STUDY MODULE (CPA IRELAND)

Study Material
(Modules 1 to 3)

Paper 3

Advanced Auditing and Professional Ethics

Module - 1

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

© The Institute of Chartered Accountants of India

This study material has been prepared by the faculty of the Board of Studies. The objective of the study material is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the study material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Permission of the Institute is essential for reproduction of any portion of this material.

© ***The Institute of Chartered Accountants of India***

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Edition	:	November, 2019
Website	:	www.icai.org
E-mail	:	bosnoida@icai.org
Committee/ Department	:	Board of Studies
Published by	:	The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.

BEFORE WE BEGIN ...

Evolving Role of a CA. - Shift Towards Strategic Decision Making

The traditional role of a chartered accountant restricted to accounting and auditing, has now changed substantially and there has been a marked shift towards strategic decision making and entrepreneurial roles that add value beyond traditional financial reporting. The primary factors responsible for the change are the increasing business complexities on account of plethora of laws, borderless economies consequent to giant leap in e-commerce, emergence of new financial instruments, emphasis on corporate social responsibility, significant developments in information technology, to name a few. These factors necessitate an increase in the competence of chartered accountants to take up the role of not merely an accountant or auditor, but a global solution provider. Towards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment; the competence requirements are being continuously reviewed to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

Skill Requirements at Final Level

Under the Revised Scheme of Education and Training, at the Final Level, you are expected to not only acquire professional knowledge but also the ability to apply such knowledge in problem solving. The process of learning should also help you inculcate the requisite professional skills, i.e., the intellectual skills and communication skills, necessary for achieving the desired professional competence.

Auditing – Core and Practical Subject

Auditing has been conceived of to provide a highly useful technical service to the economy to know performances in financial and other appropriate terms in a reliable manner. It is needless to say that multitudes of significant decisions in the economic society are taken based on the financial information and, therefore, ensuring reliability of such information is an imperative necessity. Audit is a subject that requires a lot of quick and logical application of mind to answer practical problems. It is one of the most practical-oriented subjects in the C.A. curriculum. This paper aims to provide knowledge of generally accepted auditing procedures and of techniques and skills needed to apply them in audit engagements. A good knowledge of the subject would provide a strong foundation to students while pursuing the Chartered Accountancy course. A good understanding of the theoretical concepts, particularly, in the context of auditing standards would make practical training an enriching and enjoying experience. While studying this paper, students are advised to integrate the knowledge acquired in other subjects in a meaningful manner along with practical training. Such learning would only help a student to become a better professional.

© The Institute of Chartered Accountants of India

Know your syllabus and Study Material

The Study Material of Advanced Auditing and Professional Ethics subject has been designed having regard to the needs of home study and distance learning students. The study material deals with the conceptual theoretical framework in detail. In each chapter, the topic has been covered in a step by step approach. The text has been explained, where appropriate, through illustrations, diagrams, tables, flowcharts, screenshots etc. You should go through the chapter carefully ensuring that you understand the topic and then test your knowledge by attempting question.

The Study Material has been divided into eighteen chapters in line with the syllabus and further bifurcated into three modules for the easy handling and convenience of students. For bare text of Guidance Notes and Auditing Standards, the students are advised to refer the "Auditing Pronouncements" which has been separately published by the Board of Studies. For understanding the coverage of the syllabus, it is important to read the study material along with the Study Guidelines.

Framework of Chapters – Uniform Structure Comprising of Specific Components

Efforts have been made to present each topic of the syllabus in a lucid manner. Care has been taken to present the chapters in a logical sequence to facilitate easy understanding by the students.

Structure of the Study Material

The content for each chapter/unit at the Final level has been structured in the following manner –

S. No.	Components of Each Chapter	About the Component
1.	**Learning Outcomes**	Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter/unit. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence.
2.	**Chapter Overview**	As the name suggests, this chart/table would give a broad outline of the contents covered in the chapter.
3.	**Introduction**	A brief introduction is given at the beginning of each chapter/unit which would help you get a feel of the topic.
4.	**Content**	The concepts and provisions of law/standard are explained in student-friendly manner with the aid of Examples/illustrations/diagrams/flow charts. These value additions would help you develop conceptual clarity and get a

© The Institute of Chartered Accountants of India

		good grasp of the topic. Diagrams and Flow charts would help you understand the concept/provision in a better manner. Illustrations would help you understand the application of concepts/provisions.
5.	**Exercise Questions with Answers and MCQs / Test Your Knowledge**	Exercising questions and answers alongwith MCQs would help you to apply what you have learnt in problem solving. In effect, it would sharpen your application skills and test your understanding as well as your application of concepts/provisions.

