

AUDITING STANDARDS IN INDIA

As the trade and commerce grew extensively globally, the involvement of public money therein also increased manifolds. This in turn created a demand from the investors to have the accounts of the business ventures examined by a person independent of the owners and management of the business to ensure that they were correct and reliable. Such a demand laid down the foundation for the profession of auditing. The extent of reliance placed by the public on the auditors has increased so much with time that it is, unreasonably of course, felt by the public that nothing can go wrong with an organisation which has been audited. Though the fact that an audit has been carried out is not a guarantee as to the future viability of an enterprise, it is extremely important that the auditors carry out their assignments with utmost professional care and sincerity, to uphold the faith posed by the public in them.

International Response to Auditing Needs

As a response to the above needs, the International Federation of Accountants (IFAC) was established in 1973 with the objective of "worldwide development and enhancement of the accountancy profession..... of high quality in the public interest". The International Auditing and Assurance Standards Board (IAASB), earlier known as the International Auditing Practices Committee, of the IFAC was established to "improve the quality and uniformity of practice throughout the world", by, *inter alia*, issuing International Standards on Auditing (ISAs) and guidance on the application of the ISAs.

India's Response to Auditing Needs

The Institute of Chartered Accountants of India was set up in 1949 to regulate the profession of chartered accountancy in India. Since its establishment, the Institute has taken numerous steps to ensure that its members discharge their duties with due professional care, competence and sincerity. One of the steps is the establishment of the Auditing Practices Committee, or the Auditing and Assurance Standards Board, as it is now known in September, 1982.

One of the main objectives of the Board is to issue auditing standards. Accordingly, the Board issues Statements on Standard Auditing Practices and Auditing and assurance Standards under the authority of the Council.

Rationale of Auditing Standards

In simplest possible terms, auditing standards represent a codification of the best practices of the profession, which are already existing. Auditing standards help the members in proper and optimum discharge of their profession duties. Auditing standards also promote uniformity in practice as also comparability.

Auditing Standards–setting in India

As mentioned earlier, the Auditing and Assurance Standards Board of the Institute formulates the auditing standards. Broadly, following is the procedure for formulating auditing standards:

1. The Auditing and Assurance Standards Board identifies the areas where auditing standards need to be formulated and the priority in regard to their selection.
2. In the preparation of the auditing standards, the Board is normally, assisted by study groups comprising of a cross section of members of the Institute.
3. On the basis of the work of the study groups, an Exposure Draft of the proposed auditing standard is prepared by the Board and issued for comments of the members.
4. After taking into the comments received, the draft of the proposed auditing standard is finalised by the Board and submitted to the Council of the Institute.
5. The Council considers the final draft of the proposed auditing standard and, if necessary, modifies the same in consultation with the Board. The auditing standard is then issued under the authority of the Council.

While formulating the auditing standards, the Board also takes into consideration the applicable laws, customs, usages and business environment in the country.

International Harmonisation of Auditing Standards

The Institute of Chartered Accountants of India is a member of the International Federation of Accountants. Therefore, as a matter of policy, the auditing standards issued by the ICAI are in harmony with the International Standards on Auditing. Till date, the IAASB of the IFAC has issued thirty nine Engagement Standards, comprising one Standard on

Quality control (ISQC), thirty two ISAs, two International Standards on Review Engagements (ISREs), two International Standards on Assurance Engagements (ISAEs) and two International Standards on Related Services (ISRSs). The ICAI has issued thirty five auditing standards corresponding to the Engagement Standards issued by the IAASB of the IFAC and three auditing standards are in the pipeline. A list of the Engagement Standards issued by the IAASB and the auditing standards issued by the ICAI thereagainst is given as **Annexure I**. A reconciliation of the Engagement Standards with the auditing standards issued by the ICAI is given as **Annexure II**.

Further, the Council of the Institute of Chartered Accountants of India has also approved the following technical drafts:

- Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services
- Due Process of the Auditing and Assurance Standards Board
- Revised Classification and Numbering Pattern of the Auditing and Assurance Standards
- Framework for Assurance Engagements

Compliance with Auditing Standards

While discharging their attest functions, it is the duty of the members of the Institute to ensure that the auditing standards are followed in the audit of financial information covered by their audit reports. If for any reason the member is unable to perform an audit in accordance with the generally accepted auditing standards, his report should draw attention to any material departures therefrom, failing which he would be held guilty of professional misconduct under clause 9 of Part 1 of the Second Schedule to the Chartered Accountants Act, 1949.

ANNEXURE I

Comparative Position of International Engagement Standards, issued by the International Auditing and Assurance Standard Board of the International Federation of Accountants vis-à-vis. Auditing and Assurance Standards (AASs) issued by ICAI
(As on May 25, 2007)

Standards on Quality control				
Sl. No	ISQC No.	Title of the ISQC	AAS No.	Title of the AAS
01.	1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements		The Draft of SQC 1 is under consideration of the Council.
Standards on Auditing				
	ISA No.	Title of the ISA	AAS No.	AAS/ Guidance Note
02.	200	Objective and General Principles Governing an Audit of Financial Statements	01	Basic Principles Governing an Audit
			02	Objective and Scope of the Audit of Financial Statements.
03.	210	Terms of Audit Engagements	26	Terms of Audit Engagements
04.	220	Quality Control for Audits of Historical Financial Information	17	Quality Control for Audit Work
05.	230	Audit Documentation	03	(Documentation - The Board has already undertaken the revision of AAS 3).
06.	240	The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements	04	The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements
07.	250	Consideration of Laws and Regulations in an Audit of Financial Statements	21	Consideration of Laws and Regulations in an Audit of Financial Statements
08.	260	Communications of Audit Matters with Those Charged with Governance	27	Communications of Audit Matters with Those Charged with Governance
09.	300	Planning an Audit of Financial Statements	08	Audit Planning
	310	Knowledge of the Business (withdrawn pursuant to issuance of ISA 315 and 330)	20	Knowledge of the Business
10.	315	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement		The Exposure Draft of the proposed AAS is under reconsideration of the Board
11.	320	Audit Materiality	13	Audit Materiality
12.	330	The Auditor's Procedures In Response		The Exposure Draft of the proposed

