

## LIST OF AAS/SAP'S

### AAS/SAP 2 - OBJECTIVE & SCOPE OF THE AUDIT OF F.S.

1. **Objective of an Audit:** To express an opinion with regard to the true and fair view of the financial position.
2. **Responsibilities:** Management is responsible for preparation of financial statements
3. **Scope of an Audit:**
  - a. **Determined by:** The terms of the engagement, the requirements of relevant legislation and the pronouncements of the Institute.
  - b. **Cannot be restricted:** The scope of an audit in relation to matters prescribed by act.
4. **The reliability of information is assessed by:** Compliance procedures & substantive procedures
5. **Primary objective - True & fair view.**
6. **Secondary objective - Detection of frauds and errors.**
7. **Concerned with material items only.**
8. If any constraints have been placed in the scope of auditor's duty, the auditor should make necessary disclosure in his audit report. Thereafter he should issue an audit report containing a qualified opinion or a disclaimer opinion, which ever is appropriate.

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### AAS/SAP 3 - DOCUMENTATION

1. **Purpose:** SAP1 states that "The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles governing audit."
2. **Meaning:** Documentation, for purposes of this Statement, refers to the working papers.
3. **The main functions of working papers:**
  - a. To help in the planning and performance of the audit.
  - b. To help in the supervision and review of the audit work.
  - c. Provide evidence of the audit work performed to support the auditor's opinion.
4. **Form and Content.**
5. **Completeness:** Working papers should be sufficiently complete and detailed .
6. **Extent of documentation:** Is a matter of professional judgment
7. **Material items:** All significant matters, which require the exercise of judgment, together with the auditor's conclusion thereon, should be included in the working papers.
8. **In case of recurring audits:** Working paper files may be classified as permanent audit files, and current audit files
9. **Property of auditor:** Working papers are the property of the auditor. The auditor may, at his discretion, permit to take xerox from his working papers to his client.

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### AAS/SAP 4 - FRAUD AND ERROR

1. **"Fraud" refers to** intentional misrepresentations of financial information by management, employees, or third parties.
2. **"Error" refers to** unintentional mistakes in financial information
3. The **responsibility for the prevention and detection** of fraud and error rests with management
4. The **primary objective of an audit** is to enable an auditor to express an opinion on such financial statements. In forming his opinion, the auditor seeks reasonable evidence that fraud or error has not occurred or if it has occurred, the effect of fraud is properly reflected in the financial statements or the error is corrected (**Called secondary objective of an audit**).
5. **Subsequent discovery of fraud or error:** Due to the inherent limitations of an audit the subsequent discovery of fraud or error does not, in itself, indicate that the auditor has not done the audit properly.
6. **Inherent Limitations of an audit:**
7. **Inherent limitations of ICS:**
  - a. **Risk of failure:** While the existence of an effective system of internal control reduces the chances of resulting of frauds or errors, there will be always some risk of internal controls failing to operate as designed.
  - b. **The possibility of dilution of controls through collusion**
  - c. **Top management:** Certain levels of management may be in a position to override controls.

- 10. Procedures when circumstances indicate a possible misstatement:** Consider its impact in relation to other aspects of audit, otherwise, disclose the matter in audit report if material enough.
- 11. When fraud or error is by a member of management,** the auditor should reconsider the reliability of any representations made by same person to the auditor.
- 12. To report about occurrences of fraud or significant error:**
- It would be appropriate to report the matter to a level in the organisation structure above the persons responsible for the commitment of fraud.
  - When the top management itself is doubted to be involved, the auditor may report to the shareholders or seek legal advice.

### AAS /SAP 5 - AUDIT EVIDENCE

- Purpose:** Is to enlighten the concepts relating to audit evidence like types, reliability standards and methods to obtain the audit evidence (i.e., Compliance procedures & Substantive procedures) etc.
- The reliability of audit evidence depends on its source** - internal or external, and on its nature - visual, documentary or oral.
- Different sources - Inconsistency:** When audit evidence obtained from one source is inconsistent with that obtained from another, further procedures may have to be performed to resolve the inconsistency.
- When the auditor is in doubt as to any assertion of material significance, he would attempt to obtain sufficient appropriate evidence to remove such doubt. If he is unable to obtain sufficient appropriate evidence he should not express a clean opinion.
- Method to obtain Audit Evidence:** The auditor obtains evidence in performing compliance and substantive procedures by one or more of the following methods: Inspection, Observation, Inquiry and confirmation, Computation, Analytical review.

