control. ISQM 1 is more proactive and tailored approach to managing quality, focused on achieving quality objectives through identifying risks to those objectives, and responding to the risks. Some of the key changes include:
    - Enhanced requirements to address firm governance and leadership.
    - New requirements addressing information and communication.
    - Enhanced requirements for monitoring and remediation to promote more proactive monitoring.
    - Emphasis on appointment of Engagement QC reviewer.
- In India, SQC 1 still prevails which was implemented on basis of ISQC. But we can assume, SQC 1 may get replaced with converged version of ISQM
- W.e.f. 1 April 2023, firms auditing certain categories of entities shall mandatorily required to undertake an evaluation of their audit quality maturity using **Audit Quality Maturity Model ('AQMM')**. Compliance with SQC 1 would be key to achieving scores envisaged in AQMM.
- NFRA have conducted reviews of firms. They have raised issues with regards to compliance with SQC 1. This has been additional push for firms to comply SQC 1.

Technology can play an important role in implementation of SQC. Recently, there are cost effective technologies available that are very easy to use. Harnessing such technology in daily task to implement and monitor activities can create huge impact in implementation or improvement in SQC in the firm.

Though there is impeccable push from regulatory side to comply with SQC 1. However, designing policies and procedures just sake for compliance or achieving AQMM score, may not be a fruitful exercise and eventually may become a compliance burden. SQC 1 should be looked upon as guiding tool that can assist in developing an efficient practice.

SA 230: AUDIT DOCUMENTATION

CA Divesh Shah
Email : divesh@kkcllp.in

Documentation is considered the backbone of an audit. The work that the auditor performs, the explanations given to the auditor, the conclusions arrived at, all are evidenced by documentation. Inadequate or improper documentation may be considered as deficiency in performing an audit. The auditor may have executed appropriate audit procedures, however, if there is no documentation to prove, it may put question on the work done, in case any material misstatement is reported and may put the auditor in difficult situations, such as penal actions from various regulators.

The focus of National Financial Reporting Authority ('NFRA") since it was set up has been on maintenance of Audit Quality. It has been coming hard on auditors for non-compliance with SAs, Laws, Regulations, etc.highlighted after extensive reviews of documentation maintained by the auditors.

Maintaining sufficient and appropriate audit documentation is of utmost importance in today's time. The regulator, NFRA, is focused on automation and digitally maintenance of such audit documents. NFRA has also been exploring to set up Digi Locker facility for audit documentation so that the documents once finalised cannot be amended after the date of the audit report.

So, what is the objective of Audit Documentation? The objective is for the auditor to prepare documentation that provides: (a) a sufficient and appropriate record of the basis for the auditor's report; and (b) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Documentation is essential because:

- It supports the auditor's basis for an audit finding
- Provides evidence that audit was planned and performed
- It assists supervision and review
- It results in better conceptual clarity, clarity of thought and expression
- It facilitates better understanding and helps avoid misconception
- It supports and evidences compliance with standards on auditing, applicable legal & regulatory requirements

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;

(b) The results of the audit procedures performed, and the audit evidence obtained; and

(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

(a) The identifying characteristics of the specific items or matters tested;

(b) Who performed the audit work and the date such work was completed; and

(c) Who reviewed the audit work performed and the date and extent of such review.

The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

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

Ownership of Audit Documentation:

Standards on Quality Control (SQC 1) provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor.

He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or in case of assurance engagements, the independence of the auditor or of his personnel.

Assembly of the Final Audit File

The Auditor shall assemble the audit documentation in an audit file on a timely basis.

SQC 1 requires firms to establish policies and procedures for the timely completion of assembly of audit files and the retention period of engagement documentation.

An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 after the date of the auditor's report.

After the assembly of the final audit file, the auditor shall not delete or discard audit documentation.

The retention period of audit engagements should not be shorter than 7 years from the date of the auditor's report, or if later, the date of the group's auditor's report.

There is a definite shift in focus of auditors from traditional audit methods to more specific approach as mentioned in the SAs with appropriate documentation. With the rising expectations of the regulators pertaining to maintenance of audit documentation, CA firms are increasingly adopting audit documentation softwares that would enable them to time-stamp and properly store the audit documents. This would help in contemporaneous audit documentation with adequate detail during the course of the audit itself.

SA 250:Consideration of Laws and Regulations in an Audit of Financial Statements

This Standard on Auditing (SA) deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements. This SA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

Responsibility of Management for Compliance with Laws and Regulations:

It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.

Responsibility of the Auditor

The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs.

Requirements:

As part of obtaining an understanding of the entity and its environment in accordance with SA 315, the auditor shall obtain a general understanding of: (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and (b) How the entity is complying with that framework.

The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.

The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:

(a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and

(b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities

Audit Procedures When Non-Compliance is Identified or Suspected:

If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

- An understanding of the nature of the act and the circumstances in which it has occurred; and
- Further information to evaluate the possible effect on the financial statements.

If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice.

Indications of Non-Compliance with Laws and Regulations:

- Investigations by regulatory organisations and government departments or payment of fines or penalties.
- Purchasing at prices significantly above or below market price.
- Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
- Unusual payments towards legal and retainership fees
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorised transactions or improperly recorded transactions.

Reporting of Identified or Suspected Non-Compliance

Reporting Non-Compliance to Those Charged with Governance

Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor, the auditor shall communicate with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.

Reporting Non-Compliance in the Auditor's Report on the Financial Statements

If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with SA 705(Revised)6 , express a qualified or adverse opinion on the financial statements.

Reporting Non-Compliance to Regulatory and Enforcement Authorities

If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity.

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THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS – SA 700/705/706 (REVISED)

CA Divesh Shah
Email : divesh@kkcllp.in

An Auditor's Report is the final outcome of any audit process. The importance of an Auditor's Report in developing stakeholders' confidence on the correctness and reliability of financial statements cannot be under-stated.

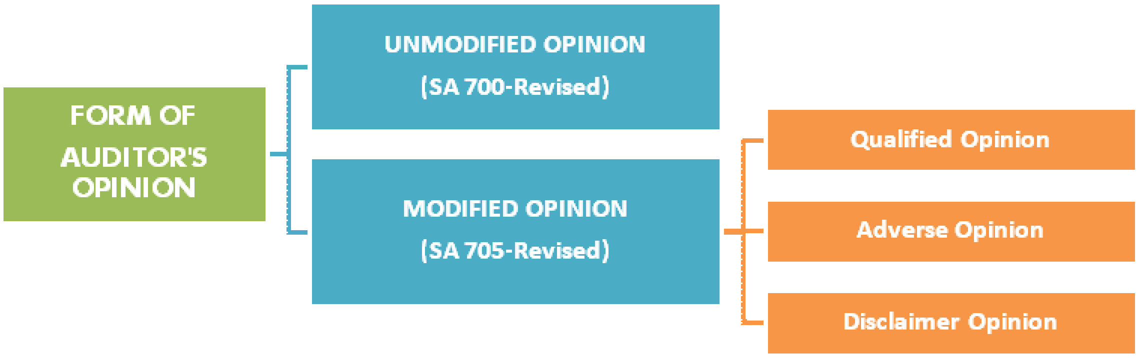
SA 700 (Revised) deals with the auditor's responsibility to form an opinion on the financial statements and provides the form and content of the Auditor's Report. SA 705 (Revised) and SA 706 (Revised) deals with form and content of Modified Opinion, Emphasis of Matter and Other Matter paragraphs.

