

SA 200 -OVERALL OBJECTIVES
OF THE INDEPENDENT
AUDITOR
&
SA 210-AGREEING THE TERMS
OF AUDIT ENGAGEMENTS

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SA 200

Overall Objective of the
Independent Auditor and the
Conduct of an Audit in accordance
with Standards on Auditing

Applicability & Scope

❖ Applicability of Standards on Auditing:

The Standards issued by the Auditing and Assurance Standards Board, apply equally to all entities, irrespective of their form, size and nature.

❖ SA 200 is effective for audits of financial statements for periods beginning on or after April 1, 2010.

❖ Scope of SA 200:

✓ establishes the independent auditor's overall objectives and responsibilities when conducting an audit of financial statements in accordance with SAs.

✓ explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives.

✓ explains the scope, authority and structure of the SAs

✓ general responsibilities of the independent auditor including the obligation to comply with the SAs,

Overall Objective of the Auditor

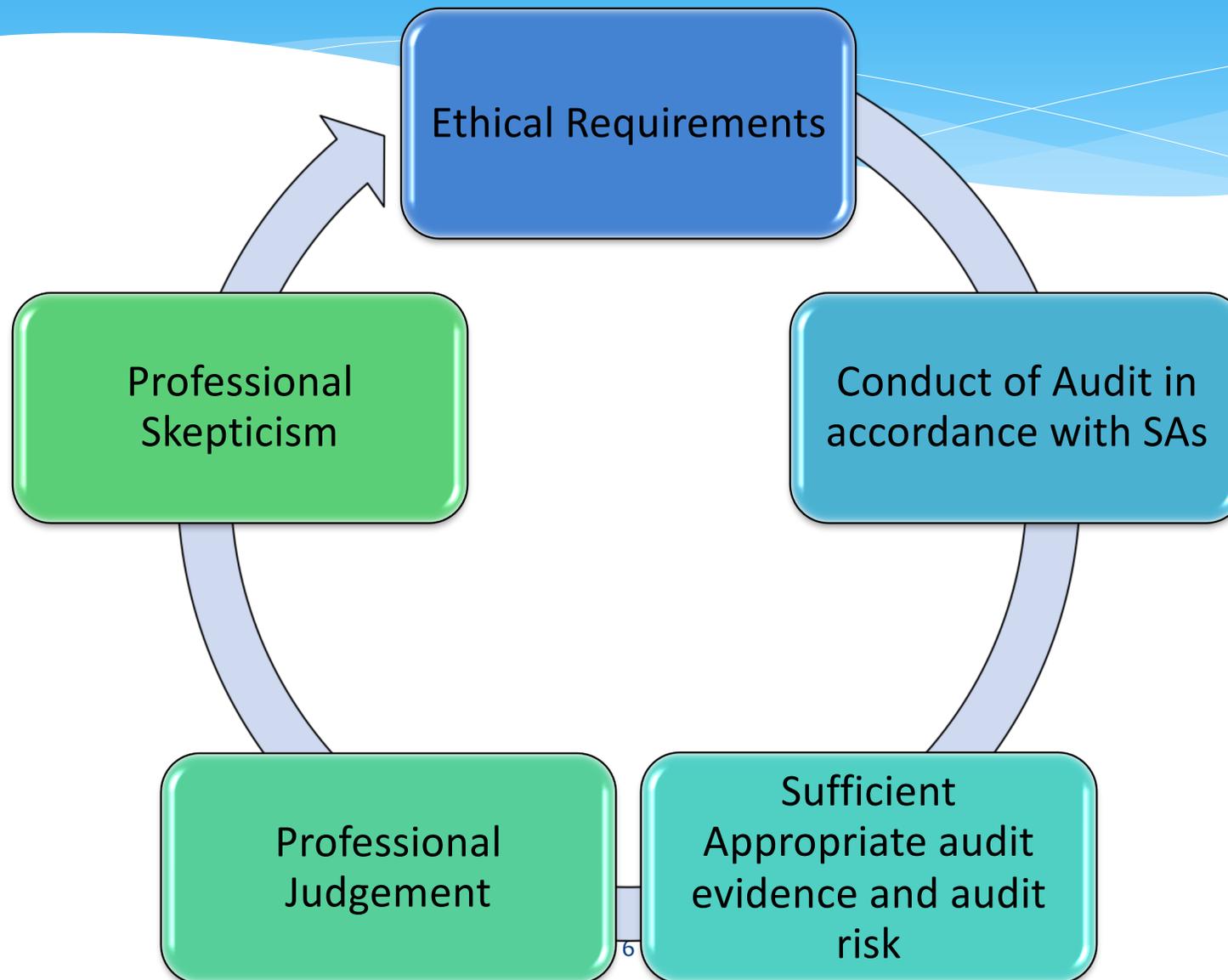
❖ Objectives of the auditor:

- ✓ to obtain reasonable assurance about whether the Financial Statement as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion and ;
 - ✓ to report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings .
- ❖ Reasonable assurance is a high level of assurance.
- ❖ The SAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance.