### AAS 7 - RELYING UPON THE WORK OF AN INTERNAL AUDITOR

- Need for relying on the work of the internal auditor:**
  - Important bearing:** The work done by an internal auditor has an important bearing on the work performed by the statutory auditor.
  - Overlapping:** There is lot of overlapping between work of an internal & statutory auditor. It is generally advisable that the internal auditor's work may be evaluated before any reliance can be placed upon his work.
  - Accordingly the statutory auditor should evaluate the internal audit function to the extent it will be relevant in determining the nature, timing and extent of his compliance and substantive procedures.
  - The nature, timing and extent of his tests will depend on the evaluation of the internal audit function, which is effected by **Organisational status, Scope of function, Technical competence, Due professional care.**
- The statutory auditor should **document** his conclusions as to the review of the specific work after undertaking the test checking the work of internal auditor.
- Final responsibility:** lies with statutory auditor for his report and in no way will reduce his responsibility.

### AAS/SAP 8 - AUDIT PLANNING

- Continuous & involves:** Planning should be continuous and involves:
  - Developing an overall plan for the scope and conduct of the audit &
  - Developing an audit programme for implementing the audit procedures .
- Revisions:** Changes in conditions may cause revisions of the audit plan & programme.
- Factors to be considered:** In planning his audit, the auditor will consider factors such as:
  - Complexity of the audit.
  - His previous experience with the client.
  - Knowledge of the client's business.
- The auditor needs to obtain a level of knowledge of the client's business**
- Development of an Overall Plan.**
- Documentation:** The auditor should document his overall audit plan.
- Developing the Audit Programme.**
- The preparation of audit planning & programme ideally commences at the conclusion of the previous year's audit.**

**AAS/SAP 9 - RELIANCE ON THE WORK OF AN EXPERT**

- a. An expert is person who possesses special skill, knowledge and experience in a particular field, other than accounting and auditing
- b. **Determining the need to use the work of an expert-** Materiality or Complexity of an item..
- c. **Pre - Precautions:** Whenever an auditor decides to rely on the work of an expert he should satisfy himself regarding the experts skill and competence by considering his professional qualification, experience and reputation in the field in which the auditor is seeking evidence.
- d. **Post - Precautions:** The auditor should seek reasonable assurance that the expert's work constitutes appropriate audit evidence in support of the financial information. For this purpose, the auditor should consider whether the expert has used the source data, which are appropriate in the given circumstances. He should also obtain in writing, the various assumption and methods used by the expert to determine that they are reasonable.
- e. Even after performing necessary audit procedures, the auditor concludes, that the work of the expert is inconsistent with the information in the financial statement or the work of expert does not constitute appropriate audit evidence, he should express a qualified opinion, a disclaimer of opinion or an adverse opinion, as appropriate.
- f. **Reference to Expert in an Audit Report** – In case of Qualified Opinion, the work of that expert may be referred to / described

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**AAS 10 - USING THE WORK OF ANOTHER AUDITOR (REVISED)**

1. **Purpose:** The purpose of this SAP is to establish standards to be applied in situations where an auditor (herein after referred as principal auditor), reporting on the financial information of an entity, uses the work of another auditor (herein after referred as other auditor) with respect to the financial information of one or more branches/components included in F.S.
2. **The principal auditor Can rely, unless there are special cases.**
3. **Perform audit procedures:** When using such work, the principal auditor should:
  - a. Advise the other auditor of the use that is going to be made of the other auditor's work.
  - b. Inform other auditor areas requiring special consideration, timetable for completion of audit.
  - c. Advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them.
5. **Discussion or questionnaire or meet:** The principal auditor may discuss with the other auditor to answer a questionnaire or may also meet the other auditor.
6. **The principal auditor may discuss with the other auditor or management** affecting the financial information of the components.
7. **Supplementary tests:** He may also carry out supplementary tests of the F.S. of the branch.
8. **Documentation:**
  - a. The principal auditor should document in his working papers the components (Branches) whose financial statements were audited by other auditors, the names of the other auditors
  - b. **Procedures performed & conclusions reached.**
  - c. **Qualifications:** Where the other auditor's report is qualified, the principal auditor should also document how he has dealt with the qualifications or adverse remarks contained in the other auditor's report in framing his own report.
9. **Co-ordination between Auditors:**
11. **Reporting Considerations: Qualification of other auditor, Qualified report - Can't use**
12. The principal auditor would not be responsible in respect of the work entrusted to the other auditors, except in circumstances which should have aroused his suspicion about the reliability of the work performed by the other auditors.

