

AS, SA, Some ICDS relevant to Tax Audit

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Introduction/Introspection

- ❖ Do you accept Tax Audit assignment on 25th Sept. and finalise the same by 30th Sept?
- ❖ Does your client prepare Financial statements (FS) and handover before the audit process commences?
- ❖ If the audit points out errors affecting profitability, does your client pass adjustment entries to ensure that the profit figures do not change?
- ❖ Do you maintain books of accounts of the client as well as conduct the audit?
- ❖ Do you ensure that the books of accounts are closed?
- ❖ Do you conduct the following activities as part of the audit?
 - a. Conduct of the audit (esp. for non-corporate entities)
 - b. Ensuring compliance and disclosures as per AS
 - c. Ensuring compliance with Income Tax Act, 1961

Introduction/Introspection (contd.)

- ❖ Audit in case of non-corporate entities
 1. Entire audit to be conducted and 3CD details to be certified – 3CB
 2. True and Fair view of FS

- ❖ Tax Audit in case of Companies
 1. Only particulars in Form 3CD to be certified
 2. Reliance to be placed on report of Statutory Auditor – 3CA
 3. SA 600 “Using the work of another auditor”
 4. Some additional verification may be necessary
 5. Correlation of particulars given In Form 3CD with disclosures in FS (e.g. AS18, CARO report ,etc.)

Objective of Tax Audit

- ❖ The Speech of the Finance Minister while presenting the Union Budget for 1984-85 and the Memorandum explaining the provisions of the Finance Bill, 1984 state the objective of introduction of Tax Audit as under –

“Compulsory audit is intended to ensure proper maintenance of books of account and other records, in order to reflect the true income of the tax payer and to facilitate the administration of tax laws by a proper presentation of the accounts before the tax authorities. This would also save time of the AO considerably in carrying out the verification.”

Role of a Chartered Accountant

- ❖ As a tax auditor
 - Primarily an auditor – who is also aware of tax provisions
- ❖ Accordingly, has to consider all of the following when carrying out the assignment of Tax Audit.
 - ✓ Accounting Standards prescribed by ICAI / Notified Standards under the Companies Act 2013 (including IND AS when applicable)
 - ✓ Auditing & Assurance Standards
 - ✓ Guidance issued by ICAI
 - ✓ EAC Opinions
 - ✓ Ethical Standards issued by the ICAI
 - ✓ Directions issued by Council including those relating to ethical requirements in regard to communication with previous auditor, limits for tax audit etc.
 - ✓ Publications to be considered
 - ❑ Guidance Note On Tax Audit
 - ❑ Issues On Tax Audit - Fiscal Laws Committee Of ICAI

Accounting Standards Directly Relevant & Relating to Expenditure side

- ❖ AS 1 Disclosure of Accounting Policies
- ❖ AS 2 Valuation of Inventories
- ❖ AS 6 Depreciation Accounting
- ❖ AS 10 Accounting for Fixed Assets
- ❖ AS 11 Effects of Changes in Foreign Exchange Rates
(revised 2003)
- ❖ AS 16 Borrowing Costs
- ❖ AS 26 Intangible Assets
- ❖ AS 28 Impairment of Assets
- ❖ AS 29 Provisions, Contingent Liabilities & Contingent Assets

Accounting Standards Directly Relevant but being dealt by Mr Phadke

- ❖ AS 4 Contingencies and Events Occurring After the Balance Sheet Date
- ❖ AS 5 Net Profit or Loss for the Period, Prior Period Items & Changes in Accounting Policies
- ❖ AS 7 Construction Contracts (revised 2002)
- ❖ AS 9 Revenue Recognition
- ❖ AS 29 Provisions, Contingent Liabilities & Contingent Assets

Accounting Standards relevant but may not deal with – since less applied

- ❖ AS 8 Accounting for Research and Development
- ❖ AS 12 Government Grants
- ❖ AS 13 Accounting for Investments
- ❖ AS 15 Accounting for Retirement Benefits in the Financial Statements of Employers
- ❖ AS 18 Related Party Disclosures
- ❖ AS 24 Discontinuing Operations

Structure of Engagement Standards issued by AASB

**Chartered Accountants Act, 1949,
Code of Ethics and other relevant pronouncements of the ICAI**

Standards on Quality Control (SQC)

