

Chapter - 2 "General Auditing Principles and Auditor Responsibilities"

- (1) Auditor's responsibilities relating to fraud in an audit of F.S. (SA 240)
- (2) Consideration of laws and regulations in an audit of F.S. (SA 250)
- (3) Communication with TCWG (SA 260)
- (4) Joint Audit of financial statements (SA 299):

(i) Audit Planning, Risk Assessment and Allocation of work:

- EP and key members of ET of each of the joint auditors shall be involved in planning the audit.
- Audit Strategy shall be established jointly.
- Joint auditors shall discuss and develop a joint audit plan. While developing audit plan, joint auditors shall:
 - Identify division of area;

Ascertain Reporting Objectives

Consider factors that are significant in directing ET Efforts.

Consider Results of Preliminary Engagement Activities ←

Ascertain NTE of Resources necessary to perform the audit.

- RMM to be considered by each of the joint auditor and shall be communicated to other joint auditor.
- Joint auditors shall obtain common written representations.
- " " " " Common Engagement letters.
- Work Allocation document is to be prepared and signed by all joint auditors and communicated to TCWG.
- Joint auditors shall divide the work among themselves on mutual understanding; based on identifiable units or other suitable considerations.

- No corresponding ISA

- Self regulatory measure recommended by Council of ICAI

- Sec. 139(3) of CA, 2013
↓
Members - Resolution ←

(a) Rotation of Auditing Partner

(b) Joint audit

Imp
(i)

Responsibilities of Joint Auditors:

(A) Individual Responsibilities of Joint Auditor

- (a) For work allocated to such joint auditor including proper execution.
- (b) To determine NTE of audit procedures to be applied to areas of work allocated.
- (c) To study and evaluate prevailing Internal Controls and assessment of Risks related to areas of work allocated.
- (d) Execution of procedures performed in respect of Areas of Common Interest.

(B) Joint and Several responsibilities of joint auditors.

- (a) For work not divided among joint auditors and carried by all.
- (b) For decisions as to NTE of audit procedures for subject matters of common interest.
- (c) Examining whether F.S. comply with requirements of relevant statutes.
- (d) Examining presentation and disclosure of financial items in the financial statements.
- (e) Ensuring that audit report comply with requirements of relevant statute, SA and other relevant pronouncements.

N - Nature - [Inquiry, Suspicion, ECL, WRI, A-P]
T - Timing - [Interim, Cut-off]
E - Extent - [100%, < 100% (Sampling)]

(iii) Coordination among joint auditors: - Reading from book -

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(iv)

Reporting Consideration:

- Joint auditors shall arrive at a common opinion and issue a single report signed by all joint auditors.
- However, if there are differences of opinion among the joint auditors "separate reports" shall be issued.

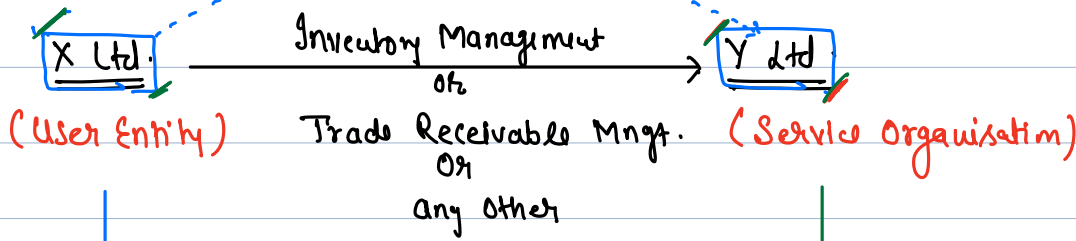
- In case of separate reports issued by joint auditors, such reports shall include a reference of separate report issued by other joint auditor.
- Such reference shall be made under the heading "Other Matter Para" as per requirements of SA 706.
- A joint auditor is not bound by the views of majority of joint auditors. In such a case, separate reports are to be issued.

(v) Review of work:

- Each joint auditor is entitled to assume that the other joint auditor have carried out their part of audit work and work has been performed as per standards on Auditing.
- Hence, it is not necessary to review the work performed by other joint auditor.

(5) Audit Considerations relating to an Entity using Service Organisation: SA 402

Complementary User Entity Controls.



Mr. A - Statutory Auditor

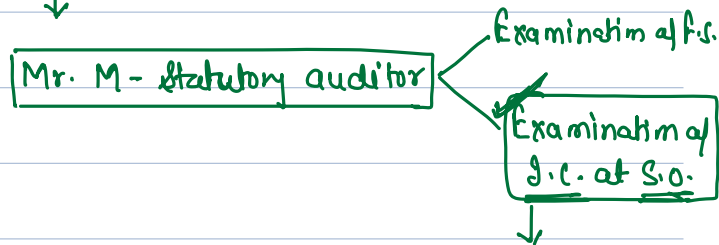
↓ concerned with

- (a) Processing of data of user entity by S.O.
- (b) Internal controls prevailing in S.O.
- while processing of data of user entity
- (c) Controls exercised by user entity over S.O.