Attention is invited to the Significant Additions/Modifications made in this edition of the Study Material which are given on the next page.

We hope that these student-friendly features in the Study Material makes your learning process more enjoyable, enriches your knowledge and sharpens your application skills.

Happy Reading and Best Wishes!

© The Institute of Chartered Accountants of India

SYLLABUS

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

(One paper – Three hours – 100 marks)

Objective:

(a) To acquire the ability to analyse current auditing practices and procedures and apply them in auditing engagements;

(b) To acquire the ability to solve cases relating to audit engagements.

Contents:

1. Auditing Standards, Statements and Guidance Notes: Engagement & Quality Control Standards, Statements and Guidance Notes on Auditing issued by the ICAI; Elements of System of Quality Control, Leadership Responsibilities for Quality within the Firm, Acceptance and Continuance of Clients Relationships and Specific Engagements, Engagement Performances, etc. (SQC 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements).

2. Audit Planning, Strategy and Execution: Planning the Flow of Audit Work; Audit Strategy, Audit Plan, Audit Programme and Importance of Supervision; Principal's Ultimate Responsibility; Extent of Delegation; Control over Quality of Audit Work; Analytical Procedures Prior to Audit as well as towards finalization; Concept of Principal Auditor and Other Auditor, Acceptance as Principal Auditor, Procedures to be Performed by Principal Auditor, Co-ordination between the Principal Auditor and Other Auditor (SA 600 Using the Work of Another Auditor); Concept of Internal Audit Functions and its evaluation, Using the work of the internal audit function, Using Internal Auditors to Provide Direct Assistance (SA 610 Using the Work of Internal Auditors); Auditor's Expert – Meaning, Need for an Auditor's Expert, Understanding the Auditor's Expert, Agreement with the Auditor's Expert, Adequacy of the Auditor's Expert's Work (SA 620 Using the Work of an Auditor's Expert).

3. Risk Assessment and Internal Control: Evaluation of Internal Control Procedures; Components of Internal Controls; Internal Control and Risk Assessment; Risk-Based Audit- Audit Risk Analysis, General Steps; Internal Audit; Reporting on Internal Control Weaknesses (SA 265 Communicating Deficiencies in Internal Control to Those Charged With Governance and Management); Framework on Reporting of Internal Controls.

4. Special aspects of Auditing in an Automated Environment: Key Features of Automated Environment, Related Risks and Controls, Standards, Guidelines and Procedures, Using Relevant

© The Institute of Chartered Accountants of India

Frameworks and Best Practices, Understanding and Documenting Automated Environment, Enterprise Risk Management Overview, Assessing IT-Related Risks and Controls, Evaluating Risks and Controls at Entity Level and Process Level, Considerations of Automated Environment at each Phase of Audit Cycle, Using Relevant Analytical Procedures and Tests Using Data Analytics, Key Concepts of Auditing in Real-Time Automated Environments such as E-Commerce, ERP, Core Banking, etc..

5. Audit of Limited Companies: Application of Relevant Provisions under the Companies Act, 2013 relating to Audit and Auditors and Rules made thereunder; Powers/rights, Duties of Auditors; Branch Audit; Significance of True and Fair View; Dividends and Divisible Profits-Financial, Legal, and Policy Considerations; Depreciation; Special Features of Audit of Limited Liability Partnerships (LLPs)- Eligibility for Audit, Appointment of Auditor, Remuneration, etc. Audit Report under the Companies Act, 2013; Reporting under CARO.

6. Audit Reports: Basic Elements of Auditor's Report; Types of Opinion; Notes on Accounts; Distinction between Notes and Qualifications; Distinction between Audit Reports and Certificates; Communication to Management and those Charged with Governance; Self Review Threats; Drafting of Different Types of Audit Reports.

7. Audit Committee and Corporate Governance: Audit committee; Role of Auditor in Audit Committee and Certification of Compliance of Corporate Governance; Compliances with Laws and Regulations (SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements); Disclosure requirements including those of SEBI; Regulatory requirements of Corporate Governance, Report on Corporate Governance.

