

Standards on Auditing for Small and Medium Practitioners

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Small and Medium Size Company (SMC)

- **Listing:** whose equity or debt securities are **not** listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- **Financial Sector:** which is **not** a bank, financial institution or an insurance company;
- **Turnover:** whose turnover (excluding other income) \leq Rs. 250 crore in the immediately preceding accounting year;
- **Borrowings:** which have borrowings (including public deposits) \leq Rs. 50 crore at any time during the immediately preceding accounting year; and
- **Holding-Subsi.:** which is **not** a holding or subsidiary company of a company which is not a SMC

as at the end of the relevant accounting period – Rule 2(1)(e) of Companies (AS) Rules, 2021

Non-Corporate Entities

- Proprietorship Firms
- Partnership Firms
- HUF entities
- Cooperative Societies
- LLP.....and so on

Legal and Professional Requirements

Auditor shall comply with the auditing standards – Section 143(9) of Companies Act, 2013 – this section is not applicable in case of NCEs;

However, Second Schedule of the Chartered Accountants Act, 1949 states that a member in practice guilty of professional misconduct, if he:

- **discloses information** acquired in the course of his professional engagement;
- **certifies** or **submits a report** of an examination of financial statements **without examination** of such statements and the related records;
- **fails to disclose a material fact**;
- **fails to report a material misstatement**;
- is **grossly negligent** in the conduct of his professional duties;
- **fails to obtain sufficient information** necessary for expression of an opinion;
- **fails to invite attention** to any **material departure** from the generally accepted procedure of audit

Engagement and Quality Control Standards

- **Total 5 components:**
 - 1) **Standards on Auditing [SA]**
 - 2) **Standards on Related Services [SRS]**
 - 3) **Standards on Review Engagements [SRE]**
 - 4) **Standards on Assurance Engagements [SAE]**
 - 5) **Standard on Quality Control [SQC 1]**

Authority Attached to Standards on Auditing and General Clarifications

- Standards issued by AASB under the Authority of the Council of ICAI;
- Statements on Auditing are issued with a view to securing compliance by professional accountants on matters which, in the opinion of the Council, are critical for the proper discharge of their functions. Statements are, therefore, mandatory;
- It is the **duty of the professional accountants** to ensure that the Standards/Statements/General Clarifications are followed in the engagements undertaken by them – Para 11 of *“Preface to Standards on Quality Control, Auditing, Review, Other Assurance and Related Services effective from April 1, 2008”*

**Auditor
shall
make a
report to
the
members
of the
company**

after taking into account the provisions of this Act, the **accounting and auditing standards, as to the true and fair view** ~ Section 143(2)

sought and obtained all the **information and explanations** to the best of his knowledge and belief ~ Section 143(3)(a)

proper books of account have been kept by the company ~ Section 143(3)(b)

report on the accounts of B.O. dealt in his report ~ Section 143(3)(c)

B.S. and P & L are in agreement with the books ~ Section 143(3)(d)

F.S. comply with applicable AS ~ Section 143(3)(e)

Observations or comments w.r.t. adverse matters ~ Section 143(3)(f)

Directors disqualified u/s 164(2) ~ Section 143(3)(g)

Qualification, reservation or adverse remark w.r.t. maintenance of accounts ~ Section 143(3)(h)

ICoFR ~ Section 143(3)(i)

Rule 11 matters ~ Section 143(3)(j)

- In **my/our opinion** and to the best of **my/our information** and according to **examination of books of account** including other relevant documents and **explanations given to me/us**, the particulars given in the said Form No. 3CD are true and correct subject to the following **observations/qualifications**, if any.....*[Para 3 of Form 3CA]*

- I/we have **examined the balance sheet** as on,, and the **profit and loss account/ income and expenditure** account for the period beginning from to ending on, attached herewith, of (Name), (Address), (**[Permanent Account Number or Aadhaar Number]**)....**[Para 1 of Form 3CB]**
- I/we certify that the **balance sheet and the profit and loss/income and expenditure account** are in agreement with the books of account maintained at the **head office** at and **branches**.....**[Para 2 of Form 3CB]**
- I/we have **obtained all the information and explanations** which, to the best of my/our knowledge and belief, were **necessary for the purpose of the audit**.....**[Para 3(a)(A) of Form 3CB]**
- In my/our opinion, **proper books of account have been kept by the head office and branches** of the assessee so far as appears from my/our examination of the books**[Para 3(a)(B) of Form 3CB]**
- In my/our opinion and to the best of **my/our information and according to explanations given to me/us**, the particulars given in the said Form No. 3CD are true and correct subject to following observations/qualifications, if any.....**[Para 5 of Form 3CB]**

