Key Aspects in Standards on Auditing – A Practical Approach

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The Standards on Auditing (SAs) play a pivotal role in contributing to audit quality. These standards are based on globally recognised and accepted international standards, benchmarks for performance of audits. These standards are developed by following a robust and transparent due process. The article discusses about key aspects in Standards on Auditing. Read on to know more…

In India, auditing standards are formulated by the Auditing and Assurance Standards Board (AASB) of ICAI and issued[1] under the authority of Council of ICAI. Till 2002, auditing standards issued by AASB of ICAI were known as "Statements on Standard Auditing Practices" (SAPs). SAPs were renamed as "Auditing and Assurance Standards" (AASs) in 2002. In July 2007, AASB issued "Revised Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services" which is effective from April 1, 2008. Pursuant to issuance of Revised Preface, entire structure of formulation of auditing standards has undergone a complete change in line with structure adopted by IAASB and nomenclature "AASs" has been replaced by 'Engagement and Quality Control Standards'. The Standards on Auditing (SAs) cover all the aspects of audits starting from acceptance of engagement till issuance of final audit report.

These standards undergo revision from time to time. In the recent past, there has been sizable revision in these standards, including changes in the format of Audit Report, enhanced reporting on Key

[1] *In case of companies, issued by Ministry of Corporate Affairs(MCA)*

Audit matters, Going Concern, Other Information etc.

The context in which an audit is undertaken is incessantly evolving to keep pace with changes in the business environment, financial reporting standards, laws,regulations and technology. Accordingly, the Auditor has to not only understand the entity but also has to understand the legal, regulatory and compliance framework within which an entity operates so as to better discharge his professional duty.

Compliance with Standards on Auditing is considered to be the most important obligation for an Auditor while conducting audit of Financial Statements of all entities irrespective of nature, size or complexity of the entity.

Through this Article, an attempt has been made to provide an insight into the key aspects of Standards on Auditing.

What are Standards on Auditing?

Standards on Auditing (SAs) are the engagement standards that are to be applied in the audit of historical financial information.

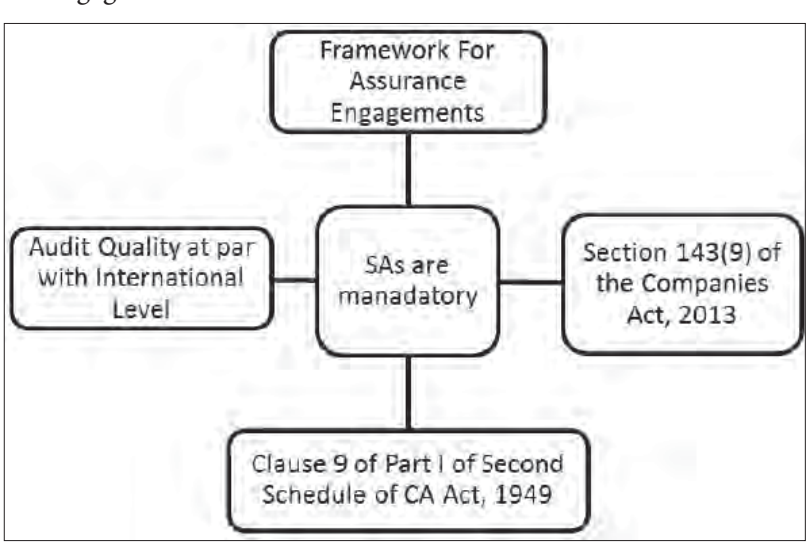
Why auditors have to apply Standards on Auditing while doing Audit Function?

To answer this question and to emphasis on the mandatory compliance of Standards on Auditing, the four dimensional approach is required.

Framework for Assurance Engagements

The Framework for Assurance Engagements issued by ICAI defines and describes the elements and objectives of an assurance engagement,and identifies engagements to which Standards on Auditing apply. Audit of Financial Statements is an Assurance Engagement and the same has to be **conducted** as per Standards on Auditing.

Also, SA 200 prescribes that the auditor shall comply with all SAs relevant to the audit and the auditor, in his auditor's report, shall not represent compliance with SAs, unless the auditor has complied with the requirements of all relevant SAs applicable for that audit.