Requirements under SA 700 (Revised)

The auditor shall form an opinion on whether the financial statements are prepared in all material respects, in accordance with the applicable Financial Reporting Framework ('FRF') and provide reasonable assurance about whether the financial statements are free of material misstatement due to fraud or error. This opinion is formed based on an evaluation of sufficient appropriate audit evidence and qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.

The auditor's evaluation of financial statements should assess the following areas:

- Application and disclosure of significant accounting policies.
- Consistency of accounting policies with the applicable FRF.
- Reasonableness of accounting estimates.
- Whether information presented is relevant, reliable, comparable and understandable.
- Adequacy of disclosures to enable the users to understand the effect of material transactions.
- Use of appropriate terminology in the financial statements.



Basic Elements of an Auditor's Report:

1) **Title:** The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.

2) **Addressee:** The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement.

3) **Opinion**: The first section of the auditor's report shall include the auditor's opinion, and shall have the heading “Opinion”. If the applicable FRF are not the accounting standards issued by ICAI, ASB, etc. then the auditor shall identify the relevant jurisdiction.

4) **Basis for Opinion:** The “Basis for Opinion” shall directly follow the Opinion section. The Basis of Opinion shall state that the audit was conducted in accordance with Standards on Auditing, describe auditor's responsibilities under the SAs, include a statement on the auditor's independence and state whether the auditor has obtained sufficient and appropriate audit evidence to form an opinion

5) **Going Concern:** Where applicable, the auditor shall report in accordance with SA 570 (Revised) 'Going Concern'.

6) **Key Audit Matters:** For audits of complete set of general purpose financial statements of listed entities, or otherwise as may be required by law or regulation or necessity, the auditor shall communicate Key Audit Matters in the auditor's report in accordance with SA 701.

7) **Responsibilities for the Financial Statements:** This section shall explicitly describe the management's responsibility for the:(i) preparation and presentation of financial statements in accordance with applicable FRF; (ii) design, implementation and maintenance of internal controls necessary to ensure that financial statements are free from material misstatements due to fraud and error; (iii) assessment of entity's ability to continue as a going concern.

8) **Auditor's Responsibilities for the Audit of the Financial Statements:** Under this section, the auditor shall clearly state that the objective of the audit is to obtain a reasonable assurance (i.e., a high level of assurance but not a guarantee) about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and provide an opinion thereon.

   The following key statements are required to be made under this section to adequately convey an auditor's responsibility towards the financial statements:

   - State that the auditor exercises professional judgment and maintains professional skepticism throughout the audit
   - Describe the activities carried out as a part of the audit such as: (i) identification and assessment of risks of material misstatement, (ii) understanding of internal controls, (iii) appropriateness of accounting policies and reasonableness of accounting estimates & related disclosures made by management, (iv) appropriateness of the management's use of the going concern basis of accounting and (v) evaluation of whether the financial statements achieve fair presentation
   - Communication with TCWG regarding: (i) planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during the audit, (ii) compliance with ethical requirements regarding independence and (iii) Key Audit Matters, wherever considered significant.

The desired wordings for the above are provided in SA 700 (Revised) and auditors must take due care in including these statements and/or declarations in the auditor's report.

9) **Other Reporting Responsibilities:** If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements". For example: Section 143(11) of the Companies Act, 2013 requires specific reporting under Companies (Auditors' Report) Order, 2020.

10) **Signature of the Auditor:** The report is signed by the auditor (i.e., the engagement partner) in his personal name. Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report also needs to mention the membership number assigned by the ICAI along with the registration number of the firm as allotted by ICAI.

11) **Place of Signature:** The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

12) **Date of the Auditor's Report:** The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.

SA 705 (Revised): Modification to the opinion in the Independent Auditor's Report

The auditor shall modify the opinion in the auditor's report when:

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
- Use the heading - "Qualified Opinion", "Adverse Opinion", or "Disclaimer of Opinion"
- Must use the phrases - "with the foregoing explanation" or "subject to" or "except that"

Qualified Opinion:

- The auditor shall express qualified opinion when he concludes that the misstatements, individually or in aggregate are **material but not pervasive*** to the financial statements or he is unable to obtain sufficient appropriate audit evidence but also concludes that the possible effects of undetected misstatements could be **material but not pervasive*.**
- Where a qualified opinion is issued due to material misstatement the auditor shall state in the opinion paragraph that except for the matters described in the basis of qualified opinion, the financial statements have been prepared, in all material respects, in accordance with the applicable FRF. When modification arises from inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s)..." for the modified opinion.

Adverse Opinion:

- When the auditor concludes that having obtained sufficient appropriate audit evidence, the misstatements, individually or in aggregate, are **both material and pervasive***, he issues an adverse opinion.
- When issuing an adverse opinion, the auditor shall state:
  a) That the financial statements **DO NOT PRESENT** a true and fair view; or
  b) The financial statements have **NOT** been prepared, in all material respects, in accordance with the applicable FRF.

Disclaimer Opinion:

- When the auditor is unable to obtain sufficient appropriate audit evidence and concludes that the possible effects of undetected misstatements are **both material and pervasive*, he issues a Disclaimer of Opinion.**
- In extremely rare circumstances, having obtained sufficient appropriate audit evidence, **but** due to multiple uncertainties, the auditor is unable to form an opinion, due to possible interaction of those uncertainties and their possible outcomes, he issues a Disclaimer of Opinion.
- When the auditor disclaims an opinion due to inability to obtain sufficient appropriate audit evidence, he shall state that due to the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, the auditor has not been able to obtain sufficient appropriate audit evidence and does not express an opinion on the financial statements.

To summarise:

Particulars	Modified Opinion		
	Qualified Opinion	**Adverse Opinion**	**Disclaimer of Opinion**
Misstatements individually or in aggregate	Material but not Pervasive	Both Material and Pervasive	Both Material and Pervasive
Unable to obtain SAAE to base opinion and possible effects on FS of undetected misstatements	Material but not Pervasive	Both Material and Pervasive	Both Material and Pervasive

(*) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

1. *Are not confined to specific elements, accounts or items of the financial statements;*

2. *If so confined, represent or could represent a substantial proportion of the financial statements; or*

3. *In relation to disclosures, are fundamental to users' understanding of the financial statements.*

SA 706 (Revised) - Emphasis of Matter and Other Matter Paragraphs in the Independent Auditor's Report

Emphasis of Matter Paragraph in the Auditor's Report

If the auditor considers it necessary to draw users' attention to a matter 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, the auditor shall include an "Emphasis of Matter" paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

(a) Include it immediately after the Opinion paragraph in the auditor's report;

(b) Use the heading "Emphasis of Matter", or other appropriate heading;

(c) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements; and

(d) Indicate that the auditor's opinion is not modified in respect of the matter emphasised.

