

Jan 2026 & Onwards



# CA FINAL

## ADVANCED AUDITING, ASSURANCE, AND PROFESSIONAL ETHICS

- ▶ Questions placed right below concepts for seamless learning.
- ▶ Covers ICAI SM, MTPs, RTPs & past papers.
- ▶ Summarized in charts, tables, and key highlights.
- ▶ Includes memory tricks to remember the concepts.

Concepts +  
Question Bank

TOGETHER (AUDIT ALL IN ONE)

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*It's completely as per ICAI Language & Coverage, you can do cross check from ICAI module to get Comfort*

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	Name	ICAI Coverage
SQC-1	Quality control for firms that perform Audits & Review of Historical F.Info. & Other Assurance and related service engagements	Chapter 1

### Standard's on Auditing (SA's)

200	Overall objectives of an independent auditor and conduct of an audit in accordance with SA's	2-CS based only
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220	Quality control for an audit of FS	1
230	Audit documentation	2-CS based only
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315	Identifying and Assessing ROMM by understanding Entity and its environment	4-CS based only
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402	Auditor considerations relating to an entity using Service Organization	2
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500	Audit Evidence	5-CS based only
501	Audit evidence Specific considerations for selected items	5-CS based only
505	External Confirmations	5-CS based only
510	Initial Audit Engagement -Opening Balances	5-CS based only
520	Analytical Procedures	3
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540	Auditing of Accounting Estimates including Fair value accounting estimates and Related Disclosures	3
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## CHAPTER 2- General Auditing Principles & Auditor's Responsibilities

(SA 200, 210, 230, 240, 250, 260, 299, 402)

### SA 240 - AUDITOR'S RESPONSIBILITY RELATING TO FRAUD IN AN AUDIT OF FS

<b>Fraud:</b>	An Intentional act by one or more individuals in an organisation with an <b>intention</b> to obtain unjust or illegal advantage
<b>Misstatement:</b>	Misstatements in the financial statements can arise from <b>either fraud or error</b>
<b>Error:</b>	Misstatement of the financial statements is <b>unintentional</b> .
<b>Primary Responsibility:</b>	<ul style="list-style-type: none"> <li>Primary responsibility for the prevention and detection of fraud rests with both <b>TCWG</b> and <b>Mngt</b> (Not with Auditor, provided he applied professional skepticism).</li> <li>Mngt &amp; TCWG should place a strong emphasis on <b>fraud prevention &amp; fraud deterrence</b> (punishment for fraud), creating a culture of honesty and ethical behaviour</li> </ul>
<b>Objective of auditor:</b>	<ol style="list-style-type: none"> <li>To identify &amp; assess the ROMM in FS due to fraud</li> <li>To obtain SAAE about the assessed ROMM due to fraud, implement response</li> <li>To respond appropriately to identified or suspected fraud</li> </ol>
<b>No Legal determination:</b>	Although the <b>auditor may suspect or, in rare cases, identify the occurrence of fraud</b> , the auditor does <b>not make legal determinations of whether fraud has actually occurred</b> .

#### Two types of intentional misstatement:

<b>Fraudulent Financial reporting:</b>	<b>Misappropriation of assets:</b>
<ul style="list-style-type: none"> <li>Fraudulent FR involves intentional misstatements <b>including omissions of amounts or disclosures</b> in FS to deceive FS users. It can be caused by the efforts of management to <b>manage earnings in order to deceive FS</b> users by influencing their perceptions as to the entity's performance and profitability</li> <li><b>Inappropriate adjustment of assumptions</b> &amp; changes in judgments by mngt</li> <li>Pressures and incentives to meet market expectations</li> </ul> <p><u>Trick:</u> [Manipulate kara by &gt; Omit, Advance, delay or Alter the JV &gt; Because of Wrong Accounting / Assumption] Ya fir, Complex transaction Conceal kara]</p>	Misappropriation of assets involves the <b>theft of an entity's assets</b> and is often perpetrated <b>by employees in relatively small and immaterial amounts</b> . However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect.
<b>Fraudulent FRF may be accomplished by:</b> (Man, Mis Mis)	<b>It can be accomplished in a variety of ways including:</b>
<ol style="list-style-type: none"> <li><b>Manipulation, falsification</b> (including forgery), or <b>alteration of A/cing records</b> or supporting documentation from which the FS are prepared</li> <li><b>Misrepresentation</b> in or intentional <b>omission</b> from, the <b>FS</b> of events, transactions or other significant information.</li> <li>Intentional <b>misapplication of a/cing principles</b> relating to amounts, classification, manner of presentation, or disclosure.</li> </ol>	<ol style="list-style-type: none"> <li><b>Embezzling receipts</b> (for example, misappropriating collections on accounts receivable or diverting receipts in respect of written-off accounts to personal bank accounts).</li> <li><b>Stealing physical assets</b> or <b>intellectual property</b> (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).</li> <li><b>Causing an entity to pay for goods</b></li> </ol>
<b>It can be committed by management overriding controls using such techniques as:</b> - (Alter, Omit, Conceal + FICtitious)	
<ol style="list-style-type: none"> <li><b>Altering records</b> &amp; terms related to significant &amp; unusual transaction</li> <li><b>Omitting, advancing or delaying recognition</b> in the <b>FS</b> of events and transactions that have occurred during the reporting period.</li> <li><b>Concealing, or not disclosing</b>, facts that could affect the amounts</li> </ol>	

<p>recorded in the FS. (i.e., Hiding Legal case)</p> <p>iv. Recording <b>Fictitious JV</b>, particularly close to end of an A/cing period, to manipulate operating results or achieve other objectives.</p> <p>v. <b>Inappropriately adjusting assumptions</b> and changing judgments used to estimate a/c balances. (i.e., Provision for warranty)</p> <p>vi. Engaging in <b>Complex transactions</b> that are structured to misrepresent the financial position or financial performance. (i.e., Sale of M/c to R.P at high price to increase profit, then again taken on lease back)</p>	<p>and services not received (Eg, payments to fictitious vendors, kickbacks paid by vendors to the entity's purchasing agents in return for inflating prices, payments to fictitious employees).</p> <p>4) Using an entity's <b>assets for personal use</b> (Eg, using the entity's assets as collateral for a personal loan).</p>
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**Q1.** Source of such fraudulent FR. Or, how fraudulent FR may be accomplished and discuss the techniques of committing fraud by management overriding controls: [Refer Above Notes : "Fraudulent FRF may be accomplished by" & "It can be committed by management overriding controls using such techniques as"]

Fraud, involves **incentive or pressure** to commit fraud, a **perceived opportunity** to do so and **some rationalization** of the act. For example: -

- 1) **Incentive or pressure** to commit fraudulent FR may exist when mngt is under pressure, from sources outside or inside the entity, to achieve an expected (and perhaps unrealistic) earnings target or financial outcome - particularly since the consequences to mngt for failing to meet financial goals can be significant.
- 2) Individuals have an **incentive** to misappropriate assets, Eg, **individuals are living beyond their means**
- 3) A **perceived opportunity** to commit fraud may exist when an individual believes internal control can be **overridden**, for Eg, individual is in a position of trust or has knowledge of specific deficiencies in IC.
- 4) Individuals may be able to **rationalize committing a fraudulent act**. Some individuals possess an attitude, character or set of ethical values that allow them knowingly & **intentionally to commit a dishonest act**. However, even honest person can commit fraud in an environment that imposes sufficient pressure on them.

### ➤ Fraud Risk Factors:

Fraud risk factors are events or conditions that indicate an **incentive or pressure** to commit fraud or provide an **opportunity** to commit fraud. For example: -

Relates to: Fraudulent Financial Reporting:	Relates: Misappropriation of Assets:
<p><b>A) Incentives/Pressure:</b> Excessive pressure exists for management to meet the requirements or <b>expectations of 3rd parties</b> due to the following:</p> <ol style="list-style-type: none"> <li>1) <b>Profitability or trend level expectations of investment analysts, institutional investors, significant creditors, or external parties</b> (Investor already hai ...)</li> <li>2) Need to obtain <b>additional debt or equity financing</b> to stay competitive (Ya laana hai ...)</li> <li>3) Marginal ability to meet exchange <b>listing requirements or debt repayment</b> or other debt covenant requirements</li> <li>4) Perceived or real <b>adverse effects of reporting poor financial results</b> on significant pending transactions, such as business combinations or contract awards.</li> </ol>	<p><b>A) Incentives/Pressures:</b> Personal <b>financial obligations</b> may create pressure on management or employees with access to cash or other assets susceptible to theft to misappropriate those assets.</p> <p><b>Adverse relationships between the entity and employees with access to cash or other assets</b> susceptible to theft may motivate those employees to misappropriate those assets. For example, adverse relationships may be created by the following:</p> <p>[Trick: Employee ko tum Nikaal rahe ho, Binaa Paise diye]</p> <ol style="list-style-type: none"> <li>1. Known or anticipated future <b>employee layoffs</b>.</li> <li>2. Recent or anticipated <b>changes to employee compensation</b> or benefit plans.</li> <li>3. <b>Promotions, compensation or other rewards inconsistent with expectations</b>.</li> </ol>
<p>Information available indicates that the <b>personal financial situation of management</b> or TCWG is threatened by the entity's financial performance arising from the following: -</p> <p><b>Trick:</b> mngt ka <b>personal interest</b> hai company me ... <b>ESOP/Bonus /Guarantee</b> etc. y sab tab hi milega jab profit accha hogya.. yaa usse <b>Maar rhe hai</b></p> <ol style="list-style-type: none"> <li>1) <b>Significant financial interests in entity.</b></li> </ol>	

