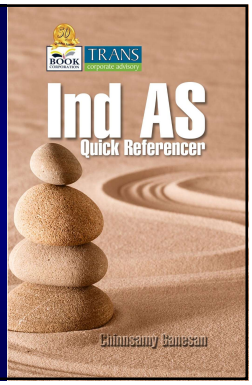
Practical Approach to Standards on Auditing for Bank Audit

Presentation at the Bank Audit Series CPE Seminar organized by the SIRC of ICAI on 5 March 2025

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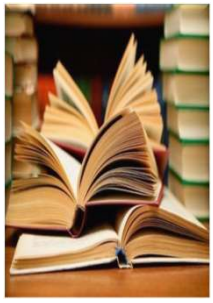
A simplified audit approach and SAs



- Top down Risk based approach
- Identify the key business drivers
- Assess and evaluate the likelihood of RoMM
- Map the assessed risk at assertion level
- Nature
- Timing
- Extent
- Execution and completion

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Overview of the Standards on Auditing



Standards on Quality Control	SQC (1)
Introductory Matters	100-199 (1)
General Principles and Responsibilities	200-299 (9)
Risk Assessment and Response to assessed risks	300-499 (6)

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Overview of the Standards on Auditing



Audit Evidence	500-599 (11)
Using work of others	600-699 (3)
Audit Conclusions and Reporting	700-799 (5)

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Some Key SAs – 200 Series (General Principles)



- SA 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
- SA 210 – 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

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FAQ – SA 200 (General Principles)

What are the primary responsibilities of the auditor under SA 200?

- To obtain reasonable assurance that financial statements are free from material misstatement.
- To report on financial statements based on findings.
- To comply with ethical requirements, including independence.

What is the auditor's duty regarding fraud and errors under SA 200 read with SA 240?

- The auditor must assess the risk of material misstatement due to fraud or error
- But is not responsible for detecting all frauds.

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FAQ – SA 210 (Agreeing the terms of engagement)

What are the key contents of an audit engagement letter?

- Objective and scope of the audit
- Auditor's responsibilities
- Management's responsibilities
- Financial reporting framework
- Inherent limitations of an audit
- Expected form and content of the audit report

Other frequently asked questions on SA 210

- Can an auditor accept an audit engagement without an engagement letter?
- Can an audit engagement letter be revised?
- Can an auditor withdraw from an engagement under SA 210?

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FAQ – SA 230 (Audit Documentation)

What are the Practical Issues in compliance with Audit Documentation

- Inadequate documentation of work performed
- Time constraints and last-minute documentation
- Standardization vs. Customization Issues
- Electronic documentation challenges
- Insufficient review mechanism
- Judgment-based areas not properly documented
- Pressure to reduce documentation for efficiency

Other frequently asked questions on SA 230

- Post-dated or backdated working papers
- Inadequate evidence for key audit judgments
- Incomplete or missing documentation for modified opinions
- Failure to document alternative audit procedures
- Discrepancies between audit documentation and financial statements

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FAQ – SA 240 (The Auditor's Responsibilities relating to fraud)

What are the Practical Issues in compliance with SA 240?

- Insufficient documentation of fraud procedures
- Fraud reporting and communication with those charged with governance (TCWG)
- No proper use of forensic or additional audit procedures
- Misuse of materiality to ignore fraud risks
- Non-compliance with fraud reporting obligations

Frequent Observations by Regulators

- Inadequate risk assessment of fraud
- Lack of professional skepticism
- Failure to identify and respond to red flags
- Weak audit procedures on revenue recognition fraud
- Failure to test journal entries and accounting estimates for fraud risks

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FAQ – SA 250 (Consideration of laws and regulations)

What are the Practical Issues in compliance with SA 250?

