

ADVANCED AUDITING & PROFESSIONAL ETHICS - CA FINAL

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Concept Book – Volume I

(Volume 2 & 3 – Question Bank)

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The primary aim of this book is to make FEAR FREE approach towards CA Final Auditing. I salute your hard work and determination to pursue this course. Let me also help you in completing this course with highest mark in Auditing subject.

Those who cannot able to study big books can make use of this student friendly material.

Disclaimer

This book is not substitute for ICAI material. Students are requested to go through ICAI material and use this material as reference.

Rule for reading this book:

1. First read Standards on Auditing
2. When you are reading lesson – refer appropriate standards where ever necessary
3. After completing every lesson – take question bank and solve those questions

CONTENTS

SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing"	4
SA 210 on "Agreeing the Terms of Audit Engagements"	8
SA 220 Quality Control for an Audit of Financial Statements	11
SA 230 "Audit Documentation"	12
SA 240, "The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements"	15
SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements"	18
SA 260, "Communication with Those Charge with Governance"	20
SA 265 "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management"	21
SA 299 "Joint Audit of Financial Statements"	22
SA 300 "Planning an Audit of Financial Statements"	25
SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment"	27
SA 320 "Materiality in Planning and Performing an Audit"	31
SA 330 on "The Auditor's Responses to Assessed Risks"	33
SA 402 on "Audit Considerations Relating to an Entity Using a Service Organisation"	35
SA 450 "Evaluation of Misstatements identified during the Audit"	36
SA 500 "Audit Evidence"	37
SA 501 "Audit Evidence- Specific consideration for selected items"	39
SA 505 "External Confirmations"	42
SA 510 "Initial Audit Engagements – Opening Balances"	44
SA 520 'Analytical Procedures'	45
SA 530 "Audit Sampling"	48
SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosure"	51
SA 550 "Related Parties"	52
SA 560 "Subsequent Events"	54
SA 570 Going Concern	56
SA 580 "Written Representations"	61
SA 600 on "Using the Work of Another Auditor"	65
SA 610 "Using the Work of Internal Auditors"	67
SA 620 "Using the Work of an Auditor's Expert"	70

Advanced Auditing and Professional Ethics

SA 700 "Forming an Opinion and Reporting on Financial Statements"	73
SA 701: Communicating Key Audit Matters in the Independent Auditor's Report	82
SA 705 "Modifications to the Opinion in the Independent Auditor's Report"	84
SA 706 – Emphasis on Mater Paragraph and Other Mater Paragraph in Independent Auditor's Report.....	89
SA 710 "Comparative Information - Corresponding Figures and Comparative Financial Statements"	90
SA 720 The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements.....	92
Lesson 1: AUDIT STRATEGY, PLANNING AND PROGRAMMING	94
Lesson 2: RISK ASSESSMENT AND INTERNAL CONTROL.....	97
Lesson 3: SPECIAL AUDIT TECHNIQUES	101
Lesson 4: COMPANY AUDIT	102
Lesson 5: LIABILITIES OF AUDITORS	122
Lesson 6: AUDIT REPORT.....	125
Lesson 7: AUDIT COMMITTEE & CORPORATE GOVERNANCE.....	129
Lesson: 8 AUDIT OF CONSOLIDATION OF FINANCIAL STATEMENTS.....	135
Lesson 9: AUDIT OF BANKS	138
Lesson 10: AUDIT OF GENERAL INSURANCE COMPANIES.....	146
Lesson 11: AUDIT OF NON BANKING FINANCIAL COMPANIES	153
Lesson 12: AUDIT UNDER FISCAL LAWS	158
Lesson 13: PEER REVIEW & QUALITY REVIEW	182
Lesson 14: AUDIT OF PUBLIC SECTOR UNDERTAKING	188
Lesson 15: PROFESSIONAL ETHICS	195
Lesson: 16 INVESTIGATION & DUE DILIGENCE.....	216
Lesson 17: INTERNAL, MANAGEMENT AND OPERATIONAL AUDIT	245
Lesson 18: SPECIAL ASPECTS OF AUDITING IN AN AUTOMATED ENVIRONMENT .	253
Lesson 19: AUDIT UNDER COMPUTERISED INFORMATION SYSTEM ENVIRONMENT	265
Lesson 20: AUDIT OF CO-OPERATIVE SOCIETIES	274
Lesson 21: COST AUDIT.....	279
Lesson 22: THE SARBANES-OXLEY ACT OF 2002	283

SA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”

The basic principles which govern the auditor’s professional responsibilities and the same should be complied with whenever an audit is carried out.

