

1

AUDITING

Auditing is

- Independent
- Examination
- Financial Information
- Any Entity
- Opinion Driven



2

2

Common Types of Audits

Statutory	Generally an audit of financial information
Internal	Audits performed to provide comfort on Internal Controls
Tax Audits	As Mandated under Sec 44 AB of the Income Tax Act
Concurrent	Audits performed co-terminus with the transaction.
Other Audits	Forensic, IS Audits, Environmental Audits, Social Audits

3

What makes a Good Auditor ?



The above characteristics highlight a good Auditor

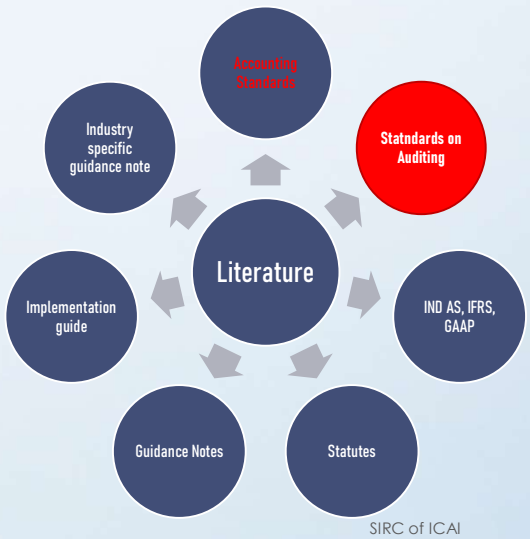
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What next to do ?

Knowledge	Acquire knowledge by Literature & Technology
Training	Get acquainted by attending training both on-class room and off-class room atmosphere
Implement	Put into use on-the-job in client's places – Using Technology
Review	Get the job reviewed for updation and improvement
Improve	Continuous improvement by doing all above + documenting the activities

5

Literature – Indicative & Non-Exhaustive



6

COVERAGE

- ✓ Standards on Auditing / Accounting Standards - Criticality
- ✓ Critical Standards on Auditing – SA 230 on Audit Documentation & SA 580 on Written Representations
- ✓ Certifications
- ✓ SAE, SRE & SRS

7

STANDARDS on AUDITING - Criticality

- Mandatory u/s 143 (9)
- Total compliance to be ensured
- Cultural Change Required
- Now, SA is Law, just as AS – notified under CA 2013
- History / Evolution
  - APC set up in 1982 – SAPs
  - Renamed as AASB in 2002 – AASs
  - New preface in 2008

The Companies Act 2013 - Section 143(9)

Every Auditor shall

comply with

AUDITING STANDARDS

8

NEW CLASSIFICATION

SQCs

Engagement Standards

SAs | SREs | SAEs | SRSs



9

WHY COMPLY WITH STANDARDS

- To expedite audits effectively in accordance with GAAPs
- To utilise resources effectively
- To guide, direct and supervise Assistants properly
- To ensure Quality Control
- To disprove charges of negligence
- To face & pass PEER REVIEW/ FRRB/ QRB
- To avoid Disciplinary Cases under COE



10

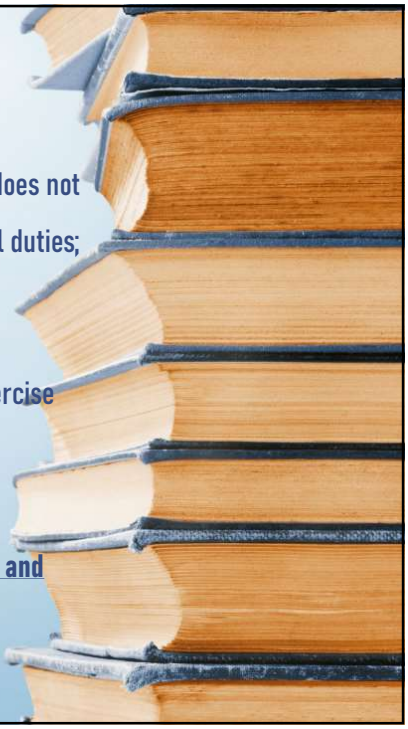
Clause (7) of Part I of First schedule

A CA in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is **grossly negligent** in the conduct of his professional duties;

Though very simply worded, it is a vital clause

In discharging his professional responsibilities it is expected that he would exercise a reasonable degree of diligence in his professional assignment.

