

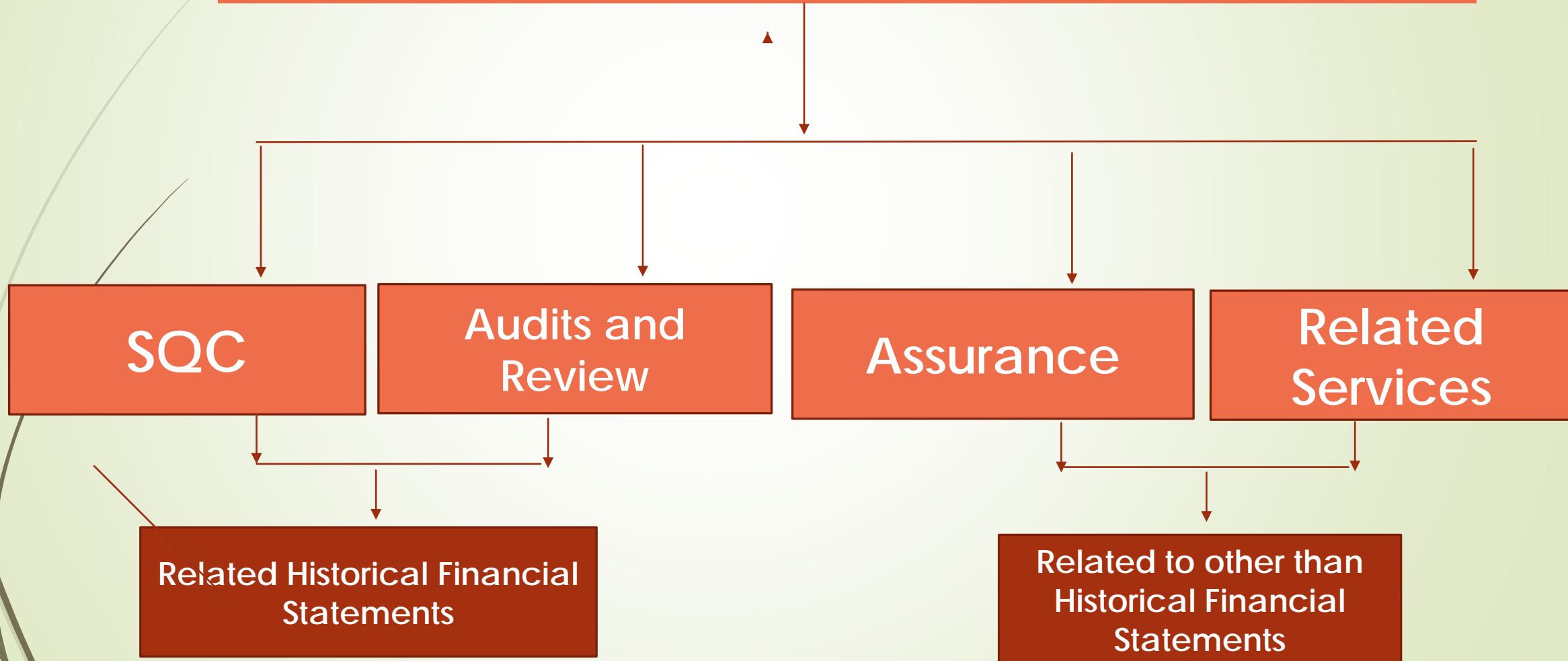


# Standards on Auditing

16<sup>th</sup> April, 2016 JB Nagar Study Circle

By CA Yagnesh Desai

# Mapping of Auditing and Assurance Standards



# Codifications under Clarity Project

- Standards on Quality Control – 1 Standard
- **Audit and Review of Historical Financial Statements**
- **Audit – 36 Standards**
- 100-199 Introductory Matters - None as yet
- 200-299 General Principles and Responsibilities – 9 Standards
- 300-499 Risk Assessment and Response to Assessed Risks – 6 Standards
- 500-599 Audit Evidence – 11 Standards
- 600 -699 Using Work of Others – 3 Standards
- 700-799 Audit Conclusions and Reporting – 5 Standards
- 800-899 Specialised Areas – 2 Standards
- **Standards on Review Engagements – 2 Standards**
- 2000-2699 Standards on Review Engagements – 2 Standards
- **Total 39 Standards**