1. **Integrity**, The auditor should be straight forward, honest and sincere in his approach to his professional work with highest degree of integrity
2. **Independence**: He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded
3. **Objectivity**: (a) To express an Opinion on True and Fairness of Financial Statements (b) To express opinion about Financial Statement is prepared as per acceptable financial reporting framework (c) To report on fraud or error.
4. **Confidentiality**: The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.
5. **Skills and Competence**: Adequate training, experience in auditing is necessary. Continuous updation on developments in ICAI pronouncements like AS , SA , and statutory requirements law of contracts, partnership; specific statutes and provisions applicable, e.g. Companies Act, Co- operative Societies Act, etc
The auditor should possess specific knowledge of accountancy, auditing, taxation, etc. which are acquired by him during the course of his theoretical education.
Apart from the knowledge acquired by the auditor in the formal manner, the auditor should also possess certain personal qualities such as, tact; caution; firmness; good temper; judgement; patience; clear headedness and common sense; reliability and trust, etc.
6. **Work performed by others**: he continues to be responsible for forming and expressing his opinion on the financial information. he should exercises adequate skill and care.
7. **Documentation**: The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles.
8. **Planning**: The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client’s business.
9. **Audit evidence**: The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions therefrom on which to base his opinion on the financial information.
10. **Accounting system and Internal Control**: The auditor should gain an understanding of the accounting system and related controls and should study and evaluate the

operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures.

11. **Audit Conclusions and Reporting:** The auditor should review and assess the conclusions drawn from the audit evidence obtained and from the audit evidence obtained and from his knowledge of business of the entity as the basis for the expression of his opinion on the financial information.

The audit report should contain a clear written opinion on the financial information and should comply the legal requirements. When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons therefore

What are the inherent limitations of audit

The auditor is not expected to, and **cannot, reduce audit risk to zero** and **cannot** therefore obtain **absolute assurance** that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being **persuasive rather than conclusive**. The inherent limitations of an audit arise from:

1. The nature of financial reporting;
2. The nature of audit procedures; and
3. The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

Audit Risk

- Audit risk is a function of the risks of material misstatement and detection risk.
- The assessment of risks is based on audit procedures and evidences
- The assessment of risks is a matter of professional judgment

For purposes of the SAs, audit **risk does not include** the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not.

Audit risk is a technical term related to the process of auditing it does include loss from litigation, adverse publicity (in Maggie case), or other events arising in connection with the audit of financial statements.

Three components of audit risk are:

- Inherent risk (risk that material errors will occur);
- Control risk (risk that the client's system of internal control will not prevent or correct such errors); and
- Detection risk (risk that any remaining material errors will not be detected by the auditor). The nature of each of these types of risk and their interrelationship is discussed below:

Inherent risk –

Inherent risk is higher for some assertions and related **classes of transactions, account balances, and disclosures** than for others.

- For example, it may be higher for **complex calculations** or significant **estimation uncertainty**.
- External circumstances giving rise to business risks may also influence inherent risk.
- **Technological developments** might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement.
- Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterised by a large number of business failures.

Control risk –

- Control risk is a function of the **effectiveness** of the design, implementation and maintenance of **internal control** by management **to address identified risks** that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial statements.
- However, internal control, no matter how well designed and operated, **can only reduce, but not eliminate, risks of material misstatement** in the financial statements, because of the inherent limitations of internal control.
- These include, for example, the possibility of **human errors** or mistakes, or of controls being circumvented by collusion or **inappropriate management** override. Accordingly, some control risk will always exist.
- The SAs provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the **nature, timing and extent of substantive procedures** to be performed.