The member should also act diligently in accordance with applicable technical and professional standards.



11

ICAI requirements – On SAs

- Clause (9) of Part I of Second schedule - A CA in practice shall be deemed to be guilty of professional misconduct, if he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.
- **'SAs'** were issued to secure compliance by members on matters which, in the opinion of the Council, are critical for the proper discharge of their functions
- Accordingly, while discharging their attest function, it will be the duty of the members to ensure that the **'SAs'** are followed strictly.
- If, for any reason, a member has not been able to perform an audit in accordance with such 'Standards', his report should draw attention to the material departures therefrom.



12

Risk of Material Misstatement - Very critical

Impact items – Debtors / Inventory / Creditors / Impairment / Investments

Relevant standards – SA & AS to be followed

Misconduct under

Clause 2 – Certifies/submits report without examining the related records

Clause-5 Fails to disclose any material fact in Financial Statement

Clause-6 Fails to report a known material misstatement appearing in Financial Statement

Clause-7 Performs professional duties without due diligence/grossly negligent

Clause-8 Fails to obtain sufficient information for expressing an opinion

Safeguard

- AS 2 on Inventories to be complied with
- Comply with the procedures given in paragraph 7 of SA 501 read with paragraphs A12 to A14 of SA 501
- Follow External Confirmation Procedures as in SA 505
- Follow AS 28 on impairment / AS 10 of fixed Assets

If it is not possible to do so, the Auditor may modify the opinion or express scope limitation in the Auditor's report in accordance with SA

Revenue – Change in demand/ market conditions

AS – 9 Compliance – Timing of Recognition of income critical

SA 200 – Objectives of audit and awareness of the business environment

Misconduct under

Clause-7 Performs professional duties without due diligence/grossly negligent

Clause-8 Fails to obtain sufficient information for expressing an opinion

Clause-5 Fails to disclose any material fact in Financial Statement

Safeguard

Substantive procedures to check the cut-off-procedures

Require disclosure in accordance to AS 9 regarding the postponement

Else, Modify the opinion in the auditor's report in accordance with SA 705(Revised).

Threat to **Going Concern – Separate Paragraph in Audit Report**

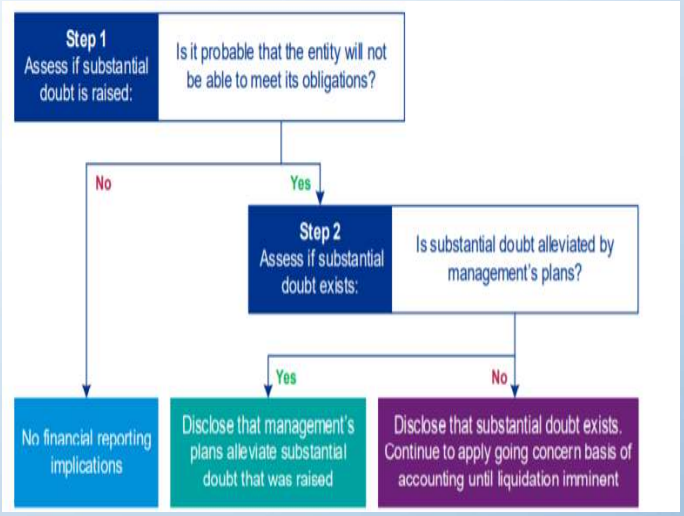
Non reporting is attracting

Misconduct under

Clause-7 Performs professional duties without due diligence/grossly negligent

Clause-8 Fails to obtain sufficient information for expressing an opinion

Clause-5 Fails to disclose any material fact in Financial Statement



15

Coverage – Critical Auditing standards

- SA 200 – Overall Objectives of Independent Auditor
- SA 210 – Terms of Audit Engagement
- SA 230 – Audit Documentation
- SA 240 – Auditors responsibilities towards Frauds
- SA 315 – Identifying and assessing risk (esp. ERP/SAP) – More critical This year
- SA 500 - Audit Evidence
- SA 501 - Audit Evidence – Additional Consideration for specific items
- SA 505 – External Confirmations
- SA 520 – Analytical review
- SA 530 – Audit Sampling
- SA 580 – Management Representations
- SA 620 – Using the work of an Expert – AS 15, AS 28, Internal controls