Overall Objective of the Auditor

- ❖ **The concept of materiality** is applied by the auditor both in planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements;
- ❖ **The form of opinion expressed** by the auditor will depend upon the **applicable financial reporting framework and any applicable laws or regulations** ;
- ❖ If reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient, the SAs require that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal is legally permitted
- ❖ The SA 200 sets out certain definitions for use across all SAs, these are not discussed here for brevity of time.

Key Requirements of Auditor



Ethical Requirements

- ❖ Comprise Code of Ethics issued by ICAI including independence requirements
- ❖ The fundamental principles are
 - ✓ Integrity
 - ✓ Objectivity
 - ✓ Professional competence and due care
 - ✓ Confidentiality
 - ✓ Professional behavior
- ❖ Independence comprises of both independence of mind and independence of appearance
- ❖ The Auditor not only should be Independent as judged by the Standards and ethics but must also be perceived to be Independent.
- ❖ Companies Act also lay down some independence requirements which are to be adhered to and followed.
- ❖ Compliance to SQC1, which sets out the responsibilities of the Firm to ensure its personnel follow ethical requirements, is also to be ensured

Professional Skepticism

- ❖ **Attitude that includes a questioning mind**, being alert to conditions which may indicate possible misstatement due to error or fraud, and a **critical assessment of audit evidence**
- ❖ Alertness is required with respect to
 - ✓ Contradictory audit evidence
 - ✓ Reliability of documents
 - ✓ Conditions indicating possible frauds
 - ✓ Circumstances requiring audit procedures in addition to those suggested in SAs
- ❖ **Maintaining Professional Skepticism** throughout the audit is necessary if the auditor is to reduce the risks of:
 - ✓ Overlooking unusual circumstances.
 - ✓ Over generalising when drawing conclusions from audit observations.
- ❖ **Using inappropriate assumptions** in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.

Professional Judgement

- * Professional judgement is essential to ensure proper conduct of the Audit.
- * It has to applied throughout the conduct of Audit
- * It is necessary in determining
 - Materiality and audit risks
 - The nature, timing and extent of audit procedures
 - Sufficiency of audit evidence
 - Evaluating Management Judgement in preparation of FS
 - Finally in drawing conclusion based on the above while expressing an audit opinion.
- * The exercise of professional judgement can be based on the facts and circumstances that are known to the auditor
- * It is a competent application of auditing and accounting principle based on facts and circumstances available to the auditor.

Sufficient Appropriate Audit Evidence and Audit Risk

- ❖ Most of the auditor's work in forming the auditor's opinion consists of *obtaining and evaluating audit evidence.*
- ❖ Sufficiency refers to *quantum and appropriateness refers to quality*
- ❖ Purpose to reduce audit risk to an acceptably low level and thereby enable the auditor *to draw reasonable conclusions* on which to base the auditor's opinion
- ❖ *Audit Risk:* is a function of the
 - *The Risks of Material Misstatement –*
 - *Overall FS*
 - *Assertion Risk of components*
 - *Inherent Risk*
 - *Control Risk*
 - *Detection Risk*
- ❖ *Inherent Limitations of an audit –* Auditor cannot and is not expected to reduce the Risk to Zero Level and therefore cannot assure absolute assurance

Inherent limitation for an audit

- ❖ Nature of financial reporting *involves judgement by management based on facts and circumstances*
- ❖ Nature of audit procedure directed towards obtaining *reasonable assurance*
- ❖ *Balance between benefit and cost* user expectation to get audit report within a reasonable period and at reasonable cost

Conduct of Audit in accordance with SAs

- ❖ Auditor shall comply with all SAs relevant to the audit
- ❖ Compliance with SA is to be specified in Audit report only in case of actual compliance;
- ❖ To achieve overall objectives of audit, use the objective stated in Individual SAs
- ❖ In case entire SA is not relevant due to non existence of prescribed conditions, comply with relevant requirements;
- ❖ In case of failure to achieve an objective determine the need to modified opinion or withdrawal,

Failure to Achieve an Objective

- ❖ Each SA contains one or more objectives which provide a **link between the requirements and the overall objective of the Auditor.**
- ❖ The objective also indicates situation where the need for **additional audit procedures** which are required to be borne in mind.
- ❖ The objectives assist in analyzing the sufficiency of audit evidence.
- ❖ If an **objective in a relevant SA cannot be achieved** and it in turn affects the overall objective of an IA, then SA requires IA's opinion to be modified or withdraw from the engagement. **Failure to achieve an objective represents a significant matter and requires to be documented as per SA 230.**

Other Matters

❖ Audit

- ❖ To examine whether the financial statements are prepared in accordance with financial reporting framework
- ❖ The auditors' opinion does not assure, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs

❖ Preparation of Financial statements

- ❖ Is the duty of the management / those charged with Governance
- ❖ Duty of management also includes to make accounting estimates and selection and application of appropriate accounting policies.