Section 143(9) of the Companies Act, 2013

Erstwhile Companies Act, 1956, did not contain any explicit provision with regard to compliance with Auditing Standards. However, in the present Companies Act, 2013, the duties of the Auditor are enumerated in Section 143 which also includes the duty to comply with Auditing Standards. The heading of Section 143 reads as "**Powers and duties of auditors and auditing standards"** and more precisely, Section 143 (9) prescribes the specific responsibility of the Auditor to comply with Standards on Auditing, as follows:

"Sec.143 (9): Every auditor shall comply with the auditing standards."

"Sec. 143(10): The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted u/s 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority:

Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards."

In light of regulatory developments including the compliance relating to the provisions of National Financial Reporting Authority (NFRA), it

is imperative for the statutory auditors to comply with the requirements of SAs.

Chartered Accountants Act, 1949

As per Clause (9) of Part I of Second Schedule to Chartered Accountants Act, 1949, a member in Practice shall be guilty of Professional Misconduct, if he fails to invite attention to any material departure from the **generally accepted procedure of audit** applicable to the circumstances. The SAs represent the generally accepted procedure(s) of audit. Hence an auditor who does not perform audit in accordance with SAs and fails to disclose the material departures there from, becomes liable to the disciplinary proceedings of the Institute under the aforesaid clause.

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Audit Quality at Par with International Level

Standards on Auditing represent the best practices in auditing since these Standards have been harmonised with globally recognised International Standards on Auditing issued by the International Auditing and Assurance Standards Board (IAASB) of IFAC. ICAI being a founder member of IFAC, the standards developed and promulgated by ICAI are in conformity with the corresponding International standards issued by the IAASB.

Significance and Key Aspects of Standards on Auditing

Apart from the above legal and regulatory requirements to comply with SAs there are other innumerable benefits that are provided by these standards.

In the following section, let us understand the key aspects covered in the Standards, structure of standards and few specific guidance given in Standards.

Key Aspects of SAs

- SA's establishes the **overall responsibilities** of the Auditor while conducting an Audit of Financial Statements.
- It clearly sets out the **overall objectives** of the Auditor.
- It also explains the **nature and scope of the Audit** engagement.
- Auditing standards are most important factor in enhancing and ensuring audit quality.
- Standards dictate :
  - How to accept an engagement?
  - How to conduct engagements?
  - How, and to whom, they are obligated to report?
- These provide consistency in audit procedures and audit reporting across the nations.
- Auditing standards are principles based rather than rule based which allows their adoption in different situations.
- Provide guidance to auditors in obtaining reasonable assurance that financial statements audited by them are free of material misstatement.
- Specify the respective responsibilities of management and auditors in specific audit areas e.g.
  - Fraud.
  - Going Concern.
  - Consideration of Laws and Regulations.
- Provide safeguards/ options for auditors in case of circumstances like
  - limitation on scope imposed by management
  - limitation on scope imposed by circumstances
  - cases where entity has not complied with Laws & Regulations (NOCOLAR)
- SA–200, which is the mother standard for all other Standards, explains the requirements and objectives of the Standards on auditing.
- In addition to objectives and requirements, SAs **contain related guidance** in the form of application and other explanatory material.
- The overall objective to express an appropriate opinion on the Financial Statements, can be

accomplished by the auditor, if he complies with SAs because, the requirements of the SAs are designed to enable the auditor to achieve the objectives specified in the SAs, and thereby the overall objectives of the auditor.

Structure of the SAs

The SAs have defined structure, wherein it is divided in separate sections, namely,
a) Introduction, b) Objective, c) Definitions, d) Requirements, and e) Application and Other Explanatory Material.

a) Introduction
Introductory material may include information regarding the purpose, scope, and subject matter of the Standard, respective responsibilities of the auditors and others, the context in which the SA is set.

(b) Objective

Each SA contains one or more objectives which provide a link between the requirements and the overall objectives of the auditor. The objectives in individual SAs serve to focus the auditor on the desired outcome of the SA, while being specific enough to assist the auditor in:

- Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
- Deciding whether more needs to be done to achieve them in the particular circumstances of the audit.

