

Chapter - 7 "Completion and Review"

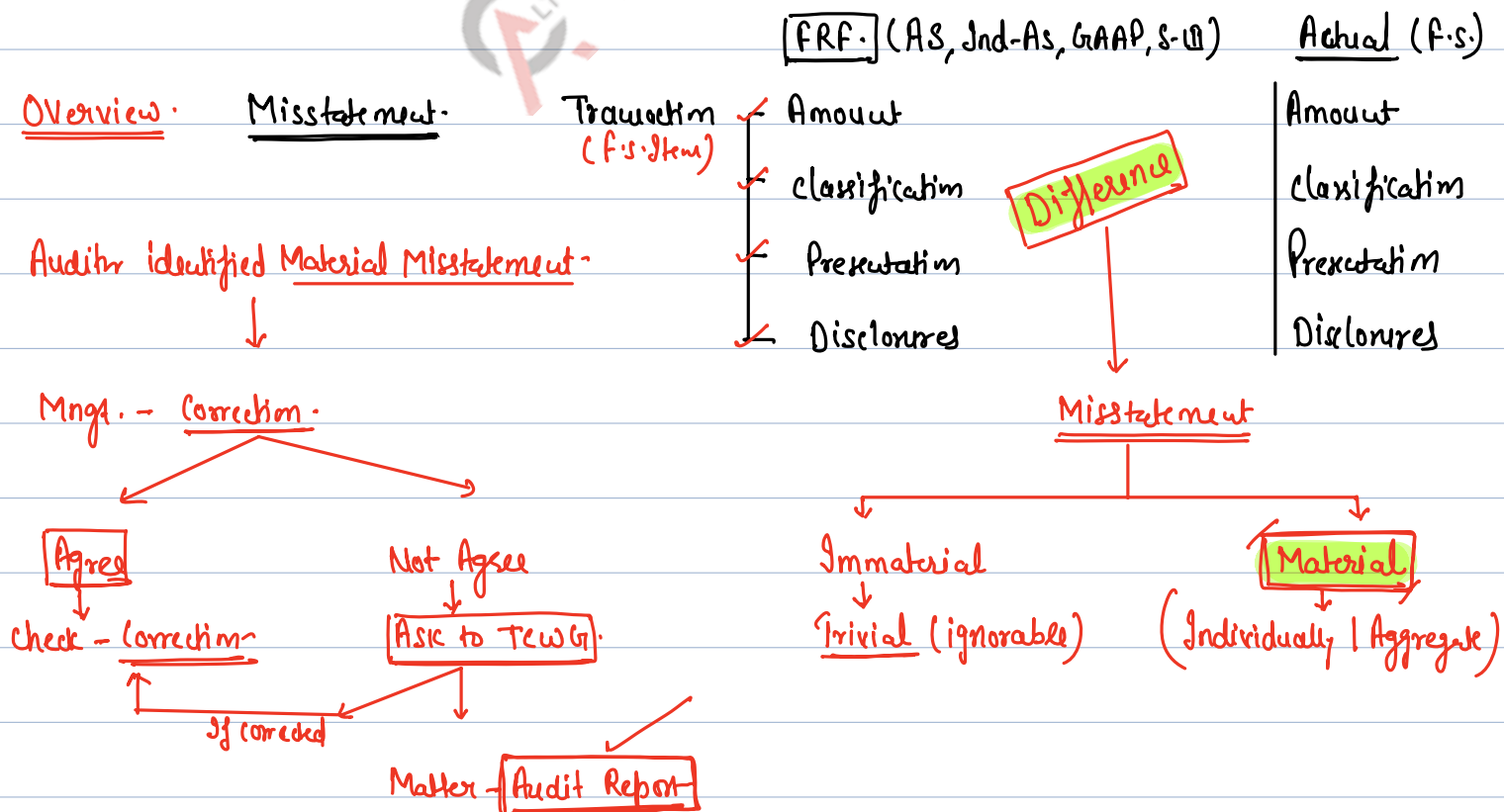
Standards on Auditing 200-299

- ✓ **200** - Overall objective - ✓ **250** - Law & Regulation (not in syllabus)
- ✓ **210** - Terms of Engagement - ✓ **260** - TCWG - ✓
- 220** - Quality control - ✓ **265** - Deficiencies in J.C. - ✓
- ✓ **230** - Documentation - ✓ **299** - Joint Audit (to be covered in ch-8)
- 240** - Fraud - (Not in syllabus)

Standards on Auditing 300 - 499

- 300** - Planning [ch-2]
- 315** - Identifying and Assessing ROMM [ch-3]
- ✓ **320** - Materiality [ch-3]
- 330** - Response to Assessed Risk [ch-3]
- 402** - Using S.O. [Not in syllabus]
- ✓ **450** - Misstatements [ch-7]

(3) Evaluation of Misstatements identified during the audit [SA-450]:



(i) Meaning And Causes of Misstatement:

Misstatement may be defined as difference between:

- (a) Amount, classification, presentation or disclosure of a reported f.s. item;
- and
- (b) Amount, classification, presentation or disclosure that is required for that f.s. item in accordance with two FRF.