Example of para to be given in Audit Report:

Emphasis of Matter – Effects of a Fire (Heading)

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

Other Matter Paragraph in the Auditor's Report

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor's report, with the heading "Other Matter". The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section.

Example of para to be given in Audit Report:

Other Matter

We did not audit the financial statements/ information of XX (number) branches included in the standalone financial statements of the Company whose financial statements/financial information reflect total assets of Rs. XX as at 31st March 20XX and the total revenue of Rs. XX for the year ended on that date. The financial statements/information of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of such branch auditors. Our opinion is not modified in respect of these matters.

SA 701: 'Communicating Key Audit Matters in Independent Auditor's Report'

Key audit matters are those matters that in auditor's professional judgement 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

Applicability & Purpose of SA 701:

This SA applies to:

- audits of complete sets of general purpose financial statements of listed entities;
- circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report;
- cases whether the auditor is required by law or regulation to communicate key audit matters in the auditor's report

However, SA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements unless such reporting is required by law or regulation.

The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Some examples of Key Audit Matters:

- Assessment of impairment
- Provision for losses and contingencies
- Valuation of financial instruments
- Matters relating to revenue recognition
- Taxation matters (existence of multiple tax jurisdictions, uncertain tax positions, deferred tax assets)

However, the auditor should ensure that communicating key audit matters in an audit report is not a substitution for any disclosures that the management has to make in the Financials Statements or a substitution to the reporting requirements under SA700, SA705 and SA706 (Revised).

Communicating Key Audit Matters in Auditor's Report:

An auditor should describe each of the key audit matter, with the help of a suitable sub-heading, in the separate section of his audit report under "Key Audit Matters".

The introductory language in this section of the auditor's report shall state:

- that key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements (of the current period) and
- How these matters were addressed in the context of the audit of the financial statements as a whole and in forming the auditor's opinion there on and that the auditor does not provide a separate opinion on these matters.

Communication with Person(s) Charged with Governance

The auditor should communicate with the person(s) charged with governance:

- Matters which the auditor considers key audit matters
- In case applicable, based on the circumstances and facts of the entity and the audit, the determination of the auditor that there aren't any key audit matters for the purpose of communicating in his report

Documentation

During Documentation, the Auditor should document:

- Matters which required his significant attention as determined above, and the basis for his determination whether such matter is a key audit matter
- Where applicable, the basis for the auditor in determining that there aren't key audit matters for the purpose of communicating in the auditor's report
- Where applicable, the basis for the auditor in determining not to communicate in his/her report a matter which was considered to be a key audit matter

SA 710 (Revised): Comparative Information– Corresponding Figures and Comparative Financial Statements

This Standard on Auditing (SA) deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510 regarding opening balances also apply.

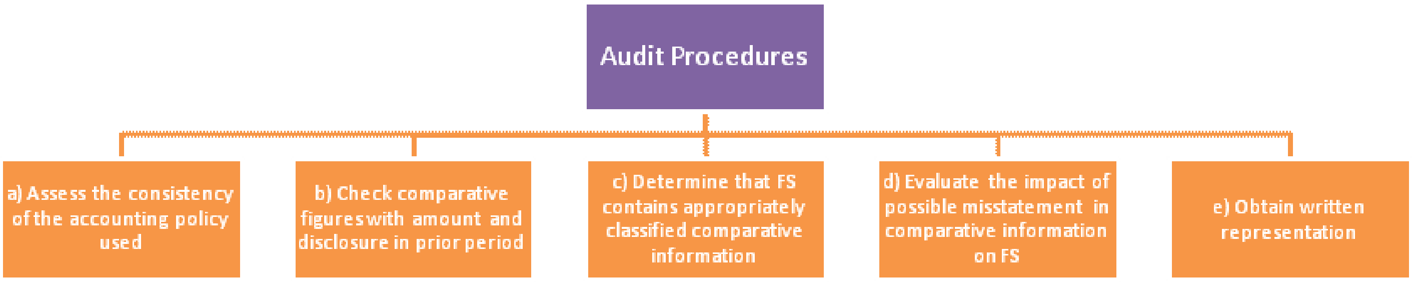
Audit Procedures

The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.

For this purpose, the auditor shall evaluate whether:

- The comparative information agrees with the amounts and other disclosures presented in the prior period; and
- The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

The auditor shall request written representations for all periods referred to in the auditor's opinion. The auditor shall also obtain a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.



Audit Reporting

Corresponding Figures:

Auditor's opinion should refer to corresponding figures in the opinion only when:

- If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.
- If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein
- If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

Comparative Financial Statements

- When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed.

- When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706(Revised).
- If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph, that the financial statements of the prior period were audited by a predecessor auditor, The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefor and the date of audit report.
- If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited.

SA 720: The Auditor's Responsibility in Relation to Other Information in Documents containing Audited Financial Statements

This standard deals with auditors responsibilities relating to Other Information whether financial or non-financial, included in entity's annual report.

Objectives of the Auditor

- Consider whether there is material inconsistency between other information and financial statements.
- Consider whether there is material inconsistency between other information and auditors' knowledge obtained in the audit.
- Auditor should respond appropriately when he identifies material inconsistencies or when other information appears to be materially misstated.

Reporting requirements:

The auditor's report shall include a separate section with a heading “Other Information”, or other appropriate heading, when, at the date of the auditor's report.

When the auditor's report is required to include an Other Information section in audit report, this section shall include:

- A statement that management is responsible for the other information;
- An identification of:
  - Other information, if any, obtained by the auditor prior to the date of the auditor's report; and
  - For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;
- A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
- A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this SA; and

- When other information has been obtained prior to the date of the auditor's report, either:
  - A statement that the auditor has nothing to report; or
  - If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

Example of para to be included in Audit Report:

Other Information

The Company's Board of Directors is responsible for the other information. The other information comprises the [information included in the XXX report, but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

SA 300 - PLANNING AN AUDIT OF FINANCIAL STATEMENT/ASSESSING THE RISK/MATERIALITY IN PLANNING/ASSESSED RISKS (SA 300/315/320/330)

SA 450, EVALUATION OF MISSTATEMENTS IDENTIFIED DURING AUDIT

CA Meghna Makda
Email : meghna@mvmakda.in

- This Standard is effective for audits of financial statements for periods beginning on or after April 1, 2008.
- It deals with the auditor's responsibility to plan an audit of financial statements. This SA is framed in the context of recurring audits. Additional considerations in initial audit engagements are separately identified.
- It covers various aspects of planning the audit engagement.

It is a known fact that the primary responsibility of an auditor is not to detect fraud. However, detection of fraud by an auditor is because of a well-planned audit.