Services covered by the pronouncements of AASB

**Assurance
Services**

Related Services

**Framework for Assurance
Engagements**

**Audits and reviews of
historical
financial information**

**Assurance Engagements other
than audits or reviews of
historical financial information**

**Standards on
Auditing
(SAs) 100 -
999**

**Standards on
Review
Engagements
(SREs) 2000 -
2699**

**Standards on
Assurance
Engagements
(SAEs) 3000 -
3699**

**Standards on
Related Services
(SRSs) 4000 -
4699**

Preliminary Issues

- ❖ Positive fall out - better maintenance of books & records particularly amongst smaller assesses.
- ❖ Responsibility for preparation of accounts lies with the assessee.
- ❖ G.N.(para 13.4) states that “Tax auditor is required to give his opinion whether prescribed particulars furnished by the assessee are true and correct.”
- ❖ Hence, signature of Assessee should be obtained on Form 3CD though the form itself does not provide for the same
- ❖ Documentation and professional responsibility of CA

Compliance with ICAI Code of Ethics

- ❖ Appointment and NOC procedures
- ❖ Same person cannot conduct Internal Audit & Tax Audit
- ❖ The auditor should not be indebted for more than Rs.10,000
- ❖ Ceiling on number of tax audit assignments
 - *60 per partner (for audits from AY 2014-15) (earlier 45)*
 - HO and branch considered as 1 assignment
 - Audits conducted under section 44AD, 44AE and 44AF or under state VAT laws **not to be included** in the limits
- ❖ Maintenance of Register
 - Record of tax audit assignments in prescribed format
 - Excessive audits signed by members

Some Ethical Issues

- ❖ Person interested - Amended Second Schedule
 - A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he
(4) expresses his opinion on financial statements of any business or any enterprise in which he, his firm or a partner in his firm has a substantial interest,”
 - *Words deleted: “unless he discloses the interest also in his report;”*
- ❖ Minimum Fees to be charged:
 - Council decision for minimum fees (notified in 2009) **repealed**
 - With effect from 7th June 2011
 - Preferable to follow ICAI recommended scale of fees

Audit Procedures

- ❖ Letter of appointment (by management)
- ❖ SA 210 – Agreeing to the terms of Audit Engagement
 - Engagement letter to be issued
- ❖ SA 230 – Audit Documentation
- ❖ SA 610 – relying on work of Internal Auditors
- ❖ SA315–Identifying and Assessing risk of material misstatement through understanding the entity
- ❖ SA 330 – Auditors' responses to assessed risks
- ❖ SA 520 – Analytical Procedures

AS 1-Disclosure of Accounting Policies

13. (a) Method of accounting employed in the previous year
(b) Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.
(c) If answer to (b) above is in the affirmative, give details of such change, & the effect thereof on the P& L.
(d) Details of deviation, if any, in the method of accounting employed in the previous year from accounting standards prescribed under section 145 and the effect thereof on the profit or loss.
- ❖ Applicability of AS – amendment in S.145 (2) – no reference to AS – only to ICDS
24. All significant accounting policies adopted should be disclosed.
25. Should form part of FS & be disclosed in one place.
27. If fundamental accounting assumptions is not followed, the fact should be disclosed.
 - Going Concern, (Also refer SA 570 - Going Concern)
 - Consistency
 - Accrual

AS 1-Disclosure of Accounting Policies

- ❖ change in accounting policy is distinct from change in method of accounting. Para 22.7 of the G.N.
 - ❖ Only two methods of Accounting possible u/s 145(1)
 - cash or mercantile system of accounting
26. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- ❖ Change in accounting policy v/s change in method of accounting. - Cl. 13 requires reporting only re: change in method of accounting.

Clause 13 : Method of accounting

- ❖ Method of accounting followed:
 - Accrual vs. Cash method (mixed or hybrid method not allowed)
 - Method to be consistently followed
 - Cash basis not possible for companies (in view of sec 209 of Cos Act)
- ❖ Deviation from accounting standards prescribed u/s 145 –sec 145 has notified 2 AS:
 - AS 1 (IT) –similar to AS 1 of ICAI / notified AS for Cos
 - AS 2(IT) –similar to AS 5 of ICAI / notified AS for Cos
 - This will be crucial year { Year before the ICDS –computation standards apply
- ❖ AS 1(IT) requires disclosure of all significant accounting policies

Clause 13 (contd.)