(c) Definitions
For greater understanding of the SAs, and to provide assistance in the consistent application and interpretation of the SAs, applicable terms have been defined in each Standard.

d) Requirements
Each objective is supported by clearly stated requirements. Requirements of the Standards are always expressed by the phrase "**the auditor shall.**"

e) Application and Other Explanatory Material
The application and other explanatory material provides further explanation of the requirements of SAs, explains more precisely what a requirement means or is intended to cover. It also includes examples of procedures to be performed by the auditor,that may be appropriate under given circumstances.

Few Specific Guidance given by Standards in carrying out the Audit:

- Audit in accordance with SAs is conducted on the premise that management and, where appropriate, those charged with governance have responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of those responsibilities [SA 200]
- Auditor Shall obtain and provide reasonable assurance (and not absolute assurance) [SA 200]
- Means available to an auditor for selecting items for testing are a) 100% Selection, b) Specific Selection, c) Audit Sampling
- The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole.
- The SAs require that the auditor exercise **professional judgment** and maintain **professional skepticism** throughout the planning and performance of the audit
- The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. (SA 240)
- Two types of intentional misstatements are relevant to the auditor–
  - misstatements resulting from fraudulent financial reporting, and
  - misstatements resulting from misappropriation of assets.
- There is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs.
- An auditor can rely on the work of another auditor,

including the work done by 'internal auditor'. As per the revised SA610, an auditor can even get the direct Assistance of Internal Auditor.

- Responsibility to Communicate Key Audit Matters as per SA 701. The purpose of reporting key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed.

Recent changes in the Standards having implication on the Independent Auditor's Report

Key Change in Auditor's Report	Implication
Auditor's Opinion at the beginning	The auditor's opinion is now required to be given at the beginning of the audit report, followed by the Basis for Opinion. **It will give due prominence to this most important element of the auditor's report**. The users will be able to straightaway read the auditor's opinion without any need to scroll down the entire audit report for searching the auditor's opinion.
Basis for Opinion Section	Earlier, the Basis for Opinion section was required only when the auditor's opinion was modified. Now, this section is required for all auditor's reports whether modified or unmodified.
New affirmative statement about the auditor's fulfillment of independence and other relevant ethical requirements	The Basis for Opinion section also includes a new affirmative statement that the auditor is independent of the entity and has fulfilled the auditor's other relevant ethical responsibilities relating to the audit.
New Reporting on Key Audit Matters	Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period shall be referred as Key Audit Matters (KAM). As per SA 701, KAM are selected from matters communicated with those charged with governance. At present SA 701, applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report.
New section on Other Information in the Auditor's Report	A new section on "Other Information" is required to be included in auditor's report, where applicable, in accordance with requirements of SA 720 (Revised). SA 720(Revised) requires this Section in following cases: • **Audit of listed entities:** The auditor has obtained, or expects to obtain, the other information at the date of the auditor's report • **Audit of unlisted corporate entities:** The auditor has obtained some or all of the other information at the date of the auditor's report.
Enhanced Reporting on Going Concern	SA 570(Revised) has enhanced the auditor's reporting requirements when a material uncertainty related to going concern exists and disclosure in the financial statements in this regard are adequate. Instead of the earlier requirement to report material uncertainties within an Emphasis of Matter paragraph, reporting of a material uncertainty is now required to be made within a separate section of auditor's

Key Change in Auditor's Report	Implication
	report titled as **"Material Uncertainty related to Going Concern".** However, if the auditor concludes that there is a material uncertainty and the disclosure given in the financial statements are inadequate, the auditor should modify the auditor's report in accordance with SA 705 (Revised).
Extended reporting under the Section "Management's responsibilities for the financial statements"	This Section will include the following new aspects: • Management's responsibilities for assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern • Identification of those who are responsible for the oversight of the financial reporting process, if those are different from the management
Extended reporting under the Section "Auditor's responsibilities for the audit of the financial statements	This Section will include the following new aspects: • Statement about reasonable assurance; • Statement about the misstatements and materiality judgement; • To state that, as part of an audit in accordance with SAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; • Describing the auditor's responsibilities regarding going concern aspect.

Conclusion

Standards on Auditing help auditor in expressing an Appropriate audit Opinion on financial statements by reducing the Audit Risk to an acceptable low level. It is in the interest of the profession to comply with the auditing standards in letter and spirit in order to ensure audit quality. ■

There is nothing more beautiful than someone who goes out of their way to make life beautiful for others. - *Mandy Hale*