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Perform RAP (Risk Assessment Procedures)
(Input, A.P.)

- Understanding - Nature and sig. of services
- " " Materiality of txns.
- Relationship - U.E and S.O.

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Design Responses to Assessed Risk.



SAE - 3402

"Assurance Reports on controls at S.O."

Type-1 Report It comprises of:

- (a) Report on description and design of controls at S.O. prepared by management for a specified date.
- +
- (b) Opinion of auditor of S.O. on description and design of controls, control objectives and related controls.

Type 2 Report: It comprises of:

- (a) Report on description, design and operating effectiveness of controls at S.O. prepared by Mngt. for a specified period. (+)
- (b) Opinion of service auditor on description, design of controls, control objectives, related controls and operating effectiveness.

✓ (i) Scope of SA 402:

✓ SA 402 deals with the user's auditor responsibilities to obtain SAAE when a user entity uses the services of one or more S.O.

✓ Services provided by S.O. are relevant to audit of f.s. of user entity, when such services and controls over them are part of User Entity Information System relevant to financial reporting.

- Services rendered by S.O. will be considered as part of User Entity Info. System, if such services affect any of the following:

- ✓ (a) Classes of transactions significant to user entity f.s.;
- ✓ (b) Procedures (IT and Manual) by which the transactions are initiated, recorded and processed.
- ✓ (c) Related aging records, supporting information and specific accounts in the user's entity f.s.
- ✓ (d) Capturing of Events and transactions, other than transactions significant to f.s.
- ✓ (e) Financial Reporting Process used to prepare user entity f.s.
- ✓ (f) Controls surrounding journal entries.

✓ (ii) ^{m. imp.} Risk Assessment Procedure:

Auditor is required to obtain understanding of following:

- (a) Nature and significance of services provided by S.O.
- (b) Nature and materiality of transactions processed by S.O.
- (c) Degree of Interaction between activities of S.O. and those of user entity.
- (d) Nature of relationship between user entity and S.O.; and contractual terms of the activities undertaken by S.O.

(iii) Auditor's Considerations:

- User auditor shall evaluate design and implementation of relevant controls exercised by user entity over S.O.
- User auditor shall determine whether a sufficient understanding of nature and significance of services provided by S.O. and their effect on user Entity I.C. relevant to audit, are obtained to provide a basis for identification and assessment of ROMM.
- If user auditor is not able to obtain understanding from the user entity, he may perform any of the following procedures:
 - (a) Obtaining a Type-1 or Type-2 report, if available;
 - (b) Contacting the S.O. through user entity;
 - (c) Visiting the S.O., if permitted;
 - (d) Using another auditor (Service auditor) work to perform procedures that are necessary to evaluate controls at S.O.

(iv) Using Type-1/Type-2 Report:

- (a) Be satisfied as to professional competence and independence of service auditor; adequacy of standard under which Type-1/Type-2 report is issued.
- (b) If Type-1/Type-2 report is used as audit evidence to support understanding of design and implementation of controls at S.O., user auditor shall
 - (i) Evaluate whether description and design of controls is appropriate.
 - (ii) Evaluate sufficiency and appropriateness of evidence provided by report.
 - (iii) Determine whether Complementary User Entity Controls identified by

S.O. are relevant, and if so, obtain an understanding of design and implementation of such controls.

Imp:

Using Type-2 report as audit evidence that controls at S.O. are operating effectively:

If Type-2 report is used as audit evidence that controls at S.O. are operating effectively, user auditor is required to determine whether report provides SAAE about effectiveness of controls by:

- (a) Evaluating whether description, design and operating effectiveness of controls are appropriate.
- (b) Determine whether complementary user entity controls identified by S.O. are relevant; and if so, obtain an understanding of design and implementation of such controls; and test the operating effectiveness.
- (c) Evaluate adequacy of time period covered by Tests of Controls.
- (d) Evaluate whether Tests of controls performed by service auditor and results thereof are relevant to assertions in the user entity F.S. and provides SAAE to support user's auditor risk assessment.

(v) Reporting by user auditor:

- User auditor shall modify the opinion if unable to obtain SAAE regarding services provided by S.O. relevant to audit of F.S. of user Entity.
- User auditor shall not refer to report of service auditor, unless required by law and regulation.

Note: Any reference in audit report as to "Report of Service Auditor", does not diminish user auditor responsibility for audit opinion.