# Codifications under Clarity Project

- **Assurance Engagements Other Than Audits or Reviews of Historical Financial Information**
- **3000-3699 Standards on Assurance Engagements (SAEs)**
  - 3000-3399 Applicable to All Assurance Engagements
  - **3400-3699 Subject Specific Standards – 2 Standards**
- SAE 3400 “The Examination of Prospective Financial Information”
- SAE 3402 “Assurance Reports on Controls At a Service Organisation”
- Related Services (SRS) – 2 Standards
- 4000-4699 Standards on Related Services (SRSs)
- SRS 4400 (AAS 32), “Engagements to Perform Agreed-upon Procedures Regarding Financial Information”
- SRS 4410 (AAS 31), “Engagements to Compile Financial Information”
- Total ( SAE and SRS) 4 Standards .
- Total of Audits , and SAE and SRS 43 Standards



# Standards on Quality Control (SQC)

- SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements"
- Announcement on Amendment to SQC 1 - Retention Period for Engagement Documentation (Working Papers)

# 200-299 General Principles and Responsibilities – 9 Standards

- SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing"
- SA 210(Revised), Agreeing the Terms of Audit Engagements
- SA 220 "Quality Control for an Audit of Financial Statements"
- SA 230 "Audit Documentation"
- SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"
- SA 250 "Consideration of Laws and Regulations in an Audit of Financial Statements"
- SA 260 "Communication with Those Charged with Governance"
- SA 265 "Communicating Deficiencies in Internal Control to Those Charged With Governance and Management"

# 300-499 Risk Assessment and Response to Assessed Risks – 6 Standards

- SA 300 "Planning an Audit of Financial Statements" •
- SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment"
- SA 320 "Materiality in Planning and Performing an Audit"
- SA 330 "The Auditor's Responses to Assessed Risks"
- SA 402 "Audit Considerations Relating to an Entity Using a Service Organisation"
- SA 450 "Evaluation of Misstatements Identified During the Audit"

# 500-599 Audit Evidence – 11 Standards

- ▶ SA 500 "Audit Evidence"
- ▶ SA 501 "Audit Evidence—Specific Considerations for Selected Items"
- ▶ SA 505 "External Confirmations"
- ▶ SA 510 "Initial Audit Engagements – Opening Balances"
- ▶ SA 520 "Analytical Procedures"
- ▶ SA 530 "Audit Sampling"
- ▶ SA 540 "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures"
- ▶ SA 550 "Related Parties"
- ▶ SA 560 "Subsequent Events"
- ▶ SA 570 "Going Concern"
- ▶ SA 580 "Written Representations"



## 600-699 Using Work of Others – 3 Standards

- SA 600 "Using the Work of Another Auditor"
- SA 610 "Using The Work of Internal Auditors"
- SA 620 "Using the Work of an Auditor's Expert"

# 700-799 Audit Conclusions and Reporting – 5 Standards

- SA 700 Forming an Opinion and Reporting on Financial Statements
- SA 705, Modifications to the Opinion in the Independent Auditor's Report
- SA 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"
- SA 710 "Comparative Information—Corresponding Figures and Comparative Financial Statements"
- SA 720 "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements"

## 800-899 Specialized Areas - 4 Standards

- SA 800 "Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks"
- SA 805 "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement"
- SA 810 "Engagements to Report on Summary Financial Statements"
- 2000-2699 Standards on Review Engagements (SREs)
- SRE 2400 "Engagements to Review Financial Statements"
- SRE 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"

# Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

- **3000-3699 Standards on Assurance Engagements (SAEs)**
  - 3000-3399 Applicable to All Assurance Engagements
  - **3400-3699 Subject Specific Standards – 2 Standards**
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- Total (SAE and SRS) 4 Standards .
- Total of **Audits** , and **SAE and SRS** 43 Standards



# Relatively Very Important Standards

- Agreeing the Terms of Audit Engagements SA 210
- SA 230 - Audit Documentation



# Relatively Very Important Standards

➤ External Confirmations SA 505

➤ Written Representation SA 580



## Other Relevant and Important Standards

- SA 600 (AAS 10)- “Using the Work of Another Auditor”
- SA 610 (Revised)- “Using The Work of Internal Auditors”
- SA 620 (Revised)- “Using the Work of an Auditor’s Expert”

# What types of Auditor's Opinion

Unmodified

## **Modified**


Qualified – Material but not pervasive

Adverse - Misstatement both material and pervasive

Disclaimer of Opinion – Undetected Misstatement

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





What if the matter does not require qualification but still the Auditor wants to draw the attention ?