Words and Expressions requiring reference to Standards on Auditing

Words and Expressions	Relevant SAs
Obtained Information	SA 500 – Audit Evidence
Obtained Explanations	SA 580 – Written Representations
Necessary for the purpose of	SA 315 and SA 330 – Risk Assessment and Responses thereto
Branches	SA 600 – Using the work of another auditor
Examined the	SA 450 – Evaluation of Mis-statements
Observations/ Qualifications.....	SA 700, SA 705, SA 706 – dealing with form and content of audit reports

Commonly used SAs for various audit procedures

Audit Procedures	Relevant SAs
Stock/ Investments/ Pending Litigations	SA 501 – Audit Evidence : Additional Considerations
Compliance of applicable laws – e.g. Section 43B, 40(a) of I. Tax Act, CARO, GST, etc.	SA 250 – Consideration of Laws and Regulations in Audit of F.S.
Opening Balances and Comparatives	SA 510 and SA 710
External Confirmations	SA 505
Going Concern	SA 570
Subsequent Events	SA 560
Related Parties	SA 550
Letter of Engagement	SA 210
Documentation of all of the above	SA 230



What is audit risk

Audit Risk

Audit Risk

**Possibility
(i.e. susceptibility)
of mis-
statement in
F.S.**

**Despite
audit being
carried out**

Types

**Inherent
Risk**


**Possibility
of mis-stmt
due to no
ICS**

**Control
Risk**

**Possibility
of mis-stmt
due to weak
ICS**

**Detection
Risk**

**Possibility
of mis-stmt
due to weak
substantive
procedures**



**Problematic/ unusual relationships
b/w auditor and management**

Problematic/ unusual relationships b/w auditor and management

[or Difficulties faced during audit]:

- Denial of access to records, facilities, etc for seeking evidence – e.g. not providing access to internet;
- Undue time pressures to resolve complex issues – e.g. continuous requests by management to complete audit at the earliest;
- Complaints by mgmt about conduct of audit team – e.g. article assistants wasting time in gossips;
- Key IT & other operational areas, systems etc. denied to be accessed – e.g. not providing computers for carrying out audit examination;
- Unwillingness by mgmt to permit auditor communicate TCWG – e.g. mgmt requests the auditor for not informing TCWG about funds mis-used by the MD;
- Tolerance of violations of entity's code of conduct – e.g. using Facebook in the Office hours



Case Studies on Standards on Auditing

Case Study 1

Mr. X is the auditor of ABC (P) Limited for the financial year 2021-2022. He is of the opinion that there is no need to wait and gather external confirmations because it involves much time and cost. In the notes to accounts, however, the management disclosed that certain debtors' and creditors' balances are subject to confirmation.

Case Study 2

The auditee client has provided Rs. 2 lakhs as provision for bad and doubtful debts in the books of account while the auditor is challenging this provision and opines that it should be Rs. 5 lakhs. After much deliberations and considerations both auditor and auditee concluded at a provision of Rs. 4 lakhs. The auditor did not document these deliberations and considerations as he is of the view that once he is satisfied there is no need keep any such record in his file.

Case Study 3

ABC & Co. is a partnership firm. The depreciation was provided in the books of account in accordance with the rates prescribed under the Income Tax Act, 1961. What audit considerations should be observed by the auditors in this regard.

Case Study 4

The statutory auditor of PQR Limited did not verify the physical existence of its fixed assets. They have taken a written management representation about the fact that the fixed assets have been verified by their own staff and are existing as shown in the fixed assets records. The statutory auditors relied upon the same but later on it was traced that some fixed assets were infact not existing on the balance sheet date. The auditors were charged of gross negligence and they are defending themselves under the cover of the declaration given by the management.

Case Study 5

ABC Ltd. is planning to extend its business operation for which huge fund is required. The company, therefore, has prepared its projected financial statements for 5 years to be submitted to the bank for loan application. The company hired you to examine the projected financial statements and give report thereon. What things will you consider before accepting the engagement and what audit evidence will be obtained for reporting on projected financial statements?