<ol style="list-style-type: none"> <li>2) <b>Significant portions of their compensation</b> (for example, bonuses, stock options, and earn-out arrangements) being contingent upon achieving aggressive targets for stock price, operating results, financial position, or cash flow.</li> <li>3) <b>Personal guarantees</b> of debts of the entity.</li> <li>4) There is <b>excessive pressure on management</b> or operating personnel to meet financial targets established by TCWG, including sales or profitability incentive goals</li> </ol>	
<p><b>B) Opportunities:</b> The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following: -</p> <p><i>RP ke saath Complex Transaction karna .. dusri jurdiction wali ... to save tax</i></p> <ol style="list-style-type: none"> <li>1. <b>Significant RPT not in the ordinary course of business or with related entities not audited</b> / audited by another firm.</li> <li>2. A strong financial presence or <b>ability to dominate a certain industry sector</b> that allows the entity to dictate terms or conditions to suppliers or customers that may result in <b>inappropriate or non-arm's-length transactions</b>.</li> <li>3. <b>Assets, liabilities, revenues, or expenses</b> based on <b>significant estimates</b> that involve subjective judgments or uncertainties that are difficult to corroborate.</li> <li>4. <b>Significant, unusual, or highly complex transactions</b>, especially those <b>close to period end</b> that pose difficult <b>"substance over form"</b> questions.</li> <li>5. Significant <b>operations located</b> or conducted across <b>international borders</b> in jurisdictions where differing business environments and cultures exist.</li> <li>6. Use of <b>business intermediaries</b> for which there appears to be <b>no clear business justification</b></li> <li>7. Significant bank accounts or <b>subsidiary</b> or branch operations in <b>tax-haven jurisdictions</b> for which there appears to be <b>no clear business justification</b></li> </ol>	<p><b>B) Opportunities:</b> Certain characteristics or circumstances may increase the susceptibility of assets to misappropriation. For example, opportunities to misappropriate assets increase when there are the following:</p> <p><i>[Trick: Chote chote SMALL items pe INTERNAL CONTROL accha nahi rakhte]</i></p> <ol style="list-style-type: none"> <li>1. Large amounts of <b>cash on hand</b></li> <li>2. <b>Inventory items that are small in size</b>, of high value, or in high demand</li> <li>3. <b>Easily convertible assets</b>, such as bearer bonds, diamonds, or computer chips.</li> <li>4. <b>Fixed assets which are small in size</b>, marketable, or lacking observable identification of ownership.</li> </ol> <p><b>Inadequate I.C over assets may increase susceptibility of Missappropriation of those assets:</b></p> <ol style="list-style-type: none"> <li>1) Lack of <b>SOD</b></li> <li>2) Inadequate <b>records of assets</b></li> <li>3) Inadequate <b>physical safeguard</b> over cash, investment, inventory</li> <li>4) Lack of <b>timely Reco.</b> Of assets</li> <li>5) Lack of <b>mandatory vacation</b> of employees</li> </ol>
<p><b>C) Attitudes/Rationalizations:</b></p> <p><i>Bekaar entity hai .. koi values nii.. koi morale nii ... Non-Finance ke bande hai... wo gadhe kese Law &amp; IC banaenge ...</i></p> <p><i>Bas fraud karwa lo unse .. stock price manipulation .....tax fraud</i></p> <ol style="list-style-type: none"> <li>1) Communication, enforcement of the <b>entity's values or ethical standards</b> by mngt, or communication of inappropriate values/ethics, that are <b>not effective</b></li> <li>2) <b>Low morale</b> among senior management.</li> <li>3) <b>Non-financial management's excessive participation</b> in or preoccupation with the selection of <b>accounting policies</b> or the determination of significant estimates</li> <li>4) Known history of <b>violations of securities laws</b> or other laws and regulations, or claims against the entity</li> <li>5) Management <b>failing to remedy</b> known significant</li> </ol>	<p><b>C) Attitudes/Rationalizations:</b></p> <p><i>[Trick: naa to company wale ASSETS ka dyaan rkhte h, naa EMPLOYEES ka]</i></p> <ol style="list-style-type: none"> <li>1. <b>Disregard for the need for monitoring or reducing risks related to misappropriations of assets.</b></li> <li>2. <b>Disregard for internal control over misappropriation of assets</b> by overriding existing controls or by failing to take appropriate remedial action on <b>known deficiencies in internal control</b>.</li> <li>3. Behavior indicating displeasure or dissatisfaction with the entity or its treatment of the <b>employee</b>.</li> <li>4. Changes in behavior or <b>lifestyle</b> that may</li> </ol>

<p>deficiencies in internal control on a timely basis.</p> <p>6) Excessive interest by management in maintaining or increasing the entity's stock price or earnings trend.</p> <p>7) An interest by mngt in employing inappropriate means to minimize reported earnings for tax-motivated reasons.</p> <p>8) The owner-manager makes no distinction between personal and business transactions</p> <p>9) The relationship between management and the current or predecessor auditor is strained,</p>	<p>indicate assets have been misappropriated.</p> <p>5. Tolerance of petty theft.</p>
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The relationship between Mngt and the current or predecessor auditor is strained, as exhibited by the following: - [trick: aae deen lad raha h .. data dera ni h .. restriction lagara h ... fir bolra h jldi audit karo]

- 1) Frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters
- 2) Restrictions on the auditor that inappropriately limit access to people or information or the ability to communicate effectively with those charged with governance.
- 3) Domineering management behaviour in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance of personnel assigned on audit engagement.
- 4) Unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit or the issuance of the auditor's report

#### Why evaluation of fraud risk factors by auditor is necessary?

- Evaluate whether 1 or more FRF are present → not necessarily indicate the existence of fraud
- The fact that fraud is usually concealed can make it very difficult to detect.
- Fraud risk factors cannot easily be ranked in order of importance. significance of Fraud RF varies widely
- Accordingly, the determination of whether a fraud risk factor is present and whether it is to be considered in assessing the ROMM of the FS due to fraud requires the exercise of professional judgment.

**Q2.** Risk Factor related to misstatement arising from Misappropriation of Assets: Refer above notes "Fraud Risk factor - Relates to misappropriation of Assets"

**Q3.** Manufacturer of Fabrics, want to install new plant (need huge capital) → auditor finds that revenue increase from Rs. 750 Crore to 1000 Cr this year (no change in plant capacity) → any ROMM due to Fraudulent FR ?

Hint: Given case, Excessive pressure exist for mngt for Fraudulent FR (tempted to inflate revenue → it's Fraud risk factor) → audit procedure to assess ROMM due to fraudulent FR → Substantive analytical procedure (For revenue), CAAT's to identify Unusual revenue, testing control relating to revenue transaction

**Q4.** Stat. auditor found → I. Auditor report pointed out Following deficiencies in I.C., But Mngt didn't corrected:  
(a) Receivable Not reconciled on periodical basis (b) Customer Credit limit not reviewed.

Hint: Its Fraud Risk Factor of Fraudulent FR (as mngt failure to correct KNOWN Sig. Deficiency in I.C on timely, it reflects Attitude/Character/ethical values Intentionally allow to allow commit Dishonest Act)

- Failure to rectify known control deficiency as given above (a) & (b) : Its' a Intentional Misstatement
- Further, non-review of Limit may cause grant of credit beyond creditworthiness:

#### ➤ Auditor's Duty/Responsibility i.r.t Fraud in an Audit of FS:

<p><b>Responsibilities of the Auditor:</b> [Read only]</p>	<ul style="list-style-type: none"> <li>• Obtain as reasonable assurance that the FS taken as a whole are free from MMS, whether caused by fraud or error.</li> <li>• Owing to the inherent limitations of an audit, there is an unavoidable risk that some MMS of the FS may not be detected, even though audit is properly planned as per SA</li> <li>• <b>Fraud &gt; Error:</b> The risk of not detecting a MMS resulting from fraud is higher than the risk of not detecting one resulting from error (as Fraud organised &amp; Sophisticated)</li> <li>• Risk of not detecting MMS due to Mngt Fraud is higher than Employee fraud (as mngt is at position to directly manipulate accounts)</li> </ul>
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	<ul style="list-style-type: none"> <li>• auditor is responsible for maintaining <b>professional skepticism</b></li> </ul>
<b>Some Common Points to Quote in answer:</b>  [Read only]	<ul style="list-style-type: none"> <li>• Obtain <b>Reasonable Assurance that FS</b> as a whole are free from MMS due to fraud.</li> <li>• Maintaining <b>Professional Skepticism</b> throughout Audit.</li> <li>• Not Expect to detect fraud unless suspicion arises.</li> <li>• <b>Whether the FS is materially misstated</b> due to fraud</li> <li>• Consider <b>Impact of fraud on financial statements</b>.</li> <li>• Consider Reliability of Written Representation if mgt. fraud found</li> <li>• Obtain <b>Written Representation</b></li> <li>• Communicate to Chairman &amp; BODs</li> <li>• if conditions are like documents not authentic/modified then Investigate.</li> <li>• Investigate if Inconsistent Responses of Mgt./ TCWG.</li> <li>• <b>Section 143(12)- Fraud reporting:</b> Auditor has reason to believe that an offence involving fraud is being or has been committed against company by officers /employees of company - Immediately report matter to Audit Committee in 2 days of knowledge (as amount &lt; ₹1Crore) mentioning <ul style="list-style-type: none"> <li>- Nature of Fraud &amp; Description</li> <li>- Approximate amount involved</li> <li>- Parties involved</li> </ul> </li> <li>-Immediately report matter to CG in time &amp; manner prescribed in Rule 13 if amount &gt; ₹1 Crore.</li> <li>• Reporting responsibility in <b>CARO</b> &amp; Section 447 person committing fraud liable.</li> </ul>
<b>Maintain Professional Skepticism:</b>  [Read only]	<ul style="list-style-type: none"> <li>• Shall maintain professional skepticism <b>throughout the audit</b> for MMS due to fraud (<b>Notwithstanding auditor's past experience of honesty &amp; integrity of mngt &amp; TCWG</b>)</li> <li>• <u>Unless auditor has reason to believe contrary</u>→Auditor may accept record &amp; docs as <b>genuine</b>.</li> <li>• <u>If conditions identified</u> during audit cause auditor to believe <u>that docs not authentic</u> or that terms in a document have been modified but not disclosed→auditor shall <b>investigate further</b></li> <li>• Where <u>responses to inquiries</u> of mngt / TCWG is <u>inconsistent</u> → <b>investigate inconsistencies</b>.</li> </ul>
<b>If auditor is unable to continue performing:</b>  (Special Trick :-)	<p>Then auditor shall:</p> <ol style="list-style-type: none"> <li>1. <b>Determine professional and legal responsibilities</b> including whether there is requirement to report to person who made appointment or regulatory authority [Section 143(12)]</li> <li>2. Consider <b>appropriateness of withdrawal</b>, where <b>legally permitted</b></li> <li>3. <b>If Auditor withdraw:</b> <ul style="list-style-type: none"> <li>• <b>Discuss with the appropriate level of Mngt &amp; TCWG</b>, the auditor's withdrawal from the engagement and the <b>reasons</b> for the withdrawal and</li> <li>• Determine <b>whether there is a professional or legal requirement to report to the person</b> or persons who made the audit appointment or, in some cases, to <b>regulatory authorities</b>, the auditor's withdrawal from the engagement and the <b>reasons</b> for the withdrawal.</li> </ul> </li> <li>o Where <b>withdraw is not appropriate</b>, auditor needs to <b>express modified opinion</b> (also mention the <b>reasons for same</b>)</li> <li>o Where <b>withdraw is legally permitted</b>, <b>communicate with TCWG and other regulatory authorities</b> required u/s 140 - <b>Resignation</b></li> </ol>
<b>Communicate to TCWG:</b>	<ul style="list-style-type: none"> <li>• <b>Appropriate Mngt:</b> If identified /suspect Fraud → communicate to appropriate level of mngt (Whose primary responsibility to prevent detect fraud) → <b>on Timely basis</b></li> <li>• <b>TCWG:</b> <u>Unless all TCWG involved in managing</u> entity → identified or suspects <b>Fraud done by mngt, employees</b> have significant role in IC →communicate matters to TCWG <b>on timely basis</b></li> <li>• <b>If suspects that fraud involving mngt:</b> <u>Communicate suspicion to TCWG &amp; Discuss NTE</u> of audit procedures necessary to complete the audit.</li> <li>• Also communicate other matters to TCWG relevant in the auditor's judgment</li> </ul>

