Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews (Volume 2)

Part - 1
Observations related to Engagement and Quality Control Standards

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews (Volume 2)

Part 1:
Observations related to Engagement and Quality Control Standards

The Institute of Chartered Accountants of India

(*Set up by an Act of Parliament*)

New Delhi

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

© The Institute of Chartered Accountants of India

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

Edition : July, 2024

Committee : Auditing and Assurance Standards Board

E-mail : aasb@icai.in

Website : www.icai.org

Price : ₹400/-

Published by : The Publication and CDS Directorate on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Foreword

The Quality Review Board (QRB) was constituted in June 2007 under the provisions of the Chartered Accountants Act, 1949. QRB conducts quality reviews of audit services of audit firms which are covered under its domain. These quality reviews bring out instances of various non-compliances of Standards on Quality Control (SQC), Standards on Auditing (SAs), audit reports, Companies (Auditor's Report) Order (CARO), Accounting Standards (AS), Indian Accounting Standards (Ind AS), Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013 etc.

Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. On the matter, QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI based on common non-compliances observed. I am happy to note that the Auditing and Assurance Standards Board ('Board' or 'AASB') has undertaken the project and earlier, in May 2024 released Volume 1 of "Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews". Now, it is heartening to learn that the Board is bringing out Volume 2 of "Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews".

This publication is a compilation of 47 common non-compliances observed by QRB while conducting quality reviews and covering 61 cases received from QRB. The publication also contains guidance suggested by AASB for the members on these common non-compliances. The purpose of this publication is to provide awareness to the members about common non-compliances observed by QRB and help them in performing quality audits.

I compliment CA. (Dr.) Sanjeev Kumar Singhal, Chairman, CA. Vishal Doshi, Vice-Chairman and all other members of the Auditing and Assurance Standards Board for their efforts in developing and bringing out this publication for the benefit of the members at large.

I am confident that the members and other interested readers would find this publication immensely useful.

June 26, 2024
New Delhi

CA. Ranjeet Kumar Agarwal
President, ICAI

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Preface

Review of the quality of audit services performed by audit firms is an important mechanism to improve audit quality. In this regard, the role performed by the Quality Review Board (QRB) over the years is significant. The quality reviews conducted by QRB bring out instances of various non-compliances regarding (a) auditing requirements e.g. Standards on Quality Control, Standards on Auditing, audit reports, CARO, and (b) accounting requirements e.g. Accounting Standards, Indian Accounting Standards, Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013. Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI. The task was entrusted to the Auditing and Assurance Standards Board (AASB) of ICAI.

AASB decided to engage various experts to prepare suggested guidance for the members on the matter. AASB also decided to constitute a consolidating group to review guidance prepared by these experts. It was also decided by AASB to bring out the guidance in separate volumes since this task is quite voluminous. In May 2024, AASB released Volume 1 of the publication "Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews.

It gives us immense pleasure to place in hands of the members, this Volume 2 of the publication, "Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews" brought out by AASB. The publication is a compilation of some common non-compliances of auditing requirements observed by QRB while conducting quality reviews. The publication also contains suggested guidance by AASB for the members on these common non-compliances. The publication is in two parts i.e. Part 1 and Part 2. Part 1 contains the observations related to Engagement and Quality Control Standards. Part 2 contains the observations related to CARO and internal financial controls.

We would like to thank CA. Ranjeet Kumar Agarwal, President, ICAI and CA. Charanjot Singh Nanda, Vice-President, ICAI for their guidance and support in various endeavours of the Board.

We express our sincere thanks to Ms. Shefali Shah, IRS (Retd.), Chairperson, Quality Review Board and all the members and special invitees of the Quality Review Board for providing us the various observations noted by the Quality Review Board during quality reviews, which form the basis of this publication.

We are grateful to all experts *viz.* CA. Amit Kumar Garg, CA. Kulbhushan Sharma, CA. Kusai Goawala, CA. Nilanjan Paul, CA. Rajiv Sengupta, CA. Sanat Chitale and CA. Umesh Chand Goyal for preparing the basic draft of guidance which has been included in this publication. We are also grateful to all members of the consolidating group *viz.* CA. Amit Chugh, CA. Amit Gupta, CA. Ashish Gupta, CA. Gaurav Gupta, CA. Kapil Kedar, CA. Rajeev Saxena and CA. Viren Shah for their contribution in reviewing and finalizing the guidance.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

We wish to place on record high appreciation of all Council members and all Board members for their valuable contribution in finalising the publication. We appreciate the technical and administrative contribution/support provided by CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director, CA. Vikas Kumar, CA Professional, CA. Nidhi Mallick, CA Professional, Ms. Anitha P., Private Secretary(SU) and other staff of AASB in finalising the publication.

We are confident that the publication would be well received by the members and other interested readers. We are of the firm belief that the publication would enhance the knowledge of auditors and would help them in performing quality audits.

CA. Vishal Doshi
Vice Chairman, AASB

CA. (Dr.) Sanjeev Kumar Singhal
Chairman, AASB

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Introduction

About the Quality Review Board

With a view to improving the quality of audit services in India, the Ministry of Corporate Affairs, Government of India has established the Quality Review Board ("QRB") under Section 28A of the Chartered Accountants Act, 1949. Section 28B of the Chartered Accountants Act, 1949 authorises the QRB to perform the following functions:

(a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;

(b) to review the quality of services provided by the members of the Institute including audit services;

(c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements; and

(d) to forward cases of non-compliance with various statutory and regulatory requirements by the members of the Institute or firms, noticed by it during the course of its reviews, to the Disciplinary Directorate for its examination.

QRB conducts quality reviews of audit services of audit firms which are covered under its domain. These quality reviews involve assessment of the work of statutory auditors so that QRB is able to assess (a) quality of audit and reporting by the statutory auditors; and (b) quality control framework adopted by the audit firms in conducting audit.

These quality reviews bring out instances of various non-compliances regarding Standards on Quality Control, Standards on Auditing, audit reports, CARO, Accounting Standards, Indian Accounting Standards, Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013. Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. QRB also refers these instances to the Council of the Institute of Chartered Accountants of India (ICAI). On the matter, QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI. The task of developing the guidance was entrusted to the Auditing and Assurance Standards Board (AASB) of ICAI.

About the Publication

In May 2024, AASB released Volume 1 of the publication "Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews. AASB has brought out this Volume 2 of the publication, "Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews". The publication is a compilation of some common non-compliances regarding Standards on Quality Control, Standards on Auditing, audit reports, CARO, internal financial controls observed by QRB while conducting quality reviews. This publication also contains suggested guidance developed by the Auditing and Assurance Standards Board on these common non-compliances. This publication is in two parts i.e. Part 1 and Part 2.

- Part 1 contains the observations related to Engagement and Quality Control Standards.
- Part 2 contains the observations related to CARO and internal financial controls.

In Part 1, observations have been classified standard-wise. In Part 2, observations have been classified topic-wise. The number of observations is given in Table below.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Part 1

S. No.	Topic	No. of Observations
1	SQC 1	5
2	SA 200	1
3	SA 210	1
4	SA 240	1
5	SA 260 (Revised)	3
6	SA 299 (Revised)	2
7	SA 300	2
8	SA 315	1
9	SA 320	1
10	SA 330	3
11	SA 500	2
12	SA 501	1
13	SA 520	2
14	SA 540	1
15	SA 570 (Revised)	1
16	SA 580	1
17	SA 600	1
18	SA 620	1
19	SA 700 (Revised)	6
20	SA 705 (Revised)	3
21	SA 706 (Revised)	2
22	SA 720 (Revised)	1
	Total	**42**

Part 2

S. No.	Topic	No. of Observations
1	CARO	4
2	Internal Financial Controls	1
	Total	**5**

Readers may note that some observations given in this publication are based on the past provisions of law (e.g. CARO 2003, CARO 2016) and the pre-revised Standards on Auditing. In case of these observations, guidance has been given based on the current provisions of law (e.g. CARO 2020) and currently applicable Standards on Auditing. Further, these observations should be read in the light of any subsequent amendments/developments.

Readers may also note that this publication neither supersedes nor it is a replacement of any Standards, Guidance Notes, Pronouncements issued by ICAI. Readers are advised to read or use this publication in conjunction with the relevant Standards, Guidance Notes, Pronouncements issued by ICAI.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Contents

Foreword ..... *iii*

Preface ..... *v*

Introduction ..... *vii*

Chapter No.	Chapter	Page No.
1.	Observations related to SQC 1, Quality Control for Firms that Performs Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	1-17
2.	Observations related to SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	18-20
3.	Observations related to SA 210, Agreeing the Terms of Audit Engagements	21-22
4.	Observations related to SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	23-25
5.	Observations related to SA 260(Revised), Communication with Those Charged with Governance	26-33
6.	Observations related to SA 299(Revised), Joint Audit of Financial Statements	34-37
7.	Observations related to SA 300, Planning an Audit of Financial Statements	38-43
8.	Observations related to SA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	44-46
9.	Observations related to SA 320, Materiality in Planning and Performing an Audit	47-49
10.	Observations related to SA 330, The Auditor's Responses to Assessed Risks	50-60
11.	Observations related to SA 500, Audit Evidence	61-66
12.	Observations related to SA 501, Audit Evidence - Specific Considerations for Selected Items	67-70
13.	Observations related to SA 520, Analytical Procedures	71-82

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

14.	Observations related to SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	83-86
15.	Observations related to SA 570(Revised), Going Concern	87-89
16.	Observations related to SA 580, Written Representations	90-93
17.	Observations related to SA 600, Using the Work of Another Auditor	94-96
18.	Observations related to SA 620, Using the Work of an Auditor's Expert	97-99
19.	Observations related to SA 700(Revised), Forming an Opinion and Reporting on Financial Statements	100-118
20.	Observations related to SA 705(Revised), Modifications to the Opinion in the Independent Auditor's Report	119-124
21.	Observations related to SA 706(Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	125-128
22.	Observations related to SA 720(Revised), The Auditor's Responsibilities Relating to Other Information	129-132

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 1

Observations related to SQC 1, Quality Control for Firms that Performs Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

Observation 1

It was noted that there was no documentary evidence for potential conflicts of interest evidenced/not evidenced during an engagement. It is recommended to have a document evidencing the potential conflicts of interest noted/not noted during an engagement.

OR

Policies and procedures in respect of completion of assembly of final engagement files, confidentiality, safe custody, integrity, accessibility and retrievability, retention of engagement documentation and ownership of engagement documentation is to be effectively designed and documented. Further, engagement planning memoranda, working paper, deliverables, evaluation process, controls, understanding accounting process, etc. to be more objectively aligned in tune with requirement suggested by SQC 1.

Quality control manual of the firm required to be aligned with requirement of SQC 1 and detailed policies and procedures to be designed and established. Further, review by the engagement partner of work done by the team during and after verification and satisfaction of the audit documentation to be made more effective and documented in a more strengthened manner. Cold review process required to be implemented to address issues related to maintenance of files-notes and carry forward working papers etc.

What is the issue?	AASB Suggested Guidance	Technical Literature
What is the tenure for which audit documentation is required to be retained after the date of audit report?	Each audit firm should establish policies and procedures to support the assembly and archiving of audit files and incorporate the use of appropriate secure electronic archiving tools and appropriate procedures to secure manual working papers. Apart from the electronic audit file containing the audit documentation, manual documentation should be	Paragraphs 82 to 84 of SQC 1 require firms to have detailed policy and procedures for retention of engagement documentation. **Para 82 of SQC 1:** The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	collected in binders or can be scanned and included in the audit file. As per SQC 1, an audit firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation. As per SQC 1, in the specific case of audit engagements, the retention period ordinarily is no shorter than seven years from the date of the audit report, or, if later, the date of the group audit report.	**Para 83 of SQC 1:** The needs of the firm for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements. In the specific case of audit engagements, the retention period ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report. **Para 84 of SQC 1:** Procedures that the firm adopts for retention of engagement documentation include those that: • Enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time. • Provide, where necessary, a record of changes made to engagement documentation

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		after the engagement files have been completed. • Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.
What is the tenure within which the assembly of the final audit file is to be completed?	As per SQC 1, the firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. **As per SQC 1:** <u>Laws and Regulations:</u> Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement should be completed. <u>Firm's policy and procedure</u> Where no such time limits are prescribed in law or regulation, the firm establishes time limits appropriate to the nature of the engagements that reflect the need to complete the assembly of final engagement files on a timely basis. <u>Time Limit</u> In the case of an audit such a time limit is ordinarily not more than 60 days after the date of the auditor's report.	**Para 74 of SQC 1:** The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. **Para 75 of SQC 1:** Law or regulation may prescribe the time limits by which the assembly of final engagement files for specific types of engagement should be completed. Where no such time limits are prescribed in law or regulation, the firm establishes time limits appropriate to the nature of the engagements that reflect the need to complete the assembly of final engagement files on a timely basis. In the case of an audit, for example, such a time limit is ordinarily not more than 60 days after the date of the auditor's report**.**

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

How a difference of opinion is to be resolved and recorded while conducting an audit?	In the event an auditor is confronted with a situation or scenario where difference in views is possible, the auditor should document the same in accordance with SA 230. The document can be in the form of Memorandum of Dispute Resolution (MDR) or such other name as the firm may prefer. This document will list out: • The broad facts of the matter. • Possible views and technical material available on the subject matter. In case the difference of opinion cannot be resolved internally within the firm, it can be referred to an expert outside the firm and their view obtained should be kept on record as a part of the documentation. The firm may also document the basis on which it has concluded the matter. The views of persons in the firm (such as engagement and review partners or expert in the firm) in relevant areas should be obtained on the MDR with their signature and date.	**Para 57 of SQC 1:** The firm should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached should be documented and implemented.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

Standard checklists are prepared by the audit firm. However, the checklists are not designed in detail. No formal audit manual is maintained by the audit film. The detailed policy not available with the audit firm with respect to working papers.