16



Cartoon by CA Vinayak Pai published in
Taxmanns Corporate Professionals Today Journal

17

Audit Documentation – SA 230

Audit documentation may be recorded on paper, electronic or other media, as in: - (to be kept for 7 years)

1) Appointment letter

2) Eligibility checklist/independence checklist

3) Regd AD Communication with previous auditor

4) Audit Engagement (SA 210) -Engagement Letter

5) Statement of Review of Internal Control & Assessment of Risk

6) Audit Plan (SA 300) -Audit programmes.

7) Written Representation(SA 580)

8) Audit Sampling (SA 530)

9) Audit Analysis

10) Basis of Conclusion

11) Audit Report



18

SA 580 – Written Representation

Written Representations- Tool for Audit Evidence

Written Representations are necessary information that Auditor requires in connection with the audit of entity's financial statements.

WRITTEN REPRESENTATION PROVIDE AUDIT EVIDIENCE, THEY DON'T PROVIDE "SUFFICIENT APPROPIATE AUDIT EVIDENCE" (SAAE)

If Management modifies or doesn't provide the requested written representations, it may alert the Auditor to the possibility that one or more significant issues may exist

Reliability on Written Representation

The fact, Management has provided reasonable written representations:

- does not affect the nature or extent of;
- other audit evidence that the Auditor obtains;
- about the fulfillment of Management's responsibilities, or about specific assertions.

19

Where the Auditors concludes that :

- ✓ There is sufficient doubt about the integrity of Management
- ✓ Written representation provided is not reliable
- ✓ Management has not provided the written representation

- Disclaimer of opinion shall be given

Wherever possible, obtain written representation signed by all directors or all partners or by duly authorized person at the audit conclusion

Illustrative representation letter has been given by ICAI - http://kb.icai.org/pdfs/PDFFile5b3b572a2e2ad9.34349938.pdf



20

Reporting requirements – SA relevance & CRITICAL

SA 260 – Communication of Audit matters with those charged with governance

SA 700 – Forming an opinion and reporting on financial statements

SA 701 – Key Audit Matters

SA 705 – Modified opinion

SA 706 - EOM / Other Matters Paragraph

CARO – Sec 143 (11)

IFCR – Sec 143 (3) (i)

Fraud reporting – Sec 143 (12) to 143 (15) & Rule 13

Reporting u/s 44AB of the Income Tax Act

Country by Country reporting u/s 286 (4) of IT Act



21

Other reports & certificates – Critical standards

SRS 4410 – Engagement on compiling of information

SRS 4400 – Engagement to perform Agreed upon Procedures (AUP)

SRE 2400 – Engagement to review financial statements

SAE 3400 – Certification of projections

*** Provisionals vs Audited ***



22

Critical Certifications-Guidance Note by ICAI & SA 805

- ✓ Certificates on the support of financial books of accounts and annual FS such as- **Capital contribution, Turnover, S. Debtors** & closing stock, statutory liabilities etc.
- ✓ Certificates for **Remittance outside India** in form 15CB
- ✓ Certification of Documents for Registration of Charges
- ✓ Various Certificates needed by the Companies Planning for IPO
- ✓ Certification under Exchange Control legislation for imports, remittances, ECB,DGFT,EOU, etc
- ✓ Certification for claim of refund under GST Act and other Indirect Taxes
- ✓ Certification of **Fair Values of Shares** of Company for the scope of merger/de-merger, Buy Back, Allotment of further shares and transfer of shares from resident to non-resident
- ✓ **Net worth Certificates** needed for the purpose of Bank finances, furnishing of Bank guarantee and issuance of Visa by Embassy.

