

SA 260 COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

1 Matters to be communicated

a The Auditor's Responsibilities in Relation to the Financial Statement Audit

b Planned Scope and Timing of the Audit- How the auditor plans to address the significant risks of material misstatement, Auditor's approach to internal control relevant to the audit.

c Significant Findings from the Audit

c-i The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures

c-ii Significant difficulties, if any, encountered during the audit. Example: Significant delays, unwillingness by management to provide information necessary, unavailability of expected information.

d Auditor's Independence:

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.

2 Factors governing Mode of Communication

a Significance of the matter

b Requirements of applicable laws and regulations

c Expectations of those charged with Governance.

3 Relationship with SA 701:

SA 701 deals with Key audit matters: These matters are selected from matters communicated with those charged with Governance as per SA 260.

SA 265 COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

1 Deficiency in internal control – This exists when:

(i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or

(ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing

2 Contents of Communication

a A description of the deficiencies and an explanation of their potential effects

b Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that:

1. Purpose of the audit was for the auditor to express an opinion on the financial statements.

2. Matters being reported are limited to those deficiencies that the auditor has identified during the audit.

c Recommendations for improvement in the internal control system.

3 Examples of Significant deficiency- Factors to be considered

a The susceptibility to loss or fraud of the related asset or liability

b The financial statement amounts exposed to the deficiencies

c The importance of the controls to the financial reporting process

SA 600 USING THE WORK OF OTHER AUDITOR

1 Principal Auditor means the auditor with responsibility for reporting on the financial information of an entity

2 Other auditor means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component

3 Risk Assessment procedure by Principal Auditor

(a) the materiality of the portion of the financial information which the principal auditor audits;

(b) the principal auditor's degree of knowledge regarding the business of the components;

© the risk of material misstatements in the financial information of the components audited by the other auditor; and

4 Co-ordination with Other Auditor

a advise the other auditor of the use that is to be made of the other auditor's work

b inform the other auditor of matters such as areas requiring special consideration

c advise the other auditor of the significant accounting, auditing and reporting requirements and obtain representation as to compliance with them

d consider the significant findings of the other auditor.

E obtain representation as to compliance with them.

5 Reporting Considerations

a When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.

B 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 c In all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, Principal auditor should evaluate materiality and then modify opinion, if required.

6 Access over working papers

Principal auditor can visit the component and review the financial information, however, he cannot establish his right over the working papers of other auditor because working papers are property of auditor

SA 610 USING THE WORK OF INTERNAL AUDITOR

1 SA 610 discusses the following approach

a Using the work of Internal Audit Function

a-i Evaluate Independence and organisational status of Internal Auditor

a-ii Evaluate Scope of Internal audit as decided by the management to check whether there are any restriction on his scope

a-iii Whether internal auditor has taken due professional care while performing procedures

b Direct Assistance from the internal auditor

b-i The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor

b-ii If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, The external auditor shall not use an internal auditor to provide direct assistance if:

(a) There are significant threats to the objectivity of the internal auditor; or

(b) The internal auditor lacks sufficient competence to perform the proposed work

b-iii Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:

(a) Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor;

and

(b) Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity

b-iv The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with SA 220.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to be satisfied that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work

SA 620 USING THE WORK OF AUDITOR'S EXPERT

1 Management's Expert

An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity.

2 Auditor's Expert

An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor.

An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.

3 Examples of using the work of expert

a The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.

b The interpretation of contracts, laws and regulations.

c The analysis of complex or unusual tax compliance issues

4 Factors to be considered before determining nature timing and extent of audit procedures

(a) The nature of the matter to which that expert's work relates;

(b) The risks of material misstatement in the matter to which that expert's work relates;

(c) The significance of that expert's work in the context of the audit;

(d) The auditor's knowledge of and experience with previous work performed by that expert

(f) whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes

5 Procedures to evaluate adequacy of expert's work

- (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;
- (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances
- (c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

6 Reference to Expert's Work in auditor's report

- (a) The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so.
- (b) If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.