Detection risk –

Risk that an auditor might select an **inappropriate audit procedure**, misapply an appropriate audit procedure, or **misinterpret the audit results**.

For a given level of audit risk, the **acceptable level** of detection risk bears an **inverse relationship** to the assessed risks of material misstatement at the assertion level.

For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.

Detection risk relates to the **nature, timing, and extent of the auditor's procedures** that are determined by the auditor **to reduce audit risk** to an acceptably low level. It is therefore a function of the effectiveness of an audit procedure and of its application by the auditor.

Matters such as:

- adequate planning;
- proper assignment of personnel to the engagement team;
- the application of professional skepticism; and
- supervision and review of the audit work performed,

SA 210 on “Agreeing the Terms of Audit Engagements”

The auditor may decide not to send a new audit engagement letter or other written agreement each period.

However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- Any indication that the **entity misunderstands** the **objective** and **scope of the audit**
- Any revised or special terms of the audit engagement. (in case of recurring audit)
- A **recent change** of senior management/ ownership
- A significant change in **nature or size** of the entity's business.
- A change in **legal or regulatory** requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.
- A change in other reporting requirements

Engagement Letter for accepting the appointment as an Auditor:

To the Board of Directors of XYZ Company Limited

You have requested that we **audit** the financial statements of XYZ Company Limited, which comprise the **Balance Sheet as at** March 31, 20XX, and the **Statement of Profit & Loss**, and **Cash Flow statement for the year** then ended, and a summary of **significant accounting policies** and other **explanatory information**. We are **pleased to confirm** our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will conduct our audit **in accordance with Standards on Auditing (SAs)**, issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with **ethical requirements** and plan and perform the audit to obtain **reasonable assurance** about whether the financial statements are **free from material** misstatement. An audit involves performing procedures to obtain **audit evidence** about the amounts and disclosures in the financial statements. The procedures selected depend on the **auditor's judgment**, including the **assessment of the risks** of material misstatement of the financial statements, whether due **to fraud or error**. An audit also includes **evaluating** the appropriateness of **accounting policies** used and the reasonableness of accounting estimates made by management, as well as evaluating the **overall presentation** of the financial statements.

Because of the **inherent limitations** of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs.

In making our risk assessments, we consider **internal control** relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, **but not** for the purpose of **expressing** an opinion on the **effectiveness** of the entity's internal control. However, we will **communicate** to you in writing

concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

Our audit will be conducted on the basis that **management** and, where appropriate, those charged with governance acknowledge and understand that they have **responsibility**.

(a) For the preparation of financial statements that give a true and fair view in accordance with the Financial Reporting Standards.⁸ This includes:

1. The responsibility for the **preparation of financial statements** on a going concern basis.
2. The responsible for selection and consistent application of appropriate **accounting policies**, including implementation of applicable **accounting standards** along with proper explanation relating to any **material departures** from those accounting standards.
3. The responsibility for making judgements and **estimates that are reasonable** and prudent so as to give a **true and fair** view of the state of affairs of the entity at the end of the financial year and of the profit or loss of the entity for that period.

(b) For such **internal control** as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(c) To provide us with:

- i. **Access**, at all times, to all information, including the **books, account, vouchers** and other records and documentation, of the Company, whether kept at the head office of the company or elsewhere, of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ii. **Additional information** that we may request from management for the purpose of the audit; and
- iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the Company such information and **explanations** as we may think necessary for the performance of our duties as auditor.

As part of our audit process, we will request from management and, where appropriate, those charged with governance, **written confirmation** concerning representations made to us in connection with the audit.

We also wish to invite your attention to the fact that our audit process is subject to **'peer review'** under the Chartered Accountants Act, 1949 to be conducted by an Independent reviewer. The reviewer may inspect, examine or take abstract of our working papers during the course of the peer review.

We look forward to **full cooperation** from your staff during our audit.

The form and content of our report may need to be amended in the light of our audit findings.

Advanced Auditing and Professional Ethics

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

R & M Co. Chartered Accountants

Firm's Registration No.

.....

