



SICASA E - NEWS LETTER



Tuticorin Branch of Southern India Regional Council of The
Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

September 2010

SICASA Chairman's Writes:



Dear Friends,

Greetings!

Wish you a very happy month ahead. Good to converse with you all through this column. We have a busy schedule this month with company and tax audits. Almost every one of us is stressed. Our feelings of stress or anxiety may be a signal, telling us to attend to our spiritual needs. Spirituality can refer to an ultimate or immaterial reality; an inner path enabling a person to discover the essence of their being or the deepest values and meanings by which people live.

The inspiration gained from spirituality is an essential part of the healing process. Mind, body and spirit are inseparable. Making an overt connection with the spirit will provide healing for our mind and body. Prayer provides us an inner healing, and even more when we pray for someone else. A strong faith in the creator will help us put our problems in the right perspective. As the saying goes, "Lord grant me the serenity to accept the things I cannot change; courage to change the things I can and wisdom to know the difference"...

We had conducted several activities during the month of August. On 14.08.2010, we organised an Industrial visit to an Export oriented Dried Flower Company, M/s.Fauna International. 58 Students and seven Members participated in the visit. It was very useful and memorable. On 15th August, we celebrated our 64th Independence day and CA A.Sathish, General Manager Finance, Sterlite Industries (I) Ltd., gave a thought provoking message.

On 19th August 2010, our branch rallied “Green Awareness Car” which was flagged off by Shri.Kapil Kumar C.Sarathkar IPS, Superintendent of Police, Tuticorin in the presence of Dr.Sr.S.Decla, Principal St.Mary’s College (Autonomous) Tuticorin. This Awareness car was aimed at creating awareness among the public in conserving trees and natural resources of our Mother India. It was well received by Schools, Colleges and Public at large. On 19.08.2010, afternoon, we organized CPE workshop on XBRL and Tax Audit Tool (Tally Solutions).

The CA S.Karunagaran memorial lecture by Dr.S.Samuel Asir Raj, Associate Professor, Dept. of Sociology, Manonmaniam Sunderanar University, Tirunelveli on 19th August 2010, evening on the topic, ‘People’s role in Conservation of Biodiversity’ was really valuable and thought provoking. Although all of us are aware of the facts, it was like a wake up call to us, to preserve and save our ecosystem.

On 24.08.2010, our learned member CA K.Xavier Raj, conducted Career Counselling Programme at St.Mary’s College, Tuticorin for the students. On 28.8.2010, the Branch organized a Study Circle Meeting led by Miss.M.Raja Lakshmi, Final Student on “SA 330-Auditor’s Responses to Assessed Risks”.

“Arise, awake and stop not till the goal is reached” – Swami Vivekananda. Discover the goal and keep working towards it.

With best wishes,

CA.G.Manoj Rodrigo
SICASA Chairman

SA 330 - THE AUDITOR’S RESPONSES TO ASSESSED RISKS

This Standard on Auditing (SA) deals with the auditor’s responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SA 315, “Identifying and Assessing Risks of Material Misstatement Through Understanding the Entity and Its Environment” in a financial statement audit.

It is effective for audits of financial statements for periods beginning on or after April 1, 2008. The earlier Standard on Auditing (SA) 400, "Risk Assessments and Internal Control", SA 310, "Knowledge of the Business", and SA 401, "Auditing in a Computer Information Systems Environment", issued in June 2002, April 2000 and January 2003, respectively, stand withdrawn.

Objective

The objective of the auditor is to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Definitions

For purposes of the SAs, the following terms have the meanings attributed below:

- (a) Substantive procedure – An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:
- (i) Tests of details (of classes of transactions, account balances, and disclosures), and
 - (ii) Substantive analytical procedures.
- (b) Test of controls – An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Substantive Procedures

Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Substantive Procedures Related to the Financial Statement Closing Process

The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:

- ✚ Agreeing or reconciling the financial statements with the underlying accounting records; and
- ✚ Examining material journal entries and other adjustments made during the course of preparing the financial statements.

Substantive Procedures Responsive to Significant Risks

When the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor should perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.

Timing of Substantive Procedures

When substantive procedures are performed at an interim date, the auditor shall cover the remaining period by performing:

- ✚ substantive procedures, combined with tests of controls for the intervening period; or
- ✚ if the auditor determines that it is sufficient, further substantive procedures only;

that provide a reasonable basis for extending the audit conclusions from the interim date to the period end.

If misstatements that the auditor did not expect when assessing the risks of material misstatement are detected at an interim date, the auditor shall evaluate whether the related assessment of risk and the planned nature, timing, or extent of substantive procedures covering the remaining period need to be modified

Tests of Controls

The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls when:

- ✚ The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that 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); or
- ✚ Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

Using audit evidence obtained in previous audits

In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall consider the following:

- ✚ 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;
- ✚ The risks arising from the characteristics of the control, including whether it is manual or automated;
- ✚ The effectiveness of general IT-controls; 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;

- ✚ Whether the lack of a change in a particular control poses a risk due to changing circumstances; and
- ✚ The risks of material misstatement and the extent of reliance on the control. In certain circumstances, audit evidence obtained from previous audits may provide audit evidence where the auditor performs audit procedures to establish its continuing relevance. For example, in performing a previous audit, the auditor may have determined that an automated control was functioning as intended. The auditor may obtain audit evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, inquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of audit evidence about these changes may support either increasing or decreasing the expected audit evidence to be obtained in the current period about the operating effectiveness of the controls.

Adequacy of Presentation and Disclosure

The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.

Documentation

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.

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. The auditors' documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.

Evaluating the Sufficiency and Appropriateness of Audit Evidence

The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

- ✚ Significance of the potential misstatement in the assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements.
- ✚ Effectiveness of management's responses and controls to address the risks.
- ✚ Experience gained during previous audits with respect to similar potential misstatements.

Material Modifications to ISA 330,
The Auditor's Responses to Assessed Risks

Deletion

Paragraph A17 of the Application Section of ISA 330 dealt with the application of the requirements of ISA 330 to the audits of public sector entities regarding the auditor's consideration of the nature, timing and extent of further audit procedures. Since as mentioned in the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", the Standards issued by the Auditing and Assurance Standards Board, apply equally to all entities, irrespective of their form, nature and size, a specific reference to applicability of the Standard to public sector entities has been deleted.

Further, it is also possible that even in case of non-public sector entities the auditor may be required to give special considerations regarding the nature, timing and extent as a result of the terms of appointment of the auditor or any other special reporting requirement under the statute or regulation under which the entity operates. Accordingly, the spirit of erstwhile A17, highlighting the fact that in some cases, the auditor's consideration of the nature, timing and extent of further audit procedures may be affected by the audit mandate or any other special auditing requirements, has been retained.

Ms.M.Raja Lakshmi – SRO 0188806
Final Student

*It is not the mountain we conquer, but ourselves,
it's kind of fun to do the impossible.*

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