

Statement on Standards Auditing Practices (SAP) 10(Revised)

Using the Work of Another Auditor*

{The following is the text of the Statement on Standard Auditing Practices (SAP) 10 (Revised), "Using the Work of Another Auditor", issued by the Council of the Institute of Chartered Accountants of India. This Statement should be read in conjunction with the "Preface to the Statements on Standard Auditing Practices", issued by the Institute.¹

INTRODUCTION

1. The Statement on Standard Auditing Practices (SAP) 1, *Basic Principles Governing an Audit*, states (paragraph 9):

"When the auditor delegates work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied. In the case of any independent statutory appointment to perform the work on which the auditor has to rely in forming his opinion, such as in the case of the work of branch auditors appointed under the Companies Act, 1956 the auditor's report should expressly state the fact of such reliance."

2. The purpose of this Statement on Standard Auditing Practices (SAP) is to establish standards to be applied in situations where an auditor (referred to herein as the principal auditor), reporting on the financial information of an entity, uses the work of another auditor (referred to herein as the other auditor) with respect to the financial information of one or more components included in the financial information of the entity. This

Statement also discusses the principal auditor's responsibility in relation to his use of the work of the other auditor. In this Statement, the term 'financial information' encompasses 'financial statements'.

3. The Statement does not deal with those instances where two or more auditors are appointed as joint auditors² nor does it deal with the auditor's relationship with a predecessor auditor.

4. When the principal auditor concludes that the financial information of a component is immaterial, the procedures outlined in this Statement do not apply. When several components, immaterial in themselves, are together material in relation to the financial information of the entity as a whole, the procedures outlined in this Statement should be considered.

5. When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit.

6. "Principal auditor" means the auditor with responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by another auditor.

7. "Other auditor" means an auditor, other than the principal auditor, with responsibility for reporting on the

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¹ With the formation of the Auditing Practices Committee in 1982, the Council of the Institute has been issuing a series of Statements on Standard Auditing Practices (SAPs). Statements on Standard Auditing Practices lay down the principles governing an audit. These principles apply whenever an independent audit is carried out. Statements on Standard Auditing Practices become mandatory on the dates specified in the respective SAPs. Their mandatory status implies that, while discharging their attest function, it will be the duty of the members of the Institute to ensure that the SAPs are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with the SAPs, his report should draw attention to the material departures therefrom.

² Statement on Standard Auditing Practices (SAP) 12, *Responsibility of Joint Auditors*, deals with the audit procedures to be employed where two or more auditors are appointed as joint auditors.

financial information of a component which is included in the financial information audited by the principal auditor.

8. “Component” means a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by the principal auditor.

ACCEPTANCE AS PRINCIPAL AUDITOR

9. **The auditor should consider whether the auditor’s own participation is sufficient to be able to act as the principal auditor.** For this purpose the auditor would consider:

- (a) the materiality of the portion of the financial information which the principal auditor audits;
- (b) the principal auditor’s degree of knowledge regarding the business of the components;
- (c) the risk of material misstatements in the financial information of the components audited by the other auditor; and
- (d) the performance of additional procedures as set out in this SAP regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

THE PRINCIPAL AUDITOR’S PROCEDURES

10. In certain situations, the statute governing the entity may confer a right on the principal auditor to visit a component and examine the books of account and other records of the said component, if he thinks it necessary to do so. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the books of account and other records of the said component.

11. **When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the Institute of Chartered Accountants of India.**

12. **The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor’s purposes, in the context of the specific assignment.** When using the work of

another auditor, the principal auditor should ordinarily perform the following procedures:

- (a) advise the other auditor of the use that is to be made of the other auditor’s work and report and make sufficient arrangements for co-ordination of their efforts at the planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of inter-component transactions that may require disclosure and the timetable for completion of audit; and
- (b) advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.

13. The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor’s procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor’s knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

14. The principal auditor may conclude that it is not necessary to apply procedures such as those described in paragraph 13 because sufficient appropriate audit evidence previously obtained that acceptable quality control policies and procedures are complied with in the conduct of other auditor’s practice.

15. **The principal auditor should consider the significant findings of the other auditor.**

16. The principal auditor may consider it appropriate to discuss with the other auditor and the management of the component the audit findings or other matters affecting the financial information of the components. He may also decide that supplemental tests of the records or the financial statements of the component are necessary. Such tests may, depending upon the circumstances, be performed by the principal auditor or the other auditor.

17. In certain circumstances, the other auditor may happen to be a person other than a professionally qualified auditor. This may happen, for instance, where a component is situated in a foreign country and the applicable laws permit a person other than a professionally qualified

auditor to audit the financial statements of such component. In such circumstances, the procedures outlined in paragraphs 10 to 16 assume added importance.

18. The principal auditor should document in his working papers the components whose financial information was audited by other auditors; their significance to the financial information of the entity as a whole; the names of the other auditors; and any conclusions reached that individual components are not material. The principal auditor should also document the procedures performed and the conclusions reached. For example, the auditor would document the results of discussions with the other auditor and review of the written summary of the other auditor's procedures. However, the principal auditor need not document the reasons for limiting the procedures in the circumstances described at 14 above, provided those reasons are summarised elsewhere in the documentation maintained by the principal auditor. Where the other auditor's report is other than unmodified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.

CO-ORDINATION BETWEEN AUDITORS

19. **There should be sufficient liaison between the principal auditor and the other auditor.** For this purpose, the principal auditor may find it necessary to issue written communication(s) to the other auditor.

20. **The other auditor, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor.** For example, by bringing to the principal auditor's immediate attention any significant findings requiring to be dealt with at entity level, adhering to the timetable for audit of the component, etc. He should ensure compliance with the relevant statutory requirements. Similarly, the principal auditor should advise the other auditor of any matters that come to his attention that he thinks may have an important bearing on the other auditor's work.

21. When considered necessary by him, the principal auditor may require the other auditor to answer a detailed questionnaire regarding matters on which the principal auditor requires information for discharging his duties. The other auditor should respond to such questionnaire on a timely basis.

REPORTING CONSIDERATIONS

22. **When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.**

23. In all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting, that it requires a modification of the principal auditor's report.

DIVISION OF RESPONSIBILITY

24. The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.

25. **When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors.**

EFFECTIVE DATE

26. This Statement on Standard Auditing Practices becomes operative for all audits relating to accounting periods beginning on or after April 1, 2002.

COMPATIBILITY WITH INTERNATIONAL STANDARD ON AUDITING (ISA) 600

The auditing standards established in this Statement on Standard Auditing Practices are generally consistent, in all material respects, with those set out in ISA 600 "Using the Work of Another Auditor". ■