8. Audit of Consolidated Financial Statements: Provisions under the Companies Act, 2013 in respect of Accounts of Companies and Rules made thereunder; Audit of Consolidated Financial Statements - Responsibility of Parent Company, Auditor of the Consolidated Financial Statements; Audit Considerations - Permanent Consolidation, Current Period Consolidation; Reporting.

9. Special Features of Audit of Banks, Insurance & Non Banking Financial Companies

10. Audit under Fiscal Laws: Audit under Fiscal Laws, viz, Direct and Indirect Tax Laws including Documentation for Form 3CD etc.

11. Audit of Public Sector Undertakings: Special features, Directions of Comptroller and Auditor General of India; Concept of Propriety Audit; Performance Audit; Comprehensive Audit.

12. Liabilities of Auditors: Professional Negligence; Civil Liabilities; Criminal Liabilities; Liabilities under Different Statutes - for example Income Tax Act, Companies Act.

13. Internal Audit, Management and Operational Audit: Provisions of Internal Audit as per Companies Act, 2013; Scope of Internal Auditing; Relationship between Internal and External Auditor; Basics of Internal Audit Standards issued by the ICAI; Drafting of Internal Audit Report; Management Audit and Operational Audit.

© The Institute of Chartered Accountants of India

14. Due Diligence, Investigation and Forensic Audit: Due Diligence Review; Audit versus Investigation; Steps for Investigation; Types of Investigation; Procedure, Powers, etc. of Investigator; Types of Fraud, Indicators of Fraud, Follow-up thereof; Forensic Audit- meaning, difference between Statutory Audit and Forensic Audit, Forensic Audit Techniques, Forensic Audit Report etc.

15. Peer Review and Quality Review

16. Professional Ethics: Code of Ethics with special reference to the relevant provisions of the Chartered Accountants Act, 1949 and the Regulations thereunder.

Note:

(i) The specific inclusions/exclusions, in any topic covered in the syllabus, will be effected every year by way of Study Guidelines.

(ii) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act, 2013 are enforced.

(iii) If new legislations/ Engagement and Quality Control Standards /Guidance Notes/Statements are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute. The changes in this regard would also form part of Study Guidelines.

© The Institute of Chartered Accountants of India

CONTENTS

MODULE – 1

Chapter 1: Auditing Standards, Statements and Guidance Notes – An Overview

Chapter 2: Audit Planning, Strategy and Execution

Chapter 3: Risk Assessment and Internal Control

Chapter 4: Special Aspects of Auditing in an Automated Environment

Chapter 5: Audit of Limited Companies

Chapter 6: Audit Reports

MODULE – 2

Chapter 7: Audit Committee and Corporate Governance

Chapter 8: Audit of Consolidated Financial Statements

Chapter 9: Audit of Banks

Chapter 10: Audit of Insurance Companies

Chapter 11: Audit of Non Banking Financial Companies

Chapter 12: Audit under Fiscal Laws

MODULE – 3

Chapter 13: Audit of Public Sector Undertakings

Chapter 14: Liabilities of Auditors

Chapter 15: Internal Audit, Management and Operational Audit

Chapter 16: Due Diligence, Investigation and Forensic Audit

Chapter 17: Peer Review and Quality Review

Chapter 18: Professional Ethics

© The Institute of Chartered Accountants of India

DETAILED CONTENTS MODULE – 1

CHAPTER-1: AUDITING STANDARDS, STATEMENTS & GUIDANCE NOTES-AN OVERIVEW

LEARNING OUTCOMES 1.1

CHAPTER OVERVIEW 1.1

Contents:

