

Overview of Standards on Auditing



Standards on Auditing (SA) provide a Chartered Accountant most effective tool to evidence, justify & defend their auditing actions. In an era where Chartered Accountants are increasingly subjected to public scrutiny and are facing investigation at the drop of the hat, SAs provide them the necessary shield to withstand the storm. SAs are nothing but a tool to evidence the audit process and conclusion. Generally there has been an impression that the SAs are largely required to be applied to large audits. It is argued that client is not big enough to keep all such evidence as it would be available anytime in future, should there be any enquiry. In cricket terminology, it is similar to someone saying that the batsman need not wear helmet to a spinner, as the ball is slow and can be easily dodged. Yes, it may not be true always. Read on to know more...



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Standards on Auditing are also a tool to increase the fee structure. The client will eventually recognise the efforts that go in concluding the audit, however small it may be. In a highly regulated business environment of some of the western countries, we observe that the gap in fee structure is not as materially different between large firms against proprietary organisation for comparable sized organisations. This is mainly due to evidencing of these audit procedure to the client as well.

While it is true that the degree of depth in application of SAs to various sizes of clients will vary materially, it is necessary that the auditor must have on its records an evidence that he has carried the audit as per the applicable SAs. Finally the term "Audit" means the auditor has applied certain approved procedure to arrive at the conclusion. These procedures are nothing but SAs.

In order to facilitate easy application of these standards, every audit file must contain the list of these SAs and remarks of signatory against each whether the standard is applied. This will inculcate the necessary discipline among the staff members and even the signatories of the audit statements. Such remarks will compel the signatory to go to the depth of certain standards which are required to be applied in the relevant situation.

Let us first understand the overall structure of the auditing standards.

The entire structure of SAs is divided as under:

I. Standard on Quality Control (SQC)

There is only one standard in this category. This standard is more on the audit quality philosophy. This standard necessitates every firm or an individual who undertake the audit to have documented policies on:

1. **Leadership responsibilities for quality within the firm:** The head of the organisation is responsible for development quality practices & promote the culture of audit quality.
2. **Ethical Requirements:** Independence to undertake audit is required to be established. Integrity, confidentiality & professional behavior are the key ingredients.
1. **Acceptance and continuance of client relationships.** An auditor is required to document the significant issues, consultations, conclusions and the basis for accepting/rejecting and continuation with the client.
2. **Human Resources.** Engaging of right manpower is crucial in establishing that the audit performance is as per professional standards to enable the firm or engagement partner to issue reports.

3. **Engagement Performance.** This requires evidencing briefing to team members, review of audit by assistants, consultations obtained during the course of audit, difference of opinion, if any and how is that resolved.

4. **Monitoring.** This refers to monitoring the developments in SAs & other professional materials to ensure the quality standards.

II. Standards on Auditing

These are applicable to any audit engagement. The standards are categorised as under :

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| 1. General principles & Responsibilities | SA 200 to SA 299 |
| 2. Risk assessment & Response to the assessed risks | SA 300 to SA 499 |
| 3. Audit Evidence | SA 500 to SA 599 |
| 4. Using work of others | SA 600 to SA 699 |
| 5. Audit conclusions & Reporting | SA 700 to SA 799 |
| 6. Specialised Areas
(Details given below) | SA 800 to SA 899 |

III. Standards on Review engagements (SREs)

An auditor undertakes review assignments. These standards need to be applied during review. There are two such specific SREs. The names are listed below:

1. Review of historical financial statements SRE 2400
2. Review of interim financial statement by independent auditor SRE 2410

IV. Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (SAEs)

There are certain specific assignments undertaken by a chartered accountant of assurance nature other than audit or review. There are three specific subject matter SAEs

1. **Examination of prospective financial information (SAE 3400):** "Prospective financial information" means financial information based on

assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of a forecast, a projection, or a combination of both.

2. **Assurance report on controls at service organisation (SAE 3402):** This is a counterpart of SA 402. During the course of audit, auditor is required to ensure that the service provider has enough controls to ensure the correct information for audit conclusion. He may conduct the assurance himself or may require other professional firm to provide that assurance. If the assignment is conducted by another firm, this SAE is applied.
3. **Assurance on financial information provided in prospectus (SAE 3420)**

V. Standards on Related Services (SRS)

1. Agreed upon procedures (AUP) SRS 4400

Sometimes management requires auditor to perform the audit checks to ensure the correctness of the statements prepared by them. These are specific checks and involve only factual reporting without any assurance.

2. **Compilation engagement SRS 4410**

Professionals are engaged to help the management to compile and put the data in order. This standard spells out the professional care to be exercised while conducting such assignments.

VI. Guidance notes (GN) :

Besides SAs, ICAI has also issued guidance notes that help professionals to evidence the proper conduct of audit. These are specific to the subject matter. Some of the important GNs every professional must have (as relevant assignments are commonly undertaken by most of the professional) are as under:

- a) GN on Bank audit
- b) GN of CARO reporting
- c) GN on Consolidation of financial statements
- d) GN on special purpose reports (Certificates): In my opinion, it is imperative to have this as certificates are commonly issued by all the professionals. This enumerates the format in which certificates should be issued.