		to Assessed Risks		AAS is under reconsideration of the Board
	400	Risk Assessments and Internal Control (withdrawn pursuant to issuance of ISA 315 and 330)	06	Risk Assessments and Internal Control
	401	Auditing in a Computer Information Systems Environment (withdrawn pursuant to issuance of ISA 315 and 330)	29	Auditing in a Computer Information Systems Environment.
13.	402	Audit Considerations Relating to Entities Using Service Organizations	24	Audit Considerations Relating to Entities Using Service Organisations
14.	500	Audit Evidence	05	Audit Evidence
15.	501	Audit Evidence – Additional Considerations for Specific Items	34	Audit Evidence – Additional Considerations for Specific Items
16.	505	External Confirmations	30	External Confirmations
17.	510	Initial Engagements- Opening Balances	22	Initial Engagements- Opening Balances
18.	520	Analytical Procedures	14	Analytical Procedures
19.	530	Audit Sampling and Other Means of Testing	15	Audit Sampling
20.	540	Audit of Accounting Estimates	18	Audit of Accounting Estimates
21.	545	Auditing Fair Value Measurements and Disclosures		The Board has constituted a study group for the project..
22.	550	Related Parties	23	Related Parties
23.	560	Subsequent Events	19	Subsequent Events The Board has already undertaken the revision of AAS 19.
24.	570	Going Concern	16	Going Concern
25.	580	Management Representations	11	Representations by Management
26.	600	Using the Work of Another Auditor	10	Using the Work of Another Auditor
27.	610	Considering the Work of Internal Audit	07	Relying Upon the Work of Internal Auditor
28.	620	Using the Work of an Expert	09	Using the Work of an Expert
29.	700	The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements	28	The Auditor's Report on Financial Statements
30.	701	Modifications to the Independent Auditor's Report		The Board has already undertaken the revision of AAS 28.
31.	710	Comparatives	25	Comparatives
32.	720	Other Information in Documents Containing Audited Financial Statements		The Board has decided to come out with the Guidance Note corresponding to ISA 720 initially.
33.	800	The Auditor's Report on Special Purpose Audit Engagements		Guidance Note on Audit Reports and Certificates for Special Purposes The Board has already undertaken a project to prepare an AAS corresponding to ISA 800.

Standards on Review Engagements				
	ISRE No.	Title of the ISRE	AAS No.	Title of the AAS
34.	2400	Engagements to Review Financial Statements	33	Engagements to Review Financial Statements
35.	2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity		The Board has already undertaken a project to prepare an AAS corresponding to ISRE 2410.
Standards on Assurance Engagements				
	ISAE No.	Title of the ISAE	AAS No.	Title of the AAS
36.	3000	Assurance Engagements Other than Audits or Reviews of Historical Financial Information		The Board is likely to consider the need to issue the AAS corresponding to ISAE 3000 shortly.
37.	3400	The Examination of Prospective Financial Information	35	The Examination of Prospective Financial Information
Standards on Related Services Engagements				
	ISRS No.	Title of the ISRS	AAS No.	Title of the AAS
38.	4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information	32	Engagements to Perform Agreed-upon Procedures Regarding Financial Information
39.	4410	Engagements to Compile Financial Information	31	Engagements to Compile Financial Information

ANNEXURE II

**Reconciliation of the International Engagement Standards, issued by the
International Federation of Accountants with the Auditing and Assurance
Standards, issued by ICAI
(as on May 25, 2007)**

(A)	Number of International Engagement Standards issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants	39
	Total	<u>39</u>
(B)	Auditing and Assurance Standards (AASs) and other authoritative documents issued by the Institute of Chartered Accountants	
	(i) Number of Indian auditing standards issued by ICAI {Standards issued are 35 but since two Standards cover one ISA, therefore, one Standard is reduced from the total Standards issued, i.e., 35-1}	34
	(ii) ISA not relevant to the Indian legal environment 1. ISA 720, Other Information in Documents Containing Audited Financial Statements 2. ISA 545, Auditing Fair Value Measurements and Disclosures	02
	(iii) International Standards corresponding to which the drafts of Auditing Standards are under consideration of the Council 1. ISQC 1, Quality control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	01

	<p>(iv) International Standards corresponding to which the drafts of Auditing Standards are under consideration of the AASB</p> <ol style="list-style-type: none"> 1. ISA 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement 2. ISA 330, The Auditor's Procedures in Response to Risks of Material Misstatements 	02
	<p>(v) International Standards yet to be considered by the Auditing and Assurance Standards Board of ICAI</p> <ol style="list-style-type: none"> 1. ISA 701, Modifications to the Independent Auditor's Report 2. ISA 800, The Auditor's Report on Special Purpose Audit Engagements 3. ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity 4. ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information 	04
	<p>(vi) AAS corresponding to which no International Standard has been issued</p> <ol style="list-style-type: none"> 1. AAS 12, Responsibility of Joint Auditors 	(01)
	<p>(vii) AASs issued corresponding to ISAs withdrawn by IAASB</p> <ol style="list-style-type: none"> 1. AAS 06, Risk Assessment and Internal Control 2. AAS 20, Knowledge of the Business 3. AAS 29, Auditing in a Computer Information Systems Environment 	(03)
	Total	<u>39</u>