1. Introduction 1.2

2. Historical Retrospect 1.2

3. Auditing and Assurance Standards Board-Scope and Functions 1.3

   3.1 Setting up of AASB 1.3

   3.2 Scope and Functions of AASB 1.4

   3.3 Scope of SAs 1.4

   3.4 Procedure for Issuing SAs 1.5

   3.5 Compliance with the SAs 1.5

   3.6 Linkage between SAs and Disciplinary Proceedings 1.5

4. Framework of Standards and Guidance Notes on Related Services 1.6

5. Quality Control and Engagement Standards 1.8

   5.1 Structure of SAs 1.11

6. Guidance Notes 1.11

   6.1 Guidance Note on Tax Audit under Section 44AB of the Income-Tax Act 1.11

   6.2 Guidance Note on Audit of Internal Financial Controls over Financial Reporting 1.12

7. Guidance Note(s) on Related Services 1.12

8. Authority Attached to the Documents issued by the Institute/MCA 1.12

   8.1 Statements 1.13

   8.2 Guidance Notes 1.13

© The Institute of Chartered Accountants of India

8.3 Accounting Standards and Standards on Auditing 1.13
8.4 Accounting Standards 1.14
8.5 Ind AS 1.16
9. SQC 1- Quality Control for Firms that Perform Audits and Reviews of Financial Statement and Other Assurance and Related Services Engagements 1.19
10. SAs -Brief Overview 1.24
10.1 SA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing 1.24
10.2 SA 210: Agreeing the Terms of Audit Engagements 1.24
10.3 SA 220: Quality Control for an Audit of Financial Statements 1.25
10.4 SA 230: Audit Documentation 1.25
10.5 SA 240: The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements 1.25
10.6 SA 250: Consideration of Laws and Regulations in an Audit of Financial Statements 1.26
10.7 SA 260: Communication with Those Charged with Governance 1.26
10.8 SA 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management 1.26
10.9 SA 299: Responsibility of Joint Auditors 1.27
10.10 SA 300: Planning an Audit of Financial Statements 1.27
10.11 SA 315: Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment 1.27
10.12 SA 320: Materiality in Planning and Performing an Audit 1.27
10.13 SA 330: The Auditor's Responses to Assessed Risks 1.28
10.14 SA 402: Audit Considerations Relating to an Entity Using a Service Organisation 1.28
10.15 SA 450: Evaluation of Misstatements Identified During the Audit 1.28
10.16 SA 500: Audit Evidence 1.28
10.17 SA 501: Audit Evidence—Specific Considerations for Selected Items 1.29
10.18 SA 505: External Confirmations 1.29

© The Institute of Chartered Accountants of India

10.19 SA 510: Initial Audit Engagements- Opening Balances 1.29
10.20 SA 520: Analytical Procedures 1.30
10.21 SA 530: Audit Sampling 1.30
10.22 SA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures 1.30
10.23 SA 550: Related Parties 1.31
10.24 SA 560: Subsequent Events 1.31
10.25 SA 570 Going Concern 1.31
10.26 SA 580: Written Representations 1.31
10.27 SA 600: Using the Work of Another Auditor 1.32
10.28 SA 610: Using the work of Internal Auditors 1.33
10.29 SA 620: Using the Work of an Auditor's Expert 1.33
10.30 SA 700: Forming an Opinion and Reporting on Financial Statements 1.33
10.31 SA 701: Communicating Key Audit Matters in the Independent Auditor's Report 1.34
10.32 SA 705: Modifications to the Opinion in the Independent Auditor's Report 1.34
10.33 SA 706: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report 1.34
10.34 SA 710: Comparative Information—Corresponding Figures and Comparative Financial Statements 1.35
10.35 SA 720: The Auditor's Responsibility Relating to Other Information 1.35
TEST YOUR KNOWLEDGE 1.36

CHAPTER-2: AUDIT PLANNING, STRAEGY & EXECUTION

LEARNING OUTCOMES 2.1
CHAPTER OVERVIEW 2.1

Contents:

1. Commencing an Audit 2.2
1.1 Benefits/Advantages of Planning in an Audit of Financial Statements 2.2

© The Institute of Chartered Accountants of India

1.2 Nature and Extent of Planning....2.3
1.3 Planning - A Continuous Process....2.3
1.4 Overall Audit Strategy and Audit Plan - Responsibility of the Auditor....2.4
1.5 Acceptance and Continuance of Client Relationships and Audit engagements..2.4
1.6 Contents of an Audit Plan....2.5
1.7 Changes to Planning Decisions....2.5
2. Overall Audit Strategy....2.6
2.1 Factors while establishing Overall Audit Strategy....2.6
2.2 Benefits of Overall Audit Strategy....2.6
2.3 Considerations in Establishing the Overall Audit Strategy....2.7
2.4 Documenting the Audit Plan....2.9
2.5 Relationship between the Overall Audit Strategy and the Audit Plan....2.9
3. Audit Programme....2.10
3.1 Formulating an Audit Programme....2.10
3.2 Drawing up the Audit Programme....2.12
4. Audit Execution....2.13
4.1 Execution Planning....2.13
4.2 Risk and Control Evaluation....2.13
4.3 Testing....2.14
4.4 Reporting....2.14
4.5 Other Important Considerations....2.14
TEST YOUR KNOWLEDGE....2.47