(Signature)

Date : (Name of the Member)

Place : (Designation)

Acknowledged on behalf of XYZ Company by

..... (Signature)

Name and Designation Date

SA 220 Quality Control for an Audit of Financial Statements

SQC 1 - QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS AND SA 200 are same.

How an audit firm has to operate has been discussed in this standard:

While selecting human resource: Proper interview has to be conducted – explain the firm's policy on HR.

After selecting a candidate – Adequate training shall be given, regarding, how to perform audit, documentation, responsibility

Leadership quality and monitor people: The partner shall have leadership quality. The partner has to monitor his staffs and assistants at regular intervals and guide them.

Ethical requirement: The firm shall follow all the ethical requirement like independence, integrity, confidentiality, professional behaviour.

Decision on continuance of client: Whether are not to continue with the client. Sometimes the client puts pressure on auditor for tax evasion etc.,

- The integrity of the principal owners, key management and those charged with governance of the entity;
- Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- Whether the firm and the engagement team can comply with relevant ethical requirements; and
- Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship

Engagement Performance: Policies and procedures designed to provide with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirement

SA 230 “Audit Documentation”

Audit Working Papers are the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

Working papers are the

- (a) **Evidence** of the auditor’s basis for a **conclusion** about the achievement of the overall objective of the auditor; and
- (b) Evidence that the audit was planned and **performed in accordance with SAs** and applicable **legal and regulatory** requirements.

Besides they serve a number of additional purposes, including the following:

1. Assisting the engagement team to **plan** and perform the audit.
2. Assisting members of the engagement team responsible for **supervision** to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220.
3. Enabling the engagement team to be **accountable** for its work.
4. Retaining a record of matters of continuing significance to **future** audits.
5. Enabling the conduct of quality control reviews and inspections in accordance with SQC 1.
6. Enabling the conduct of **external inspections** in accordance with applicable legal, regulatory or other requirements.

Working papers should contain

- audit plan,
- the nature, timing and extent of auditing procedures performed, and
- the conclusions drawn from the evidence obtained.

Assembling of working papers:

The auditor shall assemble the audit working papers in an audit file and complete the administrative process of assembling the final audit file on a timely basis (within 60 days) after the date of the auditor’s report.

Ownership of working papers:

The working papers are the property of the auditor and the auditor has right to retain them.

- He may **at his discretion** make available working papers to his client.
- The auditor should **retain** them long enough to meet the needs of his practice and legal or professional requirement. The auditor should adopt reasonable procedures for custody and confidentiality of his working papers.
- An auditor is **not required to provide** the clients or other auditors’ access to his working papers. Principal auditor of the company does not have right of access to the working papers of the branch auditor.

- In the case of a company, the main auditor has, to consider the report of the branch auditor and has a right to seek clarification and to visit the branch **but cannot ask for the copy** of working paper and therefore, the **branch auditor** is under no compulsion to give photocopies of his working paper to the principal auditor.
- The **client does not have a right to access the working papers** and it is up to the discretion of the auditor to make them available or not to others including the client.

Custody of working papers: The auditor should adopt reasonable procedures for safe custody and confidentiality of his working papers.

Retention of working papers:

Working papers should be retained, long enough (7 years), for a period of time sufficient to meet the needs of his practice and satisfy any legal or professional requirement of record retention.

In case of recurring audits, auditors generally prepare **two types of audit files**.

(1) **Permanent Audit file:** It includes –

(i) Information concerning the legal and organisational structure of the entity. In the case of a company, this includes the Memorandum and Articles of Association. In the case of a statutory corporation, this includes the Act and Regulations under which the corporation functions.

(ii) Extracts or copies of important legal documents, agreements and minutes relevant to the audit.

(iii) A record of the study and evaluation of the internal controls related to the accounting system. This might be in the form of narrative descriptions, questionnaires or flow charts, or some combination thereof.

(iv) Copies of audited financial statements for previous years.

(v) Analysis of significant ratios and trends.

(vi) Copies of management letters issued by the auditor, if any.

(vii) Record of communication with the retiring auditor, if any, before acceptance of the appointment as auditor.

(viii) Notes regarding significant accounting policies.

(ix) Significant audit observations of earlier years.