Causes of Misstatement: Misstatements in f.s. items may be caused due to following:

- (a) Inaccuracy in gathering or processing data from which f.s. are prepared;
- (b) Omission of any amount or disclosure;
- (c) Inappropriate selection and application of accounting policies.
- (d) Incorrect Accounting estimates, may be due to misinterpretation or ignorance of facts.
- (e) Unreasonable judgements of management regarding accounting estimates.

(ii) Auditor's Responses when misstatements identified:

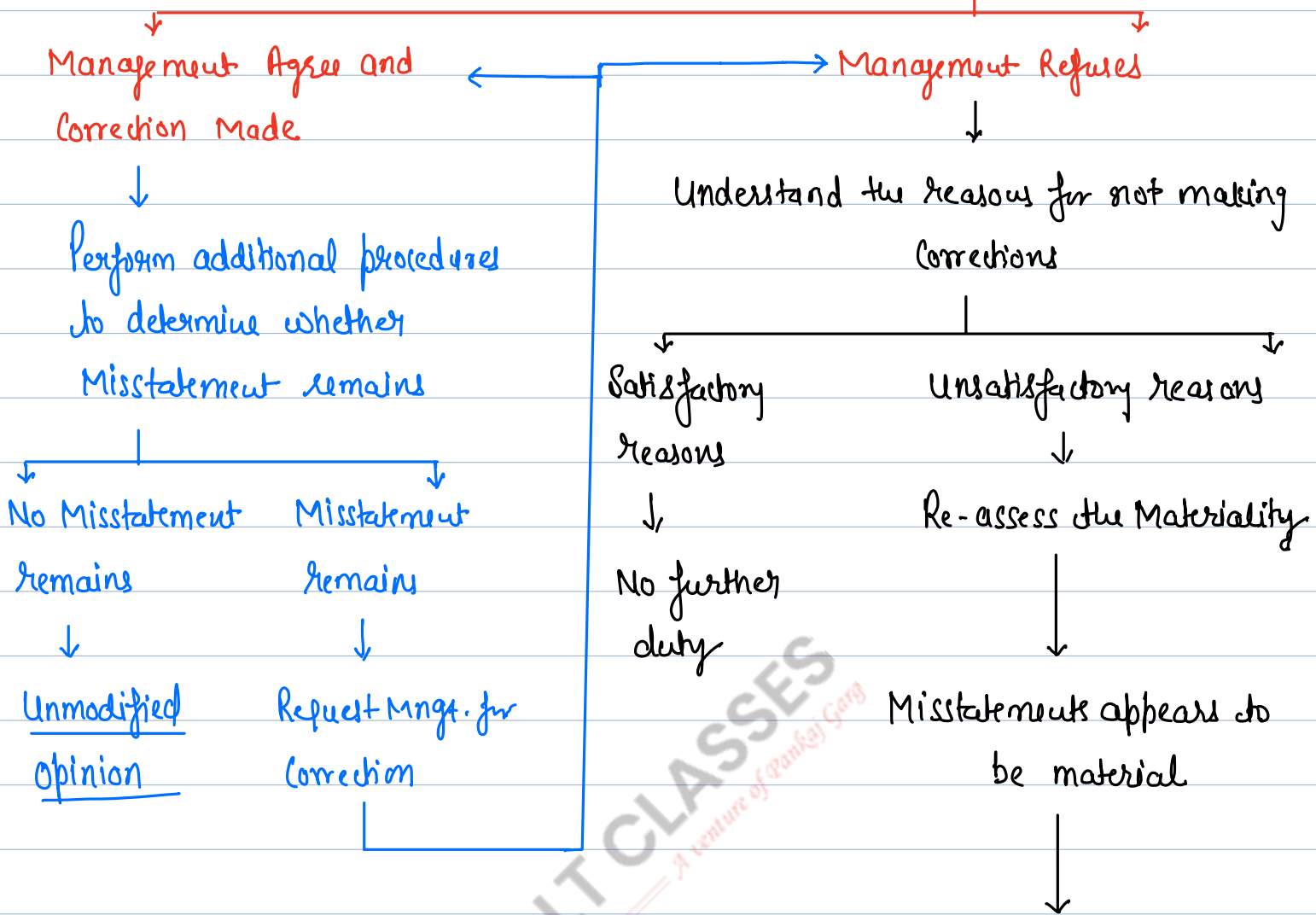
Auditor identify the misstatement which are material in nature and not due to fraud (i.e. Not trivial)

