



# Standards on Auditing

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# Outline



Concepts



Professional and Technical Standards



Ethical Standards



Frameworks issued by ICAI



Standards on Auditing

# Concepts

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- **Technical Standards**

A technical standard is an established norm or requirement for a repeatable technical task which is applied to a common and repeated use of rules, conditions, guidelines etc.

Blueprints for "how things should work" to achieve shared understanding and reliable results in technical fields.

- **Professional Standards**

Professional standards are established guidelines for conduct, competence, and ethics that define the expected quality of work and service within a specific occupation, ensuring consistent, high-quality outcomes and protecting the public, set by governing bodies to guide practice, development, and accountability.

They are vital for maintaining professional reputation and public trust.

# Concepts

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- **Ethical Standards**

Ethical standards are principles guiding right vs. wrong behaviour, defining moral duties and acceptable conduct for individuals and organizations, based on values like honesty, fairness, and respect, going beyond mere laws to foster trust, integrity, and social good in professional and personal life.

# Standards



Accounting Standards



ICAI Standards



ICAI Frameworks



Laws, Directions under Statutes, by  
Regulators

# Frameworks issued by **ICAI**



Guidance Notes



Technical /  
Implementation Guides



Quality Frameworks



Concept Papers



Tools / Utilities

# **Laws, Regulatory Authorities**

Companies Act, LLP Act, Co-operative Societies Act, Partnership Act, Laws re. Charitable Trusts, Rules issued under the respective acts

Regulatory Authorities : RBI, IRDA, SEBI, PFRDA, MCA

Non-Statutory Bodies : IBA, AMFI, FIMMDA, NASSCOM,

# Standards issued by ICAI

- **Standards on Auditing (SAs)**

Mandatory for audits under section 143 of the Companies Act, 2013.

- ✓ SA 200 – 299: General principles & responsibilities
- ✓ SA 300 – 499: Risk assessment & response
- ✓ SA 500 – 599: Audit evidence
- ✓ SA 600 – 699: Using work of others
- ✓ SA 700 – 799: Audit conclusions & reporting
- ✓ SA 800 – 899: Special purpose audits

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

Applicable to limited review of financial statements

- ✓ SRE 2400 – Review of Historical Financial Statements
- ✓ SRE 2410 – Review of Interim Financial Information

# Standards issued by ICAI

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

Applicable where assurance is provided other than audit or review

- ✓ SAE 3000 – Assurance Engagements other than Audits or Reviews
- ✓ SAE 3402 – Assurance Reports on Controls at a Service Organisation

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

Applicable for agreed-upon procedures and compilations

- ✓ SRS 4400 – Agreed-Upon Procedures
- ✓ SRS 4410 – Compilation Engagements

- **Engagement & Quality Control Standards**

- ✓ SQM 1 – Quality Management for Firms
- ✓ SQM 2 – Engagement Quality Reviews
- ✓ SA 220 (Revised) – Quality Management for an Audit Engagement

# SA 210 : Agreeing the Terms of Audit Engagements

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Letter of Appointment of Auditors, with resolution passed on Annual General Meeting

Engagement Letter, duly accepted by the Client

Financial Reporting Framework : Companies Act & Accounting Standards under the same

Any change in audit engagement terms – to be highlighted

Compliance with fundamental principles of code of ethics : Independence, Objectivity, Professional Competence, Due Care, Confidentiality, Professional Behaviour

# SA 210 : Agreeing the Terms of Audit Engagements

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Professional Skepticism

A core principle in auditing

Attitude with questioning mind, alert in various conditions to red flags, doing critical assessment of evidence, judgement based on sufficient & appropriate evidence

# SA 220 : Quality Management for an Audit Engagement



Leadership Responsibility : Engagement Partner



Ethical Requirements to be complied by EP & Audit Team during entire assignment cycle, till conclusion – Independence declarations