(2) **Current Audit file:** The current file normally includes:

(i) Correspondence relating to acceptance of annual **reappointment**.

(ii) Extracts of important matters in the **minutes of Board Meetings** and General Meetings, as are relevant to the audit.

(iii) Evidence of the planning process of the audit and **audit programme**.

(iv) **Analysis** of transactions and balances.

(v) A record of the **nature, timing and extent of auditing procedures** performed and the results of such procedures.

(vi) Evidence that the work performed by assistants was supervised and reviewed.

(vii) Copies of **communications with other auditors**, experts and other third parties.

(viii) Copies of letters or notes concerning audit matters communicated to or discussed with the client, including the terms of the engagement and material weaknesses in relevant **internal controls**.

(ix) Letters of **representation** or confirmation received from the client.

(x) **Conclusions reached** by the auditor concerning significant aspects of the audit.

(xi) Copies of the financial information being reported on and the related audit reports

Audit Note Books:

- Bounded book where large varieties of matters observed during the audit were recorded.
- It is a part of current working paper file
- It contains queries raised, explanation obtained.
- After completing each audit the audit note book shall be punched and filed in the current working paper file.

SA 240, “The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements”

The **primary responsibility** for the prevention and detection of fraud rests with both those charged with governance of the entity and **management**.

An **auditor** conducting an audit in accordance with SAs is also responsible for obtaining **reasonable assurance** that the financial statements taken as a whole are **free from material misstatement**, whether caused by fraud or error.

The **risk of not detecting** a material misstatement resulting from **fraud is higher** than the risk of not detecting one resulting from **error**. This is because **fraud may involve** sophisticated and **carefully organized schemes** designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor.

Possible Sources of Fraudulent Financial Reporting:

Fraudulent financial reporting involves **intentional misstatements or omissions of amounts or disclosures** in financial statements to deceive financial statement users.

It may be accomplished by **manipulation, falsification, or alteration of accounting records or supporting documents** from which the financial statements are prepared or **Misrepresentation** in, or intentional omission from, the **financial statements** of events, transactions or other significant information or intentional misstatements involve intentional misapplication of accounting principles relating to measurement, recognition, classification, presentation, or disclosure etc.

It often involves management override of controls, **misappropriation of assets** etc that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as:

- a. Recording **fictitious journal entries**, particularly close to the end of an accounting period, to **manipulate operating results** or achieve other objectives.
- b. Inappropriately **adjusting assumptions** and changing judgments used to **estimate** account balances.
- c. Omitting, advancing or **delaying recognition** in the financial statements of events and transactions that have occurred during the reporting period.
- d. Concealing, or **not disclosing, facts** that could affect the amounts recorded in the financial statements.
- e. **Engaging in complex transactions** that are structured to misrepresent the financial position or financial performance of the entity.
- f. Altering records and terms related to significant and **unusual transactions**.
- g. **Embezzling receipts** (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts).
- h. **Stealing physical assets** or intellectual property (for example, stealing inventory for personal use or for sale, stealing scrap for resale, colluding with a competitor by disclosing technological data in return for payment).

- i. Causing an entity to **pay for goods** and services **not received** (for example, payments to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating prices, payments to fictitious employees).
- j. **Using** an entity's assets for **personal use** (for example, using the entity's assets as collateral for a personal loan or a loan to a related party).

Duties & Responsibilities of an auditor in case of Material misstatement resulting from management fraud:

The term fraud refers to an 'Intentional Act' by **one or more individuals** among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

Collusion may cause the auditor to believe that audit evidence is persuasive when it is, in fact, false. While the auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for the auditor to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error.

When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.

Material Misstatements:

when the auditor **comes across** such circumstances indicating the possible misstatements resulting from the fraud then the **auditor needs to consider the impact of fraud** on financial statements and its **disclosure** in the audit report.

Impossibility to continue the performance of audit:

As a result of a misstatement resulting from **fraud or suspected fraud**, the auditor encounters exceptional circumstances that **bring into question the auditor's ability to continue** performing the audit, the auditor shall:

(a) Determine the professional and legal responsibilities applicable in the circumstances, including whether there is a requirement for the auditor to **report to the person or persons who made the audit appointment or, in some cases, to regulatory authorities**; - 143 (12) OF COMPANIES ACT 2013.