<b>Communicate to Regulatory &amp; Enforcement Authorities:</b>	<ul style="list-style-type: none"> <li><b>Report to Outside Party:</b> If auditor identified or suspects fraud → <u>determine whether there is responsibility to report</u> the occurrence or suspicion to a party outside the entity.</li> <li><b>L&amp;R override Confidentiality:</b> Although auditor's professional duty is to maintain confidentiality of client information → <u>auditor's legal responsibilities may override the duty of confidentiality in some circumstances</u>. Eg., <u>in case of audit of banks</u>, the auditor has a statutory duty to <u>report the occurrence of fraud to the supervisory authorities</u>, i.e. RBI.</li> <li>✓ Also, <u>in some entities</u> the auditor <u>may have a duty to report misstatements to authorities</u> in those cases <u>where mngt and TCWG fail to take corrective action</u>.</li> <li>✓ <u>In some clients</u>, requirements for reporting fraud, whether or not discovered through the audit process, <u>may be subject to specific provisions of audit mandate or related L&amp;R</u></li> </ul>
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**Q5.** Company entered into transaction on 25/02/2028 (near yr end), to pay 60 lacs to engineer consultant → No amount was paid actually, but expense booked in Books (No docs/evidence) → what should auditor approach?

Hint: SA 240 → Fraud can be done by Mngt overriding controls (like Fictitious JV), mainly near Year End. → If misstatement is result of fraud/suspected fraud, (**Withdraw**) → Refer Above Notes "If auditor is unable to continue performing" + **Mention Sec 143(12)** Fraud report to CG if ≥ 1 Crore + **Clause 11 of CARO**

**Q6.** Misstatement resulting from fraud or suspected fraud during the audit → not possible to continue audit.

Hint: SA 240 → **[Explain the Withdraw Process + Sec 143(12) reporting, CARO 2020 reporting]**

**Q7.** A special audit was conducted on company related to Fraud → but mngt is not giving report copy to Stat Auditor (neither providing W.R i.r.t Fraud)

Hint: "**SA 240**" (auditor to obtain reasonable assurance the FS free from MMS due to fraud/error & "**SA 580**" → Not provide W.R, alert for significant issue may exist (Re-evaluate Integrity of Mngt & effect on reliability of representation/evidence & Effect on A.Report). → Now explain **Withdraw Process + Sec 143(12) + CARO 2020**

## ➤ ROMM & Fraud:

Discussion among E.Team:	<p>Discussion among the engmnt team shall place <b>particular emphasis on how and where the entity's FS may be susceptible to MMS due to fraud</b>, including <b>how fraud might occur</b>.  <u>[Discussion Points are mentioned in "Additional PDF in addition to Main book]</u></p>
Risk of Non-Detection of MMS:	<p>Obtain <u>reasonable assurance that FS is free from MMS</u> whether due to fraud or error:</p> <ul style="list-style-type: none"> <li>• Due to <b>inherent limitation</b> of audit (SA 200) → Some MMS of FS not detected</li> <li>• Risk of not detecting MMS due to <b>Fraud is higher than Error</b> (as Fraud organised &amp; Sophisticated)</li> <li>• Risk of not detecting MMS due to <b>Mngt Fraud is higher than Employee fraud</b> (as mngt is at position to directly manipulate accounts)</li> </ul>
Risk Assessment Procedures to obtain info for use in identifying ROMM due to fraud:	<p>When performing RAP and related activities to <u>obtain an understanding of the entity &amp; its environment, including the entity's IC</u> or shall perform the procedures to obtain information for use in identifying the ROMMs due to fraud like:</p> <ol style="list-style-type: none"> <li>1) <b>Inquiries of management &amp; others within the entity</b>,</li> <li>2) Obtaining understanding as to how <b>TCWG exercise oversight of mngt's processes</b> for identifying and responding to the risks of fraud in the entity &amp; the IC that mngt has established to mitigate these risks and</li> <li>3) Evaluation of <b>unexpected relationships</b> identified in performing <b>analytical procedures</b> which may indicate ROMM due to fraud.</li> </ol> <p>Evaluate whether the info obtained from the other RAP and related activities performed indicates that one or more fraud risk factors are present.</p>
<b>SA 315:</b> <b>Identifying &amp;</b>	<p>SA 315, Auditor shall identify &amp; assess ROMM due to fraud at FS level, &amp; assertion level:  When identifying and assessing the ROMM due to fraud, based on below assumption.</p>

<b>Assessing ROMM due to Fraud</b> <b>[Presumed/Deemed Risk]</b>	<p><b>Following area are presumed to be high risk:</b></p> <ol style="list-style-type: none"> <li>Revenue Recognition</li> <li>Mgt Override Control</li> </ol> <p>The auditor shall <b>treat those assessed ROMM due to fraud as significant risks</b> and accordingly, to the extent not already done so, the <b>auditor shall obtain an understanding of the entity's related controls</b>, including control activities, relevant to such risks.</p> <p><b>Pre-assumption of Fraud risk may be Rebuted (ignored) i.e., No ROMM due to Fraud:</b>  → If only Single type of Simple revenue structure (eg., Single Rental property)</p> <p><b>Pre-assumption of Fraud MUST be Considered i.e., High chances of ROMM due to Fraud:</b>  → Complex revenue structure or Lack of Control</p>
<b>Document:</b>	<p>When <b>auditor has concluded that the presumption that there is a ROMM due to fraud related to revenue recognition is not applicable</b> in the circumstances of the engagement, the auditor shall <b>document the reasons</b> for that conclusion</p>

## ➤ **Responses to the Assessed Risks of Material Misstatement Due to Fraud:**

Overall Responses (At FS Level)	Response of assessed ROMM due to Fraud at Assertion Level	Response to Risks Related to Management Override of Control
<p><b>[Trick: "PAU"]</b></p> <ul style="list-style-type: none"> <li><b>Person:</b> Assign &amp; supervise <u>personnel of Skill knowledge</u>, and Individuals ability to assess the ROMM due to fraud for engmnt</li> <li><b>A/cing Policies:</b> Evaluate selection &amp; application of <u>a/cing policies relates to subjective measurement</u> may be fraudulent FR from mngrt</li> <li><b>Unpredictability:</b> Incorporate unpredictability in selection of NTE of audit procedures</li> </ul>	<ul style="list-style-type: none"> <li>Auditor shall <b>design &amp; perform further audit procedures (FAP)</b> whose NTE are responsive to the assessed ROMM due to fraud at the assertion level.</li> <li>Auditor <b>may change NTE of audit procedures to obtain audit evidence that is more reliable &amp; relevant</b> or to obtain additional corroborative Info.</li> <li><b>Example:</b> if mngrt under pressure to <u>meet earning target</u> → mngrt may enter sales agreement (prepone) or invoicing sales before delivery: <ul style="list-style-type: none"> <li>So AUDITOR shall <u>Not only use E.confirmation to Confirm O/s amt but Also confirm the details of the sales agreements</u> (including date, any rights of return, delivery terms)</li> <li>Further auditor might do <u>Inquiry of Non-financial Personnel</u> (i.e., sales) reg. any changes in sales agreement.</li> </ul> </li> </ul>	<p>Mngt is in unique position to perpetrate fraud because of mngrt's ability to manipulate A/cing records &amp; fraudulent FS by overriding controls that otherwise appear to be operating effectively.</p> <p>This risk is present in <b>all entities</b>. Mngt is Unpredictable in how override could occur so it is a significant fraud risk.</p> <p><b>Irrespective of the auditor's assessment of the risks of mgt override of controls, the auditor shall design and perform audit procedures to:</b></p> <ul style="list-style-type: none"> <li>Test <u>appropriateness</u> of journal entries recorded &amp; <u>Yr end adjustment</u> in FS</li> <li>Review <b>A/cing estimates, Bias</b> if any.</li> <li>Significant transactions that are <b>outside normal course of business</b>, appear Unusual → <u>evaluate whether the business rationale</u> or it's fraudulent FR / Misappropriation ins asset</li> </ul>

## ➤ **Some Other Topics (Based on Question Asked)**

### DEEMED/PRE-ASSUMED RISK:

**Q8. Hotel Audit** → risk of Improper revenue recognition (not treated as Fraud Risk), IC not designed to mitigate risk of revenue recognition, Not account revenue of 35 Cr, & some amt receive in CFO personal A/C.

- Auditor Responsibility is w.r.t Fraud is → **SA 240 & 315** (identify & assess ROMM due to fraud FS & assertion)
- SA 240 & 330** → determine overall responses to address the assessed ROMM due to fraud
- Presumption** → that there are risk of fraud in revenue recognition (Eg. Where single type of simple revenue

transaction → Auditor May conclude that there is No ROMM, However, For complex revenue structure Or Lack of control on revenue recognition → High Probability of fraud risk in revenue recognition)

Now Explain Given Case Issues (same as Qns) → So while performing RAP → Consider complexity & nature of revenue for determining fraud risk, Further Deficiency in I.C / IC Not exist → as Risk if improper revenue recognition is significant risk, + fraud reporting to CG as per Sec 143(12) if fraud amount exceed Rs. 1 Crore.