- ❖ Change in method of accounting
 - Allowed as per para 9 of AS 2(IT) in 2 cases
 - ✓ Adoption required by statute
 - ✓ Change would result in more appropriate presentation of FS
 - Materiality to be considered ?
 - Effect on profit/loss to be stated (*in columnar format*)
 - Changed policy to be followed consistently
 - Change in policy is not to be reported as 'change of method of accounting' –impact thereof is however disclosed in FS

Books of Account

11. (a) Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.
(b) List of books of account maintained and the address at which the books of accounts are kept.
(In case books of account are maintained in a computer system, mention the books of account generated by such computer system. If the books of accounts are not kept at one location, please furnish the addresses of locations along with the details of books of accounts maintained at each location.)
(c) List of books of account and nature of relevant documents examined.

- a) What is meant by books of account? Implications u/s 144
- b) Whether stock records constitute the books of the account
- c) Whether vouchers are a part of the Books of account?
- d) What is meant by “Books of Account Generated” by the computer? Does it mean the books of account of which actual print outs are taken?
- e) Whether “generated” means capable of generating by the programme?
- f) distinction between “books of original entry” and other supporting documents
- g) whether stock records, excise registers, log books and various MIS reports regularly generated constitute ‘books’.
- h) If stock record is maintained on the computer and is inaccurate, whether it is the duty of the auditor to comment upon it?

❖ EAC opinion- S.541 Cos. Act Branch Returns

Clause 11: Details of books prescribed u/s 44AA

- ❖ To give list of books prescribed, maintained and **location of the books may have implications**
- ❖ Books for certain professionals mentioned in sec44AA(1)
- ❖ Books constitute books of original entry and may be prescribed under some other statute
- ❖ Sec2(12A) of the Act defines “books or books of account”–can be in written form or print-outs or other form of electro magnetic data
- ❖ Though books not prescribed in sec44AA(2), such books are required to be maintained to enable the AO to compute the income as per the IT Act
- ❖ To give the list for allocations (incl. stock registers)
- ❖ If maintained in a computer system–to mention so
- ❖ List of books of account and nature of relevant documents examined

Form 3CA, 3CB

❖ **Notes to Accounts to normally specify**

- Method of accounting followed –accrual or cash
- Revenue Recognition
- Inventory valuation
- Fixed Assets and Depreciation
- Investments
- Accounting of Forex fluctuations

❖ **Items that may require qualification:**

- Mandatory AS not followed (esp. for Companies)
- Non provision of Income Tax
- Non provision of Employee bonus and retirement benefits
- Confirmations for balances
- Inventory valuation on estimated basis

Form 3CA, 3CB

❖ Signatures

- Form 3CA/ 3CB to be signed by Chartered Accountant
- Mention of Firm Registration Number (FRN)
- Mention of membership number
- Form 3CD also to be signed by assessee?
- Preferable for CA to put initials /stamp on each page /annexure of 3CD

AS 2 Valuation of Inventories

14. (a) Method of valuation of closing stock employed in the previous year.
(b) In case of deviation from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, please furnish <table>

- ❖ The clause requires only the method of valuation for e.g. Finished Goods are valued at lower of cost or realisable value. Cost Formulae (how direct and indirect costs are derived) do not have to be reported here.
- ❖ No reporting of change either in cost formulae or in method of valuation is required.
- ❖ Notes on account should normally mention the policy for determination of cost and disclose any changes in method of valuation or in cost formulae.
- ❖ S.145 A speaks of valuation of Purchase, Sale & inventory in accordance with Method of Accounting employed by the Assessee – (ICDS B – Inventory Valuation - #22 (ii) – value of opening inventory – does not harmonise with this).
- ❖ **Words “accounting standards” being replaced by “income computation and disclosure standards” would have serious implications in future years**
- ❖ Impact of Sec 145A - Revenue Neutral ??

AS 2 Valuation of Inventories - some issues

- ❖ The clause mentions method of valuation of 'Closing Stock'. In case there is no closing stock, will the clause not apply?
- ❖ If there is a change in the manner of computing cost, will it amount to a change in the method of valuation of stock?
- ❖ In the first year of tax audit the auditor finds that the opening stock has been valued at selling price? However there is no closing stock. Is reporting required? If so in what manner? Will the true and fair view have to be qualified?
- ❖ Assessee prepares the financial account of the company on weighted average basis w.e.f. Assessment Year 2003 – 2004 due to change in A. S. 2. However, for many years the assessee has been valuing inventory on LIFO basis, which has been consistently followed and accepted in earlier tax assessment. Assessee continues to submit account for Tax purposes on LIFO basis. Is the Tax Auditor required to make any comments?