What is the issue?	AASB Suggested Guidance	Technical Literature
What factors should be considered while maintaining documentation evidencing operation of various elements of system of quality control?	The firm should prepare standard checklists, manuals, working papers and/or other appropriate methods for client engagements to ensure consistency in the quality of each engagement performance and to provide guidance to new or junior staff. The firm's System of Quality Control should be properly documented by way of a manual which should be available to all staff members of the firm. The manual should lay down the processes and checklist for performance of engagement. The manual should also lay down policies relating to information technology, human resources, allocation of human resources to engagement, independent review, ethical norms. It should also establish policies for onboarding a client or continuing the client relationship. The manual should be updated regularly by the firm.	**Para 106 of SQC 1:** The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control. **Para 107 of SQC 1:** How such matters are documented is the firm's decision. For example, large firms may use electronic databases to document matters such as independence confirmations, performance evaluations and the results of monitoring inspections. Smaller firms may use more simpler and informal methods such as manual notes, checklists and forms. **Para 108 of SQC 1:** Factors to consider when determining the form and content of documentation evidencing the operation of each of the elements of the system of quality control include the following: • The size of the firm and the number of offices.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		• The degree of authority both personnel and offices have. • The nature and complexity of the firm's practice and organization. **Para 109 of SQC 1:** The firm retains this documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 3

The firm has planned and reviewed IT general controls through a general checklist, etc. by SAP implementation and operation risks is highly technical and firm must have assessed IT Policy of the company alongwith inherent and assessed internal control in SAP implementation; periodic outside consultation may be insisted upon and discussed with those charged with governance.

The implementation of detailed policies and procedures in respect of consultations is critical and difficult situations need improvement. The firm must review effectiveness of IT policy of the company and document risk in implementation of SAP; after discussion with those charged with governance, outside consultation can be planned.

What is the issue?	AASB Suggested Guidance	Technical Literature
How should an audit firm deal with contentious/ difficult matters identified during an audit?	SQC 1 requires an audit firm to design policies and procedures such that appropriate consultation takes place on difficult/ contentious matters. Determining whether a matter warrants consultation requires the exercise of professional judgment based on the particular facts and circumstances and may include matters that could have a material effect on: • Entity's financial statements. • Engagement approach/ procedures. • Audit report. Adequate policies and procedures relating to consultations would boost the "culture of consultation" and can help in reaching the most appropriate solutions for entities under audit.	**Para 51 of SQC 1:** The firm should establish policies and procedures designed to provide it with reasonable assurance that: (a) Appropriate consultation takes place on difficult or contentious matters; (b) Sufficient resources are available to enable appropriate consultation to take place; (c) The nature and scope of such consultations are documented; and (d) Conclusions resulting from consultations are documented and implemented. **Para 52 of SQC 1:** Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.
How should resources for carrying out	As per SQC 1, consultations should be undertaken by professionals of an audit firm who	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

consultations be identified by an audit firm?	have appropriate skills or knowledge, significant technical, ethical and other expertise depending upon the nature and complexity of the matter.	**Para 53 of SQC 1:** Consultation uses appropriate research resources as well as the collective experience and technical expertise of the firm. Consultation helps to promote quality and improves the application of professional judgment. The firm seeks to establish a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters. **Para 54 of SQC 1:** Effective consultation with other professionals requires that those consulted be given all the relevant facts that will enable them to provide informed advice on technical, ethical or other matters. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or, where applicable, outside the firm) on significant technical, ethical and other matters, and appropriate documentation and implementation of conclusions resulting from consultations. **Para 55 of SQC 1:** A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by (a) other firms, or (b) professional and regulatory bodies. Before contracting for such services, the firm considers whether the external provider is suitably qualified for that purpose.
What protocols should be followed during consultations?	A consultation is intended to be an interactive dialogue between the engagement team and other individuals with more experience or specialized knowledge within the audit firm, with the goal of reaching appropriate conclusions on complex engagement matters. With this goal in mind, it is important that all relevant facts are considered, and careful consideration is given to all points of view, including those of the entity. When consulting, the engagement team of the audit firm is responsible for: • Determining that all relevant facts are presented to those involved in the consultation. • Conclusion of the engagement team. • The final conclusion resulting from the consultation process. • Implementing the results of consultation.	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		Para 56 of SQC 1: The documentation of consultations with other professionals that involve difficult or contentious matters is agreed by both the individual seeking consultation and the individual consulted. The documentation is sufficiently complete and detailed to enable an understanding of: (a) The issue on which consultation was sought; and (b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 4

In order to assure that the confidential client information may not be disseminated to a third party by an overzealous complainant employee or staff member, a cautionary note may be added to specifically draw attention of the complainant to keep the tenets of client confidentiality, while using the channel of Clearview.

What is the issue?	AASB Suggested Guidance	Technical Literature
Should an audit firm maintain confidentiality of client information?	As per SQC 1, an audit firm should establish policies and procedures to comply with the ethical requirements including the Code of Ethics issued by ICAI. Maintaining confidentiality of information acquired as a result of professional and business relationships have been prescribed as a fundamental principle under the Code of Ethics. Thus, an audit firm should establish necessary policies and procedures to comply with the fundamental principle of confidentiality and not disclose confidential information acquired as a result of professional and business relationships outside the firm without proper and specific authority, unless there is a legal or professional duty or right to disclose.	**Para 14 of SQC 1:** The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. **Para 15 of SQC 1:** Ethical requirements relating to audits and reviews of historical financial information, and other assurance and related services engagements are contained in the Code. The Code establishes the fundamental principles of professional ethics, which include: (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. **Para 77 of SQC 1:** The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		and retrievability of engagement documentation.
Whether principle of confidentiality would apply while raising a whistleblowing complaint about the conduct of an audit client?	SQC 1 requires firms to establish policies and procedures to maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. SQC 1 casts obligation on the audit firm's personnel to observe at all times the confidentiality of information contained in engagement documentation. An audit firm may have established protocols and procedures regarding how to raise non-compliance or suspected non-compliance including conduct of clients internally for example, an ethics policy or whistle-blowing mechanism maintained by an external agency. Such protocols and procedures might allow matters to be reported anonymously through these designated channels. An audit firm should caution its personnel about their responsibility to maintain confidentiality in all situations including while raising whistleblowing complaints, especially when the mechanism is maintained by an external agency. In circumstances regarding the inappropriate conduct of business by clients, the audit firm must reiterate the personnel of the audit firm to balance their professional duty of confidentiality and the need to	**Para 78 of SQC 1:** Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	provide sufficient information in support of the whistleblowing complaint.	
What controls should be established by an audit firm to maintain confidentiality of an audit client information?	Under SQC 1, an audit firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. Such controls include the following: • The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users. • Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement. • Procedures for properly distributing engagement documentation to the team members at the start of engagement, processing it during engagement, and collating it at the end of engagement. • Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.	**Para 80 of SQC 1:** Controls that the firm may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include, for example: • The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users. • Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement. • Procedures for properly distributing engagement documentation to the team members at the start of engagement, processing it during engagement, and collating it at the end of engagement. • Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 5

The firm has adopted documentation policy as part of its quality control process; however, the policy is silent towards the procedure and maintenance of records of changes if required to be made to the engagement documentation.

It is recommended to have a policy and standard operating process to ensure if any changes are made to the audit documentation, the manner in which the records of changes shall be maintained (e.g. by whom, date when, brief description of change, reasons, approver information should be maintained with both physical access and logical controls).

What is the issue?	AASB Suggested Guidance	Technical Literature
Can changes to engagement documentation be made by an audit firm after the engagement files have been completed?	SQC 1 allows an audit firm to make changes to engagement documentation after the engagement files have been completed. In such a case the audit firm as required by SQC 1 should establish appropriate policies and procedures. An example of a circumstance in which the audit firm may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring inspections performed by internal or external parties.	**Para 77 of SQC 1:** The firm should establish policies and procedures designed to maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. **Para 78 of SQC 1:** Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned. **Para 79 of SQC 1:** Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability
When a new documentation is added to an engagement file that is complete, what should the audit firm document?	The audit firm may consider documenting: • The date when information was added and reviewed. • The name of the person who prepared and reviewed the additional information. • The circumstances	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	encountered and the reasons for adding the information. • The new or additional audit procedures performed, audit evidence obtained, and conclusions reached. • The effect on auditor's report.	of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, the firm designs and implements appropriate controls for engagement documentation to: (a) Enable the determination of when and by whom engagement documentation was created, changed or reviewed; (b) Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet; (c) Prevent unauthorized changes to the engagement documentation; and (d) Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities. **Para 80 of SQC 1:** Controls that the firm may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include, for example: • The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users.
What steps should be taken by audit firm for integrity of engagement documentation?	As per SQC 1, audit firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		• Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement. • Procedures for properly distributing engagement documentation to the team members at the start of engagement, processing it during engagement, and collating it at the end of engagement. • Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation. **Para 81 of SQC 1:** For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to: (a) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations; (b) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and (c) Enable the scanned copies to be retrieved and printed as necessary. The firm considers whether to retain

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		original paper documentation that has been scanned for legal, regulatory or other reasons. **Para 82 of SQC 1:** The firm should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation. **Para 83 of SQC 1:** The needs of the firm for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements. In the specific case of audit engagements, the retention period ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report. **Para 84 of SQC 1:** Procedures that the firm adopts for retention of engagement documentation include those that: • Enable the retrieval of, and access to, the engagement

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time. • Provide, where necessary, a record of changes made to engagement documentation after the engagement files have been completed. • Enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 2

Observations related to SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

Observation 1

It is noted that adequate documentation for inspection of concurrent audit report and inspection reports relating to the work allocated to the audit firm for audit of bank has not been maintained.

OR

It is noted that the audit evidence obtained by the audit firm to reduce audit risk to an acceptably low level and thereby enable the audit firm to draw reasonable conclusions on which to base their opinion is not adequate.

What is the issue?	AASB Suggested Guidance	Technical Literature
What are sources of audit evidence and why obtaining audit evidence is necessary?	Audit evidence is essential to support the auditor's opinion and report. Audit evidence accumulates throughout the audit. **Sources of Audit Evidence:** • Audit procedures performed during the audit process. • Information from other sources such as previous audits - if the auditor has confirmed any relevant changes since then. • The firm's quality control procedures for client acceptance and continuance. • The entity's accounting records. • Information prepared by experts hired or engaged by the entity.	**Para A28 of SA 200:** Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.
How the audit evidence obtained by the auditor help them to draw reasonable conclusion?	As per SA 200, the auditor is required to use the objectives to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If as a result, the auditor concludes that the audit evidence is not sufficient and appropriate, then the auditor may follow one or more of the following approaches to meeting the requirement of paragraph 21(b) of SA 200: • Evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with other SAs; • Extend the work performed in applying one or more requirements; or • Perform other procedures judged by the auditor to be necessary in the circumstances. Where none of the above is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient appropriate audit evidence and is required by the SAs to determine the effect on the auditor's report or on the auditor's ability to complete the engagement. Sufficient appropriate audit evidence	**Para 7 of SA 200:** The SAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The SAs require that the auditor exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit and, among other things: • Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control. • Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks. • Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	is said to have been obtained if the auditor determines that the audit risk is reduced by the auditor (through application of necessary audit procedures) to such level that enables the auditor to draw reasonable conclusions on which ultimately the auditor's opinion will be based.	
What are the consequences if the auditor fails to achieve objective in a relevant SA?	If an objective in a relevant SA could not be achieved, the auditor should evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SAs, to modify the auditor's opinion or withdraw from the engagement.	**Para 24 of SA 200:** If an objective in a relevant SA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SAs, to modify the auditor's opinion or withdraw from the engagement. Failure to achieve an objective represents a significant matter requiring documentation in accordance with SA 230. (Ref: Para. A75-A76)
Why audit documentation is important?	The auditor should keep record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.	Audit documentation provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. **Para 5 of SA 230:** The objective of the auditor is to prepare documentation that provides: (a) A sufficient and appropriate record of the basis for the auditor's report; and (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 3

Observations related to SA 210, Agreeing the Terms of Audit Engagements

Observation 1

The audit firm had not issued engagement letter for the tax audit attestation functions.

What is the issue?	AASB Suggested Guidance	Technical Literature
Whether engagement letter is required to be issued for tax audit attestation function?	Implementation Guide to SA 210, "Agreeing the Terms of Audit Engagements" explains the scope and objective of SA 210 and the preconditions for audit and duty of the auditor when preconditions are not present. Relevant paragraphs from the Implementation Guide are given below. **1.2 Scope and Objective of SA 210** SA 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. The main objective is establishing whether the preconditions for an audit are present and confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement. **1.3 Preconditions for an audit (Extract)** • If the preconditions for an audit are not present: o The auditor shall discuss the matter with management. o Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:	**Para 3 of SA 210:** The 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: (a) Establishing whether the preconditions for an audit are present; and (b) Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement. **Para 9 of SA 210:** The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (Ref: Para. A21) **Para 10 of SA 210:** Subject to paragraph 11, the

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	▪ If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable; or ▪ If the agreement of management. acknowledgement referred to above has not been obtained. **As per extract from answer to Question 11 of Implementation Guide to SA 230, Audit Documentation (Revised 2022)** Examples of audit documentation include the following: • Engagement letter. **As per extract from answer to Question 20 of Implementation Guide to SA 230, Audit Documentation (Revised 2022):** The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management, or where appropriate, those charged with governance.	agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A22-A26) (a) The objective and scope of the audit of the financial statements; (b) The responsibilities of the auditor; (c) The responsibilities of management; (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content. (Ref: Para. A24)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 4

Observations related to SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Observation 1

The firm has assessed risk during planning stage as revenue, inventory, management override of control and COVID whereas while making presentation to the Board, the firm mentioned risk as revenue and receivable, inventory and cost of goods sold, COVID and derivative hedging. Further, the procedures to be performed for mitigation of the risk identified in planning communication is not captured.