### MANAGEMENT FRAUD:

**Q9.** Explain Duties & Responsibilities of Auditor for MMS resulting from Management Fraud

- Misstatement in FS can arise from Fraud/Error, "Fraud" means → 'Intentional Act' by one or more individuals among mngrt, TCWG, employees, or 3<sup>rd</sup> parties, involving use of deception to obtain an unjust or illegal advantage.
- **SA 240** → Primary responsibility for prevention & detection of fraud rests with both **TCWG & Mngrt** → Auditor is responsible for obtaining reasonable assurance that FS as whole free from MMS, whether by fraud or error.
- **SA 200** → Inherent Limitation is significant in case of misstatement from Fraud → Risk of not detecting MMS from fraud is higher than not detecting Error (Fraud is Sophisticated than Error). Further, risk of the auditor not detecting a MMS resulting from Mngrt fraud is greater than for employee fraud. → Further, to obtain reasonable assurance, auditor to Maintain Professional Skepticism throughout the audit
- **Sec 143(12)** → Explain Fraud Reporting (if amount is Less than 1 Crore & Exceed 1 Crore)
- **Clause 11 of CARO 2020** → Explain this clause

**Q10.** Director has committed **Teeming & Lading** fraud (subsequently deposited) → Responsibilities of Auditor

- **Firstly**, SA 240 → auditor needs to perform procedures whether FS are materially misstated.
- **Secondly**, the auditor needs to consider the impact of fraud on F.S. and its disclosure in the audit report.
- **Thirdly**, the auditor should communicate the matter to the Chairman and Board of Directors.
- **Finally**, in view of the fact that the fraud has been committed at the highest level of mngrt, it affects reliability of audit evidence previously obtained since there is a genuine doubt about W.R. [now Explain → section 143(12)]

### ➤ Other Integrated Qns & Specific Frauds

**Q11.** During Audit you found → cash balance in books ₹ 2.10 crores. But only, small amounts of ₹ 50K withdrawn to meet day-to-day expenses: = SA 240 → If circumstances indicate misstatement from Fraud → consider Impact of Fraud on FS. (For Cash & Bank → carry out surprise verification of cash more frequently, If Cash not agreed with Book, Seek Explanation, otherwise state fact in A.Report)

**Q12.** During Audit → Found Error in Inventory Valuation (Affect FS materially): = SA 240

- If Circumstances indicate Possible Fraud → (a) Consider Effect of Suspected Fraud/Error on Financial Info. (b) If Have material effect on Financial Info → Perform Modified/Additional procedure
- If Auditor Identified Misstatement, EVALUATE → (a) Whether misstatement is indicative of Fraud (b) evaluate it's implication on Other aspects of Audit (like W.R)
- Further SA 320 → Request mngrt to Adjust Financial Info → if Refused (express Qualified / Adverse)

## SA 250 - CONSIDERATION OF LAWS AND REGULATIONS AN AUDIT OF FS

<b>Introduction:</b>	Auditor should check whether client has followed all the applicable laws & regulation or not because non-Compliance of them may attract penalties & disclosure [AUDIT of FS]
<b>Not apply:</b>	not apply to <u>other assurance engagements</u> in which the auditor is specifically engaged to test and report separately on compliance with specific L&R.
<b>Effect of L&amp;R on FS:</b>	Effect on the FS of L&R varies considerably → some have direct effect on FS (reported amounts and disclosures) → Other L&R not have a direct effect Some entities operate in <u>heavily regulated industries</u> (such as banks and chemical) → non-compliance have result in fines, litigation → material effect on FS

## Responsibility of the Auditor

<b>Consider L&amp;R in audit:</b>	Auditor is responsible for <b>obtaining reasonable assurance that the FS, taken as a whole, are free from MMS, whether caused by fraud or error.</b> In conducting an audit of FS, the auditor <b>takes into account the applicable legal and regulatory framework.</b>							
<b>Auditor NOT responsible:</b>	The auditor is <b>not responsible for preventing non-compliance and cannot be expected to detect noncompliance with all L&amp;R.</b> <u>[It's primary responsibility of Mngt]</u>							
<b>Inherent Limitation:</b>  [Trick: Fraud "deliberately chupaya" ... "FS ko affect" kar ra h to bhi ,mgt bolra h ki nhi .. "court" wala bolega to hi mangenge]	<p><b>Q13. Why effects of inherent limitations</b> as in SA 200, are greater i.r.o <b>non-compliance of L&amp;R?</b></p> <p>Due to inherent limitations, there is <b>unavoidable risk that some MMS in FS may not be detected, even though the audit is properly planned</b> and performed as per SA's, due to:</p> <p>a) Non-compliance may involve conduct designed to conceal it, such as <b>collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.</b></p> <p>b) <b>Many L&amp;R</b>, principally to the operating aspects of an entity that typically <b>do not affect FS</b> and are <b>not captured by the entity's info. systems relevant to financial reporting.</b></p> <p>c) Whether a act is <b>non-compliance is ultimately a matter for legal determination by court of law.</b></p>							
<b>Documentation:</b>	Auditor shall document <b>identified or suspected non-compliance</b> with L&R and results of discussion with mngt and, where applicable, TCWG and other parties outside the entity.							
<b>Responsibility of the Auditor :</b>  [2 different category of Law]  [Auditor consideration of compliance with L&R]	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">a)</td> <td>Laws which have Direct Effect on F.S Amount or Disclosure:</td> <td><b>[Eg, Tax (i.e, GST Payable, Income tax)]</b> Auditor should obtain <b>SAAE</b> w.r.t compliance of L&amp;R</td> </tr> <tr> <td>b)</td> <td>Law which does not have direct effect on F.S Amount or Presentation:</td> <td> <p>But compliance is <b>fundamental effect on the operations of the entity</b> → may <b>Going concern issue</b> → to <b>Avoid Penalties or Continue the business</b></p> <p>(<b>Eg., Labour laws, Environmental Laws, non-comply operating license, regulatory solvency requirements, For Bank capital or investment requirements, NBFC not get certificate if net owned fund is less</b>):</p> <p>Such Non-compliance may have material effect on the FS</p> <p>Auditor should perform <b>limited specified procedure</b> on other L&amp;R that may have material effect on FS:</p> <ul style="list-style-type: none"> <li>• <b>Inquire</b> with management, whether entity comply such L&amp;R</li> <li>• <b>Inspecting correspondence</b> with regulatory authorities</li> </ul> </td> </tr> </table>		a)	Laws which have Direct Effect on F.S Amount or Disclosure:	<b>[Eg, Tax (i.e, GST Payable, Income tax)]</b> Auditor should obtain <b>SAAE</b> w.r.t compliance of L&R	b)	Law which does not have direct effect on F.S Amount or Presentation:	<p>But compliance is <b>fundamental effect on the operations of the entity</b> → may <b>Going concern issue</b> → to <b>Avoid Penalties or Continue the business</b></p> <p>(<b>Eg., Labour laws, Environmental Laws, non-comply operating license, regulatory solvency requirements, For Bank capital or investment requirements, NBFC not get certificate if net owned fund is less</b>):</p> <p>Such Non-compliance may have material effect on the FS</p> <p>Auditor should perform <b>limited specified procedure</b> on other L&amp;R that may have material effect on FS:</p> <ul style="list-style-type: none"> <li>• <b>Inquire</b> with management, whether entity comply such L&amp;R</li> <li>• <b>Inspecting correspondence</b> with regulatory authorities</li> </ul>
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b)	Law which does not have direct effect on F.S Amount or Presentation:	<p>But compliance is <b>fundamental effect on the operations of the entity</b> → may <b>Going concern issue</b> → to <b>Avoid Penalties or Continue the business</b></p> <p>(<b>Eg., Labour laws, Environmental Laws, non-comply operating license, regulatory solvency requirements, For Bank capital or investment requirements, NBFC not get certificate if net owned fund is less</b>):</p> <p>Such Non-compliance may have material effect on the FS</p> <p>Auditor should perform <b>limited specified procedure</b> on other L&amp;R that may have material effect on FS:</p> <ul style="list-style-type: none"> <li>• <b>Inquire</b> with management, whether entity comply such L&amp;R</li> <li>• <b>Inspecting correspondence</b> with regulatory authorities</li> </ul>						

## Q14. Roles and responsibilities of statutory auditors i.r.t compliance with L&R by the entity? [OLD]

- Obtain General Understanding of:
  - a) **legal and regulatory framework applicable** to entity & Industry or Sector in which entity operates
  - b) **How the entity is complying** with that framework.
- Obtain **SAAE** regarding compliance of L&R having **for Direct effect FS** (Material amount or Disclosure)
- To identify non-compliance of **other L&R**, that may have material effect on FS,
  - a) **Inquire of management &**
  - b) **Inspecting Correspondence**
- Auditor shall remain **Alert** possibility of non-compliance of L&R → **Professional skepticism**
- Obtain **written representations** (That known /suspected Non-compliance are disclosed)

## Q15. Management is Saying that **Child Labour Employed** (Compliance with other L&R) is outside Scope of Auditor Hint: SA 250 → Auditor not responsible for preventing Non-Compliance (But he have to obtain reasonable

assurance that FS is Free from Material FS, so take into account applicable L&R)

(a) For L&R have direct effect on FS → Obtain SAAE, (b) other L&R having material effect on FS → Specified Procedure. (as Other L&R Non compliance lead to fines, litigation or other consequences → may need to be provided for in the FS, Like Child Labour Employed can have Material effect on FS)

→ Ensure that disclosure of above fact & provision for the cost of fines, litigation → if Non-Compliance have material effect on FS & not been adequately reflected in FS → Express qualified or adverse opinion (SA-705)