Once audit strategy is in place, audit plan can then be developed which include the description of:

The nature, timing and extent of risk assessment procedures control risk + Inherent risk + Detection risk = Total audit risk.

The nature, timing and extent of further audit procedures (substantive tests + other substantive tests).

The nature timing and extent of other audit procedures.

Changes in Planning Decisions during Engagement

Planning is not a one-time activity, auditor may need to revisit the audit strategy and audit plan as changes in situation dictates (change in the nature, timing, and extent of audit procedure). Such changes occur due to

1) Unexpected events
2) Changes in condition e.g. Scope
3) Audit evidence –The auditor may become aware of discrepancies in accounting records or conflicting or missing evidence.
4) Acquiring information that is significantly different from the information the auditor had as at the time of planning.

Other factors that may cause change in the audit plan include:

The extent of misstatement that the auditor detects while performing substantive procedures may alter the auditor's judgement about the risk assessments and may indicate a significant deficiency in internal control.

Analytical procedures performed at the overall review stage of the audit may indicate a previously unrecognized risk of material misstatement.

In such circumstances the auditor may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions.

A Report on Audit Quality Review Findings by Quality Review Board

Audit Plan made by the audit firm was not elaborate as it did not cover the nature, timing and extent of direction and supervision of engagement team member regarding the vouching part of the Audit engagement.

The audit strategy and program did not include specific details about related parties and the material transactions as made known by the management and the same was not effectively communicated to the audit team members.

The audit programs have not been filed and signed by the persons auditing and reviewing the assignment.

Audit firm had not prepared any document to provide sufficient and appropriate record of the basis of audit report and evidence that the audit was planned and performed in accordance with auditing standards and applicable legal regulatory requirement.

Audit strategy, audit plan and audit programme had been intermingled by the firm. However, the overall audit strategy should be documented separately in accordance with SA- 300, and the audit plan should also consider the Directions and sub- directions given by CAG u/s 619(3) of the Companies Act, 1956 to be complied with

In respect of Audit Planning and Risk Assessment, there was no detailed Audit Planning Memorandum; and audit procedures carried out were not complete.

There was no evidence of any audit planning or risk assessment by audit firm. Improvement in Audit Programme & Procedure in the light of experience gained during audit was not evident and documented. The Audit Programme required improvement to enlarge the extent and scope of physical verification of security charged to minimize the perceived risk in this regard.

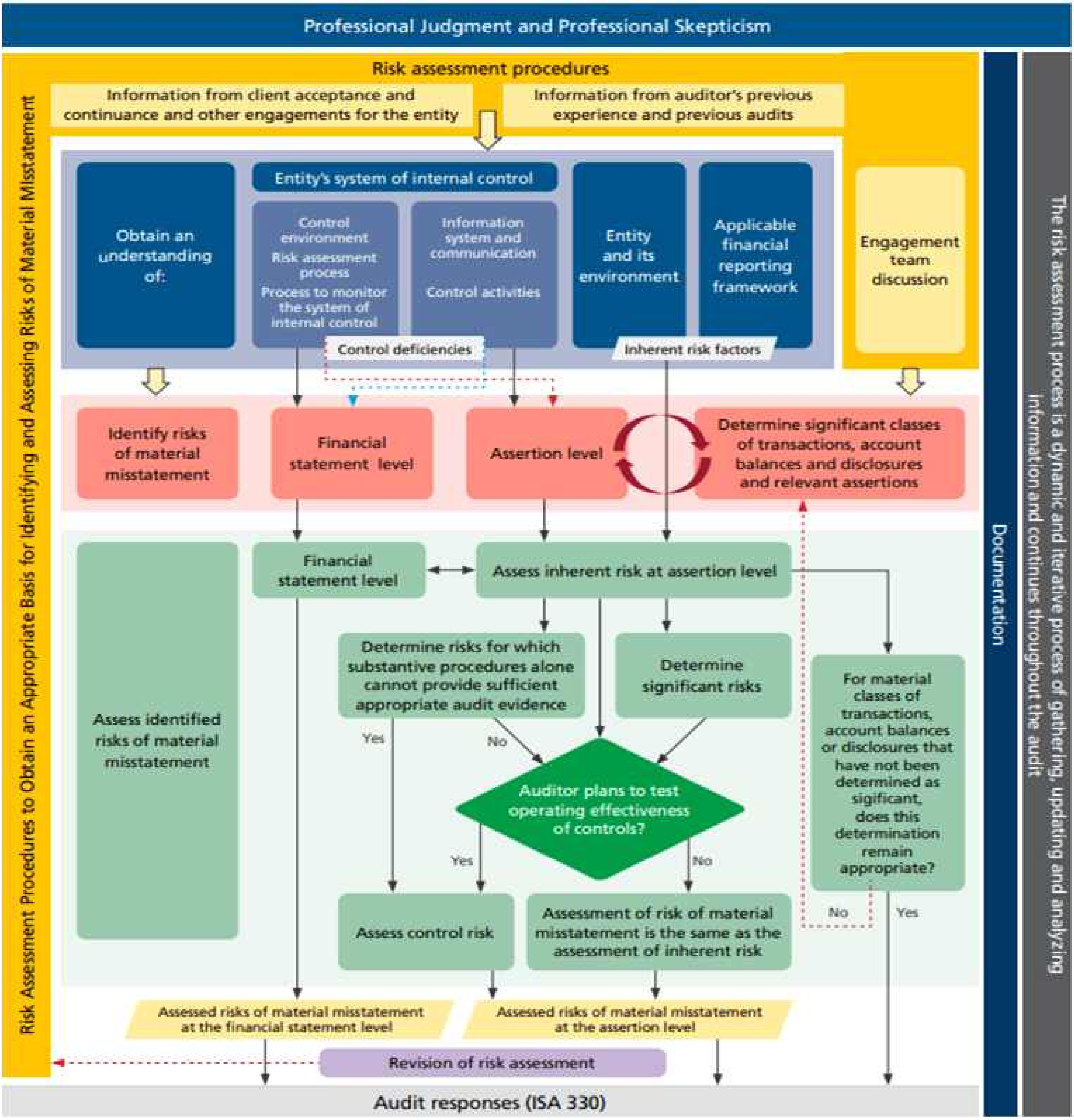
The Audit programme was initialled by the engagement partner and not by the concerned team members/assistants who have carried out the verification process.

Firm did not include all the elements of how the audit plan assessed and addressed the fraud risk in the audit of financial statements.

SA 315 – IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT.

- This Standard is effective for audits of financial statements for periods beginning on or after April 1, 2010.
- It deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.
- This Standard covers various aspects of audit materiality like determining materiality during the planning stage, revision of materiality during the audit.

The standard is iterative in nature, and the auditor is required to exercise professional judgment in determining the nature and extent of the procedures to be undertaken.



Report on Audit Quality Review Findings by Quality Review Board

The risks of material misstatements to the financial statements were not identified at the planning stage and there were not sufficient documentation in case of any rebuttals.

No formal risk assessment had been done by the firm to provide a basis for the identification and assessment of risks of material misstatement at financial report and assessment level.

