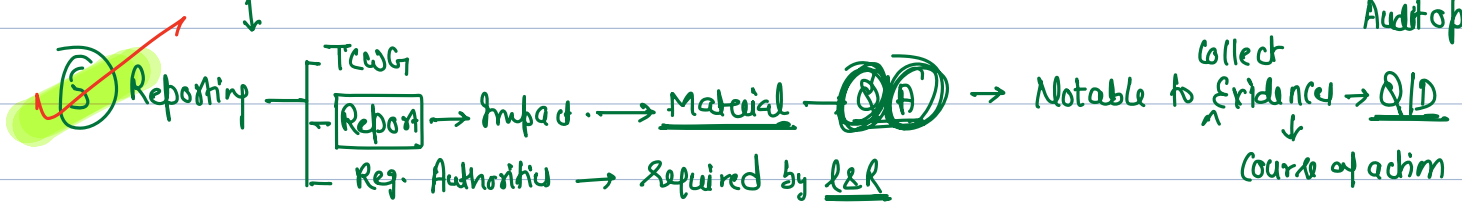
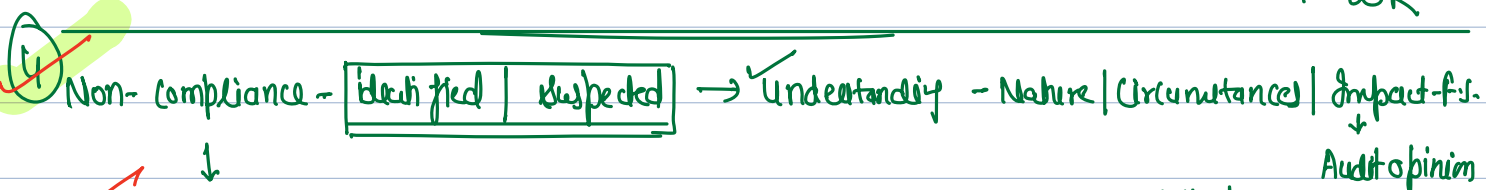
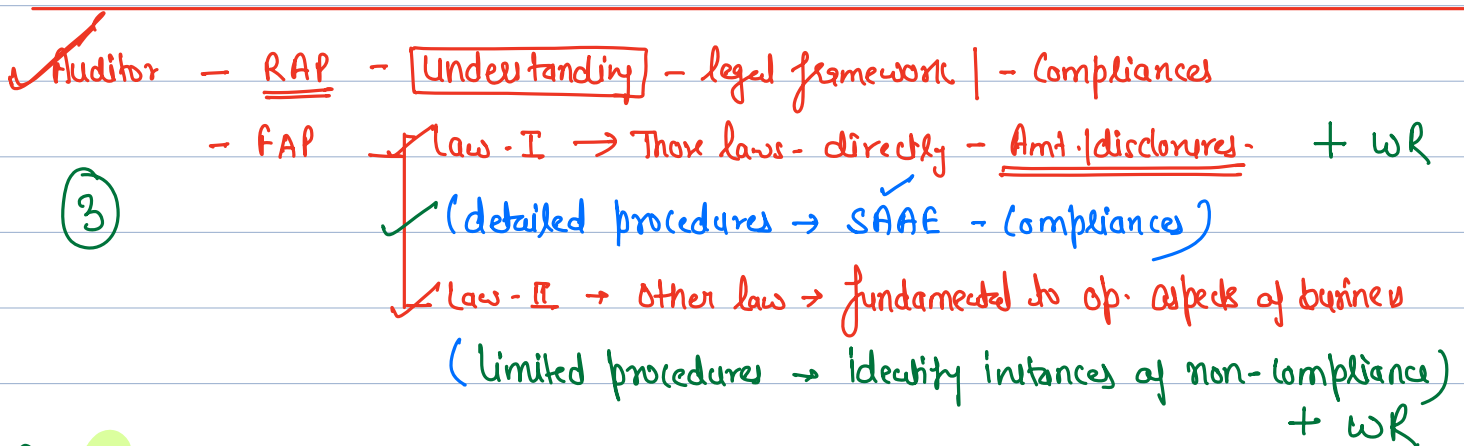
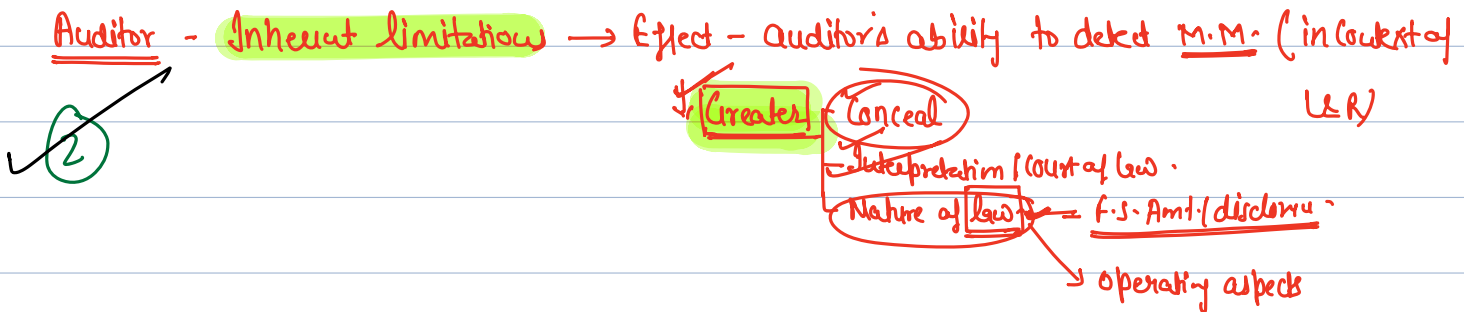
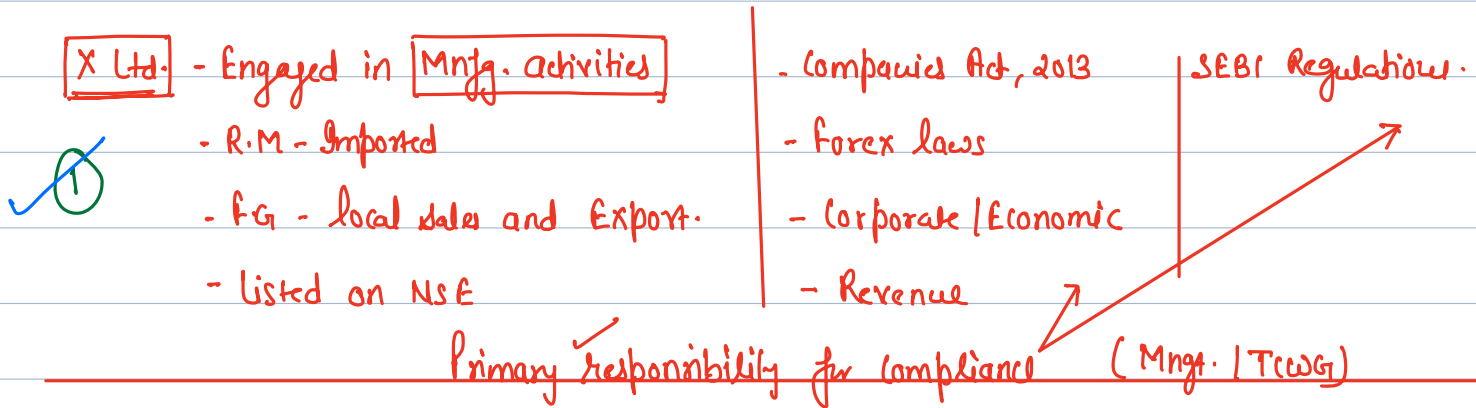


