

# **Handbook of Auditing Pronouncements**

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**Volume I.A**

**Compendium of  
Standards and Statements  
(As on February 1, 2019)**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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## Foreword

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Over the years, the Institute of Chartered Accountants of India (ICAI) has issued various authoritative pronouncements on auditing to help the members in ensuring quality in audits, assurance and other engagements undertaken by them. These pronouncements include Engagement and Quality Control Standards, Guidance Notes on Auditing and Statements on Auditing. The 'Handbook of Auditing Pronouncements' is issued by the Auditing and Assurance Standards Board of ICAI with a view to provide the text of all these pronouncements to the members at one place.

I am happy that the Auditing and Assurance Standards Board has brought out the 2019 edition of the Handbook of Auditing Pronouncements. The Handbook contains the text of various Engagement and Quality Control Standards, Guidance Notes on Auditing and Statements on Auditing issued by the ICAI as on date. The Handbook is, therefore, a valuable one point reference document for the members.

I wish to place my appreciation for CA. Shyam Lal Agarwal, Chairman, Auditing and Assurance Standards Board for his zeal and commitment in bringing out this Handbook for the benefit of the members.

I am sure that the members and other interested readers will find the Handbook useful.

January 31, 2019  
New Delhi

**CA. Naveen N.D. Gupta**  
President, ICAI



## Preface

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The Engagement and Quality Control Standards developed by the Auditing and Assurance Standards Board (AASB) of ICAI and issued under the authority of the Council of ICAI represent the best practices in auditing and other assurance services since these Standards have been harmonized with globally recognized International Standards issued by the International Auditing and Assurance Standards Board (IAASB) of IFAC. AASB also develops Guidance Notes on Auditing to provide guidance to the members on matters which are not specifically covered by Standards on Auditing. These Guidance Notes are issued under the authority of the Council of ICAI.

I am happy to place in hands of the members the 2019 edition of the Handbook of Auditing Pronouncements, brought out by AASB of ICAI. The Handbook is a Compendium of various Pronouncements on Auditing i.e., Engagement and Quality Control Standards, generic Guidance Notes on Auditing and Statements on Auditing issued by the ICAI.

The Handbook is in two Volumes, Volume I and Volume II. Volume I is further divided into two parts namely Volume I.A and Volume I.B. Volume I.A contains the text of, inter alia, the Preface, Framework for Assurance Engagements, Glossary of Terms, Standards on Quality Control and Standards on Auditing. Volume I.B contains the text of Standards on Review Engagements, Standards on Assurance Engagements, Standards on Related Services and Statements on Auditing. Volume II contains the text of Guidance Notes on Auditing. The Handbook contains the text of Standards, Guidance Notes and Statements as on February 1, 2019.

Readers may note that this edition of the Handbook also contains the text of various new/ revised standards which have been issued after the issuance of last edition of the Handbook in 2015 i.e. SA 260(Revised), SA 299(Revised), SA 570(Revised), SA 610(Revised), SA 700(Revised), SA 701, SA 705(Revised), SA 706(Revised), SA 720(Revised) and SAE 3420.

I express my sincere thanks to CA. Naveen N.D. Gupta, Honourable President, ICAI and CA. Prafulla P. Chhajed, Honourable Vice-President, ICAI for their guidance and support to the activities of the Board.

I am also thankful to all my Central Council colleagues for their guidance and support to the activities of the Board. I also express my heartfelt gratitude to CA. Sanjay Vasudeva (Vice-Chairman, AASB) and all the members and special invitees on AASB for their guidance and support in finalizing various pronouncements of the Board. I also thank CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director and other Officers/ Staff of AASB, i.e., CA. Nitish Kumar, CA. Parul Gupta, Ms. P. Anitha and Mr. Chirag Popli for their hard work even beyond Office hours in compilation of the Handbook.

I am confident that the Handbook would be well received by the members and other interested readers.