Audit risk analysis was not comprehensive to make it to commensurate with size and nature of the business.

The firm had not documented the audit procedures performed during the course of audit for identifying and assessing the risk of material misstatement.

Identification/assessment of risks was not found documented in the audit file.

Audit procedures responsive to assessed risk s, were not found to be documented in the audit files and further there was no discussion paper held of possible discussions within the team regarding the susceptibility of the financial reports to material misstatements.

The audit firm had no evidences of any audit planning or risk assessment performed by the firm.

The auditor should make a combined assessment of the inherent and control risk and enable himself to design and implement his responses to the assessed risk of material misstatement as it will help him to reduce the risk of material misstatement to an acceptably low level.

SA 320, MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

- This Standard is effective for audits of financial statements for periods beginning on or after April 1, 2010.
- It deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.
- This Standard covers various aspects of audit materiality like determining materiality during the planning stage, revision of materiality during the audit.

Factors/ aspects that determine Materiality –

there are many factors which influence materiality level. Some major ones are listed below:

a) **Requirement of Law** → In many countries law defines materiality level. In India Revised Schedule VI sets materiality level at 1% of the revenue from operations or 100,000 Rs whichever is higher. This is the materiality level we use in accounting for disclosing material transactions separately. We can consider this when we want to set materiality level in audit.

b) **Size & nature of the business** – Larger the size of the company higher the materiality level and vice-versa.

c) In many cases we come across misstatements which are insignificant in value → but they are quality misstatement. For example: Accounting Standards are not followed or Revised Schedule VI is not followed etc. → Such misstatement though small in size becomes material and needs to be considered by auditor. This holds particularly true in case of India because Compliance with Accounting Standards and Revised Schedule VI is compulsory and if it is not complied with auditor must report the same.

d) **Complexity of transactions** – increases the materiality level.

e) **In case of statutory dues** even one rupee will be material (irrespective of size of the company) – For example law requires certain dues to be collected (like indirect taxes) and deposited in banks on behalf of the Government. In such cases even small amounts become material. Make sure that the dues are properly collected and deposited by the auditor.

f) There are some misstatements which are not material individually, but they are material when aggregated. Therefore, auditor should consider materiality both individually and in aggregate (total). For Example: a misstatement of say Rs 100,000 may not be material for a big company individually. But if the same misstatement is repeated say 50 times the amount comes to Rs 5,000,000 which may be material. Therefore. auditor should consider materiality both individually and in aggregate.

g) **Inherent and controls risk** – Inherent risk refers to the risk that there may be some misstatements in financial statements. Whereas control risks refer to the risk of misstatements even when the internal controls are implemented by the management. It means that due to these risks there is a possibility of misstatements. Auditor should consider such risks when he wants to set materiality level in audit.

Methods used to set materiality level – How Materiality level is set in Audit as per SA-320?

Benchmarking means applying a percentage to a chosen benchmark for determining materiality level when a audit of financial statements is conducted by auditor. Where benchmark can be placed? – Areas where benchmarks can be placed are: Gross Profits/ Net Profits, Net assets, Total equity, total expenditure etc. We must select one area from the examples mentioned here.

Areas selected to set a benchmark

a) The areas where the shareholders focus is placed can be taken as a base for setting benchmarks. In majority of the cases shareholders focus is placed on profitability of the company. So, you can choose profit as your benchmark.

b) The area chosen should be relatively less volatile – if there is significant change in profits every year auditor should not choose profits as benchmark. In such cases he can choose assets as benchmark.

Once a benchmark is chosen by auditor a percentage is applied to it to arrive at materiality level. You can apply a percentage in the range of 3-5% in case you choose Gross or Net profit as your benchmark for calculating materiality level. Similarly, you can apply 1% when you choose total assets/ revenue or expenditure as your benchmark for calculating materiality level. A higher percentage is applied to Gross and Net profits because they are smaller in terms of money as compared to total assets/ revenue and expenditure. You can watch the video for exact calculation of materiality level using benchmarks.

Performance materiality SA 320

Before discussing performance materiality, we will discuss the meaning of uncorrected and undetected misstatements. Unless we understand these two concepts it will be difficult to understand performance materiality.

Uncorrected Misstatements – means misstatements that are detected by auditor, but the misstatements are not corrected by management.

You will rarely come across this scenario when practicing audit because management usually rectifies the misstatements during the course of audit.

Undetected Misstatements – it means an estimate of misstatement which may be undetected. Now this is the main reason why we set Performance materiality – there is a possibility that some misstatements will not be detected even when audit is conducted properly by the auditor.

Meaning of Performance Materiality – Performance Materiality is a level of materiality which is set by auditor at less than materiality level. Say your materiality level is Rs. 100 you will set performance materiality at less than Rs. 100. Why? This is done to reduce the possibility that the aggregate of uncorrected and undetected misstatements exceeds materiality level set for the Financial statements as a whole. It acts as a cushion for auditor. Performance materiality set by the auditor reduces the audit risk. What is the Purpose behind setting Performance Materiality?

Auditor determines performance materiality for purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Auditor will perform additional procedures when the performance materiality is approached. It helps auditor to determine whether the financial statements are materially misstated.

Key findings of QRB

The basis of considering the benchmarks for determining the materiality was not documented along with the revised performance materiality and the nature, timing, and extent of the further audit procedures in case where the revised materiality was lower than that initially determined by the auditor.

There were no documents on record determining the materiality for the report and for assessing the risk of material misstatement.

Audit firm had not determined materiality for the report as a whole and performance materiality as per the standard on auditing SA 320-Materiality in Planning and performing an Audit; but determined the materiality based on past experience and risk and control assessments.

No evaluation had been done to determine materiality level for particular class of transactions, account balances, or disclosures.

SA 330 - THE AUDITOR'S RESPONSES TO ASSESSED RISKS

- This Standard is effective for audits of financial statements for periods beginning on or after April 1, 2008.
- It deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SA 315.