SA 210

Agreeing to the terms of Audit Engagement

Applicability & Scope

❖ Applicability:

- ✓ This SA is effective for audits of financial statements for periods beginning on or after April 1, 2010.

❖ Scope:

- ✓ This Revised Standard on Auditing (SA 210) deals with the auditor's responsibilities in agreeing to the terms of the audit engagement with management.
- ✓ SA 210 establishes the preconditions for an audit, terms of an audit engagement and changes thereof, segregates the responsibility of the management and auditors etc.

Objectives

- ❖ *Deals with auditor's responsibilities* in agreeing the terms of engagement with management or with those charged with governance
- ❖ Objective of the auditor is to *accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed through:*
 - ✓ Establishing whether the *preconditions for an audit are present*
 - ✓ Confirming that there is a *common understanding between auditor and management* and where appropriate, those *charged with governance of the terms of the audit engagement*

Pre-Conditions to Audit

- ❖ Acceptable Financial Reporting Frame Work (FRF) followed by the Auditee
- ❖ Ascertain management acknowledges its responsibility for
 - Preparation of Financial Statements (FS) in the FRF
 - Set adequate internal control mechanism to enable preparation of FS
 - To provide complete access to information and persons
 - provide additional information as may be required during the course of the audit.

If pre-conditions are not present

- * If the pre-conditions are not present then the Auditor shall discuss with the management and if such pre-conditions cannot be ensured then the Auditor shall not accept the engagement unless required by law.
- * If the FRF is not acceptable then the auditor shall discuss to adopt a suitable FRF else he shall not accept the assignment.
- * There are some conditions to be satisfied if the FRF is unacceptable but it is prescribed by law.
- * If the Agreed terms are not accepted in writing then the auditor shall not accept the engagement

Before the Acceptance of Audit

Initial audit Engagement

Limitations imposed by management

Do not accept unless required by law

No Limitations imposed by management

Ascertain existence of Preconditions

Exist

Accept Audit

Do Not Exist

Discuss matter with management

Do not accept audit in case of:
a. Unacceptable FRF
or
a. Mgmt. does not agree with responsibilities

Preconditions for an audit

1. Determine whether FRF is acceptable
2. Obtain agreement of mgmt. that it understands its responsibilities for:
 - a. Preparation of Financial Statement
 - b. Exercising necessary Internal Controls to enable the preparation of Financial Statement that are free from material misstatements
 - c. To Provide the auditor:
 - Access to all relevant info.
 - Additional info that auditor request from mgmt.
 - Unrestricted access to persons within the entity

Recurring Audits

Recurring Audit

Not to send engagement letter each year unless
a. Revision of terms of Engagement ; or
b. Remind the entity of existing terms

Required

Send New Engagement Letter

Not Required

No Further Duty

Agreement on Audit Engagement Terms

** Listed below are the requirements for an Audit Engagement terms:*

1. Terms of the audit engagement to be agreed with the management.
2. Agreed terms to be recorded in an audit engagement letter or any other written form which includes:
 - ❖ Objective and Scope of the audit
 - ❖ Auditor's responsibilities
 - ❖ Management's responsibilities
 - ❖ Identification of the applicable financial reporting framework
 - ❖ Reference to the expected form and content of reports which the auditor might issue and exceptions if any to it

Agreement on Audit Engagement Terms

3. If there is **any specific law or regulation** which prescribes the term of a particular audit engagement, the auditor can simply refer to such law in the written agreement and take Management's acknowledgment for its responsibilities, instead of elaborating the terms of that law again.
4. If law or regulation prescribes management responsibilities similar to those required by SA 210, then the auditor can use the wording of the law or regulation in the written agreement. For other responsibility not prescribed by law or regulation, then the responsibilities as stated in SA 210 can be used

Revision in Terms

- ❖ Indication that the entity misunderstands the objective and scope of the audit
- ❖ Revised or special terms of engagement
- ❖ Recent change of senior management
- ❖ Significant change in ownership
- ❖ Significant change in nature or size of the entity's business
- ❖ Change in legal or regulatory requirements (new Sebi Law on Resignation of auditor)
- ❖ Change in FRF adopted in the preparation of the Financial Statement
- ❖ A change in other reporting requirements

During the Course of Audit

Management request for changes in terms

Determine its effect on Level of Assurance & reasonable
Justification

Auditor satisfied

Record New Terms in
Engagement Letter

Auditor not satisfied

Do not accept the changes

Management not permitting
the auditor to continue

Withdraw & Report to
Appropriate authority



Thank You !!!