Chapter - 2 "General Auditing Principles and Auditor's Responsibilities"

(Lecture 2)

(1) SA-240 "Auditor's Responsibilities relating to fraud in an audit of f.s.":

(2) SA-250 "Consideration of laws and regulations in an audit of f.s.":



(i) Management Responsibility for Compliance with laws and Regulations:

- Primary responsibility for laws and regulations applicable over the Entity, is of Mngt. and TCWG.
- For Prevention and detection of non-compliance with L&R, management may consider the implementation of following:
 - (a) Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
 - (b) Instituting and operating appropriate systems of I.C.
 - (c) Developing, publicising and following a Code of Conduct.
 - (d) Ensuring that Employees are well-trained and understand Code of Conduct.
 - (e) Monitoring the Compliance of Code of Conduct and acting appropriately in case of non-adherence.
 - (f) Engaging legal advisor to assist in monitoring legal requirements.
 - (g) Maintaining a register of significant laws and regulations.

(ii) Potential effects of Inherent limitations on auditor's ability to detect MM:

In the context of L&R, potential effect of Inherent limitations on auditor's ability to detect MM is Greater, because of:

- (a) L&R relating to operating aspects, do not affect the F.S. directly; hence not captured by Info. System relating to financial reporting.
- (b) Non compliance may involve conduct designed to conceal it. e.g. forgery, intentional misrepresentation to auditor, Mngt. Overrides of Controls.
- (c) Whether an act constitutes non-compliance is matter for legal determination by a Court of law.