Clause 14 : Method of valuation of Closing Stock

- ❖ Closing stock consists of RM, WIP, FG, Stores, etc.
- ❖ Normal valuation principles to be followed:
 - At lower of Cost or NRV;
 - To follow Absorption Costing;
 - To include all costs incl. excise duty (sec145A)
 - To mention how cost is determined
 - If cost arrived at as SP less GP margin—whether alright?
 - Allowed at SP in certain cases
 - SC decision of British Paints (188ITR44)
- ❖ To also value stores, packing items
- ❖ Change in method of valuation covered in Clause 13

Clause 14 (contd.)

- ❖ Get list of Closing Inventory
- ❖ Confirm whether all items like RM, WIP, FG, Stores, Packing materials, consumables, etc. are valued
- ❖ Confirm method of valuation (incl. determination of cost, etc.)
- ❖ Tally inventory list with that submitted to the bank–
- ❖ Quantity should match– value may differ due to different valuation method applied
- ❖ Disclosure as per ICAI GN, if 145A not followed

Clause 16 : Amounts not credited to P&L Account

- ❖ Verify the reserves account, or any other account to identify if any item is directly credited to the same
- ❖ Only the claims lodged and admitted by authorities be reported. If such claims are not admitted, the same need not be reported
- ❖ Only those escalation claims which are accepted by the party be reported. Even partial claims admitted be reported
- ❖ If assessee disputes any item based on legal decision – to mention the same
- ❖ General disclaimer may be given that **the auditor has not gone beyond the books of accounts produced** to him during audit and has not conducted an investigation to find out if the assessee has not credited any amounts in the book

Clause 18 : Depreciation as per IT Act,1961

- ❖ When an asset is purchased – cost of the asset including the expenses incurred to complete the purchase i.e. customs duty, installation cost, etc is added to the block
- ❖ In the year of purchase – depreciation for full year/half year based on the date when asset is put to use. Verify relevant documents, i.e. technical experts report, etc. to determine the date when asset is put to use
- ❖ In the subsequent years, if the asset is used for the purpose of business even for part of the year, depreciation is allowable at full applicable rates
- ❖ Verify the excise records - MODVAT credit claimed to be reduced from the value of the asset
- ❖ Incase of disputes regarding depreciation claim in earlier years, to clearly mention the same

Clause 18 (contd.)

- ❖ Any interest paid on money borrowed for purchase/construction of asset, upto the date on which asset is put to use, be capitalized to the cost of asset
- ❖ Any subsidy received for acquiring the asset –be reduced from the cost of acquisition
- ❖ Section 43A – Any asset purchased from outside India – out of borrowing in foreign currency – the foreign exchange fluctuation (only to the extent of amount actually repaid) be considered as part of the cost of the asset
- ❖ New plant and machinery acquired and installed after 1.4.2005 by the assessee engaged in the business of manufacture or production or any article or in the business of generation and distribution of power, additional depreciation of 20% of the cost of plant and machinery is allowed for the first year
- ❖ Lease agreement to be verified to ascertain whether the asset is on a finance lease or operating lease. Operating lease – depreciation available to lessor, Finance lease – depreciation available to lessee

Other Standards — Relevant to Year of Allowability

❖ AS 5

Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

22(b) Particulars of income or expenditure of prior period credited or debited to the profit and loss a/c.

Line omitted in Notified standard : *“In view of the uncertainty attached to future events, profits are not anticipated, but recognised only when realised, though not necessarily in cash.”*

❖ AS 4

Events Occurring After Balance Sheet Date

Clause 27(b): Prior Period Expenditure and Income

- ❖ This clause is applicable only where the mercantile accounting system follows, in the case of non-corporate entity maintaining accounts on cash basis, this clause is not applicable
- ❖ The income / expenditure relating to any earlier year, which has crystallized during the year can not be considered as prior period item. To illustrate, if there was some dispute in wages for the year ended 31st March 2013. The dispute was settled during the year ended 31st March 2014 and wages are accounted during the financial year 2013-14 then this is not an error or omission in preparation of account of earlier year. But this is the liability which though related to previous year has crystallized in current year, this can not be regarded as a prior period item

Clause 27(b) (contd.)

- ❖ For corporate entities information available from annual accounts
- ❖ Prior period items are generally infrequent in nature
- ❖ Prior period expenses are not allowed to be deducted from current year's income
- ❖ As per AS 5 – change in estimates is not a prior period item
- ❖ As per AS -5 and AS (IT) – II, expenses or income which arise in the current year as a result of errors or omissions in the accounts of earlier years will be considered as prior period items

Other Standards — Relevant to Year of Allowability

❖ AS 29 - Provisions, Contingent Liabilities & Contingent Assets

17(k) Particulars of any liability of a contingent nature.