- Difficulty in identifying relevant laws and regulations
- Over-reliance on management representations
- Auditors focus primarily on financial reporting laws
- Insufficient documentation of compliance testing
- Difficulty in assessing penalties and contingent liabilities
- Regulatory updates and evolving compliance requirements

Frequent Observations by Regulators

- Failure to identify and assess relevant laws and regulations
- Inadequate audit procedures to detect non-compliance
- Poor documentation of audit procedures and conclusions
- Failure to escalate and report identified non-compliance
- Failure to detect money laundering and financial crimes

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Some Key SAs – 300 Series (Audit Planning & Audit Risk)



- SA 300 – Planning an audit of financial statements
- SA 310 – Knowledge of the business
- SA 315 – Identifying and Assessing the Risks of Material Misstatements 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

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FAQ – SA 300 (Planning an audit of financial statements)

What are the Practical Issues in compliance with SA 300?

- Inadequate understanding of the entity and its environment
- Poor allocation of audit resources
- Lack of specialized expertise for areas like it audits, forensic procedures, or complex tax matters.
- Failure to identify and address key risks at planning stage
- Ineffective use of technology in audit planning
- Weak engagement with TCWG

Frequent Observations by Regulators

- Audit firms do not hold proper planning meetings with engagement partners and audit teams
- Auditors fail to perform comprehensive risk assessment before executing audit procedures
- Improper identification of significant risk areas, including fraud risks
- Failure to factor in previous audit findings
- Failure to integrate it risks and cybersecurity concerns into audit planning.

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FAQ – SA 315 and SA 330 (R A and Responding to assessed risks)

What are the Practical Issues in compliance with SA 315?

- Perform generic, checklist-based risk assessments without tailoring them to the specific entity
- Insufficient time and effort spent in understanding the business model, industry trends, and regulatory environment
- Limited use of data analytics and it tools to identify unusual transactions and patterns
- Failure to reassess risks throughout the audit

What are the Practical Issues in compliance with SA 330?

- Auditors often fail to tailor audit procedures based on the specific risks identified in SA 315
- Failure to document how the nature, timing, and extent of audit procedures address specific risks
- Despite unexpected errors or fraud indicators no reassessment of risk responses done
- Incomplete or unclear documentation on (a) the rationale for selecting audit procedures (b) how audit responses address identified risks; and (c) the basis for relying on internal controls

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FAQ – SA 320 (Materiality)

What are the Practical Issues in compliance with SA 320?

- Inconsistent determination of materiality thresholds
- Failure to update materiality during the audit
- Carry forward last year's materiality without assessing current risks and changes in financial position
- Weak link between materiality and risk assessment
- Mis-judgment of qualitative aspects of materiality
- Incorrect handling of detected misstatements

Frequent Observations by Regulators

- Auditors often fail to clearly justify the selection of materiality benchmarks
- Lack of documentation regarding
  - the rationale for selecting materiality thresholds
  - how performance materiality and trivial misstatement thresholds were established
  - the impact of materiality decisions on audit procedures and risk assessment
- Failure to aggregate and evaluate uncorrected misstatements

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Some Key SAs – 400 Series (Special Transactions)



- SA 400 – Risk Assessment and Internal Control
- SA 401 – Audit in a Computer Information Systems Environment
- SA 402 – Audit Considerations Relating to an Entity using a service organisation
- SA 450 – Evaluation of Misstatements Identified During the Audit

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FAQ – SA 450 (Evaluation of Misstatements Identified)

What are the Practical Issues in compliance with SA 450?

- Auditors often fail to document all identified misstatements, especially those considered "trivial"
- Factual misstatements (clear errors) are sometimes misclassified as judgmental to avoid adjustments
- Projected misstatements (from sampling results) are often ignored or underestimated in final evaluations
- Auditors sometimes assess misstatements individually rather than considering their aggregate impact

Frequent Observations by Regulators

- Auditors frequently accept management's explanations without proper verification
- When management refuses to correct misstatements, auditors often do not challenge their reasoning adequately
- Regulators frequently observed missing or inadequate documentation regarding
  - How misstatements were assessed
  - The rationale for determining whether misstatements are material

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Some Key SAs – 500 Series (Audit Evidence)



- 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

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FAQ – SA 500 (Audit Evidence)

What are the Practical Issues in compliance with SA 500?