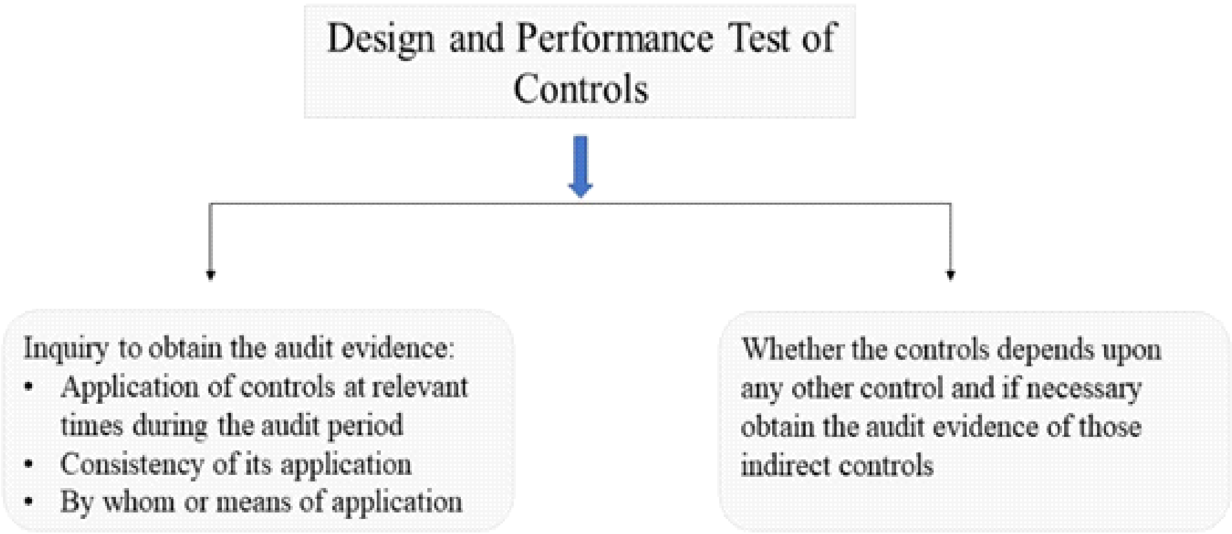
Test of Controls

Controls must be tested to confirm its operating effectiveness and sufficient appropriate audit evidence to be obtained when:

- There is an expectation that the controls are operating effectively.
- Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

More persuasive audit evidence, the greater the auditor relies on the control effectiveness.

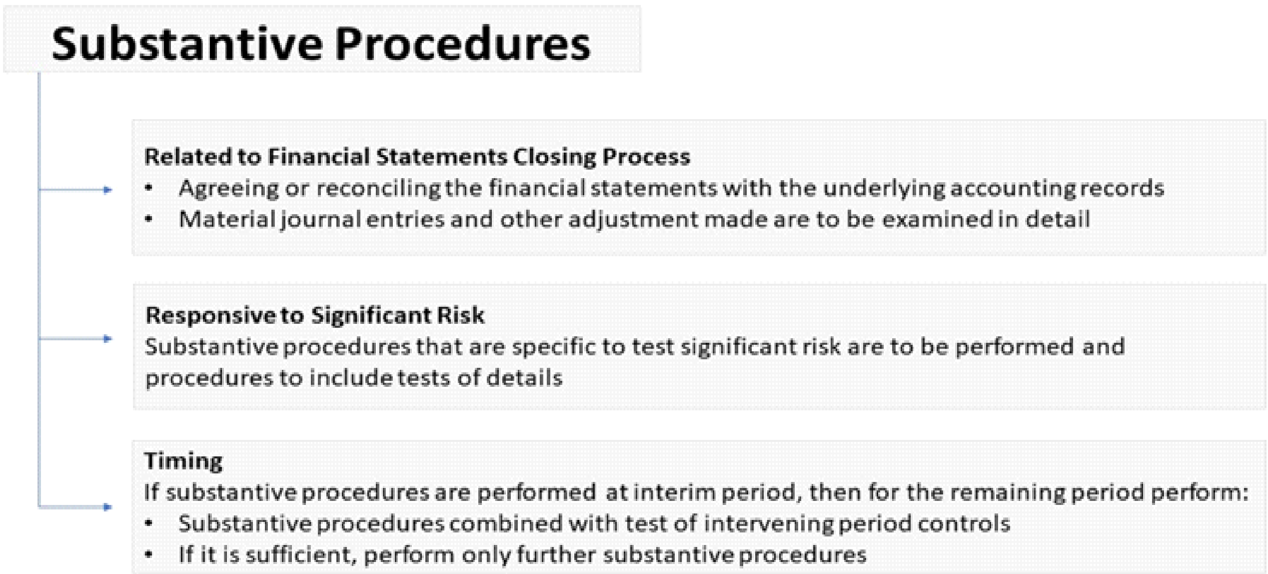
Nature and Extent of Test of Controls



Controls over Significant Risks

Any significant risk in auditor's opinion should be tested in the current period. During this process, evaluate whether there are any misstatements detected by substantive procedure indicates the control are not operated effectively. If there are deviations, the auditor should understand its potential consequences through specific inquiries and determine:

- Test of controls performed to provide an appropriate basis for reliance.
- If an additional test is necessary
- If the potential risk of misstatement is to be addressed using substantive procedures



Irrespective of assessed risk of material misstatement, substantive procedures for each material class of transaction, account balance and disclosure are to be performed:

If misstatement that the auditor did not expect arises at an interim date, then the nature, timing, and extent of substantive procedures for the remaining period must be modified.

Sufficiency and Appropriateness of Audit Evidence

Before the conclusion of the audit, the auditor should determine whether the audit procedures performed, and audit evidence obtained is appropriate for the assessment of the risk of material misstatement at the assertion level. An auditor should consider all relevant evidence regardless of whether it appears to corroborate or to contradict the assertions.

Key findings of QRB

- Not considering material **RPT transactions** as high-risk item.
- Failure to document audit procedure performed for treating **certain litigation** and **claims as non-contingent**.
- Failure to plan for overall **audit/procedures.**
- Work papers wherein substantive testing was performed were not cross referenced to the groupings/ trial balance with reference numbers in all cases.
- The aspects of the external factors affecting the entity, the laws and regulations and their monitoring by the Entity are to be covered.
- Audit plan and programmes were not comprehensive to cover all aspects and the audit strategy did not contain applicable reporting framework and other legal regulatory requirement.

SA 450, EVALUATION OF MISSTATEMENTS IDENTIFIED DURING AUDIT

- This Standard is effective for audits of financial statements for periods beginning on or after April 1, 2010.
- It deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.
- It covers various considerations for auditor regarding evaluation of misstatements identified during the audit.

Auditor's Communication & Correction of Misstatements

- Communicate on a timely basis to the appropriate level of management (unless prohibited by law or regulation)
- Request management to correct those misstatements.
- If management refuses to correct misstatements, the auditor should understand the reason for the same.
- Based on the understanding auditor should evaluate whether the financial statements as a whole are from material misstatements.

Effect of Uncorrected Misstatements

Before evaluating the effect of uncorrected misstatements, the auditor should reassess materiality per SA 320 to confirm whether it remains appropriate to the entity's financial results by taking into account:

- Size and Nature of the misstatements both in relation to particular classes of transactions account balance or disclosures etc and circumstance of their occurrence.
- Effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balance or disclosure, and the financial statements as a whole.

Communication by the Auditor to those charged with governance.

- Uncorrected misstatements and the effect they may have on the auditor's report unless prohibited by law or regulation.
- Identified material uncorrected misstatements individually.
- Request uncorrected misstatements are corrected.

Written Representation

If in an auditor's opinion, the effect of uncorrected misstatements is immaterial (individually or in aggregate) to the financial statements, a written representation should be obtained from the management with the summary of such items.

Documentation

- Materiality limit – determining the trivial amount.
- All misstatements accumulated during the audit and if those are corrected.
- Whether uncorrected misstatements are material, individually or in aggregate and its conclusion.