(In case of fraud, requirements of SA-240 shall apply)

(i) Determine whether any change is required in Audit Strategy and Audit Plan

[AND] (ii) Communicate to Management with a request for correction

↓
Follow the requirements of SA 300.



- Inform to TCWG - (a) Uncorrected Misstatement
 (b) Possible effects on audit opinion
 (c) Request for Correction

Misstatements not corrected

- (a) Modify the opinion; and
 (b) Obtain written Representation from Mngt. and TCWG as to their believing that Uncorrected Misstatements are immaterial.

(iii) Evaluation of effect of Uncorrected Misstatements:

Auditor is required to determine whether uncorrected misstatements are material, individually or in aggregate with other uncorrected misstatements. For this purpose, auditor shall consider the following:

- (a) Size and nature of misstatements both in relation to particular classes of transactions, account balances or disclosures and the f.s. as a whole;
- (b) Effects of Uncorrected misstatements related to prior period on the relevant classes of transactions, account balances or disclosures and the f.s. as a whole.

Ex:
$$\frac{\text{Advt. Exp. of ₹ 5 lakh omitted}}{\text{Total Advt. Exp. 50 lakh.}} = 10\%$$
$$\frac{\text{Total Exp. in P&L A/c: 20 Crores}}{\text{Total P&L A/c: 20 Crores}} = 0.25\%$$

Opinion - option A : P&L A/c does not reflect true and fair view

✓ option B : Except for the effects of Advt. Exp. — — — — —, P&L A/c reflects true and fair view.

(iv) Documentation Requirements: Audit documentation shall include the following:

- ✓ (a) Amount below which misstatements would be regarded as clearly trivial.
- ✓ (b) All misstatements accumulated during the audit and whether they have been corrected; and
- ✓ (c) Auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