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**AAS/SAP 11 - REPRESENTATIONS BY MANAGEMENT**

1. **Meaning** The representation of management is normally contained in a letter called Letter of representation Or Over all management certificate.
2. **Responsibility for the Financial Information:** The auditor should obtain a letter from the management acknowledging its responsibility for the preparation of F.S.

**3. On what matters - judgment + Must matters:**

- a. The auditor should exercise his professional judgment in determining the matters on which he wishes to obtain such representations in writing.
  - b. However, representations should be obtained from management in writing on material items when other sufficient & appropriate audit evidence cannot be reasonably expected to exist.
4. During the Course of Audit, The Auditor may receive management representation either unsolicited are in response to specific enquires. The auditor must seek Corroborative evidence and find out whether the management representations are reasonable and consistent
  5. **Contradiction:** If a representation is contradicted by other evidence, the auditor shall modify or increase the audit procedures & reconsider the other representations made by management.
  6. The Auditor should document the management representation in his working papers. A written representation is better than oral representation.
  8. A management representation must be dated, addressed to auditor and signed by the members of the management like M.D.

**AAS/SAP 12 - JOINT AUDIT**

1. **Purpose:** deals with - responsibilities of the joint auditor's.
2. **Division of work:** by mutual discussion - in terms of audit of identifiable units/areas.
3. **Documented & communicated:** division of work should be adequately documented and preferably communicated to the entity.
4. Joint auditor - comes across significant matters - communicate the same to all the other joint auditors.
5. **Responsibility of joint auditor's:**
  - a. In respect of divided audit work – each auditor is responsible only for the work allocated to him.
  - b. jointly and severally responsible -
    - Y In respect of undivided work among the joint auditors.
    - Y Compliance & disclosure requirements of the relevant statute.
    - Y audit report compiles with the relevant statute.
6. **Reporting Responsibilities:**
  - a. in case of a disagreement - joint auditors should express their own opinion through a separate report.
7. **Advantages:** Sharing of expert knowledge, Lower workload, Better quality of performance & improved service to the client.
8. **Disadvantages:** Problems of coordination, Problems of tracing the responsibility & Increase in cost of audit.

**AAS/SAP 13 - MATERIALITY**

1. **Meaning:** significance. Any information is material if it influences the decision of the users of F.S.
2. **Criteria for materiality:** purely professional judgment of the auditor. Sometimes statutory provisions also contain the element of materiality criteria.
3. Several individual unimportant items **together** may become a material in total.
4. **From the planning stage:** SAP-13 states that while planning the audit, the auditor should consider what would make the financial information materially misstated.
5. **Change in materiality:** However, the auditor's assessment of materiality at the concluding stage / during the course of audit may be different from that of the materiality at the time of planning. The assessment of materiality would change because of a change in circumstances or a change in the auditor's knowledge as a result of the audit.
6. Auditor should consider whether the effect of aggregate uncorrected mis-statements on the financial information is material.
7. **The aggregate of uncorrected mis-statements comprises:**
  - a. **Specific mis-statements** identified by the auditor including the net effect of uncorrected mis-statements.
  - b. Mis-statements which cannot be specifically identified i.e. **projected errors.**
8. **If the aggregate of the uncorrected misstatements is material he may consider it's -** Impact in the F/S either himself or through management, otherwise, furnish a qualified / adverse opinion.

**AAS/SAP 14 - ANALYTICAL REVIEW PROCEDURES**

1. **Purpose:** SAP-5 recommends various methods of collection of evidence and among them analytical review procedures is one of them. Analytical procedures include comparison of financial information with prior period information, anticipated results such as budgets, and similar industry information.
2. **Applied to:**
  - a. Consolidated financial statements.
  - b. Financial statements of components (i.e. Factories, Branch etc.)
  - c. Individual elements of financial information.
3. **Stages of application of Analytical Review Procedures.**
  - a. in planning the audit procedures.
  - b. As a substantive test.
  - c. As an overall review at the end of the audit.
4. **Factor's to be considered while applying analytical procedures as substantive test:** **Extent of reliance**, Nature of the business (For e.g. Seasonal business), **Segregation, Financial and non financial information** (like number of units sold), Sources from which information is available i.e. internal/external sources, **Comparability** of the information available, Knowledge gained by auditor in the previous year's audit.
5. **The extent of reliance on analytical procedures depends on several factors:** Materiality of the items, Results of other audit procedures ,Assessment of inherent and control risks, Controls over preparation of financial information

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**AAS/SAP 16 - GOING CONCERN**