Provision made on the basis of notice is not deductible 32 ITD 406

- ❖ Issues of interpretation often arise -point of time when the liability has crystallised
 - Distinction between statutory & other liabilities
 - Kerala Transport 239 ITR 183
 - Legal obligation vs Constructive obligation
 - Kaveri Engg. Industries Vs. Dy. CIT 43 ITD 527) (Mad.)

Clause 21(contd.)

- ❖ In case of liability of contingent nature
 - Liability crystallized, though the valuation thereof depends on a future event or quantification cannot be done with certain degree of accuracy - is not a contingent liability. e.g leave encashment, provision for warranty etc.
 - Liability not crystallized. Provision made based on the relevant Accounting Standard or the Accounting Policy adopted -it is contingent liability- e.g. provision for diminution in value of investment.
 - Understand the basis of making provision
 - Verify the provision relating to disputed claims
 - Scrutinize various account heads such as of outstanding liabilities, provisions, etc.

AS 16 Borrowing Costs

- ❖ Interest and other costs incurred in connection with borrowing of funds.
may include :-
 - Interest, commitment charges, on LT/ST borrowing
 - Amortisation of discounts/premiums related to borrowing
 - Amortisation of ancillary costs regarding arrangement of funds
 - Finance charges for assets acquired under finance leases etc.
 - Exchange differences from FC borrowing to the extent they are regarded as an adjustment to interest costs. (refer ASI 10)

AS 16 Borrowing Costs

Qualifying asset

- ❖ An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
 - ❖ Does not distinguish between fixed assets and current assets - can include inventory under certain circumstances
 - ❖ Substantial period - subjective - but ASI 1 (interpretation) issued by ASB
- ❖ Proviso inserted in Section 36 (1) (iii)
 - intention may be to block cases of capitalisation in books & claim of expenditure for tax

Impact of Amendment

- even assets that do not take significant time - borrowing costs to be capitalised for tax purposes
- cut-offs are different
- extension of business – recent amendment

AS 16 Borrowing Costs contd

- ❖ After asset is first put to use - no capitalisation.
- ❖ Partial user of asset
- ❖ Treatment of interest earned on temporary investment of funds
- ❖ Cut-off date for capitalisation

Clause 37: Details of Cost Audit

- ❖ The tax auditor should ascertain from the management whether cost audit was carried out
- ❖ **The tax auditor will be required to study the report to ascertain if it contains any disqualifications or disagreement on any matter / item / value / quantity**
- ❖ The format in which the details are to be provided is not stated
- ❖ The tax auditor need not express any opinion in a case where such audit has not been ordered but the same has not been carried out
- ❖ In cases where cost audit might have been ordered but is not completed by the time the tax auditor gives his report, he must state the same in this report

Clause 38 : Details of Excise Audit

- ❖ The tax auditor should ascertain from the management whether any audit was conducted under the Central Excise Act, 1944 and if such audit was carried out
- ❖ **The tax auditor will be required to study the report to ascertain if it contains any disqualifications or disagreement on any matter / item / value / quantity**
- ❖ The format in which the details are to be provided is not stated
- ❖ The tax auditor need not express any opinion in a case where such audit has been ordered but the same has not been carried out
- ❖ In cases where excise audit which might have been ordered is not completed by the time the tax auditor gives his report, he has to state the same in his report
- ❖ The period for which the audit was conducted is not relevant but what is relevant is that the audit was conducted under the Central Excise Act, obtain the report

Clause 39: Details of audit for valuation of taxable services

- ❖ The tax auditor should ascertain from the management whether audit was conducted u/s 72A of the Finance Act, 1994
- ❖ **The tax auditor will be required to study the report to ascertain if it contains any disqualifications or disagreement on any matter / item / value / quantity**
- ❖ The format in which the details are to be provided is not stated
- ❖ The tax auditor need not express any opinion in a case where such audit has not been ordered but the same has not been carried out
- ❖ In cases where audit might have been ordered but is not completed by the time the tax auditor gives his report, he must state the same in this report
- ❖ The period for which the audit was conducted is not relevant but what is relevant is that the audit was conducted under section 72A of the Finance Act, 1994