SA 500 'AUDIT EVIDENCE'

CA Jay Gosar
Email : jay@kkcllp.in

SA 500 'Audit Evidence' is a revised version of the erstwhile Auditing and Assurance Standard (AAS) 5, "Audit Evidence" issued by the ICAI in 1988. The revised SA is quite detailed in terms of what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit evidence to obtain sufficient and appropriate audit evidence to be able to draw reasonable conclusion on which to base the auditor's opinion.

As mentioned in SA 200 'Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing', the auditor's objective is to obtain a reasonable assurance, that the financial statement as a whole, are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express and opinion on the financial statements. In the process of obtaining this reasonable assurance, the auditor should focus on obtaining sufficient and appropriate audit evidence (SAAE).

Requirements of the SA 500

- Design and perform audit procedures that are appropriate in circumstances for the purpose of obtaining sufficient and appropriate audit evidence
- Consider relevance and reliability of the information to be used as audit evidence
- Selecting items for test of controls and test of details to obtain audit evidence
- Inconsistency in or doubts over reliability of audit evidence

Information to be used as audit evidence

- When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. The points that can be kept in mind for the same are as follows :

a. Relevance deals with the logical connection with or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration.

b. The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by various factors such as

1. The reliability of audit evidence is increased when it is obtained from independent sources outside the entity (for e.g. External Confirmation Procedures as per SA 505)
2. The reliability of audit evidence that is generated internally is increased when related controls, including those over its preparation and maintenance, imposed by the entity are effective
3. Audit evidence in a documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for e.g., a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed.

- Use of management's expert : When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:

a. Evaluate the competence, capabilities and objectivity of the expert

b. Obtain an understanding of the work of that expert and

c. Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

- When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purpose, including as necessary in the circumstances :

a. Obtaining audit evidence about the accuracy and completeness of the information

b. Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes

Selecting Items for Testing to Obtain Audit Evidence

An effective test provides appropriate audit evidence to an extent that taken with other audit evidence obtained or to be obtained, will be sufficient for the auditor's purposes. <u>In selecting items for testing, the auditor is required to determine the relevance and reliability of information to be used as audit evidence</u>. The means available to the auditor for selecting items for testing are:

a. Selecting all items (100% examination)

b. Selecting specific items; and

c. Audit sampling in accordance with SA 530

Inconsistency in or doubts over reliability of Audit Evidence

If audit evidence obtained from one source is <u>inconsistent</u> with that obtained from another or the auditor has doubts over the reliability of information to be used as audit evidence, the auditor should determine what <u>modifications or additions to audit procedures</u> are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of audit.

Audit Procedures for Obtaining Audit Evidence are performed using the following techniques :

Inspection	It involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.
Observation	It consists of looking at a process or procedure being performed by others. For e.g., auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities.
Inquiry	It consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. Inquiries may range from formal written inquiries to informal oral inquiries.
Recalculation	It consists of checking the mathematical accuracy of documents or records. It maybe performed manually or electronically.
Reperformance	It involves the auditor's independent execution of procedures or controls that were originally performed as part of entity's internal control.
Analytical Procedures	It consists of evaluation of financial information and investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts.
External Confirmations	It represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (confirming party), in paper form, or by electronic or other medium.

Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. Appropriateness 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. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement(the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.

Certain electronic information may not be retrievable after a specified period of time, for example, if files are changed and if backup files do not exist. Accordingly, the auditor may find it necessary as a result of an entity's data retention policies to request retention of some information for the auditor's review or to perform audit procedures at a time when the information is available.

Other Points

As per the requirements of SA 330 'The Auditor's Responses to Assessed Risks', the auditor to conclude whether sufficient appropriate audit evidence has been obtained.9Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and there by enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

As per the requirements of SA 230 'Audit Documentation', the auditor shall assemble the audit documentation, which primarily includes auditor's work papers on substantiating the audit evidence, in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of auditor's report.

As per SQC-1, the firm should establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of final audit file is ordinarily not more than 60 days after the date of the auditor's report.

SA 520 'ANALYTICAL PROCEDURES'

CA Jay Gosar
Email : jay@kkcllp.in

SA 520 'Analytical Procedures' is a revised version of the erstwhile Auditing and Assurance Standard (AAS) 14, 'Analytical Procedures' issued by the Institute in 1997. The revised SA deals with the auditor's use of analytical procedures as substantive analytical procedures that assist the auditor when forming an overall conclusion on the financial statements.

The term "Analytical Procedures" means evaluation of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as in necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by significant amount. The routine audit checks and procedures cannot be fully depended upon to highlight the material mistakes or manipulation that may exist in accounts and hence the auditors are expected to carry out certain other alternative analytical procedures like analysis of trend and ratio, analysis of significant variances, etc.

Timing of Analytical Procedures

Analytical Procedures can be applied at planning, testing and completion phase.

a. Planning Phase: Trend Analysis of Past Profits.

b. Testing Phase: Comparing salary with total number of employees.

c. Completion Phase: Overall Ratio Analysis of current year financial performance.

The use of analytical procedures as risk assessment procedures is outlined in SA 315 'Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and it's environment'. SA 330 'The Auditor's Responses to Assessed Risks' includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.

Requirements of the SA 520

- Designing substantive analytical procedures
- Designing procedures that assist when forming an overall conclusion
- Investigating Results of analytical procedures

Designing Substantive Analytical Procedures

When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall :

a. Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions.

b. Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source *(source can be interim financial information, budgets, tax returns & board minutes)* and, comparability, and nature and relevance of information available, and controls over preparation.

c. Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

d. Determine the amounts of any difference of recorded amounts from expected values that is acceptable without further investigation.

Designing Procedures that assist when forming an overall conclusion

The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Investigation Results of Analytical Procedures

If analytical procedures performed in accordance with this SA identify fluctuation or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by :

a. Inquiring of management and obtaining appropriate audit evidence relevant to management's responses

b. Performing other audit procedure (alternative audit procedures) as necessary in the circumstances.

The auditor's substantive procedures at the assertion level may be tests of details, substantive analytical procedures, or a combination of both. The decision about which audit procedures to perform, including whether to use substantive analytical procedures, is based on the auditor's judgment about the expected effectiveness and efficiency of the available audit procedures to reduce audit risk at the assertion level to an acceptably low level. The auditor may inquire of management as to the availability and reliability of information needed to apply substantive analytical procedures, and the results of any such analytical procedures performed by the entity. It may be effective to use analytical data prepared by management, provided the auditor is satisfied that such data is properly prepared.

Auditors may use the following techniques as a substantive analytical procedure to obtain sufficient and appropriate audit evidence

Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses using advanced statistical techniques, as presented below.