What is the issue?	AASB Suggested Guidance	Technical Literature
How should an audit firm identify and assess fraud risk?	Misstatements in the financial statements can arise from either fraud or error. The audit firm should identify risks of material misstatement due to fraud and obtain sufficient appropriate audit evidence to determine whether a material misstatement due to fraud has occurred. All risks of material misstatement due to fraud are significant risks. The audit firm should use professional judgment in determining whether a fraud risk factor is present. The fraud risk factors are determined in the context of the three conditions generally present when fraud occurs (i.e., incentive/pressure, opportunity and attitude/rationalization).	**Para 24 of SA 240:** The auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present. While fraud risk factors may not necessarily indicate the existence of fraud, they have often been present in circumstances where frauds have occurred and therefore may indicate risks of material misstatement due to fraud. (Ref: Para. A23-A27) **Para 25 of SA 240:** In accordance with SA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures. **Please also refer Appendix 1 of SA 240: Examples of Fraud Risk Factors**

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Whether revenue recognition is a fraud risk by default?	Material misstatements due to fraudulent financial reporting often result from an overstatement or an understatement of revenue. Therefore, as provided in paragraph 26 of SA 240, there is a presumption that a risk of material misstatement due to fraud exists in revenue recognition in every audit. The audit firm should evaluate which types of revenue, revenue transactions or assertions give rise to this fraud risk. When the audit firm concludes that there is no risk of material misstatement due to improper revenue recognition for each type of revenue transaction, the audit firm should document the reasons supporting this conclusion.	**Para 26 of SA 240:** When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud. (Ref: Para. A28-A30)
How should an audit firm respond to the assessed risks of material misstatement due to fraud?	The audit firm should understand and evaluate the design and implementation of the controls that address fraud risks (including anti-fraud controls) and also perform substantive procedures to respond to the identified risks of material misstatement due to fraud. As per SA 240, the audit firm should design: • An overall response for risks that are pervasive to the financial statements as a whole – a response that has an overall effect on how the audit is conducted. • A specific response for risks that relate to a particular account, assertion– a response involving the nature, timing or extent of specific audit procedures to be performed.	**Para 28 of SA 240:** In accordance with SA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A33) **Para 30 of SA 240:** In accordance with SA 330, the auditor shall design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. (Ref: Para A37-A40). **Para 31 of SA 240:** Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk. **Please also refer Appendix 2 of SA 240: 'Examples of Possible Audit Procedures to Address the Assessed Risks of Material Misstatement Due to Fraud'.**
Can an audit firm orally communicate matters relating to fraud to those charged with governance?	As per SA 260(Revised), the auditor's communication with those charged with governance may be made orally or in writing. SA 260(Revised) identifies factors the auditor considers in determining whether to communicate orally or in writing. Due to the nature and sensitivity of fraud involving senior management, or fraud that results in a material misstatement in the financial statements, the auditor reports such matters on a timely basis and may consider it necessary to also report such matters in writing.	**Para 19 of SA 260 (Revised):** The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A46–A48).

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 5

Observations related to SA 260(Revised), Communication with Those Charged with Governance

Observation 1

Discussion and replies from management are mentioned in "Drafts for discussion" letters, but the unsigned copies of the same are on record.

What is the issue	AASB Suggested Guidance	Technical Literature
Whether it is necessary for auditor to communicate significant audit findings with those charged with governance?	SA 260 (Revised) requires auditor to communicate significant findings from the audit with those charged with governance. **Please refer para 16 of SA 260 (Revised) on Significant Findings from the Audit.**	**Para 16 of SA 260 (Revised):** The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18) (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20) (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21) (c) Unless all of those charged with governance are involved in managing the entity: i. Significant matters arising during the audit that were discussed, or subject to correspondence, with

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		management; and (Ref: Para. A22) ii. Written representations the auditor is requesting; (d) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23–A25) (e) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

It was noted that the audit firm had verbally communicated its findings to those charged with governance and even the verbal discussion was not documented.

What is the issue?	AASB Suggested Guidance	Technical Literature
What form /mode of communication should be used while communicating with those charged with governance? What should be the timing of communication with those charged with governance?	SA 260(Revised) requires the auditor to communicate various matters with those charged with governance. As per SA 260(Revised), auditors need to exercise their professional judgment to determine whether such communication should be in writing or whether oral communication would be adequate in the circumstances.	**Para 17 of SA 260(Revised):** In the case of listed entities, the auditor shall communicate with those charged with governance: (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and i. All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and ii. The related safeguards that have been applied to

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A29–A32) **Para 19 of SA 260(Revised):** The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A46–A48) **Para 20 of SA 260(Revised):** The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 17. **Para 21 of SA 260(Revised):** The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A49–A50) **Para 23 of SA 260(Revised):** Where matters required by this SA to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation. (Ref: Para. A54)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 3

The Board presentation including the mandatory communications to be made in respect of the statutory audit is sent to GM (Finance) with copy to vice president of the company. However, the same is neither sent to the Board of Directors nor the same is recorded in any of the minutes of the Board of Directors evidencing that the same has been communicated to those charged with governance as required by SA 260(Revised), though the firm has mentioned the paragraph related to it in its audit report for the year.

The firm should follow requirement of SA 260(Revised) for communication with those charged with governance and maintaining records in line with SA 230 to ensure compliance.

What is the issue?	AASB Suggested Guidance	Technical Literature
Is it mandatory for audit firm to communicate certain matters to those charged with governance of the entity?	SA 260(Revised) requires the audit firm to communicate certain matters with those charged with governance of the entity.	**Para 1 of SA 260(Revised):** This Standard on Auditing (SA) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this SA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This SA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role. **Para 6 of SA 260(Revised):** Clear communication of specific matters required to be communicated by SAs is an integral part of every audit. SAs do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.
How should those charged with	When making the determination of those	**Para 11 of SA 260(Revised):**

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

governance be identified by the audit firm?	charged with governance, the audit firm may consider: • The respective responsibilities of the subgroup and the governing body. • The nature of the matters to be communicated. • Relevant legal or regulatory requirements. Further reference may be made to SA 260(Revised), particularly paragraphs A1 to A3.	The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Ref: Para. A1–A4)
What should be the frequency of communication with those charged with governance?	In determining the timeliness of communication, the audit firm should use professional judgment and consider factors as prescribed in paragraph A49-A50 of SA 260(Revised) such as: • The significance and nature of the matter and the action expected to be taken by those charged with governance. • Communication of key audit matters. • Legal obligation to communicate certain matters within a specified timeframe. • Expectations of those charged with governance.	**Para 21 of SA 260(Revised):** The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A49–A50)
What are the examples of communications to those charged with	Following are some of the examples of communications envisaged under SA 260(Revised):	**Para 14 of SA 260(Revised):** The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

governance?	• An overview of the planned scope and timing of the audit. • Using the internal audit function in the audit of financial statements. • Significant risks identified by auditor. • Significant difficulties encountered during the audit. It may be noted that the requirement of communication with those charged with governance has also been prescribed in other Standards on Auditing.	the financial statement audit, including that: (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A9–A10) **Para 15 of SA 260(Revised):** The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor. (Ref: Para. A11–A16) **Para 16 of SA 260(Revised):** The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18) (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20) (b) Significant difficulties, if any,

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		encountered during the audit; (Ref: Para. A21) (c) Unless all of those charged with governance are involved in managing the entity: i. Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22) ii. Written representations the auditor is requesting; (d) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23–A25) (e) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)
What should be documented in respect of communications made to those charged with governance?	The audit firm should retain a copy of the final versions of communications in writing to those charged with governance as required under paragraph 23 of SA 260(Revised).	**Para 23 of SA 260(Revised):** Where matters required by this SA to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation. (Ref: Para. A54)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 6

Observations related to SA 299(Revised), Joint Audit of Financial Statements

Observation 1

No formal records are maintained for joint discussion between the auditors. On the review of the quarterly minutes of the company, certain areas of audit issue are found presented for discussion, but the same majorly pertains to the area of audit of another auditor.

What is the issue	AASB Suggested Guidance	Technical Literature
Whether it is necessary for joint auditors to have joint discussions on various matters? Is it necessary to communicate matters which are relevant to the areas of responsibility of other joint auditors to all the other joint auditors prior to the completion of the audit?	As per SA 299 (Revised), the joint auditors shall discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit to be performed by each of the joint auditors and the same shall be communicated to those charged with governance. Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit. Before finalizing their audit report, the joint auditors shall discuss and communicate with	**Para 6 of SA 299 (Revised):** The engagement partner and other key members of the engagement team from each of the joint auditors shall be involved in planning the audit. **Para 7 of SA 299 (Revised):** The joint auditors shall jointly establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. **Para 8 of SA 299 (Revised):** Prior to the commencement of the audit, the joint auditors shall discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors shall: a. Identify division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor; (Ref: Para A1) b. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	each other their respective conclusions that would form the content of the audit report.	c. Consider and communicate among all joint auditors the factors that, in their professional judgment, are significant in directing the engagement team's efforts; d. Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other or similar engagements performed earlier by the respective engagement partner(s) for the entity is relevant. e. Ascertain the nature, timing and extent of resources necessary to perform the engagement. **Para 9 of SA 299 (Revised):** At this stage, risks of material misstatement need to be considered and assessed by each of the joint auditors and shall be communicated to other joint auditors, and documented, whether pertaining to the overall financial statements level or to the area of allocation among the other joint auditors.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

The documents relating to any formal meeting of joint auditors or coordination with each other is not available with the audit firm.

What is the issue?	AASB Suggested Guidance	Technical Literature
In case of joint audit, what is the responsibility of joint auditors as per SA 299 (Revised)?	SA 299 (Revised) provides that in case of audit work divided among joint auditors, each joint auditor is responsible only for the work allocated to him. Further, SA 299(Revised) provides various matters where joint auditors would be jointly and severely responsible.	**Para 13 of SA 299 (Revised):** In respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures. (Ref: Para. A3) **Para 14 of SA 299 (Revised)**: All the joint auditors shall be jointly and severally responsible for: (Ref: Para. A3) a. The audit work which is not divided among the joint auditors and is carried out by all joint auditors; b. Decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors. (Ref: Para. A4) c. Matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors; d. Examining that the financial statements of the entity comply with the requirements of the relevant statutes; e. Presentation and disclosure of the financial statements as
Is it necessary to communicate matters which are relevant to the areas of responsibility of other joint auditors to all the other joint auditors prior to the completion of the audit?	It is necessary for a joint auditor to communicate matters, coming to his notice and which are relevant to areas of responsibility of other joint auditors to all other joint auditors in writing before completion of audit.	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		required by the applicable financial reporting framework; f. Ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI. **Para 15 of SA 299(Revised):** Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit. **Para 16 of SA 299(Revised):** It shall be the responsibility of each joint auditor to determine the nature, timing and extent of audit procedures to be applied in relation to the areas of work allocated to said joint auditor. It is the individual responsibility of each joint auditor to study and evaluate the prevailing system of internal control and assessment of risk relating to the areas of work allocated to said joint auditor.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 7

Observations related to SA 300, Planning an Audit of Financial Statements

Observation 1

The audit evidence is not arranged in a proper and chronological manner making it little difficult in some cases to link the audit evidence collected by the firm with the audit plan to reach conclusion regarding the identification and assessment of risk of material misstatement.

What is the issue?	AASB Suggested Guidance	Technical Literature
What should be the role and timing of planning activities? Why planning of audit is important?	Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways. The nature and extent of planning activities should vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occurred during the audit engagement. Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. **As per Implementation Guide to SA 300, Planning an Audit of Financial Statements:** Formulating appropriate strategy	**Para 5 of SA 300:** The auditor shall undertake the following activities at the beginning of the current audit engagement: (a) Performing procedures required by SA 220, "Quality Control for an Audit of Financial Statements" regarding the continuance of the client relationship and the specific audit engagement. (b) Evaluating compliance with ethical requirements, including independence, as required by SA 220; and (c) Establishing an understanding of the terms of the engagement, as required by SA 210. (Ref: Para. A6-A8) **Para 6 of SA 300:** The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	and planning in accordance with such strategy is fundamental to the success of an audit to be conducted in an effective and efficient manner. Developing the right strategy facilitates achievement of the overall audit objective at a macro level while planning involves enlisting of tasks to methodically achieve results in a productive way.	**Para 7 of SA 300:** In establishing the overall audit strategy, the auditor shall: (a) Identify the characteristics of the engagement that define its scope; (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required; (c) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts; (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement. (Ref: Para. A9-A12) **Para 8 of SA 300:** The auditor shall develop an audit plan that shall include a description of: (a) The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 "Identifying and Assessing the Risks of Material Misstatement through

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		Understanding the Entity and Its Environment". (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 "The Auditor's Responses to Assessed Risks". (c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs. (Ref: Para. A13) **Para 9 of SA 300:** The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A14) **Para 10 of SA 300:** The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A15-A16) **Para 11 of SA 300:** The auditor shall document: (a) The overall audit strategy; (b) The audit plan; and (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. (Ref: Para. A17-A20)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

What are the documentation requirements for planning activities?	Documentation requirements for planning activities are given in Para 11 of SA 300.	**Para 11 of SA 300:** The auditor shall document: (a) The overall audit strategy; (b) The audit plan; and (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. (Ref: Para. A17-A20)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

(1) The audit file contains an audit plan that includes, at a minimum, a description of the nature, timing but not the extent of planned risk assessment procedures as well as further audit procedures at the assertion level.

(2) Risk assessment checklist is available. However, the same has not been prepared in detail.

(3) No document w.r.t. the carry-forward working papers available with the audit firm.