1. **Fundamental accounting assumption:**
  - a. An entity's continuance as a going concern for the foreseeable future is **assumed** in the preparation of F.S in the absence of information to the contrary.
  - b. If this assumption is **unjustified** the value of assets & liabilities may need to be adjusted.
2. The auditor should consider whether the going concern assumption is **appropriate or not**.
3. **Indications of non appropriateness:**
  - a. **Financial Indications:** Negative working capital, Substantial operating losses , Arrears or discontinuance of dividends, Inability to pay creditors on due dates, Change from credit to cash transactions with suppliers, arrangement with creditors for reduction of liability.
  - b. **Operating Indications:** Loss of key management without replacement, major market, franchise, license, or principal supplier. Labour difficulties or shortages of important supplies.
  - c. **Other Indications:** Non-compliance with statutory requirements, Pending legal proceedings that may result in judgments bringing financial crisis.
4. **Audit Evidence :**
  - a. Analyse and discuss cash flow, profit and other relevant forecasts with management, the entity's latest available interim financial statements.
  - b. Review the terms of debentures & loans and determine whether any have been breached, the status of matters under litigation and claims.
  - c. Read minutes of the meetings of shareholders, the board of directors with reference to financial difficulties.
5. The auditor would also consider and discuss with management its **plans for future action**, such as plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditure, or increase capital.
6. **Audit Conclusion and Reporting:** Conclude whether Going Concern assumption is valid or not. If not, then the F/S would be a misleading; the auditor should express an Adverse Opinion or Disclaimer of opinion.

### AAS/SAP 17 - QUALITY CONTROL OF AUDIT WORK

1. **Purpose:** The purpose of this SAP is to establish standards on quality control:
  - a. Policies and procedures of an audit firm regarding audit work generally and
  - b. Procedures regarding the work delegated to assistants on an audit.
2. **Two levels:** Quality Control Procedures should be implemented both at the level of the audit firm & at individual audits level.

#### **The objectives of the quality control policies at Audit Firm level**

Professional requirements, Skill and Competence, Assignment, The work assigned to the assistants must be properly directed & supervised, Expert consultation, Monitoring on policies.

3. The firm's quality control procedures should be **communicated** to its personnel/assistants so that they understood and implemented.

#### **Quality control At Individual Audits level**

4. The auditor should **implement** the designed quality control procedures appropriate to the individual audit.
5. The audit supervisor shall consider the competence of assistants both at the time of the delegating & deciding the extent of direction, supervision.
6. **Manner of delegation:** with due care by persons having the needed professional knowledge.
7. **Direction involves:** Informing assistants of their responsibilities, informing them the nature of the entity business and possible accounting or auditing problems that may affect the nature, timing and extent of audit procedures.
8. **Functions of supervisor:** Monitor the progress of the audit, Modifying the Audit Programme due to the latest developments, He may request the audit personnel to perform certain additional procedures, Settle any differences in audit opinions between audit staff.

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### AAS/SAP 18 - AUDIT OF ACCOUNTING ESTIMATES

1. **"Accounting estimate" means** an estimate of the amount of an item in the absence of an exact measurement. Examples are: Provision for taxation, Provision for a loss from a lawsuit.
2. **Management is responsible** for making accounting estimates.
3. **Approaches in audit:** Auditor has to follow one or more methods in the audit of estimate:
  - a. Review and testing the process used by management to develop the estimate.
  - b. Use independent estimate for comparison with that prepared by management.
  - c. Review subsequent events which confirm the estimate made.
8. **Difference:** When there is a difference between the auditor's estimate of the amount and the estimated made by the management:
  - a. If the difference is small it may not require adjustment.
  - b. If the difference is big, management would be requested to make the adjustment.

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### AAS/SAP 19 - SUBSEQUENT EVENTS

1. **'Subsequent Events'** refers to those significant events occurring between the balance sheet date & the date of the audit report, whose consequential effects should be taken into consideration for the preparation of the F/S.
2. **Treatment:** Such events up to the date of the auditor's report may require adjustment of or disclosure in the financial statements
3. **Audit Procedures:** The auditor should perform audit procedures to obtain sufficient & appropriate audit evidence that all such have been identified.
4. The **procedures** to identify such events would include the following:
  - a. Reading **minutes**

- b. Reading the entity's latest available **interim financial statements**.
  - c. Enquiring of the entity's **lawyers** concerning litigation and claims.
  - d. **Inquiring of management** as to whether any subsequent events have occurred after the b/s date which might affect the F.S.
5. When the management does not disclose/adjust for such events, the auditor should express a qualified opinion or an adverse opinion as appropriate.