CHAPTER-3: RISK ASSESSMENT AND INTERNAL CONTROL

LEARNING OUTCOMES....3.1
CHAPTER OVERVIEW....3.2

Contents:

1. Introduction....3.2

© The Institute of Chartered Accountants of India

2. Internal Control System - Nature, Scope, Objectives and Structure 3.5
2.1 Nature of Internal Control 3.5
2.2 Scope of Internal Controls 3.6
2.3 Objectives of Internal Control System 3.6
2.4 Structure of Internal Control 3.8
3. Components of Internal Controls 3.10
3.1 Control Environment 3.10
3.2 Entity's Risk Assessment Process 3.11
3.3 Control Activities 3.13
3.4 Information System, including the Related Business Processes, Relevant to Financial Reporting, and Communication 3.14
3.5 Monitoring of Controls 3.14
4. Review of the system of Internal Controls 3.17
5. Methods of Recording 3.19
5.1 Questionnaire 3.19
5.2 Check List 3.21
5.3 Flow Chart 3.22
6. Internal Control and Risk Assessment 3.29
6.1 Preliminary Assessment of Control Risk 3.31
6.2 Relationship between the Assessments of Inherent and Control Risk: 3.35
6.3 Detection Risk 3.35
7. Internal Control Assessment & Evaluation 3.38
8. Reporting to clients on Internal Control Weaknesses 3.39
9. Risk Based Audit 3.41
9.1 Audit Risk Analysis 3.42
9.2 General Steps in the Conduct of RBA 3.43
10. Frameworks of Internal Control 3.44
10.1 International Internal Control Frameworks: 3.45
TEST YOUR KNOWLEDGE 3.49

© The Institute of Chartered Accountants of India

CHAPTER 4: SPECIAL ASPECTS OF AUDITING IN AN AUTOMATED ENVIRONMENT

LEARNING OUTCOMES 4.1

CHAPTER OVERVIEW 4.2

Contents:

1. Key Features of an Automated Environment 4.2
2. Key concepts of Auditing in Real-Time Environment such as E-Commerce, ERP, Core Banking, etc. 4.4
3. Understanding and Documenting Automated Environment 4.5
4. Consideration of Automated Environment at each phase of Audit Cycle 4.6
5. Enterprise Risk Management Overview 4.7
6. Assessing IT-related Risks and Controls 4.9
7. Evaluating Risks and Controls at Entity Level and Process Level 4.12
8. Using relevant Analytical Procedures and Tests using Data Analytics 4.16
9. Standards, Guidelines and Procedures-using Relevant Frameworks and Best Practices 4.17

GLOSSARY 4.19

TEST YOUR KNOWLEDGE 4.20

CHAPTER-5: COMPANY AUDIT

LEARNING OUTCOMES 5.1

CHAPTER OVERVIEW 5.2

Contents:

1. Appointment of Auditors 5.2
   - 1.1 Appointment of First Auditors 5.3
   - 1.2 Appointment of Subsequent Auditors/Re-appointment of Auditors 5.5
   - 1.3 Filling of a Casual Vacancy 5.6
2. Eligibility, Qualifications and Disqualifications of an Auditor 5.7
3. Rotation of Auditors 5.14
   - 3.1 Applicability of section 139(2) Rotation of Auditors 5.14

© The Institute of Chartered Accountants of India

3.2 Manner of Rotation of Auditors by the Companies on Expiry of their Term 5.17

4. Provisions relating to Audit Committee 5.19

4.1 Applicability of section 177 i.e. Constitution of Audit Committee 5.19

4.2 Manner and procedure of selection and appointment of auditors 5.20

5. Auditor's Remuneration 5.21

6. Removal of Auditors 5.22

6.1 Removal of Auditor before Expiry of Term 5.22

6.2 Appointment of Auditor other than retiring Auditor: 5.22

7. Ceiling on Number of Audits 5.23

8. Powers/Rights of Auditors 5.26

8.1 Powers / Rights of Comptroller and Auditor-General of India 5.30

9. Duties of Auditors 5.31

10. Joint Audit 5.37

11. Audit of Branch Office Accounts 5.38

12. Cost Audit 5.39

13. Punishment for non-compliance 5.42

14. Final Accounts Preparation and Presentation 5.43

14.1 Financial Statements 5.43

14.2 Consolidated Financial Statement 5.45

14.3 Penalty for contravention 5.46

14.4 Constitution of National Financial Reporting Authority 5.47

14.5 Form of the Balance Sheet 5.50

15. Significance of True and Fair 5.52

16. Divisible Profits, Dividends and Reserves 5.54

16.1 Depreciation under Section 123 of the Companies Act, 2013 read with Schedule II to the Companies Act, 2013 ..... 5.54