Ignorable -

Corrected -

Uncorrected -

540 - Not in Syllabus

✓ 560 - Sub. Events

✓ 570 - Going Concern

✓ 580 - WR

Chapter-7

Final - Chapter-6

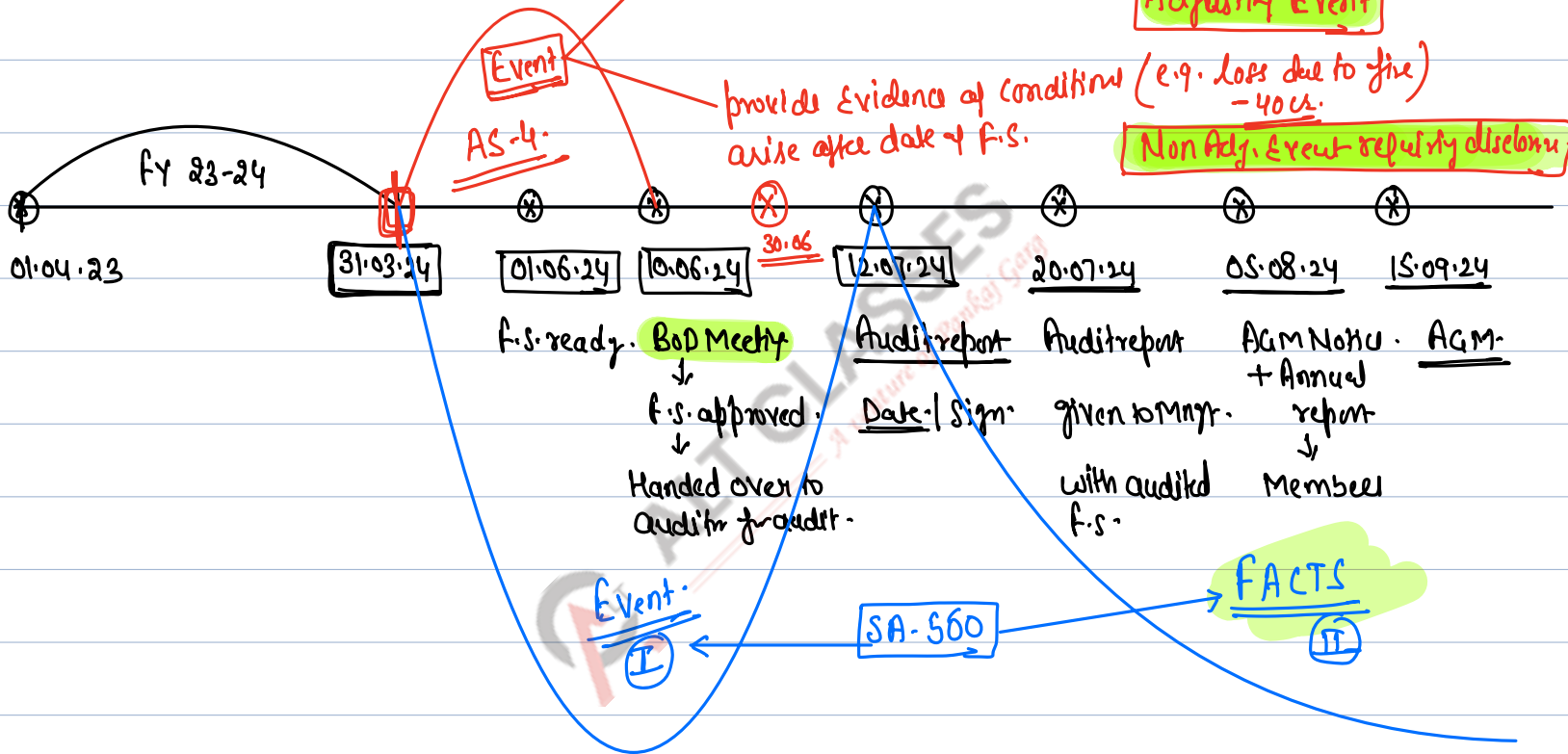
(4) SA-560 "Subsequent Events":

provide evidence of conditions (e.g. → court judgement on Pending litigation)
Existed on date of f.s.

Adjusting Event

provide evidence of conditions (e.g. loss due to fire) - 40cr.
arise after date of f.s.

Non Adj. Event - require disclosure



(i) Meaning of Subsequent Events:

Events occurring after the date of f.s., but before the date of auditor's report and includes:

↓ facts that have become known to the auditor after the date of auditor's report.

Types of Events -

→ provides evidence of conditions that exist at the date of f.s. (Adjusting Events)

→ provides evidence of conditions that arise after date of f.s. (Non adjusting)

- Declaration of insolvency of debtor
- Settlement of a litigation outside court at a reduced amount.

- Issue of Share Capital
- Planning a Merger
- loss of inventories due to fire

- (ii) Objectives of Auditor:
- (a) To Obtain SAAE about whether events occurring between date of financial statements and date of auditor's report that require adjustments or disclosures in the f.s. are appropriately adjusted or disclosed.
 - (b) Respond appropriately to the facts that become known to auditor after the date of auditor's report that had they been known to auditor at that time (i.e. before date of auditor's report) may have caused the auditor to amend the auditor's report.

- (iii) Audit Procedures w.r.t. Subsequent Events:
- | | date of f.s. | date of audit report |
|--|--------------|----------------------|
| (a) Perform procedures to <u>Obtain SAAE</u> that all events requiring <u>adjustment or disclosure</u> have been <u>identified</u> . | | |
| (b) For this purpose, auditor shall: <ol style="list-style-type: none">(i) Obtain <u>understanding of procedures</u> followed by mgmt. to identify the events.(ii) <u>Inquire</u> the Mngt. and TCWG as to <u>occurrence of significant events</u> that may affect the financial statements.(iii) Study the <u>Interim f.s., if any</u> prepared by the Entity sub. to B/s date.(iv) Read the <u>minutes of the meeting, if any</u>, held after B/s date. | | |
| (c) If auditor identifies any event which require any adjustment or disclosure, auditor shall <u>ensure</u> its <u>appropriate treatment</u> in the books of account as per applicable FRF (AS4). | | |
| (d) Obtain a <u>written Representation</u> from management and TCWG that all <u>known events</u> that require <u>adjustments / disclosure</u> as per FRF <u>have been appropriately adjusted / disclosed</u> . | | |

(iv) Audit procedures w.r.t. facts which become known to auditor, after date of audit report

I (Before date the f.s. are issued)

II. After the date of issue of f.s.