- Auditors often rely on incomplete or unreliable documents provided by management
- Lack of independent verification of key financial items
- Accepting confirmations received through the client instead of directly from third parties
- Lack of proper audit working papers to support the audit conclusion
- Auditors ignore or fail to reconcile inconsistencies in audit evidence

Frequent Observations by Regulators

- Insufficient and inappropriate audit evidence
- Auditors accepted verbal or written representations from management as audit evidence without verifying them.
- No alternative audit procedures were performed when direct audit evidence is not available
- In cases involving estimates and judgments, auditors failed to challenge assumptions used by management
- Auditors failed to document how they obtained and evaluated audit evidence

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FAQ – SA 530 (Audit Sampling)

What are the Practical Issues in compliance with SA 530?	Frequent Observations by Regulators
• Inappropriate Sample Size Selection	• Auditors frequently use judgmental sampling, leading to biased selection that ignores high-risk transactions
• Poor Sampling Method Selection	• Regulators observed that key risk areas (e.g., related-party transactions, year-end adjustments, and manual journal entries) were often excluded from sample selection
• Exclusion of key elements from the population, leading to unrepresentative samples	• Even when high exception rates were found, auditors did not increase sample size or apply alternative procedures
• Lack of root cause analysis as deviations are often treated as isolated errors rather than indicators of systemic issues	• No proper documentation on error extrapolation, meaning the actual financial impact was not assessed
• Auditors do not reassess sample sizes even when risks change during the audit	

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Some Key SAs – 500 Series (Audit Evidence)



- 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

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FAQ – SA 580 (Written Representations)

What are the Practical Issues in compliance with SA 580?	Frequent Observations by Regulators
• Inappropriate Sample Size Selection	• Auditors accepted written representations without obtaining sufficient audit evidence
• Poor Sampling Method Selection	• Written representations were missing or incomplete for critical financial reporting assertions like Fraud risks and irregularities (SA 240), Going concern assumption (SA 570).Contingent liabilities and litigations, Related-party transactions and their completeness (SA 550)
• Exclusion of key elements from the population, leading to unrepresentative samples	• No additional audit procedures were performed when representations conflicted with audit findings
• Lack of root cause analysis as deviations are often treated as isolated errors rather than indicators of systemic issues	• Auditors did not obtain specific representations about known or suspected fraud
• Auditors do not reassess sample sizes even when risks change during the audit	

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Some Key SAs – 600 Series (Using the work of others)



- 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

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Some Key SAs – 700 Series (Audit Report)



- SA 700 – Forming an Opinion and Reporting on Financial Statements
- SA 701- Communicating key Audit Matters in the Independent Auditor's Report
- 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

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FAQ – SA 700, SA 705 and SA 706 (Audit Opinion)

What are the Practical Issues in compliance with SA 700 Series	Frequent Observations by Regulators
• Auditors hesitate to issue a qualified, adverse, or disclaimer opinion due to pressure from management or TCWG	• Auditors failed to properly evaluate the sufficiency and appropriateness of audit evidence before forming an opinion
• Fear of losing clients or damaging professional relationships leads to an overuse of unmodified (clean) opinions	• Audit working papers did not provide adequate documentation supporting how auditors reached their conclusion
• Difficulty in determining whether a misstatement is "material" or "pervasive", leading to inconsistent application of qualified vs. adverse opinions	• Regulators noted weak linkage between audit findings and the final opinion expressed in the audit report
• EOM was used instead of issuing a modified opinion	• Failure to issue a modified opinion when there were material misstatements or insufficient evidence

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Questions?



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Thank you



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