What is the issue?	AASB Suggested Guidance	Technical Literature
Is it necessary as per the Standards on Auditing to perform risk assessment procedures and further audit procedures?	*Performing risk assessment procedures and further audit procedures:* As per SA 315, the auditor should perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud, and designing further audit procedures. As per SA 330, the auditor should design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.	**Para 8 of SA 300:** The auditor shall develop an audit plan that shall include a description of: (a) The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment". (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 "The Auditor's Responses to Assessed Risks". (c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs. (Ref: Para. A13) **Para 11 of SA 300:** The auditor shall document: (a) The overall audit strategy; (b) The audit plan; and
Is preparing a risk assessment checklist in detail required?	In planning an audit of financial statements, preparing a detailed risk assessment checklist is not explicitly required. However, SA 315 emphasizes the importance of obtaining an understanding of the entity	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	and its environment, including its internal control, to identify and assess the risks of material misstatement in the financial statements and documentation of the same.	(c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. (Ref: Para. A17-A20) **Also refer para A12 and A20 of SA 300.**
Should a firm maintain documentation?	Prior to the date of auditor's report, the auditor must have completed all necessary audit procedures and obtained sufficient appropriate audit evidence to support the representations in auditor's report. A complete and final set of audit documentation should be assembled on a timely basis for retention after the date of auditor's report.	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 8

Observations related to SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

Observation 1

The documentary details of designing and performing test of controls is not available with the audit firm as per the requirement of SA 330.

The documents regarding designed and performed appropriate substantive procedures for each material class of transactions, account balance, and disclosure is not available with the audit firm as per the requirement of SA 330, SA 520, SA 320 & SA 315.

The documentary evidence regarding determination of sample size sufficient to reduce sampling risk to an acceptably low level not available with the audit firm as per requirement of SA 530.

What is the issue?	AASB Suggested Guidance	Technical Literature
Is it necessary to document details of designing and performing tests of controls as per SA 330?	The auditor should develop and document an audit plan that includes a description of: • The planned nature, timing, and extent of the risk assessment procedures. • The planned nature, timing, and extent of tests of controls and substantive procedures.	**Para 28 of SA 330:** The auditor shall document: (a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed; (b) The linkage of those procedures with the assessed risks at the assertion level; and (c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para. A63) **Para 29 of SA 330:** If the auditor plans to use audit evidence about the operating effectiveness of controls
Is it necessary to document details of determining materiality in planning and performing an audit as per SA 320 and assessing the risks of material misstatement as per SA 315?	*Auditor should document details of following as per SA 320:* • When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. • The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. • The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. *Auditor should document details of following as per SA 315:* • The manner in which the requirements of paragraph 32 of SA 315 are documented is for the auditor to determine using professional judgment. • For entities that have uncomplicated businesses and processes relevant to financial reporting, the documentation may be simple in form and relatively brief. It is not necessary to document the entirety of the auditor's understanding of the entity and	obtained in previous audits, the auditor shall document the conclusions reached about relying on such controls that were tested in a previous audit. **Para 30 of SA 330:** The auditor's documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records **Para 14 of SA 320:** The audit documentation shall include the following amounts and the factors considered in their determination: (a) Materiality for the financial statements as a whole (see paragraph 10). (b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures (see paragraph 10). (c) Performance materiality (see paragraph 11); and (d) Any revision of (a)-(c) as the audit progressed (see paragraphs 12-13). **Para 32 of SA 315:** The auditor shall document: (a) The discussion among the engagement team where required by paragraph 10, and the significant decisions reached; (b) Key elements of the understanding obtained regarding each of the aspects of the entity and

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	matters related to it. Key elements of understanding documented by the auditor include those on which the auditor based the assessment of the risks of material misstatement. • The extent of documentation may also reflect the experience and capabilities of the members of the audit engagement team. Provided the requirements of SA 230, "Audit Documentation" are always met, an audit undertaken by an engagement team comprising less experienced individuals may require more detailed documentation to assist them to obtain an appropriate understanding of the entity than one that includes experienced individuals. • For recurring audits, certain documentation may be carried forward, updated as necessary to reflect changes in the entity's business or processes.	its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14-24; the sources of information from which the understanding was obtained; and the risk assessment procedures performed; (c) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and (d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27-30. (Ref: Para. A143-A146)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 9

Observations related to SA 320, Materiality in Planning and Performing an Audit

Observation 1

The document regarding determination of materiality as a whole and performance materiality not available with the firm.

The audit firm has not documented the requirement of SA 450 as mentioned above.

What is the issue?	AASB Suggested Guidance	Technical Literature
Is it necessary for the audit firm to determine: • Materiality for the financial statements as a whole, and if applicable, materiality for classes of transactions, account balances and disclosures? (SA 320) • Performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures? (SA 320)	SA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. SA 450 explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. As per SA 320, the audit firm should determine: • Materiality for the financial statements as a whole, and if applicable, materiality for classes of transactions, account balances and disclosures; and • Performance materiality for the purpose of assessing the risks of material misstatement and determining the	**Para 10 of SA 320:** When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para. A2-A11) **Para 11 of SA 320:** The auditor shall determine performance materiality for purposes of assessing the risks

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	nature, timing and extent of further audit procedures.	of material misstatement and determining the nature, timing and extent of further audit procedures. (Ref: Para. A12) **Para 12 of SA 320**: The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. (Ref: Para. A13) **Para 13 of SA 320:** If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate. **Para 14 of SA 320:** The audit documentation shall include the following amounts and the factors considered in their determination: (a) Materiality for the financial statements as a whole (see paragraph 10);

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		(b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures (see paragraph 10) (c) Performance materiality (see paragraph 11); and (d) Any revision of (a)-(c) as the audit progressed (see paragraphs 12-13).
If management refused to correct some or all of the misstatements communicated by the audit firm, did the audit firm: • Determine whether such uncorrected misstatements were material, individually or in aggregate? (SA 450) • Evaluate whether the financial statements as a whole was free from material misstatement? (SA 450)	SA 450 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. As per SA 450, where management refused to correct some or all of the misstatements communicated by the audit firm, the audit firm should: • Determine whether such uncorrected misstatements were material, individually or in aggregate. • Evaluate whether the financial statements as a whole was free from material misstatement.	**Para 8 of SA 450:** The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor shall request management to correct those misstatements. (Ref: Para. A7-A9) **Para 9 of SA 450:** If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement. (Ref: Para. A10)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 10

Observations related to SA 330, The Auditor's Responses to Assessed Risks

Observation 1

It is noted that documentation for designing and performing further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level has not been maintained by the audit firm.

OR

It is noted that the audit firm has not maintained documentation for determining the nature, timing and extent of further audit procedures based on performance materiality.

OR

Documentation and audit evidence for performing substantive procedures for 2 zones and 12 regions of the bank allocated to the audit firm have not been maintained.

OR

The standard checklists, manual & working papers and documentary evidence are not arranged in a chronological and proper manner leading to difficulty in ascertaining in some cases of the usage of the tests of controls by the firm to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls.

What is the issue	AASB Suggested Guidance	Technical Literature
How will the audit firm design further audit procedures?	When designing audit procedures, the auditor should: (a) Evaluate the reasons for the assigned risk levels of material misstatement at the assertion level for each class of transactions, account balance, and disclosure. This involves considering: (i) The inherent risk associated with the particular characteristics of each class of transactions, account balance, or disclosure, which reflects the likelihood of	**Para 6 of SA 330:** The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. (Ref: Para. A4-A8) **Para 7 of SA 330:** In designing the further audit procedures to be performed, the auditor shall: (a) Consider the reasons for the assessment given to the risk

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	material misstatement without considering internal controls. (ii) The control risk, which assesses whether the auditor's risk evaluation considers the entity's relevant controls. This assessment helps determine whether to rely on the effectiveness of these controls when planning the extent of substantive procedures. If relying on controls, the auditor must gather audit evidence to verify their operational effectiveness. (b) Seek more compelling audit evidence when the risk assessment is higher. This principle dictates that the higher the perceived risk of material misstatement, the more rigorous and convincing the required audit evidence should be. This approach ensures that the audit responses are appropriately aligned with the risk levels.	of material misstatement at the assertion level for each class of transactions, account balance, and disclosure, including: (i) The likelihood of material misstatement due to the particular characteristics of the relevant class of transactions, account balance, or disclosure (i.e., the inherent risk); and (ii) Whether the risk assessment takes into account the relevant controls (i.e., the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); and (Ref:Para.A9-A18) (b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk.
Why is it important to document the further audit procedures performed by auditors?	As per SA 230, the objective of the auditor is to prepare documentation that provides: (a) A sufficient and appropriate record of the basis for the auditor's report; and (b) Evidence that the audit was planned and performed in accordance with SAs and	**Para 3 of SA 230:** Audit documentation serves a number of additional purposes including the following: • Assisting the engagement team to plan and perform the audit. • Assisting members of the

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	applicable legal and regulatory requirements. The auditor should keep record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.	engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220. • Enabling the engagement team to be accountable for its work. • Retaining a record of matters of continuing significance to future audits. • Enabling the conduct of quality control reviews and inspections in accordance with SQC 1. • Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements. **Para 28 of SA 330:** The auditor should document: (a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed. (b) The linkage of those procedures with the assessed risks at the assertion level; and (c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para.A63)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		Para 29 of SA 330: If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall document the conclusions reached about relying on such controls that were tested in a previous audit. **Para 30 of SA 330:** The auditors' documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

It is noted that though the audit firm used information obtained from previous experience with the entity and from previous audits, it did not document whether changes had occurred since the previous audit that may have affected its relevance to the current audit.

What is the issue?	AASB Suggested Guidance	Technical Literature
How will the auditor determine whether it is appropriate to use audit evidence obtained in previous audit?	As per SA 330, if the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor should document the conclusions reached about relying on such controls that were tested in a previous audit. The auditor should obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific controls. If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor should test the controls in the current audit.	**Para 13 of SA 330:** In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following: (a) The effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process. (b) The risks arising from the characteristics of the control, including whether it is manual or automated. (c) The effectiveness of general IT-controls. (d) The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control. (e) Whether the lack of a change in a particular control poses a risk due to changing circumstances; and

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		(f) The risks of material misstatement and the extent of reliance on the control. (Ref: Para.A35) **Para 14 of SA 330:** If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific controls, and: (a) If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit. (Ref: Para. A36) (b) If there have not been such changes, the auditor shall test the controls at least once in every third audit and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods. (Ref: Para. A37-A39**)**
What audit procedures should be carried out by an auditor if changes have occurred since previous audit?	In such situation, auditor needs to perform procedures given in Para 14(a) of SA 330.	**Para 14(a) of SA 330:** If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit. (Ref: Para.A36)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

What audit procedures should be carried out by an auditor if changes have not occurred since previous audit?	In such situation, auditor needs to perform procedures given in Para 14(b) of SA 330.	**Para 14(b) of SA 330** If there have not been such changes, the auditor shall test the controls at least once in every third audit and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods. (Ref: Para.A37-A39)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 3

It was noted that the audit procedures planned were performed and documented, however in some cases the links between the procedures planned and performed were missing.

What is the issue?	AASB Suggested Guidance	Technical Literature
Why it is important to establish a clear linkage between the audit procedures planned and performed?	The auditor may use previous year's evidence regarding the effectiveness of internal controls to help assess control risk in the current year. In some cases, substantive procedures from previous years may still be relevant. For example, if a particular account or assertion has not changed. The auditor must ensure that there is a clear link between the evidence from previous years and the current year. This linkage should be established and documented.	**Para 12 of SA 330:** When the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall: (a) Obtain audit evidence about significant changes to those controls subsequent to the interim period; and (b) Determine the additional audit evidence to be obtained for the remaining period. (Ref: Para. A33-A34) **Para 13 of SA 330:** In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following: (a) The effectiveness of other elements of internal control, including the control environment, the entity's monitoring of controls, and the entity's risk assessment process;

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		(b) The risks arising from the characteristics of the control, including whether it is manual or automated; (c) The effectiveness of general IT-controls; (d) The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control; (e) Whether the lack of a change in a particular control poses a risk due to changing circumstances; and (f) The risks of material misstatement and the extent of reliance on the control. (Ref: Para. A35) **Para 14 of SA 330:** If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing inquiry combined with observation or inspection, to confirm the understanding of those specific

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		controls, and: (a) If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit. (Ref: Para. A36) (b) If there have not been such changes, the auditor shall test the controls at least once in every third audit and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods. (Ref: Para. A37-A39) **Para 17 of SA 330:** When deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether: (a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls; (b) Additional tests of controls are necessary; or (c) The potential risks of misstatement need to be addressed using substantive procedures. (Ref: Para. A41)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		Para 26 of SA 330: The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A62) **Para 28 of SA 330:** The auditor shall document: (a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed; (b) The linkage of those procedures with the assessed risks at the assertion level; and (c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para. A63)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 11

Observations related to SA 500, Audit Evidence

Observation 1

It is noted that means of selecting items for testing for the purpose of designing of test of controls and test of details has not been documented by the audit firm.