Trend Analysis	A commonly used technique. It is a comparison of current data with the prior period balance or with a trend in two or more prior period balances. Auditors can evaluate the current balances of an account moves in line with the trend established with previous balance for that account, or based on an understanding of factors that may cause the account to change.
Ratio Analysis	It is useful for analysing asset and liability accounts as well as revenue and expense accounts. An individual balance sheet account is difficult to predict on its own, but its relationship to another account is often more predictable (e.g., trade receivables balances related to sales). Ratios can be also used to compare two players in same industry viz. peer benchmarking.
Reasonableness Test	Unlike trend analysis, this procedure does not rely on events of prior periods, but upon non- financial data for the audit period under consideration (for e.g., occupancy rates to estimate rental income or interest rates to estimate interest income or expense).
Structural Modelling	A modelling tool constructs a statistical model from financial and/or non-financial data or prior accounting periods to predict current account balances (for e.g., linear regression).

Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. The application of planned analytical procedures is based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary.

The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

Other Points

Analytical Procedures may help to identify the existence of unusual transactions or events and amounts, ratios, and trends that might indicate matters that have audit implications. Analytical procedures may be applied to consolidated financial statements, components and individual elements of information.

SA 530 'AUDIT SAMPLING'

CA Jay Gosar
Email : jay@kkcllp.in

SA 530 'Audit Sampling' is a revised version of the erstwhile Auditing and Assurance Standard (AAS) 15, "Audit Sampling" issued by the Institute in 1998. According to SA 530, audit sampling refers to 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 to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

This SA deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample. It also deals with the requirements relating to sample design, size, and selection of items for testing, performing audit procedures, nature and cause of deviations and misstatements, projecting misstatements, and evaluating results of audit sampling.

What is the need of sampling procedure in auditing financial statements? /Is auditor justified in using sampling technique?

- The extent of checking to be undertaken is primarily a matter of judgement of the auditor, there is nothing statutorily stated anywhere which specifies what work is to be done, how it is to be done and to what extent
- It is not obligatory that the auditor must adopt the sampling technique. What he is to do is to express his opinion and become bound by that
- To ensure good and reasonable standard of work, he should adopt standards and techniques that can lead him to an informed professional opinion.

On a consideration of this fact, it can be said that it is in the interest of the auditor that if he decides to form his opinion based on review of samples, he should adopt standards and techniques which are widely followed and which have a recognised basis. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose.

Objective of Auditor as per SA 530

- To provide a reasonable basis for the auditor to draw a conclusion about the population from which the sample is selected.

Sampling Risk

- The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusion:

a. In case of test of controls, that controls are more effective than they are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

b. In case of test of control, that controls are less effective than they are, or in the case of a test of details, that a material misstatement exists when in fact is does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusion was incorrect.

Non-Sampling Risk

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

The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.

Requirements of the SA 530

- **Sample Design, Size and Selection of Items of Testing**

a. When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.

b. The auditor shall determine a sample size sufficient to reduce the sampling risk to an acceptably low level.

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

- **Sample Selection Methods**

Random Sampling	It ensures that all items in the population or within each stratum have a known chance of selection. It may involve the use of random number tables. Random sampling includes two very methods viz. Simple Random Sampling & Stratified Sampling.
Systematic Sampling	It is a selection method in which the number of sampling units in the population is divided by the sample size to give a sampling internal, for example 50 and having determined a starting point within the first 50, each 50th unit thereafter is selected.
Block Sampling	It involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in population.
Monetary Unit Sampling	It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.
Haphazard Sampling	It is a technique in which auditor selects the sample without following a structured way. Although no technique is used, the auditor would nonetheless avoid any conscious bias and predictability.

- **Performing Audit Procedures**

a. The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.

b. If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item. For e.g., when a cancelled cheque is selected while testing for evidence of payment authorisation.

If the auditor is unable to apply the designed audit procedures, or suitable alternative audit procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details. For e.g., auditor unable to apply procedure when documentation relating to item has been lost.

- **Nature and Cause of Deviation**

a. The auditor shall investigate the nature and cause of any deviation or misstatements identified and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.

b. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population.

- **Projecting Misstatements**

a. For tests of details, the auditor shall project misstatement found in the sample to the population.

b. When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population. However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements.

c. For tests of controls, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population.

- **Evaluating Results of Audit Sampling**

a. The auditor shall evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested.

b. For tests of controls, an unexpectedly high sample deviation rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained.

c. For tests of details, an unexpectedly high misstatement amount in a sample may cause the auditor to believe that a class of transaction or account balance is materially misstated, in the absence of further audit evidence that no material misstatement exists.

d. In the case of tests of details, the projected misstatements plus anomalous misstatements, if any, is the auditor's best estimate of misstatement in the population.

e. When the projected misstatements plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.

f. The closer the projected misstatement plus anomalous misstatement is to tolerable misstatement, the more likely that actual misstatement in the population may exceed tolerable misstatement.

g. Also, if the projected misstatement is greater than the auditor's expectations of misstatement used to determine the sample size, the auditor may conclude that there is an unacceptable sampling risk that the actual misstatement in the population exceeds the tolerable misstatement.

- **Conclusion**

  If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population that has been tested, the auditor may:

a. Request the management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments or

b. Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance.

Other Points

Use of sophisticated technology and data analytics in the audit is fast becoming a standard operating practice as firm are embracing the digital-first approach to engagements that is becoming more prevalent at firms across the country.

The discussion about technology, digital platforms, and data analytics in audits refers to use of software that gives practitioners the ability to analyse complete datasets in ways that were not possible in the past. Earlier Sampling used to be done manually but now, due to the development of technology, much software are no available which will be now used instead of manually technique.

EVENTS IN RETROSPECT

Day & Date	Committee	Program Name	Moderator / Speaker	Attendance / Views
6th March 2023, Monday	Mem & Rec. committee	Campus Placement Drive at SK Somaiya College, Vidhyavihar	NA	5 Firms & 70+ Job Applicants.
6th March 2023, Monday	Capital Market Committee	Potential Investment Opportunities & India's Growth Story	CA Vineet Gala & CA Sudhir Bheda	90 participants
9th March 2023, Thursday	Study Circle Committee	Lecture Meeting on UAE Corporate Tax	CA Rahul Chheda	37 participants

Events In Retrospect

Day & Date	Committee	Program Name	Moderator / Speaker	Attendance / Views
14th March 2023, Tuesday	Capital Market Committee	Demystify Algorithmic Trading	Mr. Vivek Gadodia	50 participants
14th March 2023, Tuesday	Mem & Rec. committee	Campus Placement Drive at Wilson College, Chowpatty	NA	2 Firms & 40+ Job Applicants.
18th March 2023, Saturday	50th Year Celebration Committee	Provisions under FEMA and Income Tax for NRI	CA Manoj Shah	220 participants

EVENTS IN RETROSPECT

Day & Date	Committee	Program Name	Moderator / Speaker	Attendance / Views
17, 18, 24, 25 March 2023	Publication, Training n Representation Committee	Course on Basics of Power BI using Practical examples	CA Kunjesh Shah	27 participants
21st March 2023, Tuesday	Students committee	Seminar on Automation of Financial Statements using Advanced ExcelDiaspora	CA Jainam Satra	20 participants