## ➤ Indicator of Non-Compliance & Management responsibility to Comply L&R:

<p><b>Indicators of Non-Compliance of L&amp;R :</b>  ( Special Trick:-)</p>	<p><b>Q16. Indications of non-compliance with L&amp;R Or for non-compliance Indicate possible areas</b></p> <ul style="list-style-type: none"> <li>• Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.</li> <li>• Unusual payments towards legal and retainership fees.</li> <li>• Payments for unspecified services or loans to consultants, related parties, employees or government employees.</li> <li>• Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid entity or in its industry or to the services actually received.</li> <li>• Purchasing at prices significantly above or below market price</li> <li>• Payments without proper exchange control documentation</li> <li>• Unusual transactions with companies registered in tax havens.</li> <li>• Investigations by regulatory organisations &amp; Govt departments or payment of fines, penalty.</li> <li>• Payments for G&amp;S made other than to the country from which the G&amp;S originated.</li> <li>• Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.</li> <li>• Unauthorised transactions or improperly recorded transactions.</li> <li>• Adverse media comment.</li> </ul>
<p><b>Responsibility of Mngt for Compliance of L&amp;R:</b>  [Policies &amp; Procedures to Prevent/Detect Non-Compliance]</p>	<p>It is the responsibility of mngt, with the oversight of TCWG, to ensure that the entity's operations are conducted as per provisions of L&amp;R, including compliance with the L&amp;R.</p> <p><b>Q17. Example of Polices &amp; procedure for prevention &amp; detection of Non-Compliance</b> [Trick: "IC" &amp; "COC" &gt; "Employee" ko samjaa &gt; "Monitor" karo &gt; in case of Non-compliance, "Disciplinary action" lo]</p> <ul style="list-style-type: none"> <li>• Instituting and operating appropriate systems of internal control.</li> <li>• Developing, publicising and following a code of conduct.</li> <li>• Ensuring employees are properly trained and understand the code of conduct.</li> <li>• Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.</li> <li>• Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.</li> <li>• Engaging legal advisors to assist in monitoring legal requirements.</li> <li>• Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.</li> </ul> <p>[In larger entities, these policies &amp; procedures may be supplemented by assigning appropriate responsibilities to internal audit f(x), audit committee, compliance function]</p>

**Q18. Social media company → Govt bringing new Strict Laws for them: =**

So Verify whether has System & Procedures (to meet new Laws requirement) Like Policies & procedure (I.C, Sensitizing Employees reg. new L&R, Engage Legal advisor). → Further, Financial stability of company may be threatened due to New Regulatory requirement (Mngt is under Pressure → so evaluate Fraud risk Factor)

## ➤ Audit procedure when Non-Compliance is Identified:

1. Auditor shall obtain an understanding of nature & Circumstances in which it occurs
2. Evaluate possible effect on FS. (Fines, Going concern, True & Fair view, Disclosure)
3. Discuss with Mngt/TCWG
4. If Mngt/TCWG not give info & have material effect on FS → take legal advice
5. If sufficient info about Non-compliance cannot be obtained i.e., Lack of SAAE → Affect auditor's opinion
6. Evaluate non-Compliance implication i.r.t Other aspect → i.e., Auditor Risk Assessment & Reliability of W.R, Appropriate action
7. Reporting of non-compliance
  - (a) Reporting to management/TCWG
  - (b) Reporting to users of auditor's report of FS
  - (c) Reporting to regulations

**Q19.** For Insurance Company → Following are Indication of Non-Compliance of L&R: (SM Qn)

- (1) GST Dept issued notice for creating Fictitious invoices of sales (Involve penalty, have Direct effect on FS)
- (2) IRDAI was also informed by GST dept → IRDAI may also levy Fine & Litigation (Material effect on FS)

(Now refer Above procedure "Audit Procedure when Non-Compliance is Identified" (Answer Ends))

## ➤ REPORTING RESPONSIBILITY of Auditor i.r.t Non-Compliance of L&R:

**Q20.** State Auditor's responsibility for Non-Compliance of L&R i.r.t audit of FS

- 1) Reporting Non-Compliance to TCWG: (Unless all TCWG involved in mngt, and mngt aware of this matter)

If non-compliance is believed to be intentional & material:	communicate matter → as soon as practicable.
If suspects that management or TCWG are involved in non-compliance:	communicate to → next higher level of authority (like audit committee or supervisory board)
Where no higher authority exists, or if auditor believes that the communication may not be acted upon or is unsure about person to whom to report:	consider the need to obtain legal advice.

- 2) Reporting Non-Compliance in the Auditor's Report on the FS:

If concludes that non-compliance has material effect on FS, & has not been adequately reflected in FS:	As per SA 705 express a qualified or adverse opinion
If auditor is precluded by mngt or TCWG from obtaining SAAE to evaluate whether non-compliance that may be material:	express a qualified opinion or disclaim as per SA 705.
If auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by mngt or TCWG:	evaluate the effect on the auditor's opinion as per SA 705.

- 3) Reporting Non-Compliance to Regulatory & Enforcement Authorities: If auditor identified or suspects non-compliance → determine whether auditor has a responsibility to report to parties outside the entity.

## SA 260 - Communication with Those Charged with Governance

TCWG means: [Read only]	<ul style="list-style-type: none"> <li>➤ TCWG denotes the person(s) or organization(s) (e.g., a corporate trustee) responsibility for overseeing the strategic direction of the entity and includes those overseeing the FR process.                     <ul style="list-style-type: none"> <li>• For some entities, TCWG may include management personnel,</li> <li>• for example, executive members of a governance board of a private or public sector entity, or an owner -manager.</li> </ul> </li> <li>➤ Governance structures vary by entities.</li> </ul>
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	<ul style="list-style-type: none"> <li>➤ In some cases, some, or all of TCWG are involved in managing the entity. In others, TCWG and management comprise different persons. (it can be collective responsibility of BOD, Supervisor board, partners, etc)</li> <li>➤ In smaller entities, however, one person may be charged with governance (owner/mngr)</li> <li>➤ <b>Appropriate TCWG:</b> Due to diversity → auditor can-not determine specific person to communicate particular matters → Not be clearly identifiable from the applicable legal framework → not formally defined, such as some family-owned entities &amp; NPO, <ul style="list-style-type: none"> <li>• In Such case, auditor may need to discuss and agree with the engaging party the relevant persons with whom to communicate.</li> <li>• In deciding with whom to communicate, auditor's understanding of an entity's governance structure &amp; processes obtained in accordance with SA 315 is relevant.</li> <li>• The appropriate persons with whom to communicate → may vary depending on matter to be communicated.</li> </ul> </li> </ul>
<b>The Auditor's Responsibilities:</b>	The auditor shall communicate his responsibilities & some other matters to TCWG i.e., e auditor is responsible for forming and expressing an opinion on the FS.
<b>Appropriate Person:</b>	<p>The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate</p> <p><b>Sub Group of TCWG (Eg. Audit Committee) :</b> If the auditor communicates with a subgroup of TCWG, for example, an audit committee, or an individual, auditor shall determine whether the auditor also needs to communicate with the governing body.</p>
<b>When All of TCWG Are Managing Entity:</b>	Eg. small business where a single owner manages, matters need not be communicated again with those same people(s) in their governance role
<b>Form/ Process of Communication:</b> [Depend: Oral/Writing]	<ul style="list-style-type: none"> <li>• In writing with TCWG for significant findings of audit, if in auditor's judgement, oral communication would not be adequate</li> <li>• Written communications need not include all matters arose during the course of audit.</li> <li>• The auditor shall communicate in writing to TCWG regarding auditor independence. In case of Listed entities</li> </ul>
<b>Timing</b>	The auditor shall communicate with TCWG on a timely basis.
<b>Adequacy of Communication:</b>	evaluate whether the two-way communication (between Auditor & TCWG) is adequate for audit → if not adequate → auditor shall evaluate auditors assessment of ROMM & ability to obtain SAAE

➤ **Matters to be included in Communication**

<b>Matters to be included in Communication:</b>	<p><b>Q21.</b> Auditor should communicate audit matters arising from FS audit with TCWG". state the matters to be included in such Communication. <b>[Significant Findings from audit]</b></p> <p>As per SA 260 "Communication with TCWG", the auditor shall communicate with TCWG,</p> <p><b>I] Responsibilities of the auditor in relation to the FS audit, including that:</b></p> <p class="list-item-l1">(a) The auditor is responsible for forming and expressing an opinion on the FS that have been prepared by management with the oversight of TCWG; &amp;</p> <p class="list-item-l1">(b) The audit of the FS does not relieve management or TCWG of their responsibilities.</p> <p>[Generally above is included in engmnt letter or other suitable form of written agreement]</p> <p><b>II] Planned scope &amp; timing of audit:</b></p> <ul style="list-style-type: none"> <li>• Assist TCWG to understand better consequences of auditor work, discuss risk &amp; materiality &amp; identify areas where auditor should undertake additional procedure</li> <li>• Assist auditor in understanding better the entity and its environment</li> </ul>
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- communicate **OVERVIEW** of scope/ timing of audit (including **significant risk** identified)
- Care is necessary when communicating with TCWG about the planned scope and timing** of the audit so as **not to compromise the effectiveness of the audit, particularly where some or all TCWG are involved in managing the entity.** may reduce the effectiveness of those procedures by making them too predictable.

**III] Auditor shall communicate with TCWG, following Significant Findings from Audit:**

- The auditor's views about **significant qualitative aspects** of the entity's **accounting practices**, including accounting policies, accounting estimates and FS disclosures. When applicable, → explain to TCWG → why auditor considers, that a significant a/cing practice as per applicable FRF → is not to be most appropriate to the particular circumstances of the entity;
- Significant difficulties**, if any, encountered during the audit;
- Unless all of TCWG are involved in managing the entity**:
  - Significant matters**, if any, arising from the audit that were discussed, or subject to correspondence with management; and
  - Written representations** the auditor is requesting; and
- 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.
- Circumstances that affect the form and content of the auditor's report**, if any and

The **communication of findings** from the audit **may include** requesting further information from **TCWG** in order to complete the audit evidence obtained.