Engagement Team – Manager and other team members with adequate experience

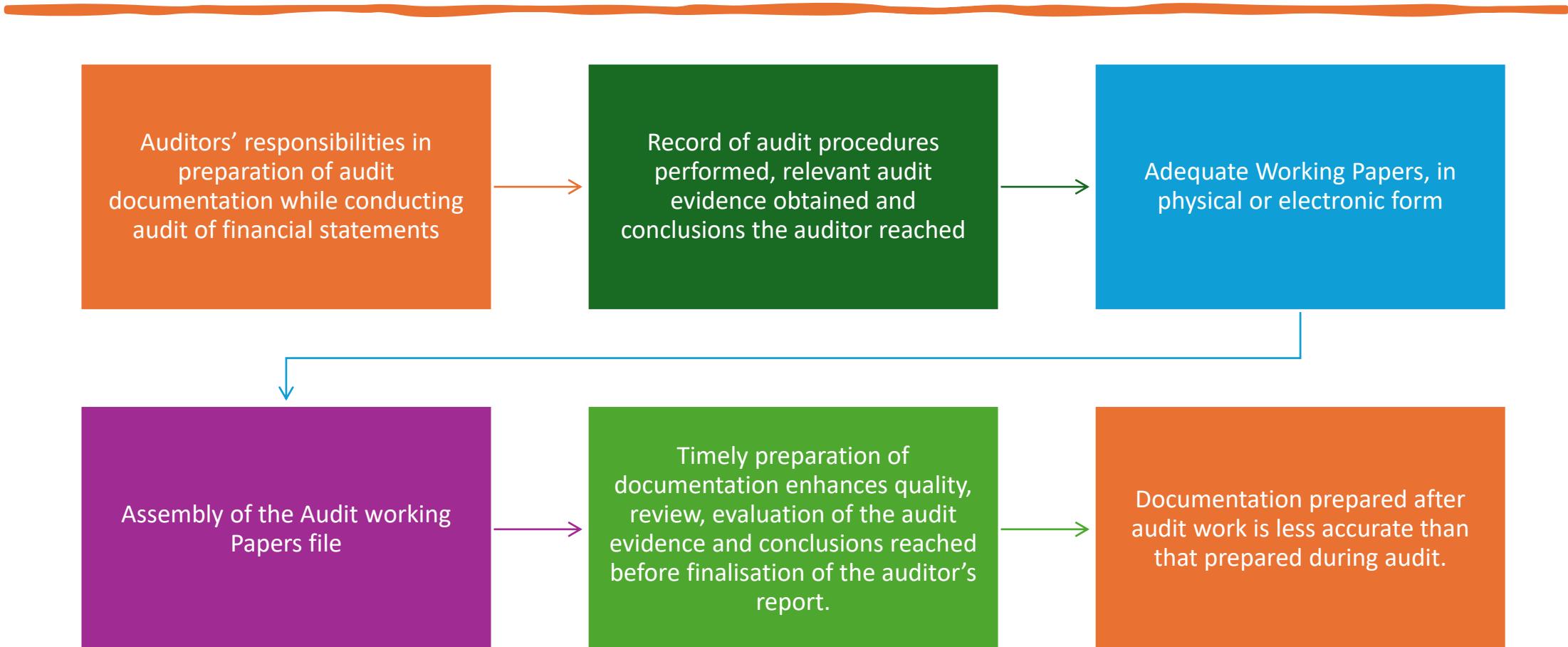


Engagement Performance : Documentation regarding Review & Monitoring by the assignment conducted by Engagement Partner



Quality Control Review

# SA 230 : Audit Documentation



# SA 240 : Auditor's Responsibilities Relating to Fraud

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- Auditor's role in addressing fraud in audit of financial statements
- Emphasis professional skepticism
- Identifying fraud risks:
  - ✓ Misstatement in financials
  - ✓ Fraudulent financial reporting
  - ✓ Misappropriation of assets
- Assessing fraud risks & framing appropriate audit procedures
- SA 330 : Auditor's Responses to Assessed Risks
- Auditor's responsibility to design and implement audit procedures (like tests of controls or substantive tests) to address risks of material misstatement identified under SA 315.

# SA 315 : Identifying & Assessing Risks of Material Misstatement

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- To identify and assess risks of misstatement in financial statements, due to fraud or error
- Purpose : To enable to plan & implement suitable audit procedures.
- Risk Assessment at Financial Statement level and Assertion level.
- Industry, regulatory, and other external factors.
- Nature of the business, ownership, operations, investments, financing, and financial reporting framework.
- Internal controls, including control environment, risk assessment, information systems, control activities, and monitoring.