16.2 Law relating to dividends 5.55

© The Institute of Chartered Accountants of India

16.3 Right to dividend, rights shares and bonus shares to be held in abeyance pending registration of transfer of shares 5.61
16.4 Power to close register of members or debenture-holders or other security holders 5.61
16.5 Interim Dividend 5.62
16.6 Payment of dividend and the Income tax Act 5.62
16.7 Audit procedure for "Payment of Dividend": 5.63
16.8 Reserves 5.64
16.9 Deferred Taxation 5.65
16.10 Non-provision of Tax in the Accounts 5.65
17. Depreciation 5.69
18. Salient features of Limited Liability Partnerships (LLP) Audit 5.70
19. Audit Report 5.73
19.1 Reporting Under CARO, 2016 ..... 5.73
Appendix 1: Comprehensive Case Studies on CARO 2016 ..... 5.79
Appendix-2: Key Aspects discussed in Guidance Note on Internal Financial Control over Financial Reporting 5.88
TEST YOUR KNOWLEDGE 5.91
Schedule III A1-A47

CHAPTER-6: AUDIT REPORTS

LEARNING OUTCOMES 6.1
CHAPTER OVERVIEW 6.1

Contents:

1. Introduction 6.2
2. The Auditor's Report on Financial Statements 6.2
3. SA-700, "Forming an Opinion and Reporting on the Financial Statements" 6.3
3.1 Purpose 6.4
3.2 Basic Elements of the Auditor's Report 6.4

© The Institute of Chartered Accountants of India

3.3 Auditor's Report Prescribed by Law or Regulation 6.12

3.4 Auditor's Report for Audits Conducted in accordance with both Standards on Auditing issued by ICAI and International Standards on Auditing or Auditing Standards of any other jurisdiction..... 6.13

4. SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report" 6.14

4.1 Purpose..... 6.14

4.2 Scope..... 6.14

4.3 Determining Key Audit matters..... 6.15

4.4 Communicating Key Audit matters:..... 6.15

5. SA 705, "Modifications to the opinion in the Independent Auditor's Report" 6.16

5.1 Types of modified opinions..... 6.16

5.2 Objective 6.16

5.3 Circumstances when a Modification to the Auditor's Opinion is required 6.17

5.4 Determining the type of Modification to the Auditor's Opinion..... 6.17

5.5 Consequence of an inability to obtain Sufficient Appropriate Audit Evidence due to a Management-Imposed Limitation after the Auditor has accepted the Engagement 6.19

5.6 If the Auditor Decides to Withdraw 6.20

5.7 Other Considerations Relating to an adverse opinion or Disclaimer of opinion 6.20

5.8 Form and Content of the Auditor's Report when the opinion is modified 6.20

5.9 Communication with those charged with Governance 6.23

6. SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"..... 6.23

6.1 Objective 6.23

6.2 When to give Emphasis of Matter Paragraphs in the Auditor's Report?..... 6.24

6.3 When the auditor includes an Emphasis of Matter Paragraph in the Auditor's Report 6.24

7. Distinction between Notes on Accounts and Qualifications..... 6.25

8. Distinction between Audit Report and Certificate 6.26

9. Communication to Management and those charged with Governance 6.27

© The Institute of Chartered Accountants of India

9.1 When all of those charged with Governance are involved in managing the entity 6.28
9.2 Matters to be communicated 6.28
9.3 Planned Scope and Timing of the Audit 6.28
9.4 Significant findings from the Audit 6.29
10. Self Review Threats 6.29
10.1 Meaning- Self Review Threats 6.30
10.2 Safeguards that may eliminate or reduce such threats to an acceptable level fall into two board categories 6.30
11. Reporting Requirements in case of Comparative Information 6.30
11.1 Audit Procedures for Comparative Information 6.31
11.2 Audit Reporting 6.31
12. Illustrative Audit Reports 6.34
TEST YOUR KNOWLEDGE 6.49

© The Institute of Chartered Accountants of India