<b>Significant Difficulties:</b>  <i>(Special Trick :-)</i>	<p><b>Q22.</b> which matters can be considered as <b>significant difficulties</b> as per SA 260. <b>[OLD]</b></p> <p>SA 260, significant difficulties encountered during the audit may include such matters as:</p> <ol style="list-style-type: none"> <li>An <b>unreasonably brief time</b> within which to <b>complete the audit</b>,</li> <li>The <b>unavailability of expected information</b></li> <li><b>Significant delays by mgmt</b>, the <b>unavailability of entity personnel</b>, or an unwillingness by mgmt to provide info necessary for the auditor to perform the auditor's procedures.</li> <li>Extensive unexpected <b>effort required to obtain SAAE audit evidence</b>.</li> <li><b>Restrictions imposed</b> on the auditor by management.</li> <li><b>Mngt's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.</b></li> </ol> <p>In some circumstances, such difficulties may constitute a <b>scope limitation</b> that leads to a modification of the auditor's opinion as per <b>SA 705 (Revised)</b>, <b>Modifications to the Opinion</b></p>
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<b>Communication to TCWG, When Additional Info is included in Auditor's report:</b>	<ul style="list-style-type: none"> <li>The auditor expects to <b>modify</b> the opinion in auditor's report in accordance with <b>SA 705</b></li> <li>A material uncertainty related to <b>going concern</b> is reported in accordance with <b>SA 570</b></li> <li><b>Key audit matters</b> are communicated in accordance with <b>SA 701</b></li> <li>The auditor considers necessary to include <b>EOM or OM</b> para as per <b>SA 706</b> or other SAs</li> <li>The auditor has concluded that there is an <b>uncorrected material misstatement</b> of the other information in accordance with <b>SA 720</b>.</li> </ul> <p><b>In such circumstances, Auditor may provide TCWG with a draft of the auditor's report to facilitate a discussion of how such matters will be addressed in the auditor's report.</b></p>
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<b>Auditor Independence (Listed Entities):</b>  <i>(bhai dekho</i>	<p><b>Q23.</b> CA. Shelly Goel is offered a listed company audit. The audit committee of company wants her to justify independence i.r.t company <b>through proper communication?</b></p> <p><b>In the case of listed entities, the auditor shall communicate with TCWG:</b></p> <ul style="list-style-type: none"> <li>➤ <b>All relationships</b> and other matters between the firm, network firms, and the entity <b>that may reasonably be Impact independence</b>. This shall include <b>total fees charged</b> by firm /</li> </ul>
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.. Apni ye ye  
**Relationship hai**  
 .. uspe mene ye-  
**ye Safeguard**  
 laga diye .. to Me  
**independent hu)**

network firm during the period for audit and non-audit services

- The related **safeguards that have been applied** to eliminate identified threats to independence or reduce them to an acceptable level.
- A **statement that the ET and others in the firm as appropriate, network firms have complied with relevant ethical requirements regarding independence**; and

Further, as per Co. Act, 13 requires audit committee to review and **monitor auditor's independence**. Therefore, audit committee requiring auditor to justify her independence

**Q24.** Auditor communicated Following matters to TCWG (a) Auditor's responsibility for FS Audit (b) Planned Scope & Timing of Audit (c) Auditor's independence → which Matters Not Included ?

Hint: Refer above Notes & explain "Significant Findings from the Audit" (under Matter's to communicate TCWG)

➤ **Why it is Important to Communicate KAM to TCWG [Old Qn - Not in SM]**

**Q25.** When to communicate "KAM"? What are relevant considerations in this regard and their usefulness?

- **SA 260 (Revised)** requires the auditor to communicate with TCWG on a timely basis.
- **SA 701** The appropriate **timing** for communications about KAM will **vary** with the circumstances of engmnt.

However, the auditor may communicate preliminary views about KAM when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings.

Communicating to **TCWG** enables them to be made aware of the **KAM** that the auditor intends to communicate in the auditor's report, & provides them with an opportunity to obtain further clarification where necessary.

Auditor may consider it useful to **provide TCWG with a draft of auditor's report** to facilitate this discussion.

Communication with **TCWG** recognizes their **important role** in overseeing the **FR process**, and **provides the opportunity for TCWG to understand the basis** for the auditor's decisions i.r.t KAM & how these matters will be described in the auditor's report.

It also **enables TCWG to consider whether new or enhanced disclosures may be useful** in light of the fact that these matters will be communicated in the auditor's report.

## SA 299 - JOINT AUDIT OF FINANCIAL STATEMENTS

<b>Meaning:</b>	A joint audit is an audit of FS of an entity by 2 or more auditors appointed with the objective of issuing the audit report. [Generally, for larger entities, sometime requires by Law]
<b>Not applicable:</b>	Relationship between Principal audit & Subsidiary/branch/JV/Ass/other Auditor ( <b>SA-600</b> )
<b>Audit planning, Risk Assessment and Allocation of Work:</b>	<ul style="list-style-type: none"> <li>• The <b>engagement partner</b> and other <b>key members</b> of the engagement team from each of the joint auditors shall be <b>involved in planning</b> the audit.</li> <li>• The joint auditors shall <b>jointly establish</b> an overall <b>audit strategy</b> that sets the scope, timing and direction of the audit.</li> </ul> <p><b>[In Developing Audit Plan Joint Audit Shall Consider → "Refer Additional PDF"]</b></p> <ul style="list-style-type: none"> <li>• <b>ROMM</b> need to be considered and <b>assessed</b> by each of the joint auditors and shall be communicated to other joint auditors</li> <li>• Discuss &amp; document the <b>NTE of audit procedures</b> for common and specific allotted areas, same shall be discuss &amp; <b>Communicated to TCWG</b></li> <li>• Joint auditors shall <b>obtain common engagement letter</b> &amp; common <b>Mngt representation letter</b>.</li> <li>• <b>Work allocation &amp; Specific Allotted areas</b> shall be <b>Documented</b> &amp; shall be <b>signed</b> by <b>all the joint auditors</b> &amp; same shall be <b>communicated to TCWG</b>. [Documentation of allocation of work helps in avoiding any dispute or confusion among the joint auditors regarding scope of work]</li> </ul>

<b>Each JA is entitled to Assume:</b>	<p>a) The <b>other joint auditors</b> have carried out their part of the audit work and the work has actually been <b>performed in accordance with the SA's</b> issued by ICAI. It is <b>not necessary for a joint auditor to review the work performed by other joint auditors</b>.</p> <p>b) The <b>other joint auditors</b> have brought to said joint auditor's notice any <b>departure from applicable FRF</b> or significant observations that are relevant to their responsibilities noticed in the course of the audit.</p> <p><u>Where FS of a division/branch are audited by one of JA's → the other JA are entitled to proceed on the basis that such FS comply with all L&amp;R requirements and present a true &amp; fair view of the state of affairs and of the results of operations of the division/branch concerned.</u></p>
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#### ➤ Feature of SA's

<b>Division of Work</b>	<p>Where joint auditors are appointed, by mutual discussion, Divide audit of</p> <p>(i) <b>Identifiable units</b> or specified areas.</p> <p>(ii) Where above division of work may not be possible. In such situations, the division of work may be with reference to items of <b>assets or liabilities or income or expenditure</b>.</p> <p>➤ <b>Not divided:</b> Certain areas of work, owing to their importance or owing to the nature of work involved would not be divided and would be <b>covered by all the joint auditors</b>.</p> <p>➤ <b>Documented:</b> Such a division affected by the joint auditors <b>should be adequately documented</b> and preferably communicated to TCWG.</p> <p>(Mention in <b>other matter para, SA 706</b> → Specific responsibility of JA)</p>
<b>Coordination</b>	<p>Where in the course of his work, a <b>joint auditor comes across matters which are relevant to the areas of other joint auditors</b> and which require joint discussion, <b>he should communicate the same to all the other joint auditors in writing before the finalization of audit</b> and preparation of audit report.</p>

#### ➤ RESPONSIBILITY:

<b>Join Auditors are Specifically responsible for:</b>	<b>Joint Responsibilities</b> , All the joint auditors shall be <b>jointly and severally responsible</b> :
<p>(a) <b>Audit work divided</b> among the JA's; each JA shall be responsible only for the work allocated to such JA <b>including proper execution of the audit procedures</b>.</p> <p>(b) It shall be the responsibility of each auditor separately to determine the:</p> <ul style="list-style-type: none"> <li>• <b>NTE of audit procedures</b> to applied i.r.t areas of work allocated to JA.</li> <li>• to study and evaluate the prevailing system of <b>internal control</b> relating to work allocated to him</li> <li>• <b>Assessment of risk</b> relating to areas of work allocated to said joint auditor</li> </ul> <p>(c) each JA is entitled to assure that the other joint auditors have <u>carried out their part of work in accordance with the generally accepted audit procedures</u> and therefore it would <u>not be necessary for joint auditor to review the work</u></p> <p>(d) specific responsibility of each JA to <u>obtain info &amp; explanations from the mngrt i.r.t. such divisions /zones/units</u> and to <u>evaluate the info &amp; explanations</u></p>	<p>(a) <b>Audit work which is not divided</b> among the joint auditors &amp; is carried out by all JA's:</p> <p>(b) <b>Decisions taken by all</b> the joint auditors under <b>audit planning</b> phase concerning the <b>NTE of the audit procedure</b> to be performed by each of the auditor;</p> <p>(c) <b>Matters which are brought to the notice</b> of the joint auditors by any one of them and on which there is an <b>agreement among</b> the joint auditors;</p> <p>(d) examining that the <b>FS comply with requirements</b> of relevant statutes;</p> <p>(e) <b>Presentation and disclosure of the FS</b> as required by the applicable FRF.</p> <p>(f) Ensuring that the <b>audit report</b> complies with requirements of relevant statutes.</p> <p>(g) the responsibility of <u>obtaining and evaluating information and explanation from the mngrt</u> is generally a joint responsibility of all the auditors, <u>Unless agreed on specific pattern of distribution of this responsibility</u></p>

