

Introductory Lecture - 2

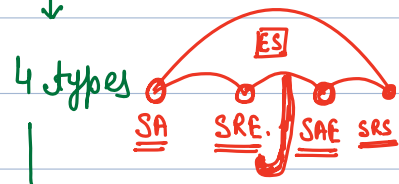
(vi) Engagement and Quality Control Standards: (EQCS)

(A) Standards on Quality Control (SQC)

- Parent standard, which is applicable to all types of Engagements.
- Numbers Allotted are SQC 1-99
- Only SQC-1 is issued in this group.

(B) Engagement Standards

- Standards that provide requirements w.r.t. various types of engagements.



(a) Audit Engagements

(b) Review Engagements

(c) Other Assurance Engagements

(d) Non-Assurance Engagements (Related Services)

Standards on Auditing (SA)

Standards on Review Engagements (SRE)

Standards on Assurance Engagements (SAE)

Standards on Related Services (SRS)

SA 100-899 (38)

SRE 2000-2699 (2)

SAE 3000-3699 (3)

SRS 4000-4699 (2)

Applicable while Auditing the Historical financial information.

Applicable while reviewing the Historical financial information

Applicable while Examining (a) Prospective financial information

Applicable while performing (a) Compilation (b) Agreed-upon Procedures.

Reasonable Assurance

Limited Assurance

Reasonable / Limited.

Non-Assurance

(vii) Classification of Standards on Auditing (SA):

SA 100-199	- Introductory Matters	- No standard issued -	
SA 200-299	- General Principles	- 200, 210, 220, 230, 240, 250, 260, 265, 299	- 9
SA 300-499	- Risk Assessment and Responses	- 300, 315, 320, 330, 402, 450	- 6
SA 500-599	- Audit Evidences	- 500, 501, 505, 510, 520, 530, 540, 550, 560, 570, 580	- 11
SA 600-699	- Using work of others	- 600, 610, 620	- 3
SA 700-799	- Audit Conclusion and Reporting	- 700, 701, 705, 706, 710, 720	- 6
SA 800-899	- Specialised Areas	- 800, 805, 810	- 3
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(viii) Auditor's Overall Objective:

As per SA 200 "Overall Objectives of the Independent Auditor and Conduct of an audit in accordance with standards on Auditing", Overall objectives of the Independent auditor is:

- ↓
- (A) To obtain reasonable assurance that financial statements as a whole are free from material misstatements, whether caused due to error or fraud so as to express an opinion, whether the financial statements are prepared in all material respects, as per the requirements of applicable financial reporting frameworks; and
- (B) To issue a report thereon.

Notes: (i) Reasonable Assurance: High, but not Absolute assurance.

(ii) Financial Statements: Generally a set of financial statements comprises of following:

(a) Balance Sheet

(b) Statement of Profit and Loss (P&L Account)

(c) Cash flow statement.

(d) Statement of Changes in Equity (In case of companies)

(e) Explanatory Notes to accounts.

Financial statements may be classified as :

(A) General Purpose f.s.
(for common use)

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For audit of General Purpose f.s.
SA 200-799 shall apply.

(B) Special Purpose f.s.
(for specific use)

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For audit of special purpose f.s.
SA 800 shall apply in addition
to SA 200-799.

(iii) Materiality (SA 320): Anything that is so significant that can affect the economic decisions of users of f.s.

(iv) Misstatement (SA 450): Difference in Amount;
Classification;
Presentation; and
Disclosure of a financial statement item.

(v) Error or fraud (SA 240): Error - an unintentional mistake or omission of a f.s. item.

Fraud - Intentional act for illegal advantage.

(vi) Financial Reporting Framework:

Principles / Standards / Guidelines, on the basis of which financial statements are prepared.

For Ex: Accounting Standards; Ind-AS; GAAP; IFRS; GFRS; Sch-III of Companies Act, 2013 etc.

(vii) Report and opinion:

Auditor expresses his opinion on f.s. through a written report.

Audit Reports

Unmodified Reports

SA 700

Modified Reports

- Auditor issues unmodified report when he is satisfied that f.s. are prepared in all material respects as per requirements of applicable FRF and no additional matter is required to be reported as per SA 706.

- Opinion issued in this case is Unmodified opinion

With Modified opinion

- Qualified
- Adverse
- Disclaimer

(SA 705)

- It is issued if auditor identifies any material misstatement in the f.s. which is not corrected by the client.

Or

- Auditor not been able to collect sufficient appropriate evidences to express an opinion.

With Unmodified opinion

(SA 706)

It is issued when auditor satisfies that f.s. are prepared in all material respects as per applicable FRF; but auditor willing to add:

- (A) Emphasis of Matter Paragraph
- (B) Other Matter Paragraph

(ix) Audit Process: 4 Steps



Audit Engagement → Audit Planning → Audit Execution → Conclusion and Reporting

↓
 Client → Offer → Auditor
 Auditor - Acceptance
 (Letter of Engagement)
 ↓
Terms of Engagement
 (SA-210)

SA-300

(A) Perform RAP
 [To obtain Understanding of
Entity, its Environment and Internal Control]
 To Identify and Assess
Risk of Material Misstatement
 (RoMM)

Auditor should draw his conclusion on the basis of audit evidences obtained

(A) Preliminary Engagement Activities
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 - Client Acceptance / Continuance
 - Compliance of Ethical requirements
 - Agreeing the terms of Engagement.

↓
 Perform Further Audit Procedures
 (A) Tests of controls / compliance procedures
 [Evaluate Internal Controls to determine their Existency, Effectiveness and Continuity]

Conclusion to be expressed in form of opinion through Audit Report

(a) Establish Audit Strategy
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STD
 Scope
 Timing
 Direction
] of audit
 AND

(b) Development of Audit Plan
 ↓
NTE
Nature, Timing, Extent of audit procedures

(B) Substantive Procedures
 [Examine Accounting Records / f.s. to check Accuracy, Completeness, and Validity]

provide a basis for development of overall audit plan

(a) Risk Assessment Procedures (RAP)
 (b) Further Audit Procedures (FAP) / Responses to Assessed Risks

By performing procedures Auditor should collect Sufficient and Appropriate Evidences → to draw conclusion