# **SA 315 :** **Identifying &** **Assessing** **Risks of** **Material** **Misstatement**



- Misstatement at Financial Statements Level :
- Over / Under statement of:
  - ✓ Revenues
  - ✓ PAT / PBT
  - ✓ Inventories
  - ✓ Receivables
  - ✓ Current Liabilities,
- Misstatement at Assertion Level
  - ✓ Non-provision of penalties / deductions by Customers
  - ✓ Non-accounting of expenses, gratuity
  - ✓ Purchases / Sales / Inventories
  - ✓ Valuation of inventories / Computation of Overheads
  - ✓ Slow / Non-moving Inventories
  - ✓ Receivables not recoverable
  - ✓ Revenue / Capital expenditure

# SA 250 : Consideration of Laws & Regulations

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- Laws & Regulations:
- Having direct impact on determining material amounts in financial statements & disclosures
  - ✓ Income Tax
  - ✓ Goods & Services Tax
  - ✓ Provident Fund
  - ✓ Gratuity
- Having indirect impact on financial statements : Licensing, Environmental laws, Transport, Anti-trust / Pricing etc.
- Non-compliance to be reported to TCWG and included in Auditor's Report

# SA 260 : Communication with Those Charged with Governance

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- Communication to the Board of Directors / Audit Committee
- Auditor's Independence, Auditor's Responsibilities in financial statements : Engagement Letter
- Planned Scope and Timing of audit, general plan of audit, materiality, sampling etc.
- Significant findings : presentation in meeting of board of directors, management report / letter

# SA 265 : Communicating Deficiencies in Internal Control

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Identify deficiencies in internal control.

Determine if they are "significant".

Communicate significant deficiencies to TCWG.

Initially verbally, but should be formally communicated in writing

Communication must be timely, often before approval of financial statements

# SA 320 : Materiality in Planning & Performing Audit

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Auditors to determine materiality	Significant misstatements / omissions that could affect decision-making for users of financial statements	Relative, not absolute concept	Auditors to use professional judgment to set materiality levels (often as a percentage of benchmarks like profit or revenue)
<b>Overall Materiality</b>	Determined while establishing Audit Strategy.	<b>Performance Materiality</b>	Set at amount less than overall materiality, acts as overall buffer to lower undetected or uncorrected misstatements
<b>Specific Materiality</b>	At the level of account balance or classes of transactions	Useful for planning audit procedures and assessing risks, focusing on significant items	

# SA 450 : Evaluation of Misstatements Identified

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The diagram consists of two large, overlapping chevron-shaped arrows pointing from left to right. The left chevron is orange and contains the text 'Auditor's responsibility to identify, evaluate, and respond to misstatements that are material or potentially material with impact on the financial statements.' The right chevron is green and contains the text 'Communication to management including TCWG and Management Response'.

Auditor's responsibility to identify, evaluate, and respond to misstatements that are material or potentially material with impact on the financial statements.

Communication to management including TCWG and Management Response

# SA 500 : Audit Evidence

Sufficient & Appropriate Audit Evidence

Useful, Relevant & Reliable

Sources of audit evidence

Audit Procedures:

- Inquiry
- Inspection
- Observation
- External Confirmation
- Recalculation
- Reperformance
- Analytical Procedures

## **SA 505 : External Confirmations**

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Auditors to get direct, written evidence from third parties : banks, customers, suppliers etc.

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Auditors to supervise the process

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Positive, Negative, Blank confirmations

# SA 520 : Analytical Procedures

- Analysing relationships between financial & non-financial data
- To investigate fluctuations which do not match with the expected values significantly
- **Methods:** Trend analysis, Ratio analysis, Reasonableness test,
- **Planning Stage:** To assist in understanding the entity and identifying areas of risk (linked with SA 315)
- **Completion Stage:** To conclude whether Financial Statements reflect consistent results or indicate possible misstatements

# SA 520 : Analytical Procedures

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- **Example 1 – Revenue**

Sales ↑ 40% but capacity ↑ only 10%

Risk: fictitious sales / cutoff errors

- **Example 2 – Gross Profit**

GP margin dropped from 28% → 18%

Risk: inventory valuation, pricing pressure, unrecorded costs

- **Example 3 – Payroll**

Employee count stable, payroll ↑ 25%

Risk: ghost employees / bonus provisions

# SA 520 : Analytical Procedures



- **Revenue / Sales**
  - ✓ Trend analysis of sales (monthly/quarterly vs PY)
  - ✓ Sales growth vs production capacity
  - ✓ Sales vs industry growth
  - ✓ Sales vs receivables movement
  - ✓ Average selling price (ASP) comparison
  - ✓ Gross margin by product / geography
- **Inventory**
  - ✓ Inventory turnover ratio
  - ✓ Gross margin vs inventory valuation
  - ✓ Inventory days vs PY
  - ✓ Slow-moving / obsolete inventory trend
  - ✓ Consumption vs production levels

# SA 550 : Related Parties

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- Auditor's responsibilities for understanding, identifying, and evaluating risks related to an entity's transactions with related parties
- To ensure that related party transactions are appropriately accounted for and disclosed per accounting standards AS 18
- Compliance with the Companies Act, 2013

# SA 580 : Written Representations



To obtain written representation from the management



Confirmation of key aspects, such as their responsibility for financial statements and providing all necessary information



Serves as important audit evidence

# SA 610 : Using Work of Internal Auditors

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External auditor's plans to use the internal audit function's work for audit evidence or direct help.