**Reporting**      **Q26.** A, B and C are joint auditors of a company. A&C are agreed on some matter, But B is not.

Responsibility:	<p>Is B required to go by majority opinion of 2-1  <u>B is not required to go by majority opinion of 2-1.</u></p> <ul style="list-style-type: none"> <li>➤ Usually, Joint auditor is required to issue <b>common audit report</b> (unanimous opinion)</li> <li>➤ If, however, where the <b>joint auditors are in disagreement</b> with regard to the opinion or any matters to be covered by the audit report, → express opinion in <b>separate audit report</b></li> <li>➤ If Joint Auditor Disagree to Majority Joint Auditors such Joint Auditor is <b>not bound by the views of majority</b> &amp; can issue Separate Report in case of disagreement</li> <li>➤ Further such separate audit reports shall also <b>make reference to the audit report issued by other Joint Auditors</b> under heading "<b>Other Matter Paragraph</b>" (SA 706)</li> <li>➤ Before finalizing their audit report, the joint auditors shall <b>discuss and communicate with each other their respective conclusions</b> that would form the content of the audit report.</li> </ul>
Communication with TCWG:	<ul style="list-style-type: none"> <li>➤ When JA expect to modify opinion in report → communicate with TCWG the circumstances that led to the <u>expected modification and proposed wording</u> of modification. (SA 705)</li> <li>➤ If the JA expect to include an EOM or OM para report → communicate to TCWG reg. this <u>expectation &amp; the proposed wording</u> of this paragraph to ensure compliance with SA 706</li> </ul>
Point to Note:	Even Though the Area is planned by all J.A commonly, planning was correct → but performed by Specific Auditor not professionally (mistake in execution) → then He will only be responsible

**Q27.** (SM) Joint Auditors (X,Y,Z) → IT System Control was **PLANNED** as **Common Area**. → However **ACTUAL audit procedure** was performed by "CA Y" only (Not Performed Professionally) :: → So "CA Y" would be **Only Responsible** for It (As J.A was responsible for Appropriateness of NTE of Planning, However Execution Lies with Concerned auditor, so that individual concerned Auditor will be responsible )

**Q28.** 2 joint auditor's → Divided activities into 4 geographics region → Explain the JA's responsibilities.

Hint: SA 299: i.r.o audit work divided among the joint auditors, each joint auditor shall be responsible ONLY for the work allocated to such joint auditor including proper execution. (also reg. Obtaining Information & explanation i.r.t to Such Division allotted to him) → [Refer & Explain Above Notes (1) **Responsibility** → **Joint Responsibility** (2) **Coordination** (3) **Joint Auditors are Specifically responsible for**]

**Q29.** Write Short Note on "Responsibility of JA's" Or Relationship among J.A's. (Old)

Hint: Refer Above Notes → "Division of work" & "Coordination", "Responsibility" "Reporting responsibility"

**Q30.** (MTP Nov'24) → Joint auditor → Major Understatement in Value of Inventory (Inventory was checked by MN&Co), But No documentation for division of work.

Hint: Refer Above Notes: "Division of work", "Joint Responsibility"

(Further Document the NTE of Audit procedure/ Work allocation for Common & Specific divided area → should be signed by all JA's → communicate to TCWG) →

(a) MN& Co is only responsible for Inventory (b) there is violation of SA 299 (As work division not documented)

**Q31.** (Old) → Joint auditor → Whether or not a Separate Report is require in case of Disagreement?

Hint: → require to issue common report (However, If disagreement → issue separate report) → Make reference in Separate A.report "SA 706 → Other matter para) → Refer Above Notes "Each JA is Entitled to Assume"

**Q32.** (Old) → Mr. X, Y, Z are J.A → Mr. X & Y are agreed on same actuary report, However Z did not. Explain

(a) Joint & Several responsibilities of Auditor (b) Responsibility of J.A, if Mr. Y Actuary report found faulty.

Hint: (a) Refer Notes "Joint Responsibility" & "Reporting Responsibility" i.e., Mr. Z can issue separate report, not bound by Majority & OM para

(b) SA 620 → Auditor responsibility not reduced by use of A.expert's work.

- Evaluate Expert Work Adequacy (relevance and reasonableness of expert Finding & Conclusion, it's consistency)
- relevance & reasonableness of assumptions & methods, → relevance, completeness, & accuracy of source data
- (Now Explain Qn Info.) → X & Y held responsible for Gross negligence, Not Mr. Z (As separate report issued)

## SA 402 - Audit Considerations Relating to an Entity Using a Service Organization

Brief about this SA	<ul style="list-style-type: none"> <li>PwC (<b>User auditor</b>) is an auditor of XYZ Ltd (<b>User entity</b>),</li> <li>XYZ Ltd outsourced its any part of business, which affect FS (Let's say Accounting is outsourced) to ABC Ltd (<b>Service organization (SO)</b>)</li> <li>So PwC also need to check controls of ABC Ltd, Because if ABC Ltd control is weak, then it will impact XYZ Ltd FS also.</li> <li>If ABC also outsourced its some part to CC Ltd, Then PwC also need to Check control of CC Ltd (<b>Sub-service organization</b>)</li> <li>PwC have many methods to test control of ABC &amp; CC Ltd, one of them is, they request ABC Ltd auditor's (KPMG- <b>Service Auditor</b>), to provide report on ABC Ltd controls.</li> <li>If above report does not contain any info regarding CC Ltd control, then it will be known as <b>CARVE OUT METHOD</b>,</li> <li>If that report contains info about CC Ltd control also, then known as <b>INCLUSIVE METHOD</b></li> <li>Further this report have 2 type. <b>TYPE 1 &amp; TYPE 2</b> (<i>will Discuss later</i>)</li> </ul>
Scope of SA	User auditor's responsibility to <b>obtain SAAE when a user entity uses the services of one or more service organisation (S.O)</b> [Expand → how user auditor applies SA 315 and SA 330 in obtaining an understanding of the user entity, including IC relevant to audit, assess ROMM]
User entity:	is an entity that uses a S.O. & whose FS are being audited.
User auditor	is an auditor who audits and reports on the FS of a user entity
Service Organisation:	S.O. is a <b>3<sup>rd</sup> party organisation</b> (or segment of a 3 <sup>rd</sup> party organisation) <b>that provides services to user entities that are part of those entities' info. systems relevant to financial reporting.</b>
Service auditor	auditor who, at the request of the S.O., provides an assurance report on the controls of a SO.

### ➤ When services provided by a S.O. are relevant to the audit of a user entity's FS?

Not relevant:	All outsource Service are not relevant for audit i.e., <b>Outsource tax compliance function</b>
Relevant Services for audit:	when those <b>services</b> which are provide by SO, and the <b>controls over them</b> , <b>are part of the user entity's information system</b> , including related business processes, <b>relevant to financial reporting</b> → Some other control are also relevant i.e., <b>controls over safeguarding of assets</b> .
<b>➤ Relevant to financial reporting if these services affect any of:</b>	
A SO's services are part of a user entity's information system, including related business processes, relevant to financial reporting if these services affect any of the following:	
<ul style="list-style-type: none"> <li>(i) The <b>classes of transactions</b> in the user entity's operations that are <b>significant to the user entity's FS</b>;</li> <li>(ii) How the user entity's <b>information system</b> captures <b>events and conditions</b>, other than <b>transactions</b>, that are <b>significant to the financial statements</b>;</li> <li>(iii) <b>Controls surrounding journal entries</b>, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.</li> <li>(iv) The procedures, within both <b>info technology (IT) &amp; manual systems</b>, by which the user entity's transactions are initiated, recorded, processed, corrected as necessary, transferred to <b>general ledger &amp; reported in FS</b>;</li> <li>(v) The related <b>accounting records</b>, either in <b>electronic or manual form</b>, supporting information and specific accounts in the user entity's FS that are <b>used to initiate, record, process and report the user entity's transactions</b>; this includes the correction of incorrect info &amp; how info is transferred to the general ledger;</li> <li>(vi) The <b>financial reporting process</b> used to prepare the user entity's FS, including significant accounting estimates and disclosures</li> </ul>	

Q33. Outsourced Accounting Function → As an Auditor Enumerate Factors to be consider related to it F.R.

Hint: Refer notes : "Not relevant", "Relevant Services for audit", "Relevant to FR if these services affect any of"]

## ➤ Obtain Understanding of services provided by S.O:

<b>Obtain Understanding of services provided by S.O:</b>  <i>(Special Trick :-)</i>	<p>The user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including:</p> <ul style="list-style-type: none"> <li>(i) The <b>nature of the services</b> provided by the SO and the <u>significance of those services to the user entity</u>, including the effect thereof on the <u>user entity's internal control</u>; [Available sources: user manuals, contract between user entity and SO etc.]</li> <li>(ii) The <b>nature and materiality of the transactions processed</b> or accounts or financial reporting processes affected by the service organisation; [sometimes transactions processed by SO, not appear to be material to FS, but nature of transaction process can be significant → so auditor should understand that control]</li> <li>(iii) The <b>degree of interaction between the activities</b> of the SO &amp; of the UE; [It means, extent to which a user entity is able to and elects to implement effective controls over the processing performed by the SO. For example, a high degree of interaction exists between the activities of the U.E &amp; those at the S.O when the U.E authorizes transactions and the S.O. processes and does the accounting for those transactions]</li> <li>(iv) The <b>nature of the relationship between the user entity and the service organisation</b>, including the relevant contractual terms for the activities undertaken by the S.O.</li> </ul>
<b>Understand IC &amp; Significance of service:</b> <i>[Read Only]</i>	<ul style="list-style-type: none"> <li>• When obtaining understanding of IC as per SA 315 → auditor also evaluate relevant controls at user entity that relate to services provided by S.O.</li> <li>• Determine whether a <b>sufficient understanding of the nature and significance of the services provided by SO and their effect on the user entity's IC</b> has been obtained</li> </ul>
<b>Further procedures if Sufficient understanding not obtained</b>	<p><u>Further procedures if Sufficient understanding of UE not obtained by above methods:</u></p> <ul style="list-style-type: none"> <li>• Obtaining Type 1 or Type 2 report (if available)</li> <li>• Contacting Service Organization, through user entity to obtain specific info.</li> <li>• Visiting Service organization &amp; performing procedures to get info about controls at SO.</li> <li>• Use another auditor to perform procedures to get info on relevant control at SO.</li> </ul>

**Q34.** G Ltd outsourced Payroll, Accounting → how auditor can obtain understanding of Services, Or  
 As auditor, what would be your considerations regarding the nature & extent of activities undertaken by S.O.  
 Hint: SA 402 & 315 → Refer above notes "Obtain Understanding of services provided by S.O"