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**AAS/SAP 20 - KNOWLEDGE OF THE BUSINESS**

1. **Knowledge of the business** helps in assessing the inherent and control risks & in developing the overall audit plan and the audit programme, Determining a materiality level, Assessing audit evidence to establish its appropriateness, Evaluating accounting estimates and management representations, Identifying areas where special audit consideration be necessary, Identifying related parties and related party transactions.
2. **Preliminary knowledge before acceptance:** Prior to accepting an engagement, the auditor would obtain a preliminary knowledge of the industry and of the nature of ownership, management and operations of the entity to be audited.
3. **For continuing engagements,** the auditor would update information gathered previously.
4. **Sources of information:** The auditor can obtain knowledge of the industry and the entity from a number of sources. For example:
  - a. Previous experience with the entity and its industry.
  - b. Discussion with people within the entity & outside the entity, internal auditor, legal advisors.
  - c. Publications related to the industry Visits to the entity premises and plant facilities.
  - d. Documents produced by the entity
5. The auditor should ensure - audit staff - also obtains knowledge of the business to enable them to carry out the audit work.

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**AAS/SAP 21- CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS**

1. **Purpose:** The purpose is to establish standards on the auditor's responsibility regarding consideration of laws and regulations in an audit of F.S.
2. **Meaning of non compliance: Omission/Commission, Personal misconduct.**
3. **An audit cannot be expected to detect non compliance with all laws and regulations.**
4. **It is the Responsibility of Management** for the Compliance with Laws and Regulations.
5. The following procedures **may assist** management in discharging its responsibilities for the prevention and detection of non-compliance with laws and regulations.
  - a. Developing and following a Code of Conduct.
  - b. Ensuring employees are properly trained and understand the Code of Conduct and punishing strictly for non compliance.
  - c. Establishing a legal department to assist in monitoring legal requirements.
6. The auditor should obtain **representation** that management has disclosed all known actual or possible non-compliance with laws and regulations.
7. **Assumption of compliance:** In the absence of evidence to the contrary, the auditor is entitled to assume the compliance with these laws and regulations.
8. **Communication / Reporting of non-compliance:** To the Appropriate Level of Management. Material non-compliances can be expressed by way of qualified / adverse opinion.
9. **Withdrawal from the Engagement:** The auditor may conclude to withdraw from the engagement when the entity doesn't take the remedial action which auditor considers necessary.

**AAS/SAP 22 - INITIAL ENGAGEMENTS - OPENING BALANCES**

1. **Purpose:** The purpose is to establish standards regarding audit of opening balances in case of initial engagements, i.e., when the financial statements are audited for the first time or when the financial statements for the preceding period were audited by another auditor.
  2. **Audit Procedures:**
    - a. A/c Policies being consistently followed
    - b. Correct balances of various a/c's have been correctly b/f
    - c. Nature of Op. Bal. & risk of their misstatement in the current period
    - d. The Op. Bal. do not contain misstatements that materially affect the financial statements of the current period.
  3. **For other assets and liabilities**, such as fixed assets, investments and long-term debt:
    - a. The auditor will ordinarily examine the records underlying the opening balances Or
    - b. The auditor may obtain confirmation of opening balances from third parties.
  4. **Mis-statements & Not adjusted:** If the opening balances contain misstatements which materially affect the financial statements for the current period the auditor should express a qualified opinion or an adverse opinion, as appropriate.
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**AAS/SAP 23 - RELATED PARTIES**

1. **Purpose:** The purpose is to establish standards on the auditor's responsibilities and audit procedures regarding related parties and transactions with such parties.
2. **Management is responsible for the identification and disclosure** of related parties and transactions with such parties.
3. **Auditor needs to be aware of them because:**
  - a. A related party transaction may be **motivated by other than ordinary business considerations**, for example, profit sharing or even fraud.
  - b. **Affect the financial statements.**
4. **Procedures to know the information of related parties:**
  - a. **Inquire** - as to the relation of directors and key management personnel, officers with other entities, other auditors of the entity.
  - b. **Review** - shareholder records, minutes of the meetings, the report of the predecessor auditors, the entity's income tax returns.
8. The auditor needs to be alert for transactions such as, unusual prices, interest rates, guarantees, and repayment terms, Performance of services without charge, Provision of management services at no charge.
9. **Management Representations are to be scrutinized.**
10. **Audit Conclusions and Reporting:** If the auditor is unable to obtain sufficient appropriate audit evidence or thinks that that their disclosure in the financial statements is not adequate, the auditor should express a qualified opinion/ adverse opinion / disclaimer of opinion.

*The End*