

SA 200 (AAS 1)

BASIC PRINCIPLES GOVERNING AN AUDIT

*(Effective for all audits relating to
accounting periods beginning on or after April 1, 1985)*

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Standard on Auditing (SA) 200, "Basic Principles Governing an Audit" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"¹, which sets out the authority of SAs.

¹ Issued in April, 1985.

¹ Published in the July 2007 issue of the Journal.

Handbook of Auditing Pronouncements-I

Introduction

1. This Standard describes the basic principles which govern the auditor's professional responsibilities and which should be complied with whenever an audit is carried out.
2. An audit is the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon². In this Standard, the term "financial information" encompasses financial statements.
3. Other Standards on Auditing to be issued by the Institute will elaborate on the principles set out herein to give guidance on auditing procedures and reporting practices.
4. Compliance with the basic principles requires the application of auditing procedures and reporting practices appropriate to the particular circumstances.

Integrity, Objectivity and Independence

5. The auditor should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

² .Para 3.1 of the "Preface to the Statement on Standard Auditing Practices" issued by the Council of the Institute of Chartered Accountants of India in 1982 states as follows:

"3.1 The SAPs will apply whenever an independent audit is carried out; that is, in the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size, or legal form (unless specified otherwise) when such an examination is conducted with a view to expressing an opinion thereon. The SAPs may also have application as appropriate, to other related functions of auditors."

The said Preface has been withdrawn pursuant to issuance of the Revised "Preface to Standards on Quality Control, Auditing, Review, Other Assurance and Related Service", by the Institute of Chartered Accountants of India. The Revised Preface is effective from April 1, 2008. The text of the revised Preface is reproduced elsewhere in this Handbook.

Basic Principles Governing an Audit

Confidentiality

6. The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.

Skills and Competence

7. The audit should be performed and the report should be prepared with due professional care by persons who have adequate training, experience and competence in auditing.

8. The auditor requires specialised skills and competence which are acquired through a combination of general education, technical knowledge obtained through study and formal courses concluded by a qualifying examination recognised for this purpose and practical experience under proper supervision. In addition, the auditor requires a continuing awareness of developments including pronouncements of ICAI on accounting and auditing matters, and relevant regulations and statutory requirements.

Work Performed by Others

9. When the auditor delegates work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied. In the case of any independent statutory appointment to perform the work on which the auditor has to rely in forming his opinion, such as in the case of the work of branch auditors appointed under the Companies Act, 1956, the auditor's report should expressly state the fact of such reliance.

10. The auditor should carefully direct, supervise and review work delegated to assistants. The auditor should obtain reasonable assurance that work performed by other auditors or experts is adequate for his purpose.

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Documentation

11. The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles.

Planning

12. The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on a knowledge of the client's business.

13. Plans should be made to cover, among other things:

- (a) acquiring knowledge of the client's accounting system, policies and internal control procedures;
- (b) establishing the expected degree of reliance to be placed on internal control;
- (c) determining and programming the nature, timing, and extent of the audit procedures to be performed; and
- (d) coordinating the work to be performed.

14. Plans should be further developed and revised as necessary during the course of the audit.

Audit Evidence

15. The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions therefrom on which to base his opinion on the financial information.

16. Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect.

17. Substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system.

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They are of two types:

- (i) tests of details of transactions and balances;
- (ii) analysis of significant ratios and trends including the resulting enquiry of unusual fluctuations and items.

Accounting System and Internal Control

18. Management is responsible for maintaining an adequate accounting system incorporating various internal controls to the extent appropriate to the size and nature of the business. The auditor should reasonably assure himself that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded. Internal controls normally contribute to such assurance.

19. The auditor should gain an understanding of the accounting system and related internal controls and should study and evaluate the operation of those internal controls upon which he wishes to rely in determining the nature, timing and extent of other audit procedures.

20. Where the auditor concludes that he can rely on certain internal controls, his substantive procedures would normally be less extensive than would otherwise be required and may also differ as to their nature and timing.

Audit Conclusions and Reporting

21. The auditor should review and assess the conclusions drawn from the audit evidence obtained and from his knowledge of business of the entity as the basis for the expression of his opinion on the financial information. This review and assessment involves forming an overall conclusion as to whether:

- (a) the financial information has been prepared using acceptable accounting policies, which have been consistently applied;
- (b) the financial information complies with relevant regulations and statutory requirements;
- (c) there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

22. The audit report should contain a clear written expression of opinion on the financial information and if the form or content of the report is laid down

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in or prescribed under any agreement or statute or regulation, the audit report should comply with such requirements. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters dealt with in paragraph 21 or as may be laid down or prescribed under the relevant agreement or statute or regulation, as the case may be.

23. When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons therefor.

Effective Date

24. This Standard on Auditing becomes operative for all audits relating to accounting periods beginning on or after April 1, 1985.