## ➤ About Type 1 & Type 2 Report:

<b>Obtaining Type 1 or Type 2 Report</b>	<b>Type 1 Report:</b>  <i>[DD - Description &amp; Design of Control]</i>	<ul style="list-style-type: none"> <li>• A <b>description, prepared by mgt of the SO</b>, → of the SO system, control objectives and related controls that have been <b>designed</b> and implemented as at a <b>specified date</b>; and</li> <li>• A <b>report by the service auditor</b> with the objective of conveying <b>reasonable assurance</b> that includes the service auditor's opinion on the <b>description</b> of the SO system, control objectives and related controls and the <b>suitability of the design of the controls to achieve the specified control objectives</b>.</li> </ul>
	<b>Type 2 Report</b>  <i>[DDO- Description, Design &amp; Operating effectiveness of Control]</i>	<ul style="list-style-type: none"> <li>• A <b>description</b>, prepared by mgt of the SO, of the SO system, control objectives and related controls, their <b>design</b> and implementation as at a <b>specified date or throughout a specified period</b> and, in some cases, their <b>operating effectiveness</b> throughout a specified period; and</li> <li>• A <b>report by the service auditor</b> with the objective of conveying reasonable assurance that includes:           <ul style="list-style-type: none"> <li>✓ The service auditor's opinion on the <b>description</b> of SO system, control objectives &amp; related controls, suitability of the <b>design</b> of controls to achieve the specified control objectives, and <b>operating effectiveness</b> of controls; &amp;</li> </ul> </li> </ul>

	<p>✓ A description of service auditor's tests of controls &amp; results thereof.</p> <p><b>Q35.</b> How does an auditor report on the description, design and operating effectiveness of controls at a S.O? =: <i>Explain about "Type 2 Report" (as it's asking about DD"O")</i></p>
<b>Using Type 1 &amp; Type 2 Report:</b>	<p>When user auditor is using type 1 or 2 report to understand I.C. and SO:</p> <p><b>In determining the SAAE provided by Type 1 or 2 report</b>, user auditor shall satisfied as to:</p> <ol style="list-style-type: none"> <li>The service auditor's <b>professional competence</b> (except where service auditor is a member of ICAI) and <b>independence</b> from the service organisation; and</li> <li><b>Adequacy of the standards</b> under which the Type 1 or Type 2 report was issued.</li> </ol> <p><b>If user auditor plans to use Type 1 or 2 report</b> as audit evidence to support user auditor's <b>understanding about design &amp; implementation of controls at SO</b>, the user auditor shall:</p> <ol style="list-style-type: none"> <li><b>Evaluate</b> whether the Description and Design of controls [DD] <u>at the SO</u> is at a <b>date</b> or for a period that is <b>appropriate for the user auditor's purposes</b>;</li> <li><b>Evaluate Sufficiency &amp; appropriateness</b> provided by the report for the understanding of the <u>user entity's I.C</u> relevant to the audit; (i.e, in general User entity ke kya control hai uss work pe)</li> <li>Determine <b>whether complementary user entity controls</b> identified by SO are relevant to the user entity and, if so, obtain an understanding of <b>whether the user entity has designed and implemented such controls</b>. (i.e, SO ye soch ke kaam kar rha hai ki, U.E ne kuch specific control to lagaae hi honge uss kaam k liye, to as an Auditor apan ko y dkhna h ki Wo Control UE me shii hai yaa nii)</li> </ol> <p>[<b>Complementary user entity controls</b> refer to <u>controls that the service organisation assumes</u>, in the design of its service, <u>will be implemented by user entities</u>, and which, if necessary to achieve control objectives, are identified in the description of its system.]</p>
<b>Test of Control:</b>	<p>When User auditor's initial risk assessment <u>includes an expectation that controls at SO are operating effectively</u>, the user auditor shall <u>obtain audit evidence about the operating effectiveness</u> of those controls <u>from one or more of the following procedures</u>:-</p> <ol style="list-style-type: none"> <li>Obtaining a <b>Type 2 report</b>, if available</li> <li>Performing appropriate <b>TOC at the S.O</b></li> <li>Using another auditor to perform <b>TOC at the SO</b> on behalf of the user auditor</li> </ol> <p><b>Q36.</b> U.E. Auditor demanded from S.O. → description of SO &amp; <u>effectiveness</u> of the control. Which type of report? What aspects to be considered by U.E. Auditor in using such assurance report as audit evidence that controls at S.O are operating effectively? (MAY'24)</p> <p><b>Answer:</b> SA 402: Using <b>Type 2 report</b> as A.evidence that controls at SO are operating effectively</p> <p><b>Using a Type 2 report</b> as audit evidence that controls at SO are operating effectively, user auditor shall determine <b>whether the service auditor's report provides SAAE about the effectiveness of the controls</b> to support the user auditor's risk assessment by:</p> <ol style="list-style-type: none"> <li>Evaluating whether the Description, Design &amp; Operating effectiveness [DDO] <u>of controls at the S.O</u> is at a <b>date</b> or for period that is <b>appropriate for the user auditor's purposes</b></li> <li>Determine <b>whether complementary user entity controls</b> identified by SO are relevant to the user entity &amp;, if so, obtain an understanding of <b>whether the user entity has designed and implemented such controls</b>, if so, testing their operating effectiveness;</li> <li>Evaluating the <b>adequacy of the time period covered by the TOC</b> and the time elapsed since the performance of the tests of controls; and</li> <li>Evaluating whether the <b>TOC performed by the service auditor and the results thereof</b>, as described in the service auditor's report, are relevant to the assertions in the user entity's FS and <b>provide SAAE to support the user auditor's risk assessment</b></li> </ol>

## ➤ Sub-Service Organisation (Inclusive & Carve Out Method)

Q37. When S.O. uses Sub-S.O. → what 2 alternative method of presenting controls description. As a user auditor what information would you obtain about controls at a sub-service organization? (Old)

SA 402 → a U.E may use S.O → S.O uses Sub-S.O., that service affect part of U.E info system relevant to FR.

- A user auditor may need to consider controls at the sub-service organisation:
  - ✓ interaction between the user entity, the SO and Sub-SO
  - ✓ The degree of this interaction, as well as the nature and materiality of the transactions processed by S.O & Sub-S.O → determining the significance of the S.O & sub-S.O controls to the user entity's controls.
- User auditor shall determine whether a sufficient understanding of the nature & significance of services provided by the S.O & their effect on the U.E. internal control relevant to the audit.
- If the user auditor is unable to obtain a sufficient understanding from the UE, the user auditor shall obtain that understanding by application of the following 2 methods of presenting description of I.C i.e.
  - (I) Type 1 report; or (ii) Type 2 report.
- If a S.O uses a Sub- S.O, the service auditor's report may either include or exclude the subservice organisation's relevant control objectives and related controls in the S.O description of its system and in the scope of the service auditor's engagement. → These two methods of reporting are known as the inclusive method and the carve-out method respectively.
- But Either method, S.O includes → description of functions & nature of processing performed by the Sub-S.O
- If Report (Type-1 / Type-2) Excludes Control of Sub-S.O → & if Sub-S.O are relevant to User Entity FS → User Auditor is required to apply requirement of SA 402 i.r.t. Sub-S.O also
- How much Work to be Performed by User Auditor Reg. Sub-SO ? → Nature & extent of work (to be performed BY the "User Auditor" regarding the Sub-S.O), depend on → nature & significance of those services to the U.E and relevance of those services to the audit.

(Above Answer Ends)

Fraud / non-comply L&R at SO:	User auditor shall inquire user entity mngt → whether he is aware of <u>any fraud / non-compliance of L&amp;R or uncorrected misstatement</u> affecting FS of user entity → if Yes → evaluate how such matters affect the NTE of the user auditor's FAP, including the effect on the user auditor's conclusions and user auditor's report.
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## ➤ Reporting by User Auditor (Reference in User Auditor's Report)

- If user auditor is unable to obtain SAAE regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements → MODIFY the Opinion
- Unmodified Opinion: The user auditor shall NOT refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion.
- Modified Opinion: If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion.

Q38. CA Raman → issued Unmodified A.report → his assistant made reference of work done by Service Auditor. Hint: Refer & Explain Above Notes → "Reporting by User Auditor" → so CA Raman should remove the reference

## ADDITIONAL SA's

(ICAI has NOT given them in MODULE, But Mentioned that these are discussed in CA Inter, So

# About Faculty

## By- CA Hemant Somani | AIR 46

### Academics

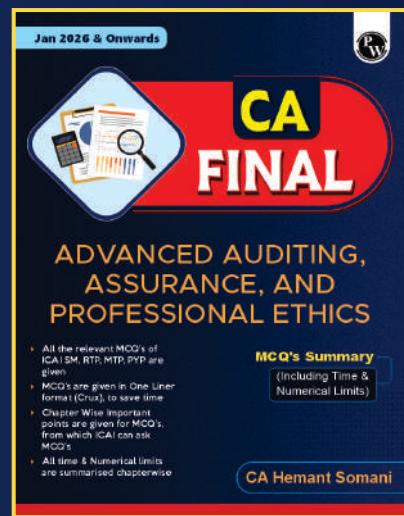
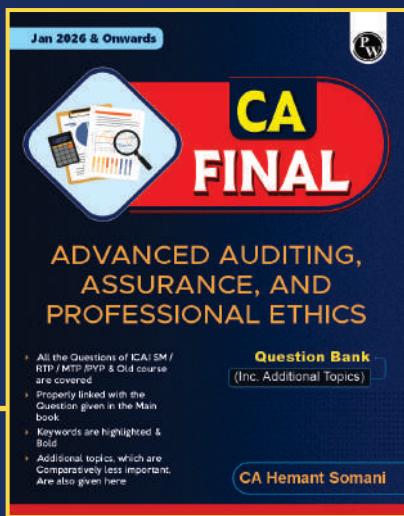
- Secured All India Rank (AIR)- 46 in CA Final Examination
- Top 15 rank in India in CPT
- Exemption in 7 Papers out of 8 Papers (Including Audit)
- All India Ranks in Many Exams (ICAI Wizard, IIT Guwanati talent search etc.)

### Professional

- Worked in PwC in the Field of Statutory Audit for 3 Years
- Served at Many MNC's in the field of Finance & Audit
- Served in UAE & Africa in the field of Finance & Audit
- Having exposure of doing Audit in India, Dubai & Africa.

Some of My Students achievements are— AIR4, AIR 6, AIR 10, AIR 14, AIR 14 AIR 15, AIR 16, AIR 18, AIR 20, AIR 27, AIR 29, AIR 29, AIR 41, AIR 47, AIR 48, AIR 50

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