What is the issue?	AASB Suggested Guidance	Technical Literature
What are the means available to the auditor for selecting items for testing?	The means available to the auditor for selecting items for testing are: (a) Selecting all items (100% examination). (b) Selecting specific items. (c) Audit sampling. The application of any one or combination of these means may be appropriate depending on the particular circumstances, for example, the risks of material misstatement related to the assertion being tested, and the practicality and efficiency of the different means.	**Para 10 of SA 500:** When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. (Ref.: Para A52-A56)
Under what conditions auditor may decide to examine the entire population?	The auditor should consider 100% examination when: • The population constitutes a small number of large values items. • There is a significant risk and other means do not provide sufficient appropriate audit evidence; or • The repetitive nature of a	**Para A53 of SA 500:** The auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. 100% examination may be appropriate when, for example:

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	calculation or other process performed automatically by an information system makes a 100% examination cost effective.	• The population constitutes a small number of large values items. • There is a significant risk and other means do not provide sufficient appropriate audit evidence; or • The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.
When will the auditor decide to select specific Items?	In making decision to select specific items, factors that should be relevant include: (a) The auditor's understanding of the entity, (b) The assessed risks of material misstatement, and (c) The characteristics of the population being tested. Specific items selected may include: • High value or key items. • All items over a certain amount. • Items to obtain information to gain insights into the nature of the entity or the nature of its transactions.	**Para A54 of SA 500:** The auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include the auditor's understanding of the entity, the assessed risks of material misstatement, and the characteristics of the population being tested. The judgmental selection of specific items is subject to non-sampling risk. Specific items selected may include: • High value or key items. The auditor may decide to select specific items within a population because they are of high value, or exhibit some other characteristic, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error. • All items over a certain amount. The auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		proportion of the total amount of a class of transactions or account balance. • Items to obtain information. The auditor may examine items to obtain information about matters such as the nature of the entity or the nature of transactions. **Para A55 of SA 500:** While selective examination of specific items from a class of transactions or account balance will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide audit evidence concerning the remainder of the population.
What are the nature and purpose of documentation?	As per SA 230, the objective of the auditor is to prepare documentation that provides: (a) A sufficient and appropriate record of the basis for the auditor's report; and (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. The auditor should keep record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.	**Para 2 of SA 230:** Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides: (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed. Also, such documentation post completion of audit work and issuance of auditor's opinion will be in non-compliance of requirements of the Standards on Auditing.	**Para 3 of SA 230:** Audit documentation serves a number of additional purposes, including the following: • Assisting the engagement team to plan and perform the audit. • Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220. • Enabling the engagement team to be accountable for its work. • Retaining a record of matters of continuing significance to future audits. • Enabling the conduct of quality control reviews and inspections in accordance with SQC 1. • Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

It was noted that the firm has accounting standards checklist updated, however no links to the working papers to ensure the compliances are verified at the transaction level.

What is the issue?	AASB Suggested Guidance	Technical Literature
What is the information to be used as audit information?	Audit information refers to the data, records, and documents that auditors use to conduct their examination of an entity's financial statements. These various types of audit information are essential and serve as the basis for auditors to perform procedures and gather evidence necessary to form their opinion on the financial statements. They help auditor to ensure that the financial statements are free from material misstatement and comply with applicable accounting standards.	**Para 6 of SA 500**: The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A1-A25) **Para 7 of SA 500**: When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A26- A33) **Para 8 of SA 500:** When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes. (Ref: Para. A34-A36) (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A37-A43) (b) Obtain an understanding of the work of that expert; and (Ref: Para. A44-A47) (c) Evaluate the appropriateness of that expert's work as audit
How should audit documentation be kept in line with work done?	Audit documentation should be comprehensive, organized, and sufficiently detailed to support the auditor's work and conclusions. Audit documentation serves as the official record of the audit engagement and provides evidence of the work performed. The key characteristics of well-prepared audit documentation are as under: Audit documentation should be clear, complete, timely organized and signed. Audit documentation should have relevant cross-	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	referenced and reviewed content reflecting the entire audit process from planning to execution and conclusion.	evidence for the relevant assertion. (Ref: Para. A48) **Para 9 of SA 500:** When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances: (a) Obtaining audit evidence about the accuracy and completeness of the information; and (Ref: Para. A49-A50) (b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. (Ref: Para. A51)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 12

Observations related to SA 501, Audit Evidence - Specific Considerations for Selected Items

Observation 1

The audit evidence for verification of litigation and claims is inadequate.

What is the issue?	AASB Suggested Guidance	Technical Literature
What audit procedures should be carried out for verification of litigation and claims?	**Litigation and Claims** When addressing potential litigation and claims involving an entity, auditors must design and perform specific procedures to identify any such matters that could pose a risk of material misstatement to the financial statements. An overview of how these procedures are implemented is given below: **Identification Procedures** *(a) Inquiry of Management and Others Within the Entity:* Auditors should inquire with management and, where relevant, other personnel within the entity, such as in-house legal counsel. These inquiries aim to uncover any known litigation or claims and understand the entity's approach to litigation management and its implications for the financial statements. *(b) Review of Minutes and Correspondence:* Auditors should review the minutes of meetings of those	**Para 9 of SA 501**: The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including: (Ref: Para. A17-A19) (a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel. (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and (c) Reviewing legal expense accounts. (Ref: Para. A20) **Para 10 of SA 501:** If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other SAs, seek direct communication with the

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	charged with governance to capture any discussions or disclosures related to litigation and claims. Additionally, examining correspondence between the entity and its external legal counsel can provide insights into the nature and extent of legal matters faced by the entity. *(c) Review of Legal Expense Accounts:* By analyzing accounts related to legal expenses, auditors can identify unusual or significant legal costs that might suggest the existence of litigation or claims not previously disclosed or known. **Communication with External Legal Counsel** (For detailed procedures and guidance, please refer next question)	entity's external legal counsel. The auditor shall do so through a letter of inquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor. If law, regulation or the respective legal professional body prohibits the entity's external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures. (Ref: Para. A21-A25)
What are the various steps to be taken by an auditor in case of making inquiry with external legal counsel of the entity?	**Communication with External Legal Counsel** *(a) Direct Communication Requirement:* If the auditor identifies litigation or claims, or suspects that additional undisclosed legal matters might exist, the auditor is required to seek direct communication with the entity's external legal counsel. This communication should typically be initiated through a letter of inquiry, which is prepared by management but	**Para A21 of SA 501:** Direct communication with the entity's external legal counsel assists the auditor in obtaining sufficient appropriate audit evidence as to whether potentially material litigation and claims are known and management's estimates of the financial implications, including costs, are reasonable. **Para A22 of SA 501:** In some cases, the auditor may seek direct communication with the entity's external legal counsel through a letter of general inquiry. For this purpose, a

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	sent by the auditor, asking the external legal counsel to directly communicate with the auditor about specific legal matters. *(b) Content of the Letter of Inquiry:* The letter should request detailed information on the nature of the litigation or claims, the progress or status of each case, the external legal counsel's opinion on the likely outcomes, and an estimate of the financial implications or liabilities. *(c) Handling Restrictions on Communication:* If legal, regulatory constraints, or norms of the legal professional body restrict the external legal counsel from communicating directly with the auditor, the auditor should perform alternative audit procedures to obtain sufficient appropriate audit evidence. This might include obtaining written representations from management and those charged with governance about the completeness and accuracy of the information disclosed concerning litigation and claims.	letter of general inquiry requests the entity's external legal counsel to inform the auditor of any litigation and claims that the counsel is aware of, together with an assessment of the outcome of the litigation and claims, and an estimate of the financial implications, including costs involved. **Para A23 of SA 501:** If it is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general inquiry, for example if the professional body to which the external legal counsel belongs prohibits response to such a letter, the auditor may seek direct communication through a letter of specific inquiry. For this purpose, a letter of specific inquiry includes: (a) A list of litigation and claims; (b) Where available, management's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications, including costs involved; and (c) A request that the entity's external legal counsel confirm the reasonableness of management's assessments and provide the auditor with further information if the list is considered by the entity's external legal counsel to be incomplete or incorrect. **Para A24 of SA 501:** In certain circumstances, the auditor also may judge it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		litigation or claims. This may be the case, for example, where: • The auditor determines that the matter is a significant risk. • The matter is complex. • There is disagreement between management and the entity's external legal counsel. Ordinarily, such meetings require management's permission and are held with a representative of management in attendance.
What should auditor do if legal confirmation could not be obtained by the auditor?	As per SA 501, if the auditor is unable to obtain the sufficient appropriate audit evidence through letter of enquiry or other alternative audit procedures, the auditor should modify the opinion in auditor's report in accordance with SA 705(Revised).	**Para 11 of SA 501:** If: (a) Management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and (b) The auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures, the auditor shall modify the opinion in the auditor's report in accordance with SA 705(Revised).

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 13

Observations related to SA 520, Analytical Procedures

Observation 1

The documents in support of analytical procedures performed are not made available except in case of annual audit file for branch 1 and branch 2.

What is the issue	AASB Suggested Guidance	Technical Literature
What are the nature of analytical procedures?	Analytical procedures are a fundamental component of the audit process, providing auditors with a means to obtain reasonable assurance about the financial information through the analysis of plausible relationships among both financial and non-financial data. An overview of how these procedures are implemented is given below. **Types of Comparisons in Analytical Procedures** *(a) Comparison with Prior Periods:* Auditors compare the current financial information of the entity with data from previous periods. This helps identify significant changes or trends that might indicate errors, fraud, or changes in the entity's operations. *(b) Comparison with Anticipated Results and Auditor's Expectations:* Comparing the entity's financial data against budgets, forecasts, or projections to assess whether	**Para 4 of SA 520:** The term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. The auditor's choice of procedures, methods and level of application is a matter of professional judgement. (Ref: Para. A1-A3).

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	the actual outcomes align with expected results based on known variables. Auditors may also use their estimations, such as expected depreciation, to check the reasonableness of related account balances. *(c) Comparison with Industry Information:* Analyzing the entity's financial ratios and comparing them with industry averages or with similar entities in the same industry helps in assessing the entity's performance and financial position relative to its peers. This comparison is useful for identifying unusual variances that could warrant further investigation. **Consideration of Relationships in Analytical Procedures** *(a) Among Financial Information Elements:* Examining relationships within financial information that should logically correlate based on historical patterns of the entity. For example, if gross margin percentages have remained stable over the years, a sudden deviation would prompt further scrutiny. *(b) Between Financial and Non-Financial Information:* Exploring the relationships between financial information and relevant non-financial information provides additional insights.	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	For instance, comparing payroll costs with the number of employees can reveal inefficiencies or discrepancies in wage management that may not be apparent from financial data alone. Other examples could be comparison of occupancy levels with revenue growth, which could apply to several industries like hotel industry, entertainment and multiplex industry, hospitals etc. These analytical procedures are integral to the audit process, helping auditors identify areas that may require more detailed examination. They serve as both a preliminary analytical review to direct the audit plan and as a final verification to confirm the overall consistency of the financial statements. The effective use of analytical procedures allows auditors to more efficiently focus their efforts on areas with greater risk of material misstatement, thereby enhancing the quality and effectiveness of the audit.	
Why is it important to document the analytical procedures performed by auditors?	As per SA 230, audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides: (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and (b) Evidence that the audit was	**Para 3 of SA 230:** Audit documentation serves a number of additional purposes, including the following: • Assisting the engagement team to plan and perform the audit. • Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	planned and performed in accordance with SAs and applicable legal and regulatory requirements.	with SA 220. • Enabling the engagement team to be accountable for its work. • Retaining a record of matters of continuing significance to future audits. • Enabling the conduct of quality control reviews and inspections in accordance with SQC 1. • Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

It was noted that the firm did not clearly document application of analytical procedures that include the consideration of comparisons of the entity's financial information with – comparable information for prior periods, anticipated results of the entity, and similar industry information, etc. Apart from others, the firm must have made comparable analysis of previous three quarterly financial statements instead of only making comparison with previous year results.

The firm to include all elements of how the audit plan assessed and addressed the fraud risk in the audit of the financial statements.

The firm has to improve its planning and execution process including sampling and analytical procedures with proper documentation of results. Improvement required in documentation of audit sampling. Self-explanatory documentation is required to be maintained in respect of issues covered in SA 315, SA 320, SA 330, SA 520 and SA 530. The firm has to strengthen audit plans by referencing and tagging all relevant and applicable technical standards, legal and regulatory requirements, circulars, notifications, guidelines, sections etc. for quick and handy reference by the respective teams during execution.

What is the issue?	AASB Suggested Guidance	Technical Literature
When should substantive analytical procedures be used during an audit engagement?	As per SA 520, an audit firm should design substantive analytical procedures that are effective in addressing the risk of material misstatement(s) for the relevant assertion. This would assist in evaluating whether sufficient appropriate audit evidence has been obtained when the procedure is performed. For each planned substantive analytical procedure, an audit firm should consider the planned level of evidence and whether the designed procedure provides evidence relative to the assertion or risk of material misstatement it is designed to address. When the audit firm determines that the evidence from substantive analytical procedures will not be	**Para 5 of SA 520:** When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall: (Ref: Para. A4-A5) (a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions; (Ref: Para. A6-A11) (b) Evaluate the reliability of data from which the auditor's expectation of recorded

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	sufficient to conclude, the audit firm should design additional substantive procedures to obtain sufficient appropriate audit evidence for the relevant assertion. It may be noted that depending on specific facts of a particular audit, substantive analytical procedures alone may not be sufficient for audit firm to conclude on the financial statements and thus, the audit firm must be clear about the level of assurance provided by substantive analytical procedures.	amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation; (Ref: Para. A12-A14) (c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and (Ref: Para. A15) (d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 7. (Ref: Para. A16)
What are the common types of analytical procedures?	Analytical procedures generally take one of the following forms: • *Trend analysis* - A commonly used technique where an audit firm evaluates whether the current period balance moves in line with the trend established with corresponding previous period, or based on an understanding of factors that may cause the account to change. • *Ratio analysis* - Ratio analysis is useful for analyzing asset and liability accounts as well as	**Para A1 of SA 520:** Analytical procedures include the consideration of comparisons of the entity's financial information with, for example: • Comparable information for prior periods. • Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation. • Similar industry information, such as a comparison of the

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	revenue and expense accounts. Ratios can also be compared over time or to the ratios of separate entities within the group, or with the ratios of other companies in the same industry. • *Comparative analysis* - This analytical procedure uses non-financial data for the audit period under consideration (e.g., occupancy rates to estimate rental income).	entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry. **Para A2 of SA 520:** Analytical procedures also include consideration of relationships, for example: • Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages. • Between financial information and relevant non-financial information, such as payroll costs to number of employees. **Para A3 of SA 520:** Various methods may be used to perform analytical procedures. These methods range from performing simple comparisons to performing complex analyses using advanced statistical techniques. Analytical procedures may be applied to consolidated financial statements, components and individual elements of information. **Please refer Appendix of SA 520 which describes some of the methods of analytical procedures.**
Should an audit firm perform all types of analytical procedures in audit of every financial statements?	Each technique of analytical procedures differs in its ability to determine whether a misstatement exists and in the level of evidence it provides. For example, trend analysis relies on data for only a single account whereas ratio analysis incorporates the expected relationships between two or more accounts. Comparative analysis may assist an audit firm in developing expectations to compare against the entity's recorded amounts. Audit firm should use professional judgment to select the techniques that give the greatest likelihood of detecting a material misstatement, considering the data available for analysis and the other audit evidence gathered related to the risk of material misstatement.	
How should an audit firm document the performance of	For substantive analytical procedures, the audit firm should document the relevant	**Para 9 of SA 230:** In documenting the nature, timing