Brief Introduction to SA's & other relevant standards

- **SA 200: OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING**
 - It establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs.
 - It explains scope, inherent limitations of audit, objectives and responsibilities of an auditor
- **SA 210: AGREEING THE TERMS OF AUDIT ENGAGEMENTS**
 - It deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance
 - Consideration to be given by an auditor while engagement acceptance-preconditions for an audit are present
- **SA 220: QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS**
 - It deals with the specific responsibilities of the engagement partner regarding quality control procedures viz. ethical compliance, independence, quality control review, for an audit of financial statements

Brief Introduction to SA's & other relevant standards

- **SA 230: AUDIT DOCUMENTATION**

- This Standard on Auditing (SA) deals with the auditor's responsibility for preparation and maintenance of an audit documentation
 - Keep detailed note of evidences relied upon
 - Maintain all working papers including notes on following-
 - Work done while conducting audit & by whom
 - Explanation & information given during course of audit & by whom
 - Decision on various points taken & judicial pronouncements relied upon
 - MRs / Certificates issued by client
 - Design audit programme as would reveal extent of checking & ensure adequate documentation

Brief Introduction to SA's & other relevant standards

- **SA 240: THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS**
 - Auditor responsible for obtaining reasonable assurance that financial statement taken as a whole are free from material misstatement
 - Unavoidable risk of non-detection due to inherent limitation of an audit (**SA 200**)
- **SA 250: CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS**
 - It deals with the auditor's responsibility to identify instances of non-compliance with laws and regulations having direct/indirect effect on the material amounts and disclosures in financials statements
 - However, auditor not primarily responsible for non-compliance as well as non-detection as the same rests on the Management and TCWG
- **SA 260: COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**
 - Matters/process of communication is enlisted through this SA

Brief Introduction to SA's & other relevant standards

- **SA 265: COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT**
 - It deals with communicating deficiency in Internal control,
 - Nevertheless, no requirement to express an opinion thereon
- **SA 299: RESPONSIBILITY OF JOINT AUDITORS**
 - It covers dealing with division of work, co-ordination, responsibility, difference of opinion
- **SA 300: PLANNING AN AUDIT OF FINANCIAL STATEMENTS**
 - Initial Audit Engagements-Acceptance (**SA 220**) and communication with previous auditor
 - Recurring Audit Engagement- Planning Activities

Brief Introduction to SA's & other relevant standards

- **SA 315: IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT**
 - It deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements, through performance of risk assessment procedures such as
 - Inquiries with management;
 - Analytical Procedures;
 - Observation
 - Inspection.
- **SA 320: MATERIALITY IN PLANNING AND PERFORMING AN AUDIT**
 - It deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements
 - It explains application of materiality concept to find effect of identified misstatements
- **SA 330: THE AUDITOR'S RESPONSES TO ASSESSED RISKS**
 - This Standard on Auditing (SA) deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SA 315, in a financial statement audit.

Brief Introduction to SA's & other relevant standards

- **SA 402: AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANISATION**
 - This Standard on Auditing (SA) deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations
 - It explains how user auditor may obtain understanding of user entity and its internal control
- **SA 450: EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT**
 - This Standard on Auditing (SA) deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements taking into consideration concept of materiality
- **SA 500: AUDIT EVIDENCE**
 - It explains what constitutes audit evidence in an audit of financial statements, and
 - It deals with the auditor's responsibility to design and perform audit procedures viz. inspection, observation, inquiry, recalculation, analytical procedures, reperformance, to obtain sufficient appropriate audit evidence to draw reasonable conclusions so as to enable him to express an opinion

Brief Introduction to SA's & other relevant standards

- **SA 501: AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS**
 - It deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with SA 330 , SA 500 (Revised) and other relevant SAs, with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements
- **SA 505: EXTERNAL CONFIRMATIONS**
 - This Standard on Auditing (SA) deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of SA 330 and SA 500 (Revised).
- **SA 510: INITIAL AUDIT ENGAGEMENTS—OPENING BALANCES**
 - This Standard on Auditing (SA) deals with the auditor's responsibilities relating to opening balances when conducting an initial audit engagement

Brief Introduction to SA's & other relevant standards

- **SA 520: ANALYTICAL PROCEDURES**

- This Standard on Auditing (SA) deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"), and such procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements

- **SA 530: AUDIT SAMPLING**

- This Standard on Auditing (SA) applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample.
- Principle methods of sample selection:
 - ❖ Random selection – Through random number tables
 - ❖ Systematic selection – Determine sample interval using the formula: Number of sampling units divided by Sample size
 - ❖ Monetary unit sampling – Value weighted selection i.e. select individual monetary units that make up the population
 - ❖ Haphazard selection – Without following a structured technique
 - ❖ Block Selection – Selection of a block of continuous items

- **SA 540: AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES, AND RELATED DISCLOSURES**

- It deals with obtaining sufficient appropriate audit evidence as to whether
 - Accounting estimates, including the fair value estimate are reasonable
 - Related disclosures in the financial statements are adequate

Brief Introduction to SA's & other relevant standards

▪ **SA 550: RELATED PARTIES**

- This Standard on Auditing (SA) deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements.
- **Related Parties as per SA 550:**
 - a) person or other entity that has control or significant influence, directly or indirectly over the reporting entity
 - b) Another entity over which the reporting entity has control or significant influence, directly or indirectly
 - c) entity under common control with the reporting entity
- **Related Parties as per 40A(2):**
 - a) relative of the assessee
 - b) director of company or partner of the firm, member of association of persons or Hindu undivided family or partner of firm, or any relative of such director, partner or member
 - c) individual who has a substantial interest in the business or any relative of such individual
 - d) company, firm, association of persons or Hindu undivided family having a substantial interest in the business or its director, partner or member or its relative
 - e) a company, firm, association of persons or Hindu undivided family of which a director, partner or member, as the case may be, has a substantial interest in the business or its director, partner or member or its relative

Brief Introduction to SA's & other relevant standards

- **SA 560: SUBSEQUENT EVENTS**

- It deals with the auditor's responsibilities relating to effect of subsequent events on financial statements and auditor's report

- **SA 570: GOING CONCERN**

- It deals with the auditor's responsibility in the audit of financial statements with respect to management's use of the going concern assumption in the preparation and presentation of the financial statements
- Conditions that may cast doubt about the assumption:
 - a) Net current liability position
 - b) Negative operating cash flows
 - c) Substantial operating losses
 - d) Inability to comply with the terms of loan agreements
 - e) Loss of key management without replacement.
 - f) Loss of a major market, key customer(s)
 - g) Changes in law or government policy expected to adversely affect the entity

Brief Introduction to SA's & other relevant standards

- **SA 580: WRITTEN REPRESENTATIONS**

- It deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance

- **SA 600: USING THE WORK OF ANOTHER AUDITOR**

- It deals with the auditor's responsibility, being the principal auditor, in relation to his use of the work of the other auditor

- **SA 610: USING THE WORK OF INTERNAL AUDITORS**

- It deals with the external auditor's responsibilities regarding the work of internal auditors when the external auditor has determined (in accordance with SA 315) that the internal audit function is likely to be relevant to the audit

Brief Introduction to SA's & other relevant standards

- **SA 620: USING THE WORK OF AN AUDITOR'S EXPERT**

- It deals with the auditor's responsibilities regarding the use of an individual or organization's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence
- **Auditor's Expert:** An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist him in obtaining sufficient appropriate audit evidence

- **SA 700: FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS**

- **Objective:** expressing clearly an opinion (including basis thereof) through a written report
- It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements

Brief Introduction to SA's & other relevant standards

- **SA 705: MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT**
 - This Standard on Auditing (SA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary
 - Determination of type of modification

Nature of Matter	Effect-Material but not pervasive	Effect-Material and pervasive
Financial statements are materially misstated	Qualified Opinion	Adverse Opinion
Inability to obtain sufficient appropriate audit evidence	Qualified Opinion	Disclaimer of Opinion

Brief Introduction to SA's & other relevant standards

- **SA 706: EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT**
 - It deals with the auditor's responsibility to draw user's attention to important matters whether or not disclosed in the financial statements by making a specific reference in the auditor's report through "Emphasis of matter" para and "Other Matter" para.