(b) Consider whether it is appropriate to **withdraw from the engagement**, where withdrawal from the engagement is legally permitted; and

(c) If the auditor withdraws:

- **Discuss** with the appropriate level of management and those charged with governance, the auditor's withdrawal from the engagement and the **reasons for the withdrawal**; and
- Determine whether there is a professional or legal **requirement to report** to the person or persons who made the audit appointment (140 – RESIGNATION OF

AUDITORS – COMPANIES ACT 2013 – ADT 3) or, in some cases, to regulatory authorities (eg. C & AG, RBI), the auditor's withdrawal from the engagement and the reasons for the withdrawal.

Errors in Valuation of Inventories and Auditor's Responsibilities:

SA 240 requires that if circumstances indicate the possible existence of fraud or error, the auditor should consider the potential effect of the suspected fraud or error and If the auditor believes the suspected fraud or error could have a material he should perform such modified or additional procedures.

SA 240 also requires that when the auditor **identifies** a misstatement, the auditor shall **evaluate** whether such a misstatement is indicative of fraud. Further, SA 320 **Materiality** in Planning and Performing an Audit, also requires that in such circumstances, the auditor should consider requesting the management to **adjust the financial information** or consider extending his audit procedures. If the **management refuses to adjust** the financial information and the results of extended audit procedures do not enable the auditor to conclude that the aggregate of **uncorrected misstatements** is not material, the auditor should express a qualified or adverse opinion, as appropriate.

Example: Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives.

SA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements”

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.

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 including tax and labour laws.

Further, **non-compliance** with other laws and regulations may result in **finances, litigation** or other consequences for the entity, the costs of which may **need to be provided** for in the financial statements, but are not considered to have a direct effect on the financial statements.

Auditor should ensure the disclosure of above fact and provision for the cost of fines, litigation or other consequences for the entity. In case if the auditor concludes that non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements, the auditor shall express a qualified or adverse opinion on the financial statement

Reporting responsibility of an auditor in the context of non-compliance of Law and Regulation:

Reporting Non-Compliance to Those Charged with Governance:

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 (**non material**)

If, in the auditor’s judgment, the non-compliance referred above is **believed to be intentional** and material, the auditor shall **communicate** the matter to those charged with governance **as soon as practicable**.

If the auditor **suspects** that management or those charged with governance are **involved** in non-compliance, the auditor shall communicate the matter to the **next higher level** of authority at the entity, **if it exists**, such as an **audit committee** or **supervisory board**. Where **no higher authority** exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to **obtain legal advice**.

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 express a **qualified or adverse opinion** on the financial statements.

If the auditor is precluded (**not allowed**) by management or those charged with governance from **obtaining sufficient appropriate audit evidence** to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a **limitation on the scope** of the audit in accordance with SA 705.

SA 260, "Communication with Those Charge with Governance"

Factors governing modes of communication of auditor with those charged with governance

The auditor may decide whether to communicate **orally or in writing**

The extent of detail or summarisation in the communication, and whether to communicate in a **structured or unstructured manner** may be affected by such factors as:

- I. The size, operating structure, control environment, and legal **structure of the entity**.
- II. In the case of an audit of special purpose financial statements, whether the auditor also audits the entity's general purpose financial statements.
- III. **Legal requirements**. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law
- IV. The expectations of those charged with governance, including arrangements made for **periodic meetings** or communications with the auditor.
- V. The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- VI. Whether there have been **significant changes** in the membership of a governing body

The auditor shall communicate with those charged with governance the following:

- i. The auditor's views about **significant** qualitative **aspects** of the entity's accounting practices, including accounting **policies**, accounting **estimates** and financial statement **disclosures**.
- ii. Significant **difficulties**, if any, encountered during the audit.
- iii. Significant matters, if any, arising from the audit that were discussed, or subject to **correspondence with management** and
- iv. **Written representations** the auditor is requesting; and
- v. Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

An auditor should also communicate his responsibilities in relation to the financial statement audit, including that:

- (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
- (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.