Examination of Prospective Financial Information [SAE 3400]



Prospective Financial Information

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graph TD; A[Prospective Financial Information] --> B[Forecast]; A --> C[Projection]; B --> D["Based upon 'best estimate assumptions'"]; C --> E["Based upon 'hypothetical assumptions'"];
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Forecast

Based upon "best estimate assumptions"

Projection

Based upon "hypothetical assumptions"

Considerations to be kept in mind

- **knowledge** obtained during any previous engagements
- **management's competence** regarding the preparation of prospective financial information
- the extent to which the prospective financial information is affected by the **management's judgment**
- the **sources of information** considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions
- the **stability of entity's business**
- the **engagement team's experience** with the business and the industry in which the entity operates and with reporting on prospective financial information

Reporting Para

- We have examined the forecast of _____ (project) of the _____ (name of the entity) for the period from _____ to _____ in accordance with the Standard on Assurance Engagements (SAE) 3400, “The Examination of Prospective Financial Information”, issued by the Institute of Chartered Accountants of India. The preparation and presentation of the forecast including the underlying assumptions, set out in Note _____ to the Prospective Financial Information is the responsibility of the management and has been approved by the Board of Directors of the Company. The sources of information are set out in Annexure _____ to the prospective financial information. Our responsibility is to examine the evidence supporting the forecast. Our responsibility does not include verification of the accuracy of the forecasts. Therefore, we do not vouch for the accuracy of the same.

Reporting Para

- Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast is properly prepared on the basis of the assumptions as set out in Note ____ and on consistent basis with historical financial statements, using appropriate accounting principles.
- Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.

Case Study 6

Mr. A is the principal auditor of XYZ Limited. Mr. B is the auditor of branch of this company. Mr. B has issued a qualified report for this branch. Mr. A is of the opinion that he is not required to consider the opinion of the other auditor.

Case Study 7

ABC Limited, a listed company has appointed four joint auditors for the financial year 2021-2022. Three of these auditors have issued an unqualified report but one of them has issued a qualified report. The management of the company is contending that the majority opinion is binding upon the individual auditor and accordingly he cannot issue qualified report.

Case Study 8

The senior partner of ABC and Associates, a CA firm, calls upon the audit assistant and instructed him to follow the same materiality level as adopted during the last year audit unless the internal control system has been deteriorated substantially. Comment.

Case Study 9

As a result of analytical procedures, the independent auditor determined that the GP Ratio has declined from 35% in the preceding year to 30% in the current year and accordingly he advised the management to disclose the same in the notes to account and expressed the opinion about the going concern of the enterprise. Comment.

Case Study 10

Say the Client is: BHEL

Audit Firm: XYZ & Co., Chartered Accountants

Engagement Partners: Mr. X and Mr. Y were given the responsibility to look after audit of BHEL

Mr. Y is of the view that inventory of BHEL should be valued on FIFO basis whereas Mr. Z is of the view that it should be on weighted average cost basis. Whose view should be considered while finalizing the audit report of BHEL.

Engagement Quality Control Reviewer

- Partner of the firm or the person engaged by the firm
- Vested with the responsibility
- To objectively evaluate
 - significant judgments made by the engagement team
 - conclusions made by audit team in formulating the report

Engagement Partner

- Partner of CA Firm
- Engaged in performance of
 - Audit functions
 - For reporting on behalf of the CA Firm

Case Study 11

Mr. A is the statutory auditor of XYZ Limited for the financial year 2021-2022. Certain provisions of labour law and fire safety rules were not complied with by the company. Mr. A reported in his audit report as follows: *“Since compliance with labour law and fire safety rules is primarily the responsibility of management and the auditors are not required to see the same under section 143 of the Companies Act, the reporting about the same is not covered by the report.”* Comment.

Case Study 12

Auditors of M/s Fortune India (P) Ltd. were changed for the accounting year 2021-2022. The closing stock of the company as on 31.3.2021 amounting to Rs. 100 lacs continued as it is and became closing stock as on 31.3.2022. The auditors of the company propose to exclude from their audit programme the audit of closing stock of Rs. 100 lacs on the understanding that it pertains to the preceding year which was audited by another auditor.

Case Study 13

The audit report of P Limited for the year 2020-2021 contained a qualification regarding non-provision of doubtful debts. As the statutory auditor of the company for the year 2021-2022, how would you report, if the company does not make provision for doubtful debts in 2021-2022

Case Study 14

The auditor of XYZ Limited has communicated a significant deficiency to those charged with governance and management in a previous audit. The auditor believes that there is no need to repeat the communication even if remedial action has not yet been taken, because they are not concerned to ensure that their advice should be followed.

Case Study 15

The accountant of C Ltd. has requested you, not to send balance confirmations to a particular group of debtors since the said balances are under dispute and the matter is pending in the court.

Case Study 16

Mr. X was appointed as statutory auditor of LMN (P) Limited for a term of five years commencing from the financial year 2019-2020. In the year 2021-2022, the company got converted into LLP but he was still retained as auditor by the auditee. Mr. X was of the view there is no need to revise the letter of engagement that was entered into at the time of his original induction in the (then) company.

Thank you