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

substantive analytical procedures?	considerations prescribed in paragraph 9 of SA 230 and paragraphs 5 and 7 of SA 520. Depending on the level of evidence obtained, specific documentation of the audit firm can include the following: • Expectation of the amount, ratio or threshold and the variance threshold from the expectation for further investigation. • How the audit firm developed its expectation, including how it plans to evaluate the reliability of the data. • The recorded amount, trend or ratio compared to expectations. • Evaluation of any differences above variance threshold. • The results of investigation and additional procedures performed on differences above variance threshold. • How the audit firm satisfied itself regarding the reliability of the underlying data used in the substantive analytical procedures. • Level of assurance obtained from substantive analytical procedures to design extent of test of details.	and extent of audit procedures performed, the auditor shall record: (a) The identifying characteristics of the specific items or matters tested; (Ref: Para. A12) (b) Who performed the audit work and the date such work was completed; and (c) Who reviewed the audit work performed and the date and extent of such review. (Ref: Para. A13) **Para 5 of SA 520:** When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall: (Ref: Para. A4-A5) (a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions; (Ref: Para. A6-A11) (b) Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		(Ref: Para. A12-A14) (c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and (Ref: Para. A15) (d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 7. (Ref: Para. A16) **Para 7 of SA 520:** If analytical procedures performed in accordance with this SA identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by: (a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and (b) Performing other audit procedures as necessary in the circumstances. (Ref: Para. A20-A21)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

How should an audit firm identify fraud risk factors?	As per SA 240, an audit firm should use professional judgment in determining whether a fraud risk factor is present. This would assist auditor in identifying risks of material misstatement due to fraud. Fraud risk factors are determined in the context of three conditions generally present when fraud occurs (i.e., incentive/pressure, opportunity and attitude/rationalization). Further as per SA 240, the understanding of the business, along with understanding of the system of internal control at the entity level and significant classes of transactions, also forms the primary source of information in fraud risk identification and assessment process. The understanding of the entity's business model, and how it is affected by its business strategy and business objectives, may also assist the audit firm in identifying business risks that are relevant in identifying risks of material misstatement due to both fraud and error. Throughout the audit, the audit firm should remain mindful that a material misstatement due to fraud may exist despite past experience of the honesty and integrity of management and those charged with governance.	**Para 25 of SA 240:** In accordance with SA 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures. **Para 26 of SA 240:** When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud. (Ref: Para. A28-A30) **Para 27 of SA 240:** The auditor shall treat those assessed risks of material misstatement due to fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks. (Ref: Para.A31-A32)
Whether the Standards on Auditing require auditors to presume any risks of material misstatement due to fraud?	An audit firm should presume, at a minimum, the following risks of material misstatement due to fraud to be present in every entity: • *Revenue recognition:* Paragraph 26 of SA 240 presumes a risk of material	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	misstatement due to fraud related to improper revenue recognition in every audit i.e., overstatement/ understatement of revenue. Audit firm should evaluate which types of revenue, revenue transactions or assertions give rise to this fraud risk. When no such risk exists, the audit firm should document the reasons supporting this conclusion. • *Management override of controls:* Due to the unpredictable way in which management override of controls could occur, paragraph 31 of SA 240 requires an audit firm to consider the risk of management override of controls to be a risk of material misstatement due to fraud.	**Para 31 of SA 240:** Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.
How should an audit firm respond to risks of material misstatement due to fraud at the financial statement level?	Risks of material misstatement due to fraud can have a pervasive effect on the financial statements and might require an overall response. Whenever possible, the audit firm should identify the account balances and assertions where a potential misstatement is likely to arise and develop a specific response. In determining the overall response, the audit firm should: • Assign significant audit responsibilities to engagement team members with sufficient knowledge, skills and abilities. • Evaluate the selection and application of accounting policies of the entity to determine whether the	**Para 28 of SA 240:** In accordance with SA 330, the auditor shall determine overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level. (Ref: Para. A33) **Para 29 of SA 240:** In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor shall: (a) Assign and supervise personnel taking account of the knowledge, skill and ability of the individuals to be

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	accounting policies are being applied in an inappropriate manner particularly those relating to subjective measurement and complex transactions (e.g., revenue recognition, or capitalization versus expensing), as these may be indicative of fraudulent financial reporting resulting from management's efforts to manage earnings. • Incorporate an element of unpredictability in the nature, timing and extent of audit procedures such as performing procedures on accounts not normally examined due to immateriality or low risk, adjusting the timing of testing from that otherwise expected or using different sampling techniques.	given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement; (Ref: Para. A34-A35) (b) Evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings; and (c) Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. (Ref: Para. A36)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 14

Observations related to SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Observation 1

Non-compliance in respect of not obtaining an understanding about changes in circumstances that may give rise to new, or the need to revise existing accounting estimates in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates especially in view of the fact that technical assessment report indicated an economic useful life of an asset was 15 years while the economic life considered in financial statements was 38 years**.**

Non-compliance in respect of not documenting the review of the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias.

What is the issue?	AASB Suggested Guidance	Technical Literature
Why it is necessary to obtain understanding of the changes in circumstances that may give rise to new, or the need to revise existing accounting estimates in order to provide a basis for identification and assessment of risks of material misstatement for accounting estimates?	As per SA 540, auditor should obtain an understanding of the changes in circumstances in order to determine the need to make new accounting estimates or the need to revise the existing accounting estimates.	**Para 8 of SA 540**: When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, as required by SA 315, the auditor shall obtain an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates: (Ref: Para. A12) (a) The requirements of the applicable financial reporting framework relevant to accounting estimates, including related disclosures. (Ref: Para. A13-A15)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		(b) How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements. **In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.** (Ref: Para. A16-A21) (c) How management makes the accounting estimates, and an understanding of the data on which they are based, including: (Ref: Para. A22-A23) (i) The method, including where applicable the model, used in making the accounting estimate; (Ref: Para. A24-A26) (ii) Relevant controls; (Ref: Para. A27-A28) (iii) Whether management has used an expert; (Ref: Para. A29-A30) (iv) The assumptions underlying the accounting estimates; (Ref: Para. A31-A36) (v) Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why;

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		and (Ref: Para. A37) (vi) Whether and, if so, how management has assessed the effect of estimation uncertainty. (Ref: Para. A38).
How does an auditor document the auditor's review of the judgments and decisions made by management in the making of accounting estimates?	As per SA 540, the auditor should review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias. Assumptions are integral components of accounting estimates. Matters that the auditor may consider in obtaining an understanding of the assumptions underlying the accounting estimates include, for example: • The nature of the assumptions, including which of the assumptions are likely to be significant assumptions. • How management assesses whether the assumptions are relevant and complete (that is, that all relevant variables have been taken into account). • Where applicable, how management determines that the assumptions used are internally consistent. • Whether the assumptions relate to matters within the control of management (for example, assumptions about the maintenance programs that may affect the estimation of an asset's useful life), and how they conform to the entity's business plans and the external environment, or to	**Para 21 of SA 540**: The auditor shall review the judgments and decisions made by management in the making of accounting estimates to identify whether there are indicators of possible management bias. Indicators of possible management bias do not themselves constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual accounting estimates. (Ref: Para. A124-A125) **Para 23 of SA 540**: The audit documentation shall include: (a) The basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks; and (b) Indicators of possible management bias, if any. (Ref: Para. A128) **Para A128 of SA 540:** Documentation of indicators of possible management bias identified during the audit assists the auditor in concluding whether the auditor's risk assessment and

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	matters that are outside its control (for example, assumptions about interest rates, mortality rates, potential judicial or regulatory actions, or the variability and the timing of future cash flows). • The nature and extent of documentation, if any, supporting the assumptions.	related responses remain appropriate, and in evaluating whether the financial statements as a whole are free from material misstatement. See paragraph A125 for examples of indicators of possible management bias.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 15

Observations related to SA 570(Revised), Going Concern

Observation 1

The detailed checklist w.r.t. the going concern not available in the audit working file.

What is the issue?	AASB Suggested Guidance	Technical Literature
Is it necessary to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements?	As per SA 570(Revised), auditor should obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.	**Para 1 of SA 570(Revised):** This Standard on Auditing (SA) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. (Ref: Para. A1) **Para 3 of SA 570(Revised):** Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation. **Para 4 of SA 570(Revised):** In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is
If there is no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, what will be auditor's responsibility in such a situation?	The auditor should evaluate the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

What factors are relevant to auditor's evaluation of management's assessment of the entity's ability to continue as a going concern?	Management's assessment of the entity's ability to continue as a going concern for a reasonable period of time involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of conditions or events. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in SA 560, the auditor shall request management to extend its assessment period to at least twelve months from that date.	a fundamental principle in the preparation of financial statements as discussed in Para 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so. **Para 5 of SA 570(Revised):** Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment: • The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information. • The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions. • Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with
In the event, going concern test fails what is the treatment to be given in financial statements?	In the event, a going concern test fails, and the entity is not considered as a going concern, the financial statements are required to be stated at another basis (example – liquidation basis). In the event, the entity has not stated the financial statements in the above manner, the auditor is advised to give an adverse opinion as the matter is material and pervasive to the	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	financial statements. If the documentation evidencing going concern aspect is not properly maintained, then the entire basis of preparation of financial statements will be in question and auditor will not be in a position to state whether the financial statements are true and fair.	judgments that were reasonable at the time they were made. **Para 6 of SA 570(Revised):** The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. **Para 7 of SA 570(Revised):** However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 16

Observations related to SA 580, Written Representations

Observation 1

During the course of audit, the company has created deferred tax on capital assets with the intention to sale the land. Deferred tax was created at the tax rate of 10% which was based on the assumption/intention of the management that the company will have gain on sale of mutual funds in future which will be taxable @ 10% against which such deferred tax will be absorbed. The amount involved was material and hence being a management intention, such matter should have been part of management representation letter. However, the firm has not obtained the same in management representation letter.

What is the issue?	AASB Suggested Guidance	Technical Literature
Whether management representation letter is required to be obtained by auditor regarding management's plans or intentions that may affect the carrying value or classification of assets and liabilities?	Auditor should perform test of controls over the operating effectiveness of the controls over making accounting estimates. Auditor should also test input assumptions used by management for accounting estimates, identify indicators of possible management bias and develop a point estimate or a range to evaluate management's point estimate as per SA 540. Auditor should evaluate the need to include key audit matters on the basis of requirements of SA 701. Auditor should obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.	**Para 9 of SA 580:** The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement. (Ref: Para. A7-A9, A14, A22) **Para 10 of SA 580:** The auditor shall request management to provide a written representation that: (a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and (b) All transactions have been recorded and are reflected in the financial statements. (Ref: Para. A7-A9, A14, A22)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	As per SA 580, Auditor should request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework. Other SAs require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor should request such other written representations.	**Para 12 of SA 580:** Other SAs require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations. (Ref: Para. A10-A13, A14, A22) **Para A10 of SA 580:** In addition to the written representation required by paragraph 9, the auditor may consider it necessary to request other written representations about the financial statements. Such written representations may supplement, but do not form part of, the written representation required by paragraph 9. They may include representations about the following: • Whether the selection and application of accounting policies are appropriate; and • Whether matters such as the following, where relevant under the applicable financial reporting framework, have been recognized, measured, presented or disclosed in accordance with that framework: ○ **Plans or intentions that may affect the carrying value or classification of assets and liabilities;** ○ Liabilities, both actual and contingent;

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		○ Title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral; and ○ Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance. Para A126 and A127 of SA 540 list the written representations required to be obtained by auditor from management in respect of accounting estimates. **Para A126 of SA 540:** SA 580 discusses the use of written representations. Depending on the nature, materiality and extent of estimation uncertainty, written representations about accounting estimates recognised or disclosed in the financial statements may include representations: • About the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable financial reporting framework, and the consistency in application of the processes. • That the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures. • That disclosure related to accounting estimates are

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		complete and appropriate under the applicable financial reporting framework. • That no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements. **Para A127 of SA 540:** For those accounting estimates not recognised or disclosed in the financial statements, written representations may also include representations about: • The appropriateness of the basis used by management for determining that the recognition or disclosure criteria of the applicable financial reporting framework have not been met. (see paragraph A114) • The appropriateness of the basis used by management to overcome the presumption relating to the use of fair value set forth under the entity's applicable financial reporting framework, for those accounting estimates not measured or disclosed at fair value. (see paragraph A115).

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 17

Observations related to SA 600, Using the Work of Another Auditor

Observation 1

It was noted that the firm had not disclosed in its consolidated audit report, the magnitude of the portion of the financial statements audited by the other auditor(s) and aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.

What is the issue?	AASB Suggested Guidance	Technical Literature
Non-disclosure of magnitude of the portion of the financial statements audited by the other auditor(s) and aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.	As per SA 600, the principal auditor is required to disclose in his audit report the magnitude of the portion of the financial statements audited by other auditors.	**Para 25 of SA 600:** When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors. **SA 700(Revised), Relevant Extract of Illustration 2 – Auditor's Report on Consolidated Financial Statements of a Listed Company Prepared in Accordance with a Fair Presentation Framework** **<u>Other Matters</u>** (a) We did not audit the financial statements / financial information of _____ subsidiaries, and _____ jointly controlled entities, whose financial statements / financial information reflect

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		total assets of Rs._____ as at 31st March, 20XX, total revenues of Rs._____ and net cash flows amounting to Rs._____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of ____associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors. (b) We did not audit the financial statements / financial information of _____ subsidiaries and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs._____ as at 31st March, 20XX, total revenues of Rs._____ and net cash flows amounting to Rs._____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of ____associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information are unaudited and have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on such unaudited financial statements / financial information. In our opinion and according to the information and explanations given to us by the Management, these financial statements / financial information are not material to the Group. Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements / financial information certified by the Management.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 18

Observations related to SA 620, Using the Work of an Auditor's Expert

Observation 1

The report of a certified actuary is relied upon by the firm. However, as contained in para 12(a) of SA 620 i.e. inquiries, reviewing, corrective procedure etc., the related documents are not kept by the audit firm.