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The ultimate opinion on financial statements rests with the external auditor; they must evaluate if internal audit work is adequate for audit purposes.

# SA 700 : Forming an Opinion & Reporting

Auditor's responsibility to form an opinion on financial statements

Decide the structure and content of the auditor's written report, ensuring clarity and consistency in expressing an opinion (usually an unmodified opinion)

Opinion whether the financial statements are presented fairly according to the applicable framework, with key components like the opinion section, basis for opinion, and auditor's signature.

# SA 705 : Modifications to Audit Opinion

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- Guides auditors on when and how to modify their standard "unmodified" opinion due to issues found during the audit.
- **Material Misstatement:** Financial statements are incorrect or incomplete (e.g., wrong policies, insufficient disclosures).
- **Scope Limitation:** Auditor can't obtain sufficient appropriate audit evidence (e.g., destroyed records, management refusal).
- **Types of Modified Opinions:**
  - ✓ **Qualified Opinion:** Opinion is "except for" the effects of a material issue that is *not pervasive*.
  - ✓ **Adverse Opinion:** Financial statements are materially misstated and *pervasively* incorrect (don't give a true & fair view).
  - ✓ **Disclaimer of Opinion:** Auditor *cannot* form an opinion because of *pervasive* scope limitations (inability to get evidence).

# SA 706 : Emphasis of Matter & Other Matter Paragraphs

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- An EOM paragraph highlights crucial matters already in the financial statements (like litigation uncertainty) for better user understanding.
- An OM paragraph addresses other relevant matters *outside* the statements, such as explaining restrictions on report use or reporting on financial statements prepared under different frameworks

# SA 700 : Other Information

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- Auditor's responsibilities for "other information" (like management reports, corporate governance statements) in annual reports alongside the audited financial statements.
- Auditors to read annual report for material inconsistencies with financial statements or audit knowledge, and to request corrections, if found, ensuring users aren't misled

# SRS 4400 : Agreed-Upon Procedures

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- **Objective:**
  - To provide a standard for reporting factual findings from specific procedures on specified financial (or sometimes non-financial) information.
- **No Assurance:**
  - Unlike an audit (which gives an opinion), AUPs just present what was found; there's no opinion or assurance provided.
- **Scope defined by Users / Clients:**
  - The client, along with other parties (like lenders, funding agencies etc.) agrees on exactly what procedures to perform and on what information.

# SRS 4400 : Agreed-Upon Procedures

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- **Report Focus:**
  - The report details the procedures performed, the factual findings, and clearly states it's for restricted use (only by those who agreed to the procedures).
- **Relevance:**
  - Increasingly important for accountability, especially required by lenders, funding bodies.

# National Financial Reporting Authority

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ROLE AND APPLICABILITY

CASE LAWS

## Role of NFRA

Make recommendations on the foundation and laying down of accounting and auditing policies and standards

Monitor and enforce the compliance of the accounting standards and auditing standards

Oversee the quality of service of the professionals (such as auditors, CFOs, etc.) and suggest measures required for improvement in the quality of service

Perform such other functions related to the above

## Applicability of NFRA

### Indian Companies

Listed Companies

Unlisted Public Companies having

Paid up Share Capital of Rs. 500 Cr.

Turnover of Rs. 1,000 Cr.

Outstanding Loans, Debentures, Deposits in aggregate of Rs. 500 Cr.

Following Kinds of Companies :

Insurance Companies,

Banking Companies,

Companies engaged in generation & Supply of Electricity,

Companies governed by any other Act

### Foreign Companies

Any body corporate registered in India or not referred as earlier having subsidiary/ associate/ Body Company incorporated outside India, if the income or net worth of such subsidiary/ associate exceeds 20% of Consolidated Income/ Net worth.