23

Certifications

Critical Certificates issued by CAs

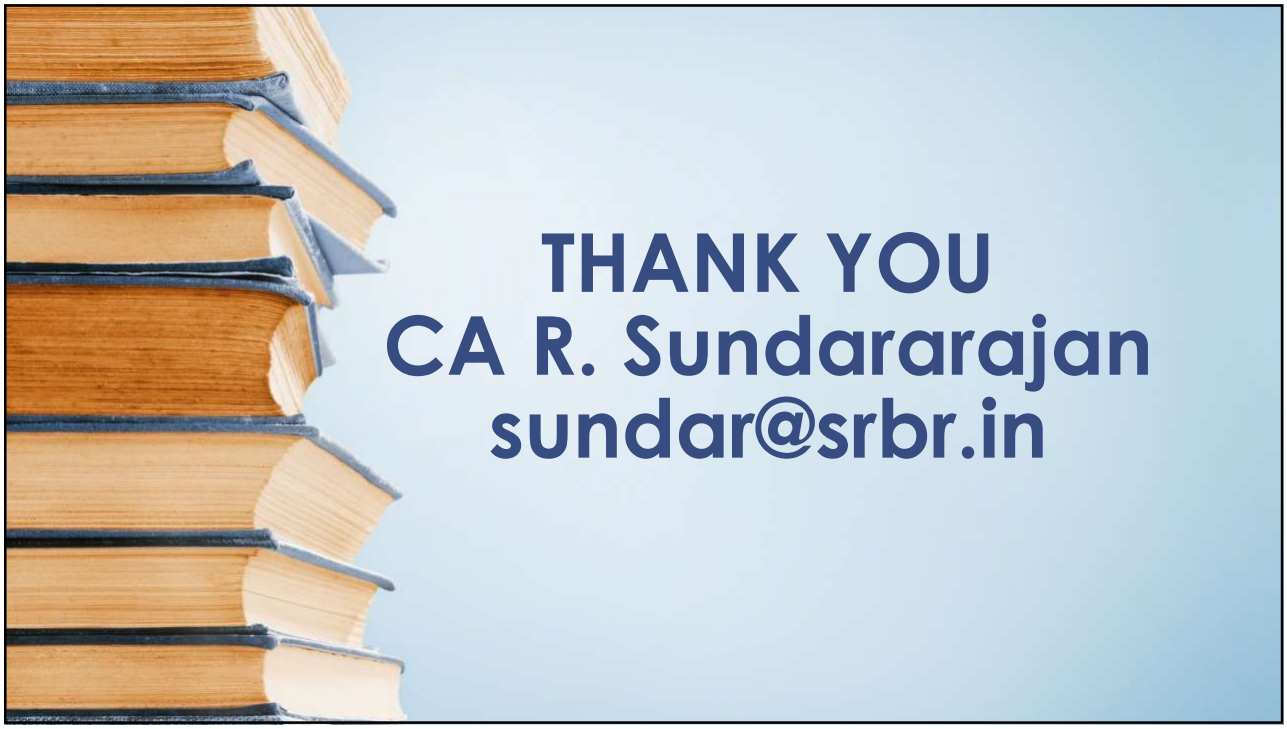
- ✓ Certificates on the grounds of statutory records being maintained under Indian Companies Act, 2013 and other applicable laws.
- ✓ Certification of **Arms length price** (Transfer Pricing) of the income Tax Act, 1961.
- ✓ **Utilization certificates** of various grants being discharge by Govt. of India to NGO's, Statutory Bodies, Autonomous Bodies, and charitable organizations.
- ✓ Certificates for claiming various **deductions & exemption** under Income Tax Laws & various other rules & regulation.
- ✓ Reports to be filed by Indian company who has arranged issue of GDR/ ADR

24

TO SUM UP ....

- ✓ Take up the assignment objectively
- ✓ Identify the exact technical requirements
- ✓ Apply the relevant standards & literature
- ✓ Retain the necessary supporting papers
- ✓ Compile the contemporaneous Documentation
- ✓ Take Representations suitably
- ✓ If satisfied – Sign Off the reports/certificates
- ✓ **ICAI – Ultimate authority on Audit Compliances**

25



26