What is the issue?	AASB Suggested Guidance	Technical Literature
What are the specific responsibilities of auditors when they utilize the work of other experts, and what documentation is required to be maintained in accordance with Standards on Auditing?	As per SA 620, auditor should review (by inquiring, inspecting and observing) the work performed by auditor's expert and test assumptions (if any) used by such expert to address risk of material misstatement in the area for which auditor is relying on such expert. Auditor should assess the field of expertise of auditor's expert to evaluate appropriateness and adequacy of work performed by the auditor's expert. Agreement on the respective roles and responsibilities of the auditor and the auditor's expert may also include agreement about access to, and retention of, each other's working papers. When the auditor's expert is a member of the engagement team, that expert's working papers form part of the audit documentation. Subject to any agreement to the contrary, auditor's external expert's working papers are their own	**Extract from Appendix of SA 620:** **Considerations for Agreement between the Auditor and an Auditor's External Expert** *The Respective Roles and Responsibilities of the Auditor and the Auditor's External Expert* • Relevant auditing and accounting standards, and relevant regulatory or legal requirements. • The auditor's external expert's consent to the auditor's intended use of that expert's report, including any reference to it, or disclosure of it, to others, for example reference to it in a modified auditor's report, if necessary, or disclosure of it to management or an audit committee. • The nature and extent of the auditor's review of the auditor's external expert's work. • Whether the auditor or the

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	and do not form part of the audit documentation.	auditor's external expert will test source data. • The auditor's external expert's access to the entity's records, files, personnel and to experts engaged by the entity. • Procedures for communication between the auditor's external expert and the entity. • The auditor's and the auditor's external expert's access to each other's working papers. • Ownership and control of working papers during and after the engagement, including any file retention requirements. • The auditor's external expert's responsibility to perform work with due skill and care. • The auditor's external expert's competence and capability to perform the work. • The expectation that the auditor's external expert will use all knowledge that expert has that is relevant to the audit or, if not, will inform the auditor. • Any restriction on the auditor's external expert's association with the auditor's report. • Any agreement to inform the auditor's external expert of the auditor's conclusions concerning that expert's work.
Is it necessary for auditor to evaluate the competence, capabilities and	To determine the extent to which the auditor may use the work of auditor's expert, the auditor should assess and	**Para 9 of SA 620:** The auditor shall evaluate whether the auditor's expert has the necessary competence,

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

objectivity of auditor's expert before considering auditor's expert's work?	document the following: 1. The competence and capabilities of auditor's expert to evaluate the expertise of auditor's expert for the specific audit area. 2. Objectivity of the external expert to assess the independence of external expert and to ensure that there is no possible bias towards fulfilling management's expectations. The higher the degree of competence, capabilities and objectivity of auditor's expert, the greater use the auditor may make of the work of auditor's expert.	capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity. (Ref: Para. A14-A20)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 19

Observations related to SA 700(Revised), Forming an Opinion and Reporting on Financial Statements

Observation 1

Consolidated audit report does not report as required by Section 143(3)(c) of the Companies Act, 2013 and SA 700(Revised) regarding consideration of the reports on the accounts of the branch offices of holding company/ subsidiary/ associate and jointly controlled companies.

What is the issue?	AASB Suggested Guidance	Technical Literature
Are there any additional reporting responsibilities to be presented in the auditor's report with respect to reporting on the accounts of the branch offices of the company?	Section 143(3) of Companies Act 2013 requires auditors to report on certain matters in their audit report. These reporting responsibilities are in addition to the reporting responsibilities prescribed under Standards on Auditing. These reporting responsibilities include the requirement of Section 143(3)(c) w.r.t. reporting on the accounts of the branch offices of the company. These additional reporting responsibilities are covered by auditors in their audit report under a separate section – "Report on Other Legal and Regulatory Requirements".	**Section 143(3)(c) of Companies Act, 2013:** *"Whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report."* **Para 43 of SA 700(Revised):** If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		presented under the reporting responsibilities required by the SAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the SAs. (Ref: Para. A53–A55) **Para 45 of SA 700(Revised):** If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 20–40 of this SA shall be included under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Statements." (Ref: Para. A55)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

In the independent auditor's report on consolidated financial statements, there is no mention with regard to materiality description as required by paragraph 38(c) of SA 700(Revised).

What is the issue?	AASB Suggested Guidance	Technical Literature
What are the auditor's responsibilities under SA 700(Revised) w.r.t. the contents of Section- "Auditor's Responsibilities for the Audit of the Financial Statements" in the auditor's report?	Auditor should fulfil his reporting responsibilities prescribed under SA 700(Revised). These reporting responsibilities require including a Section- "Auditor's Responsibilities for the Audit of the Financial Statements" in the auditor's report.	**Para 37 of SA 700(Revised):** The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements." **Para 38 of SA 700(Revised):** This section of the auditor's report shall: (Ref: Para. A45) (a) State that the objectives of the auditor are to: (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and (ii) Issue an auditor's report that includes the auditor's opinion. (Ref: Para. A46) (b) State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and (c) State that misstatements can arise from fraud or error, and either: (i) Describe that they are considered material if, individually or in the aggregate,

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework. (Ref: Para. A47)
Whether materiality concept need to be addressed in the Section- Auditor's Responsibilities for the Audit of the Financial Statements under SA 700(Revised)?	As per the requirements of Standards on Auditing, the auditor needs to deal with material misstatements in the financial statements. The audit procedures are required to be designed by the auditor to reduce the risk of material misstatement in the financial statements to an acceptably low level. Also, the materiality concept needs to be described in the section- "Auditor's Responsibilities for the Audit of the Financial Statements" of auditor's report to give users of financial statements, the indication that the auditor has considered the materiality concept while dealing with the financial statements.	**Para 39 of SA 700(Revised):** The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A45) (a) State that, as part of an audit in accordance with SAs, the auditor exercises professional judgement and maintains professional skepticism throughout the audit; and (b) Describe an audit by stating that the auditor's responsibilities are: (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. (ii) To obtain an understanding of

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. (iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern. (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. (c) When SA 600 applies, further describe the auditor's responsibilities in a group audit engagement by stating: The division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/ subsidiaries or other components audited by other auditors.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 3

Though this company is not a listed entity and reporting on key audit matters is not mandatory as per para 5 of SA 701, it is considered that the audit firm has opted and decided to include key audit matters in the independent auditor's report. Though the introductory part is stated in the independent auditor's report, areas of key audit matters and how they are addressed are not stated as required in paragraphs 12 & 13 of SA 701.

In paragraph 4 of the independent auditor's report, whether 'other information' was available to the auditor or not is not stated.

The firm has reported under Section 197(16) of the Companies Act, 2013 whereas the provisions of section 197(16) of the Companies Act, 2013 requiring the auditor's reporting are not applicable to the company being a private limited company.

UDIN is not stated in the main independent auditor's report instead it is stated in Annexure-A.

UDIN generated by the auditor relates to tax audit report under section 44AB of the Income Tax Act, 1961 and it does not relate to statutory audit of standalone financial statements.

What is the issue?	AASB Suggested Guidance	Technical Literature
How to communicate key audit matters as per SA 701?	SA 700(Revised) provides that when auditor voluntarily decides to communicate key audit matters in the auditor's report, the auditor is required to do so in accordance with SA 701. Since the company is not a listed company, reporting on key audit matters is not mandatory for the auditor. However, if the auditor decides to voluntarily report on key audit matters, such reporting should be in accordance with SA 701.	**Para 31 of SA 700(Revised):** When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with SA 701. (Ref: Para. A35–A38) **Para 11 of SA 701:** The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that: (a) Key audit matters are those matters that, in the auditor's

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		professional judgment, were of most significance in the audit of the financial statements [of the current period]; and (b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31-A33) **Para 13 of SA 701:** The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address: (Ref: Para. A34–A41) (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para. A42–A45) (b) How the matter was addressed in the audit. (Ref: Para. A46–A51)
What are the reporting requirements w.r.t. Other Information section in auditor's report?	SA 720(Revised) requires auditors to include a separate section on Other Information in auditor's report in case of listed entities and unlisted corporate entities.	**Para 21 of SA 720(Revised):** The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report: (a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		information; or (b) For an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information. (Ref: Para.A52) **Para 22 of SA 720 (Revised)** When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53) (a) A statement that management is responsible for the other information. (b) An identification of: (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and (ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report. (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon. (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		as required by this SA; and (e) When other information has been obtained prior to the date of the auditor's report, either: (i) A statement that the auditor has nothing to report; or (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.
What is the requirement of section 197(16) of Companies Act, 2013?	Auditor should ensure the compliance as per the applicable section of the Companies Act, 2013. Non-compliance of the same tantamounts to violation of the provisions of the Companies Act, 2013 as well as auditor's non-compliance with SA 700(Revised). Section 197 does not apply to a private limited company and accordingly, the auditor should make appropriate statement in this regard.	**Section 197(16) of Companies Act, 2013** *"The auditor of the company shall, in his report under section 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section, whether remuneration paid to any director is in excess of the limit laid down under this section and give such other details as may be prescribed."* Section 197(16) of the Companies Act, 2013 makes it compulsory for the company's auditor to make a statement in his audit report prepared under Section 143 of the Companies Act, 2013 that the remuneration paid to the directors is in accordance with Section 197 of the Companies Act, 2013.
Whether separate UDIN are	Yes, separate UDINs are required for audit of Financial Statements and	As per Answer to Question 97 of FAQs on UDIN (Revised 2024)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

required for statutory audit of financial statements and tax audit?	Tax Audit because both are separate assignments. UDIN (Unique Document Identification Number) is identification of documents which have been attested by an auditor. ICAI has mandated such UDIN process in order to establish the genuineness of the document attested by a member of ICAI. This will enable the user to cross verify the UDIN and ascertain that the attestation by a member of ICAI is genuine. It is mandatory to state UDIN on the audit report which is being signed by a member.	issued by UDIN Directorate of ICAI: Yes, separate UDINs are required for audit of Financial Statements and Tax Audit because both are separate assignments and True and Fair view is given for Financial Statements and True and Correct view is given for Tax Audit assignment.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 4

It was noted that the audit firm did not mention reference of SAs and other para under the section "Auditor's Responsibilities for the Audit of the Financial Statements" in the auditor's report.

What is the issue?	AASB Suggested Guidance	Technical Literature
What should be stated in the section, "Auditor's Responsibilities for the Audit of the Financial Statements" of auditor's report?	As per SA 700(Revised), the section "Auditor's Responsibilities for the Audit of the Financial Statements" of auditor's report should contain various information. Such information is given in para 38-40 of SA 700(Revised).	**Para 37 of SA 700 (Revised):** The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements." **Para 38 of SA 700 (Revised):** This section of the auditor's report shall: (Ref: Para. A45) (a) State that the objectives of the auditor are to: (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and (ii) Issue an auditor's report that includes the auditor's opinion. (Ref: Para. A46) (b) State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists; and (c) State that misstatements can arise from fraud or error, and either: (i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework. (Ref: Para. A47)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		Para 39 of SA 700(Revised): The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A45) (a) State that, as part of an audit in accordance with SAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and (b) Describe an audit by stating that the auditor's responsibilities are: (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		and related disclosures made by management. (iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern. (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. (c) When SA 600 applies, further describe the auditor's responsibilities in a group audit engagement by stating: The division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors. **Para 40 of SA 700(Revised):** The Auditor's Responsibilities for the Audit of the

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		Financial Statements section of the auditor's report also shall: (Ref: Para. A45) (a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit; (b) State that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and (c) For audits of financial statements of all such entities for which key audit matters are communicated in accordance with SA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. In accordance with the requirements of SA 701, the auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A48)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 5

It was noted that there was negligence on the part of audit firm and in the opinion para both profit as well as loss was reported.

What is the issue?	AASB Suggested Guidance	Technical Literature
What should be stated in the opinion section of auditor's report?	Audit firms should comply with the requirements of SA 700(Revised) while preparing audit reports. Audit firms should also take care to avoid any typing/clerical errors while preparing audit reports.	**Para 23 of SA 700(Revised):** The first section of the auditor's report shall include the auditor's opinion and shall have the heading "Opinion." **Para 24 of SA 700(Revised):** The Opinion section of the auditor's report shall also: (a) Identify the entity whose financial statements have been audited; (b) State that the financial statements have been audited; (c) Identify the title of each statement comprising the financial statements; (d) Refer to the notes, including the summary of significant accounting policies; and (e) Specify the date of, or period covered by, each financial statement comprising the financial statements. (Ref: Para. A17–A18) **Para 25 of SA 700(Revised):** When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent: (a) In our opinion, the accompanying financial statements present fairly, in all

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		material respects, […] in accordance with [the applicable financial reporting framework]; or (b) In our opinion, the accompanying financial statements give a true and fair view of […] in accordance with [the applicable financial reporting framework]. (Ref: Para. A19–A26) **Para 26 of SA 700(Revised):** When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A21–A26)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 6

It is observed that the independent auditor's report has been issued in old format i.e., not as per latest SA 700 (Revised).