January 31, 2019  
Jaipur

**CA. Shyam Lal Agarwal**  
Chairman,  
Auditing and Assurance Standards Board

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# **SECTION – I**

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## **Authority and Preface**



# **Announcements of the Council Regarding Status of Various Documents Issued by the Institute of Chartered Accountants of India**

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## A. Clarification regarding Authority Attached to Documents Issued by the Institute<sup>1</sup>

1. The Institute has, from time to time, issued 'Guidance Notes' and 'Statements' on a number of matters. With the formation of the Accounting Standards Board and the Auditing Practices Committee<sup>2</sup>, 'Accounting Standards' and 'Statements on Standard Auditing Practices'<sup>3</sup> are also being issued.
2. Members have sought guidance regarding the level of authority attached to the various documents issued by the Institute and the degree of compliance required in respect thereof. This note is being issued to provide this guidance.
3. The 'Statements' have been issued with a view to securing compliance by members on matters which, in the opinion of the Council, are critical for the proper discharge of their functions. 'Statements' therefore are mandatory. Accordingly, while discharging their attest function, it will be the duty of the members of the Institute:
  - (a) to examine whether 'Statements' relating to accounting matters are complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the 'Statements', it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations; and

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<sup>1</sup> Published in the December, 1985 issue of the 'The Chartered Accountant'.

<sup>2</sup> The Auditing Practices Committee of the Institute of Chartered Accountants of India was established in 1982 with, *inter alia*, the objectives of preparing the Statements on Standard Auditing Practices (SAPs), Guidance Notes on matters related to auditing, etc. At its 226<sup>th</sup> meeting held on July 2, 2002 at New Delhi, the Council of the Institute of Chartered Accountants of India approved the recommendations of the Auditing Practices Committee to strengthen the role being played by it in the growth and development of the profession of chartered accountancy in India. The Council also approved renaming of the Committee as, "Auditing and Assurance Standards Board" (AASB) with immediate effect to better reflect the activities being undertaken by the Committee. Apart from changes designed to strengthen the process for establishing auditing and assurance standards, such a move would bring about greater transparency in the working of the Auditing Practices Committee now known as the Auditing and Assurance Standards Board (AASB). The Council also approved the renaming of the Statements on Standard Auditing Practices (SAPs) as, "Auditing and Assurance Standards" (AASs). The ICAI in 2007 issued the 'Revised Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services'. Pursuant to issuance of Revised Preface, the Auditing and Assurance Standards (AAS) have been renamed as 'Engagement and Quality Control Standards'. The Engagement Standards comprise:

- *Standards on Auditing (SAs)* - To be applied in the audit of historical financial information.
- *Standards on Review Engagements (SREs)* – To be applied in the review of historical financial information.
- *Standards on Assurance Engagements (SAEs)* – To be applied in assurance engagements, other than audits and reviews of historical financial information.
- *Standards on Related Services (SRSs)* – To be applied to engagements involving application of agreed- upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

<sup>3</sup> *ibid.*

## **Handbook of Auditing Pronouncements-I.A**

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- (b) to ensure that the 'Statements' relating to auditing matters are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with such 'Statements', his report should draw attention to the material departures therefrom.
4. A list of 'Statements' issued by the Institute and currently in force is given at the end of this note.<sup>4</sup>
5. 'Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary.
6. There are however a few guidance notes in case of which the Council has specifically stated that they should be considered as mandatory on members while discharging their attest function. A list of these guidance notes is given below:
- (i) Guidance Note on Treatment of Interest on Deferred Payments read along with the pronouncement of the Council, published in 'The Chartered Accountant', March 1984.<sup>5</sup>

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<sup>4</sup> An updated list of mandatory statements on auditing is included in the 'List of Mandatory Statements and Standards' given after this clarification. It may also be noted that besides statements on accounting and auditing, the Institute has issued statements on other aspects also, namely, Statement on Peer Review and Statement on Continuing Professional Education.

<sup>5</sup> The nomenclature of this document was changed by the Council of the Institute at its 133<sup>rd</sup> meeting held in April, 1988. The new nomenclature was 'Statement on Treatment of Interest on Deferred Payments'. In view of para 8 of this 'Clarification', with Accounting Standard (AS) 10 on 'Accounting for Fixed Assets', becoming mandatory (see Announcement II) in respect of accounts for periods commencing on or after 1.4.1991, the 'Statement on Treatment of Interest on Deferred Payments' stands automatically withdrawn except in the case of certain specified non-corporate entities where it stands withdrawn in respect of accounts for periods commencing on or after 1.4.1993 (see Announcements III, V and VI in this regard). It may be noted that pursuant to the issuance of Accounting Standard (AS) 16 on 'Borrowing Costs', which came into effect in respect of accounting periods commencing on or after 1-4-2000, paragraph 9.2 and paragraph 20 (except the first sentence) of AS 10, relating to treatment of finance costs including interest, stand withdrawn from that date.