(iii) Auditor's responsibilities / procedures w.r.t. Compliance of laws and regulations:

(A) Risk Assessment Procedures (RAP)

Obtain understanding of:

- (a) legal and regulatory requirements applicable over the Entity; and
- (b) How Mngt. ensures compliance of such L&R.

(B) Response to Assessed Risks

I. For laws that directly affect the determination of amount and disclosures in F.S.:

Auditor should perform detailed procedures to obtain SAAE so as to ensure compliance with L&R.

II. For laws that do not directly affect the determination of amount and disclosures in F.S., but are fundamental to operating activities of the Entity:

Auditor shall perform limited procedures to identify instances of non-compliance. ★

★ Inquiry of Mngt. and T&CG
Inspection of correspondence with regulatory authorities.

Note: Auditor should also Obtain a WR from Mngt. / T&CG that all known instances of non-compliance, has been disclosed to auditor.

(iv) Auditor's response if any non-compliance is identified or suspected:

(a) Obtain an understanding of Nature of the act and the Circumstances in which it occurs.

(b) Discuss the matter with Mngt. and T&CG

(c) Evaluate the effect of non-compliance on the financial statement.

(d) If Mngt. do not provide sufficient information, consider need to obtain

Legal advise.

- (e) Evaluate the effect on auditor's opinion and other aspects of audit (e.g. ROMM; NTE of audit procedures, reliability of WFR etc.)

(v) Reporting Requirements:

- (A) To TCWG:
- (a) Matters involving non-compliance;
 - (b) Effects of non-compliance on audit opinion;
 - (c) If TCWG involved in non-compliance, communicate to higher authorities, if any.
 - (d) If no higher authorities, obtain legal advise.

- (B) To Regulatory and Enforcement Authorities: Determine whether auditor has a responsibility to report identified / suspected non-compliance to parties outside the Entity.

- (C) Audit Report: If non-compliance affects the f.s., auditor should modify the opinion w.r.t. that matter. (Qualified or Adverse)
However, if auditor is not able to conclude the effect of non-compliance on f.s. due to



- (vi) Indicators of Non-Compliance: (Learning + Noting - H.W.) - Q. Bank

(3) Communication with Those Charged with Governance (SA 260):

(i) Introductory topics: - Reading from book -

(ii) Determination of TCwG:

- Auditor is required to determine the appropriate person within the Organisation to whom communication is to be made.
- If any matter has been communicated to a person in his managerial role, same matter need not be communicated to that person in his governance role.

Imp:
(iii)

Matters to be Communicated:

✓ (A) Auditor's responsibilities in relation to audit of F.S.:

(For this purpose, Letter of Engagement issued as per requirements of SA 210, may be used).

(B) Planned scope and timing of audit:

including auditor's plan to assess ROMM;
auditor's approach towards I.C.;
application of Materiality concept;
Significant risks identified during the audit etc.

Note: Auditor should ensure that effectiveness of audit should not be compromised, in any case.

Imp:

(C) Significant findings from the audit:

(i) Qualitative aspects of accounting policies, practices, estimates and F.S. disclosures.

(ii) Significant difficulties encountered during the audit

Examples of significant difficulties: (Learning + Noting - How)

- (iii) Significant Matters discussed with Mngt. and WR requested from them. For Ex: Non-compliance with law and regulation (SA 250)
Transactions with related parties (SA 550)
Subsequent Events (SA 560)
Accounting Estimates (SA 540)
Suspected or Alleged Fraud (SA 240)

(iv) Circumstances that may affect the form and Content of audit report.

For Ex: Circumstances covered under SA 570 for MORG

" " " SA 701 for KAM

" " " SA 705 for Modified opinions

" " " SA 706 for ESM / OM Para.

" " " SA 720 for Other Information

Contained in Annual Report.

(v) Any other matter, that appears significant to the auditor.

(D) Auditor's Independence: Required in case of audit of f.s. of listed entities.

Statement of Independence comprises of:

~~(a)~~ Compliance of Ethical requirements including independence;

~~(b)~~ Any relationship that may affect independence;

~~(c)~~ Related safeguards that are applied to eliminate identified threats to independence.

Note: Statement of Independence should be in written form.

(iv) Communication Process and Documentation Requirements: - Self study from book -