What is the issue?	AASB Suggested Guidance	Technical Literature
Is it necessary to prepare audit report in a predefined format?	The overall objectives in an audit of financial statements, as prescribed under SA 200, include reporting on the financial statements as required by the Standards on Auditing. An audit firm should comply with the requirements of SA 700 (Revised) while preparing an audit report. SA 700 (Revised) is effective for audits of financial statements for periods beginning on or after 1st April 2018. SA 700 (Revised) is like a parent of all the reporting standards because it lays down the fundamental principles and guidelines of auditor's reporting. As stated in paragraphs 1 and 3 of SA 700 (Revised), the standard deals with the auditor's responsibility in forming an audit opinion on a complete set of general-purpose financial statements and also deals with the form and content of the audit report. The other reporting standards (e.g., SA 800) draw their structure from these principles.	**Para 1 of SA 700 (Revised):** This Standard on Auditing (SA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements. **Para 3 of SA 700 (Revised):** This SA applies to an audit of a complete set of general-purpose financial statements and is written in that context. SA 800 deals with special considerations when financial statements are prepared in accordance with a special purpose framework. SA 805 deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. This SA also applies to audits for which SA 800 or SA 805 apply.
How would stakeholders	SA 700(Revised) acknowledges that an audit report prepared as	**Para 4 of SA 700 (Revised):** The requirements of this SA are aimed

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

benefit from an audit report prepared in accordance with a consistent format?	per SA 700 (Revised) ensures consistency and comparability with global norms and enhances the value of auditor's reporting and its credibility in the marketplace. Access to capital markets, mergers, acquisitions, and investments in an entity depend not only on the information that management provides in financial statements, but also on the assurance that such financial statements are free of material misstatements.	at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This SA promotes consistency in the auditor's report but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 20

Observations related to SA 705(Revised), Modifications to the Opinion in the Independent Auditor's Report

Observation 1

The audit firm in their auditor's report under opinion para, had remarked about the true and fair view of the accounts of the zone mentioning "subject to the adjustments which are to be made at the central office and our comments in Annexure A".

The revised independent auditor's report format as per SA 705(Revised), has the following to be given whenever the auditor has comments to offer, whether qualification or otherwise, as -

(a) Emphasis of opinion.

(b) Qualified opinion/Basis for qualified opinion.

(c) Adverse opinion.

What is the issue?	AASB Suggested Guidance	Technical Literature
Whether it is appropriate to use the wordings "subject to" in the opinion section of audit report?	As per FAQs on modification of opinion (SA 705) given in Chapter 4 of Implementation Guide on Reporting Standards (Revised SA 700, Revised SA 705 and Revised SA 706): **Extract from response to Question 5** **<u>Question 5:</u>** How does the auditor decide the nature of modification that should be made? **<u>Response 5*:*</u>** The auditor has to evaluate the situation carefully before making his judgment as to the nature of modification. It is very important that the auditor, in terms of the principles laid down in SA 230, Audit Documentation, also documents in his work papers, how and why he reached this professional judgment. There can be two situations:	**Para 7 of SA 705(Revised):** The auditor shall express a qualified opinion when: (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (b) The auditor is unable to obtain sufficient appropriate audit evidence on which that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	(a) There is a matter for which the auditor has sufficient appropriate audit evidence to determine that due to such matter, the financial statements are materially misstated, and (b) There is a matter for which the auditor is unable to obtain sufficient appropriate audit evidence to determine whether due to it, the financial statements may be materially misstated. In either case, the audit report will be modified, but the nature of modification can be different. After this, the auditor uses his professional judgment to determine if the effects or possible effects of the matter on the financial statements is/ are pervasive or not pervasive. Again, depending on the extent of pervasiveness, the nature of modification can be different. **From the same chapter of the Implementation Guide** **Response to question 18** **<u>Question 18</u>** How is the Modified Opinion paragraph to be given? **<u>Response 18</u>** Where auditor's opinion is modified, the paragraph is titled as "Qualified Opinion" or "Adverse Opinion" or "Disclaimer of Opinion", as may be appropriate. **<u>Qualified Opinion</u>** Where the opinion is qualified due to material misstatement in the financial statements, the auditor uses the words: "Except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph, the accompanying	**Para 17 of SA 705(Revised)** When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section: (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) […] in accordance with [the applicable financial reporting framework]; or (b) When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework]. When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion. (Ref: Para. A20) **Para A20 of SA 705(Revised):**

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	financial statements present fairly in all material respects or give a true and fair view in accordance with the applicable financial reporting framework" (Reporting under a fair presentation framework). Where the opinion is qualified due to material misstatement in the financial statements, the auditor uses the words: "Except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph, the accompanying financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework" (Reporting under a compliance framework). Where the qualification is because of inability to obtain sufficient appropriate audit evidence, the phrase to be used is: "Except for the possible effect(s) of the matter(s) described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly in all material respects or give a true and fair view in accordance with the applicable financial reporting framework" (Reporting under a fair presentation framework). Where the qualification is because of inability to obtain sufficient appropriate audit evidence, the phrase to be used is: "Except for the possible effect(s) of the matter(s) described in the Basis for Qualified Opinion paragraph, the accompanying financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework" (Reporting under a compliance framework). It may be noted that use of the words "Subject to" for qualified opinions is discouraged under Revised SA 705, as	When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	these words are considered to be not sufficiently clear or forceful. **<u>Disclaimer of Opinion</u>** Where the opinion is a disclaimer of opinion due to inability to obtain sufficient appropriate audit evidence, the auditor shall state that: "We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements." **<u>Adverse Opinion</u>** Where the auditor expresses an adverse opinion under a fair presentation framework, he states that "in his opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph, the accompanying financial statements do not present fairly or give a true and fair view in accordance with the applicable financial reporting framework…." Where the auditor expresses an adverse opinion under a compliance framework, he states that "in his opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph, the accompanying financial statements have not been prepared, in all material respects, in accordance with the applicable financial reporting framework…"	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

In the auditor's report, there is a qualification but the likely impact of the same in financial statements is not stated.

What is the issue?	AASB Suggested Guidance	Technical Literature
Is there any specified Standard on Auditing which deals with qualification in audit report?	SA 700(Revised) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements. SA 705(Revised) 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. SA 705(Revised) also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.	**Para 6 of SA 700(Revised):** The objectives of the auditor are: (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and (b) To express clearly that opinion through a written report.
Whether auditor needs to mention the likely impact of qualified opinion on the financial statements?	In case of qualified opinion, SA 705(Revised) requires auditor to include a Basis for Qualified Opinion Section in auditor's report. In this section, the auditor needs to include a description of the reasons for qualification. Further, auditor needs to give quantification of likely impact of qualification unless it is not practical.	**Para 21 of SA 705(Revised):** If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para.A22)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 3

Non-compliance of SA 705(Revised) for stating in the auditor's responsibility para in independent auditor's report on the standalone financial statements, which provided a qualified audit opinion that the audit evidence obtained is sufficient and appropriate to provide a basis for audit opinion instead of qualified audit opinion.

What is the issue?	AASB Suggested Guidance	Technical Literature
Why is it necessary to use words "Qualified Opinion" in place of "Opinion" in case of qualified opinion?	As per SA 700(Revised), the auditor is required to include a statement in auditor's report about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion. As per SA 705(Revised), in case of qualified or adverse opinion, the auditor is required to amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by SA 700(Revised) to include the word "qualified" or "adverse", as appropriate.	**Para 28 of SA 700 (Revised):** The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A27) (a) States that the audit was conducted in accordance with Standards on Auditing; (Ref: Para. A28) (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs; (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI; (Ref: Para. A29–A34) (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion. **Para 25 of SA 705(Revised):** When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of SA 700(Revised) to include the word "qualified" or "adverse", as appropriate.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 21

Observations related to SA 706(Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Observation 1

In the independent auditor's report on consolidated financial statements, emphasis of matter is given relating to a judicial enquiry and imposing penalty. There is no disclosure on this subject in the consolidated financial statements. Moreover, auditor has not made it clear whether he has modified his opinion.

What is the issue?	AASB Suggested Guidance	Technical Literature
What is the emphasis of matter paragraph and why is it required in audit report? What are the requirements w.r.t. including emphasis of matter paragraph in auditor's report?	As per SA 706(Revised), if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report provided: (a) The auditor would not be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter; and (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. If required disclosures are not	**Para 7(a) of SA 706(Revised):** <u>Emphasis of matter Paragraph</u> A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. **Para 8 of SA 706(Revised):** If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. A5–A6)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	included in financial statements, auditor should evaluate the requirement for expressing a qualified opinion on the basis of requirements of SA 705 (Revised).	(a) The auditor would not be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter; and (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A1–A3) **Para 9 of SA 706(Revised):** When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall: (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter". (b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized. (Ref: Para. A7-A8, A16-A17)
In case emphasis of matter paragraph is included in auditor's report on standalone financial statements, whether similar emphasis of matter paragraph should be included in auditor's report on consolidated financial statements?	Yes, if the matter qualifies for disclosure in consolidated financial statements in view of the materiality of the matter from perspective of consolidated financial statements, emphasis of matter paragraph is also required to be included in the auditor's report on consolidated financial statements. In case the matter may be material for standalone financial statements but not material for consolidated financial statements, this is the judgement to be exercised by the auditor in relation to the size of consolidated financial statements and nature of the matter.	

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Observation 2

In the consolidated audit report, the fact that audit of wholly owned subsidiary and associate have been done by other auditors is mentioned under "key audit matter" instead of "other matter".

As per SA 706(Revised), if the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an other matter paragraph in the auditor's report.

What is the issue?	AASB Suggested Guidance	Technical Literature
When other matter paragraph needs to be included in auditor's report?	The auditor is required to include key audit matters section in auditor's report in accordance with requirements of SA 701. The auditor is required to include emphasis of matter paragraph and other matter paragraph in auditor's report in accordance with requirements of SA 706(Revised). Information to be included in the auditor's report needs to be evaluated considering requirements of both these SAs. As per SA 706(Revised), other matter paragraph should be included in the auditor's report when auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that in the auditor's judgment is relevant to: • The users' understanding of the audit, • The auditor's responsibilities, or	**Para 10 of SA 706(Revised):** If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided: (a) This is not prohibited by law or regulation; and (b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A9–A14) **Para 11 of SA 706(Revised):** When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading. (Ref: Para. A15–A17) **Extract from Para A16 of SA**

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

	• The auditor's report. As per SA 706(Revised) read with illustrative formats of auditor's report given in SA 700(Revised), other matter paragraph is required in auditor's report to report the fact that some components of the entity have been audited by other auditors.	**706(Revised):** The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with SA 700(Revised).

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

Chapter 22

Observations related to SA 720(Revised), The Auditor's Responsibilities Relating to Other Information

Observation 1

Financial performance Vs. Statement of Profit and Loss

Total expenses as per the director's report is not matched with audited financial statements. Total expenses as per director's report is Rs. 40.56 crores and as per the statement of profit and loss is Rs. 40.33 Crores. Variation in expenses is Rs. 0.23 crores.

Financial performance Vs. Statement of Profit and Loss

Profit/(loss) before tax as per director's report is not matched with audited financial statements. Profit/ (loss) before tax as per director's report is Rs. 1.34 Crores and as per the statement of profit and loss is Rs. 1.57. Crores. Variation in profit is Rs. 0.23 Crores.

Financial performance Vs. Note No. 4 to financial statements

Balance loss carried forward as per the director's report is not matched with audited financial statements. Balance loss carried forward as per director's report is Rs. 36.62 crores and as per Note No. 4 to financial statements, it is Rs. 36.39 Crores. Variation in loss carried forward is Rs. 0.23 Crores:

Financial performance Vs. Note No. 18 to financial statements

Other Income as per director's report is not matched with audited financial statements. Other income as per director's report is Rs. 8.76 crores relating to the previous year and as per Note No. 18 to financial statements it is Rs. 14.39 Crores relating to previous year. The variation in other income relating to previous year is Rs.5.63 Crores.

As per provisions of Section 146 of the Companies Act, 2013, all notices and communications of annual general meeting (AGM) shall be forwarded to statutory auditor of the company. The statutory auditor shall unless otherwise exempted by the company attend either by himself or through his authorized representative, any general meeting and shall have right to be heard at such meeting on any part of the business which concerns him as the auditor. After receipt of notice of AGM, the mistakes identified in the director's report might have been brought to the notice of directors to amend the same.

Non-compliance of SA 720(Revised) for not identifying the inconsistency of various amounts stated in director's report with those stated in the statement of profit and loss and determining whether the other information need to be revised.

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

What is the issue?	AASB Suggested Guidance	Technical Literature
What is purpose of reading the other information?	The purpose of reading other information is to identify material inconsistency between other information and financial statements and to identify if the information given or absence of required information to be given is misleading. Materiality is an important factor to understand the reporting requirements under SA 720(Revised). Materiality of information should be evaluated before considering reporting requirements under SA 720(Revised).	**Para 3 of SA 720(Revised):** This SA requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.
What are the requirements of SA 720(Revised) w.r.t. reading and considering the other information?	SA 720(Revised) requires auditor to read Other Information and consider whether: • There is any material inconsistency between other information and financial statements. • There is any material inconsistency between other information and auditor's knowledge obtained in the audit.	**Para 14 of SA 720(Revised):** The auditor shall read the other information and, in doing so shall: (Ref: Para. A23–A24) (a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		financial statements; and (Ref: Para. A25–A29) (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. (Ref: Para. A30–A36) **Para 15 of SA 720(Revised):** While reading the other information in accordance with paragraph 14, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated. (Ref: Para. A24, A37–A38)
What steps should be taken by auditor if auditor concludes that a material misstatement of other information exists?	In such situation, auditor needs to perform procedures given under para 17-19 of SA 720(Revised).	**Para 17 of SA 720(Revised):** If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management: (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made. **Para 18 of SA 720(Revised):** If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am

		after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A44) (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii)); or (Ref: Para. A45) (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A46–A47) **Para 19 of SA 720(Revised):** If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall: (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (Ref: Para. A48) (b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. (Ref: Para. A49–A50)

Downloaded by: DEEPAK KUMAR | 21 Sept 2026, 11:51 am