- **SA 710: COMPARATIVE INFORMATION— CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS**
 - It deals with the auditor's responsibilities regarding comparative information in an audit of financial statements.
 - If the prior period financial statements were not audited, the auditor shall state in the auditor's report that the corresponding figures are unaudited

Brief Introduction to SA's & other relevant standards

- **SA 720: THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**
 - It deals with the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon
 - **Other Information:** Financial and non-financial information included, either by law, regulation or custom, in a document containing audited financial statements
- **SQC 1: QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS**
 - The purpose of this Standard on Quality Control (SQC) is to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute

Standards on Audit (SAs) issued by ICAI

S.No.	Standards on Auditing	Number	Type	Revised or Not	Effective Date
1	Overall Objectives of the Independent Auditor and the conduct of an audit in accordance with Standards on Auditing.	200	SA	Revised	Apr 1, 2010
2	Agreeing the terms of Audit Engagements	210	SA	Revised	Apr 1, 2010
3	Quality Control for Audit of Financial Statements	220	SA	Revised	Apr 1, 2010
4	Audit Documentation	230	SA	Revised	Apr 1, 2009
5	The Auditor's Responsibility relating to Fraud in an Audit of Financial Statement	240	SA	Revised	Apr 1, 2009
6	Consideration of Laws and Regulations in an Audit of Financial Statements	250	SA	Revised	Apr 1, 2009
7	Communication with Those Charged with Governance	260	SA	Revised	Apr 1, 2009
8	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	265	SA		Apr 1, 2010
9	Responsibility of Joint Auditors	299	SA		Apr 1, 1996
10	Planning an Audit of Financial Statements	300	SA	Revised	Apr 1, 2008

Standards on Audit (SAs) issued by ICAI

S.No.	Standards on Auditing	Number	Type	Revised or Not	Effective Date
11	Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment	315	SA		Apr 1, 2008
12	Materiality in planning and performing an Audit	320	SA	Revised	Apr 1, 2010
13	The Auditor's Responses to Assessed Risks	330	SA		Apr 1, 2008
14	Audit Considerations Relating to an entity Using a Service Organization.	402	SA	Revised	Apr 1, 2010
15	Evaluation of Misstatements Identified during the Audits	450	SA		Apr 1, 2010
16	Audit Evidence	500	SA	Revised	Apr 1, 2009
17	Audit Evidence – Specific Considerations for Selected items	501	SA	Revised	Apr 1, 2010
18	External Confirmations	505	SA	Revised	Apr 1, 2010
19	Initial Audit Engagements – Opening Balances	510	SA	Revised	Apr 1, 2010
20	Analytical Procedures	520	SA	Revised	Apr 1, 2010
21	Audit Sampling	530	SA	Revised	Apr 1, 2009

Standards on Audit (SAs) issued by ICAI

S.No.	Standards on Auditing	Number	Type	Revised or Not	Effective Date
22	Auditing of Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures	540	SA	Revised	Apr 1, 2009
23	Related Parties	550	SA	Revised	Apr 1, 2010
24	Subsequent Events	560	SA	Revised	Apr 1, 2009
25	Going Concern	570	SA	Revised	Apr 1, 2009
26	Written Representation	580	SA	Revised	Apr 1, 2009
27	Using the Work of Another Auditor	600	SA		Apr 1, 2002
28	Using the Work of an Internal Auditor	610	SA	Revised	Apr 1, 2010
29	Using the Work of an Auditor's Expert	620	SA	Revised	Apr 1, 2010
30	Forming an Opinion and Reporting on Financial Statements	700	SA	Revised	Apr 1, 2012
31	Modifications to the Opinion in the Independent Auditor's Report	705	SA		Apr 1, 2012
32	Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditor's Report	706	SA		Apr 1, 2012
33	Comparative Information – Corresponding Figures and Comparative Financial Statements	710	SA	Revised	Apr 1, 2011

Standards on Audit (SAs) issued by ICAI

S.No.	Standards on Auditing	Number	Type	Revised or Not	Effective Date
34	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements	720	SA		Apr 1, 2010
35	Audits of Financial Statements Prepared in accordance with Special Purpose Frameworks	800	SA		Apr 1, 2011
36	Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statements	805	SA		Apr 1, 2011
37	Engagements to Report on Summary Financial Statements	810	SA		Apr 1, 2011
38	Standards on Quality Control	1	SQC		Apr 1, 2009
39	Engagements to Review Financial Statements	2400	SRE	Revised	Apr 1, 2010
40	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	2410	SRE		Apr 1, 2010
41	The Examination of Prospective Financial Information	3400	SAE		Apr 1, 2007

Standards on Audit (SAs) issued by ICAI

S.No.	Standards on Auditing	Number	Type	Revised or Not	Effective Date
42	Assurance Reports on Controls At a Service Organization	3402	SAE		Apr 1, 2011
43	Engagements to Perform Agreed Upon procedures Regarding Financial Information	4400	SRS		Apr 1, 2004
44	Engagements to Compile Financial Information	4410	SRS		Apr 1, 2004

THANK YOU

for your patience

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