Finally, it is necessary to keep a list of SAs in our audit documentation file to ensure its compliance. The brief on each standards is given below which can be utilised as a reference checklist for each audit/ assignment undertaken.

A. Standards on Auditing

SA - No.	Name of Standard on Auditing	Practical Approach
SA-200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	We should see to it that all the relevant laws, standards and regulations relating to that company are getting complied while preparation of financial statements. The audit evidence for the same are to be collected and documented. None of the audit procedures applied should hamper the independence of the auditor.
SA-210	Agreeing the Terms of Audit Engagements	The auditor before the start of the audit should collect engagement letter from the management which clearly specifies the scope of the audit and describes clearly the management's responsibility and the auditor's responsibility.

Auditing

SA-220	Quality Control for an Audit of Financial Statements	The engagement leader should keep control on the overall performance of audit. The leader should see to it that the professional ethics and standards are being taken care of and points covered in 'Standards on quality control (SQC)' are getting covered while conducting audit.
SA-230	Audit Documentation	Documentation of each audit procedure conducted and the audit working papers provided by the client should be maintained either in hard or soft form.
SA-240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	It is expected that the auditor should use professional skepticism in conduct of audit. This means he should not blindly accept whatever information is provided by the management. The auditor for assurance should obtain a management representation letter. If any kind of fraud is identified during the audit it should be reported.
SA-250	Consideration of Laws and Regulations in an Audit of Financial Statements	The auditor can verify the measures that are being taken by the staff of the entity under review for complying with the relevant laws & regulations. The internal controls of the entity can also be verified so as to ensure the check points relating to such applicable laws.
SA-260	Communication with Those Charged with Governance	The auditor should see to it that all audit observations which require attention of the top management should be communicated to them.
SA-265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	The deficiencies noticed in IFC testing should be informed to the higher authorities of the entity as well as to those who are actually involved in carrying out that particular process.
SA-299	Responsibility of Joint Auditors	In case of joint audit we need to properly communicate about the scope of work of each joint auditor. There should be proper communication and reliance on each of the auditor's work. Joint responsibility allocation should be signed and confirmed by each of the joint auditors.
SA-300	Planning an Audit of Financial Statements	All the details relating to the business under audit should be taken into consideration and the audit plan should be developed accordingly. The audit plan should be documented.
SA-315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	The auditor should after gaining the knowledge of the business and having a discussion with the management of the organization under review should set the materiality level for the purpose of the audit assignment. This involves assessing the probable areas where there are chances of occurrence of errors.

SA-320	Materiality in Planning and Performing an Audit	The auditor should for the purpose of the audit assignment decide what can be the material transactions for the entity. This may include deciding the value and volume of vouchers that are to be vouched. Deciding which transactions can be ignored or should be given high weightage.
SA-330	The Auditor's Responses to Assessed Risks	On the basis of the risks identified as per SA 315, the auditor should decide on what way it should be presented in the report. To inform the team about the risks identified and the course of action to be taken on the same.
SA-402	Audit Considerations Relating to an Entity Using a Service Organization	This SA is applicable where the organisation under review is using the services of other organisations for such items those are having an impact on the financial statements of that entity.
SA-450	Evaluation of Misstatements Identified during the Audit	If any kinds of errors are identified in the financial statements during the audit then proper call should be taken regarding the same on the basis of the materiality of the amount which is misstated. The misstatements so identified are to be reported to the higher authorities.
SA-500	Audit Evidence	The audit evidence obtained should form the basis of the points reported in the financial statements and the audit report.
SA-501	Audit Evidence-Specific Considerations for Selected Items	This SA is applicable for the specific considerations like inventory when it is material from the prospective of financials, litigations and claims involving the entity and presentation and disclosure of segment information.
SA-505	External Confirmations	This SA is to be considered when the auditor is obtaining external confirmations as audit evidence. The design and performance of such procedures is mentioned in the standard.
SA-510	Initial Audit Engagements-Opening Balances	As per this SA when we are doing the audit for the first time, we need to verify whether the financials and the accounting policies mentioned are not contradicting each other. While starting the audit of a new financial year we are supposed to verify the opening balances.
SA-520	Analytical Procedures	Financial analytical procedures include use of ratios, analysing prior period items, checking relevance of budgets and forecasts, etc.
SA-530	Audit Sampling	Audit sampling is dependent on the materiality level set while doing the audit of a particular organisation. Sampling refers to the selecting data for the purpose of vouching & verification.