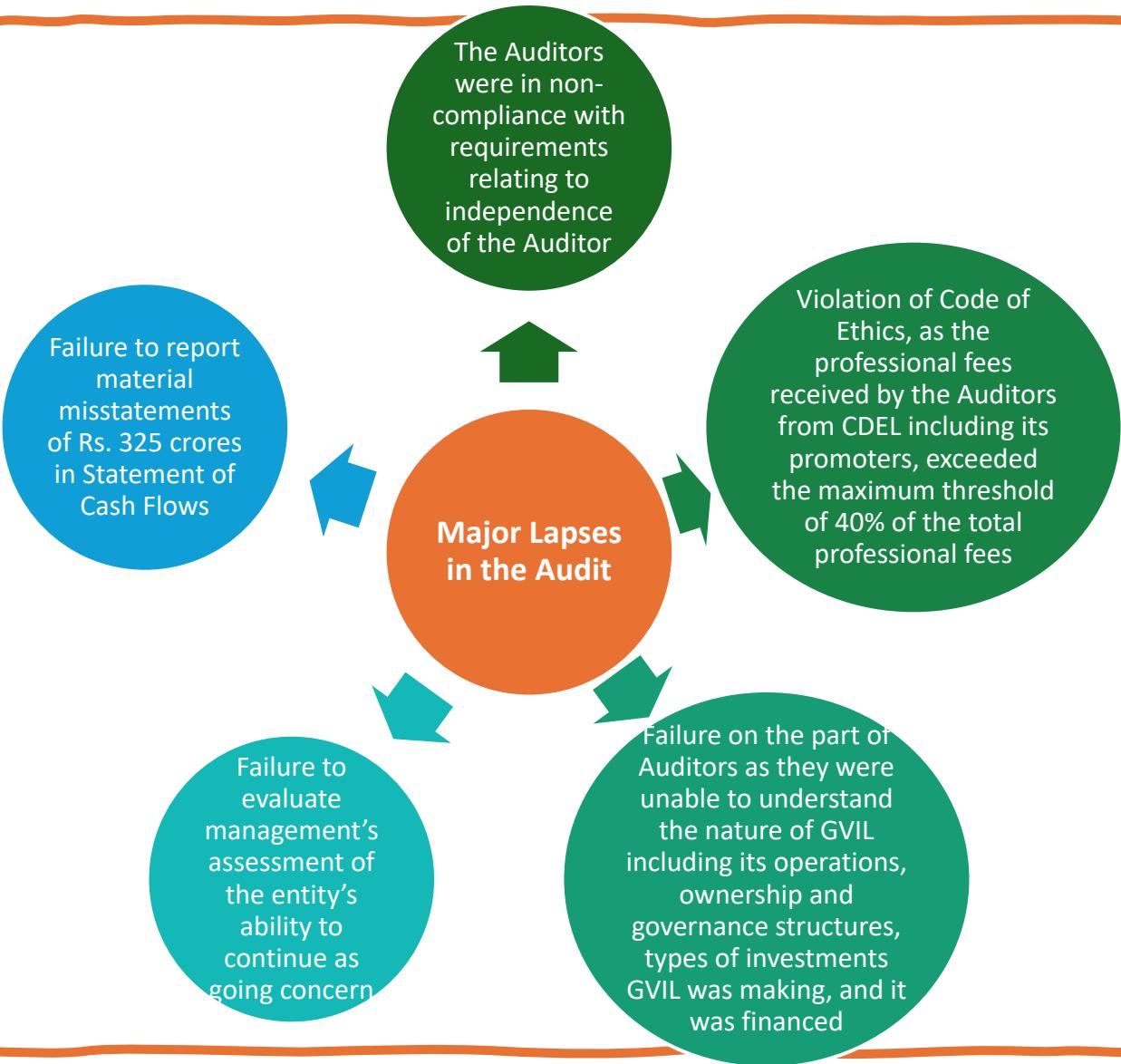
## Case Law :

### NFRA imposes monetary penalty of Rs. 1.10 Crore on Auditors of Coffee Day Enterprises Ltd :

#### 1. Background of the Case :

- SEBI shared its investigation regarding diversion of funds worth Rs. 3,535 crores from 7 subsidiary companies of Coffee Day Enterprises Limited to Mysore Amalgamated Coffee Estate Limited (entity owned by promoters of CDEL).
- Giri Vidhyuth (India) Limited ('GVIL') was one of the companies used for such diversion of funds with M/s (Firm) as their Statutory Auditor.
- NFRA, on examining the Audit File of GVIL, issued a show cause notice asking them why the penal provisions under Section 132(4)(c) of the Companies Act, 2013 should not be invoked for professional misconduct.