# Emphasis of Matter

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

## Commentary

Emphasis comments used increasingly to draw attention to matters which, in their judgement, are fundamental to the understanding of financial statements. .... And

.....highlights matters of importance that do not require audit qualification.” Draw Attention to Dual Date


# Emphasis of Matter

## Emphasis of Matter

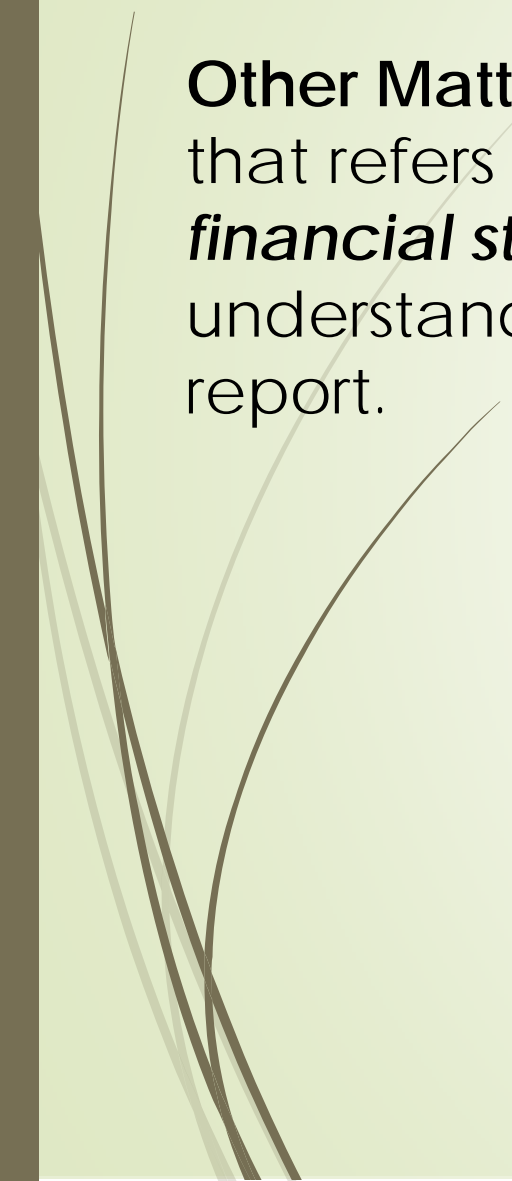
We draw attention to Note 36(ii)(f)(vii) to the consolidated financial statements which describe the uncertainties related to the legal outcome of Department of Telecommunications' demand with respect to One Time Spectrum Charge. Our opinion is not qualified in respect of this matter.

Source: Bharti Airtel Limited FY 2014-15

# Other Matter Paragraph



**Other Matter paragraph** – A paragraph included in the auditor's report that refers to *a matter other than those 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.





## Other Matter

The accompanying standalone financial statements include total assets of Rs. 244.69 crore as at March 31, 2015, and loss before tax of Rs 118.27 crore for the year ended on that date, in respect of an unincorporated joint venture not operated by the Company, whose financial information has not been audited by us and whose unaudited financial information has been furnished to us by the management and our opinion, in respect of the said unincorporated joint venture is based solely on such information. Our opinion is not modified in respect of this matter.

Source: Cairn India Ltd 2014-15



## Other Matter

*“We did not audit the share of gain in a joint venture of Rs 7,276 million for the year ended March 31, 2015, included in the accompanying financial statements in respect of the joint venture, whose financial statements and other financial information have been audited by other auditors and whose report has been furnished to us by the management. Our opinion, in so far as it relates to the affairs of such joint venture is based solely on the report of other auditors. ”*

**Source : Bharti Airtel Limited 2014-15**

# Auditor's Opinion- Emphasis of Matters

## Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements, ***read together with the "Emphasis of Matters"*** section below, give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 20XX.
- (b) In the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
- (c) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

# Auditor's Opinion- Emphasis of Matters

## Emphasis of Matter

(a) We draw your attention

Our Opinion is not qualified in respect of these matters.

Note the Place of Emphasis of Matter para is between Opinion and other Legal and Regulatory matters.





# Written Representation

Very Important Document for Auditor's defence

What should be the date of the representation ?

What if the management denies to give the WR ?

If management refuses to provide a representation that the auditor considers necessary, this constitutes a scope limitation and the auditor should express a qualified opinion or a disclaimer of opinion.



Thanks JB Nagar (CPE) Study  
Circle

And all Participants

Yagnesh Desai