Auditing

SA-540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	This SA is to be referred when there is use of accounting estimates in the preparation of financial statements. The auditors responsibilities relating to the same are stated in this SA.
SA-550	Related Parties	Firstly the related parties of the entity are to be identified. Then the transactions pertaining to them are to be identified and reported as per the accounting standard.
SA-560	Subsequent Events	The events occurring after the balance sheet date are to be identified and appropriate actions and reporting is to be done accordingly.
SA-570	Going Concern	We need to identify if there are any items which have occurred that affect the continuity of the business. If so the same have to be reported.
SA-580	Written Representations	The written representation is a kind of confirmation obtained from the management regarding the overall transactions of the entity. This SA is to be considered for the preparation of written representation.
SA-600	Using the Work of Another Auditor	This SA is regarding the approach of the engagement leader as well as the engagement partner when he is using and relying on the work done by his subordinate or another auditor.
SA-610	Using the Work of Internal Auditors	This SA is relevant when the statutory auditor is using the work of internal auditor for the purpose of the audit.
SA-620	Using The Work Of An Auditor's Expert	This SA becomes relevant when the expertise of other party is to be used and obtained for the purpose of obtaining audit evidence.
SA-700	Forming an Opinion and Reporting on Financial Statements	The auditor can give the following types of opinion: 1) Unqualified opinion 2) Qualified opinion 3) Modified opinion 4) Disclaimer of opinion This SA is to be referred while giving any of the opinion mentioned above.
SA-701	Communicating Key Audit matters in the Independent Auditor's report	The points that are mentioned in the audit report are to be discussed with the auditee's top management and their respective staff.
SA-705	Modifications to the Opinion in the Independent Auditor's Report	When the auditor feels that modification of the opinion given in the previous report is required, then this SA becomes relevant and is to be referred.
SA-706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	When there are circumstances when qualified or disclaimer of opinion is not required but emphasis is to be given on certain items then emphasis on matter paragraph is used while reporting. This SA then becomes relevant in such circumstances.

SA-710	Comparative Information-Corresponding Figures and Comparative Financial Statements	When conducting the audit of current financial year we are supposed to report the figures of the previous financial year as well so we need to check those figures as well whether those are true and correct.
SA-720	The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements	This SA becomes applicable when there is any other information disclosed in the financial statements.
SA-800	Special Considerations - Audit of Financial Statements Prepared in Accordance with Special Purpose Frameworks	The special frameworks applicable to the entity are to be identified if any and the care is to be taken if those are correctly followed.
SA-805	Special Considerations - Audit of Single Financial Statements and specific Elements, Accounts or Items of a Financial Statements	This SA is relevant only when there are any such specific assignments as mentioned in this SA. The approach of the auditor pertaining to the same is mentioned in this SA.
SA-810	Engagements to report on Summary Financial Statements	This SA is relevant when the auditor is conducting the audit of summary financial statements which are less detailed than the normal financials.

B. Standards on Review engagements (SREs)

SRE- No.	Name of Standard on Review Engagement	Description
SRE-2400	Engagements To Review Financial Statements	The purpose of this Standard on Review Engagements (SRE) is to establish standards and provide guidance on the practitioner's professional responsibilities when a practitioner, who is not the auditor of an entity, undertakes an engagement to review financial statements and on the form and content of the report that the practitioner issues in connection with such a review. The objective of a review of financial statements is to enable a practitioner to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the practitioner's attention that causes the practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework (negative assurance).
SRE-2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	The purpose of this Standard on Review Engagements (SRE) is to establish standards and provide guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report. The term "auditor" is used throughout this SRE, not because the auditor is performing an audit function but because the scope of this SRE is limited to a review of interim financial information performed by the independent auditor of the financial statements of the entity.

C. Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (SAEs)

SAE- NO.	Name of Standard on Assurance Engagement	Description
SAE-3400	The Examination of Prospective Financial Information	As per this SAE the term prospective financial information means statements prepared on the basis of future assumptions and best judgment estimates of the management. The auditor has to verify whether the assumptions made by management are reasonable and consistent with the purpose of the information required. The auditor should see to it that the estimates and assumptions used are properly disclosed by the management.
SAE-3402	Assurance Reports On Controls At A Service Organisation	This Standard on Assurance Engagements (SAE) deals with assurance engagements undertaken by a professional accountant in public practice to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting.
SAE-3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus	The objectives of the practitioner are: (a) To obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria; and (b) To report in accordance with the practitioner's findings.

D. Standards on Related Services (SRS)

SRS- NO.	Name of Standard on Related Service	Description
SRS-4400	Engagements to Perform Agreed Upon Procedures Regarding Financial Information	The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.
SRS-4410	Engagements to Compile Financial Information	This Standard on Related Services (SRS) deals with the practitioner's responsibilities when engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information, and to report on the engagement.

In the end, it is recommended that every time we undertake an assignment or attempt to sign any kind of assurance document, go through the list of SAs or GNs, try and find out which would help

you or relate to your signature. Should you feel the existing available material does not give you right comfort, please write to ICAI. You will get the guidance for the future endeavour of that nature. ■