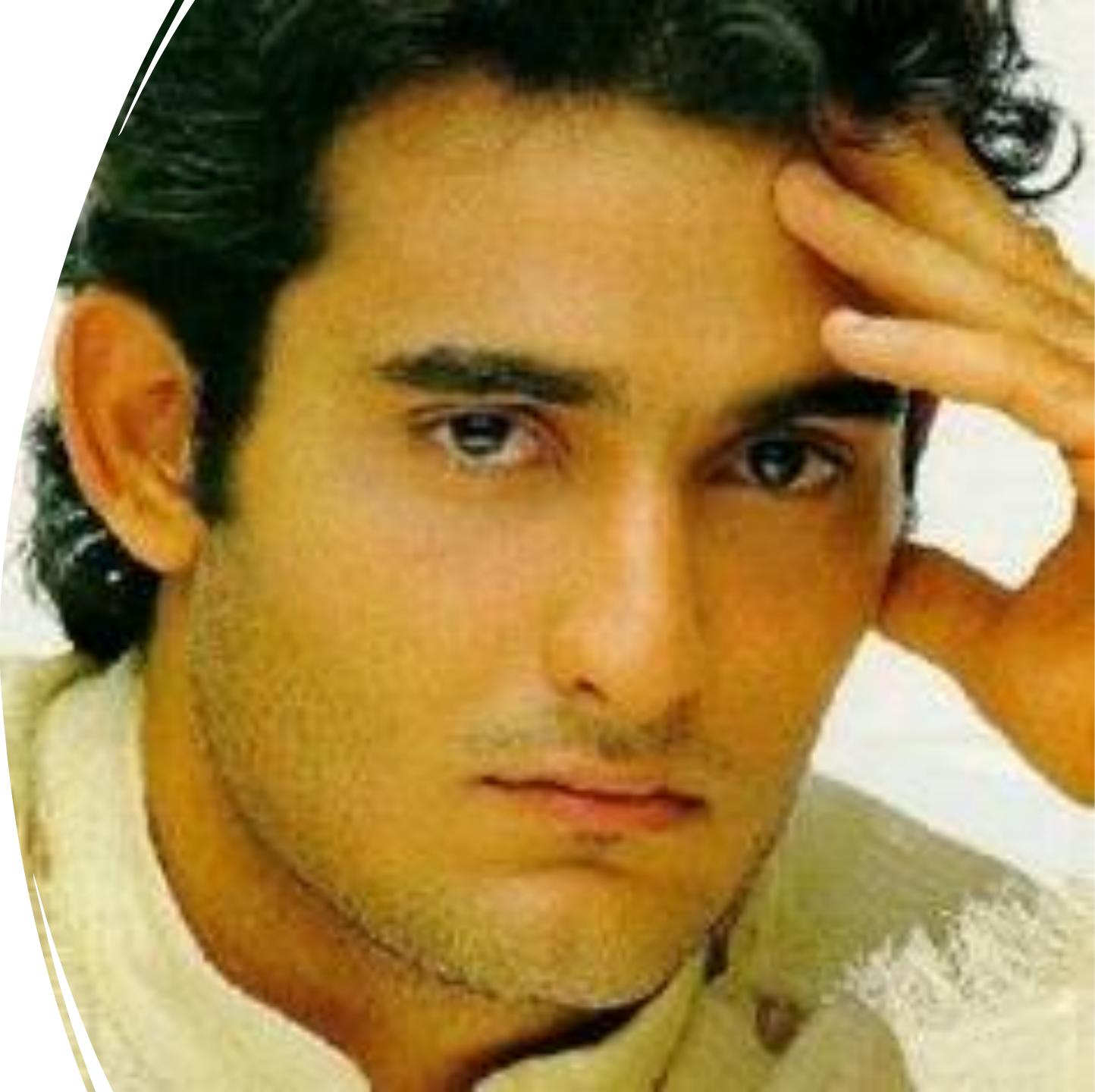


# Conclusion Drawn by NFRA:

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- NFRA held that the Auditors have committed Professional Misconduct, and all the charges stand proved.
- Penalty & Sanctions:
  - M/s (Firm) – Rs. 1,00,00,000/- and Debarred for 2 years from being appointed as auditor.
  - The 2 Chartered Accountants- Rs. 5,00,000/- each and Debarred for 5 years from being appointed as auditor.

When proper documentation is not there...





...and when proper documentation is available

You do not rise to the level  
of your goals, but you fall to  
the level of your systems.

- James Clear



# Thank You

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