

Agenda for the Session

**Compliance with
Technical and
Professional Standards**



Audit is a serious business, stay away from it if you can't meet expectation gap: ICAI Pres Debashis Mitra

The ICAI President's comments over chartered accountants becoming auditors of companies come in the backdrop of auditors continuing to face increased scrutiny from regulators and the public in the wake of spurt in business and accounting failures.



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*Chartered accountants should not think of becoming auditors if they can't meet the expectation gap, and should rather look at alternative avenues like litigation practice in GST, or insolvency, or valuation practice, said **Debashis Mitra**, President at the*

Institute of Chartered Accountants of India (ICAI). "Audit is a serious business today," the President emphasised. His comments come in the backdrop of auditors continuing to face increased scrutiny from regulators and the public in the wake of spurt in business and accounting failures.

PEER REVIEW THEN VS NOW

Particulars	Peer Review THEN	Peer Review NOW
Mechanism of choosing Peer Reviewer	Manually chosen by the empanelment of members of Board	More robust and considering the professional experience of the Reviewer.
Geographical Considerations	Was one of the primary criteria for selection of Reviewers	Owing to digitalization of records and documentations, this is a secondary criterion for selection of Peer reviewers
Samples selection	List of attestation functions would be obtained by the PU	The Board/Institute has access for the entire list of services based on UDIN portal
Review Procedures	Predominantly procedures are conducted onsite	Due to virtual working environment, off site procedures to be performed more
Documentation	Reliance on manual documentations	Reliance on automation of procedures and soft copies.

DISCIPLINARY ACTION BASED ON PEER REVIEW

As per the revised Statement on Peer Review, if the Board is of the opinion that the findings of the subgroup **contains material deficiencies** on the Practicing Unit, then the Board shall revoke the Peer Review Certificate and refer the matter to the Council for considering whether the same may be referred to the Disciplinary Directorate for initiating disciplinary action.

Second Schedule to CA Act 1949 – Part 1

Clause 7

Does not exercise Due Diligence, or is grossly negligent in the conduct of his professional duties.

Clause 9

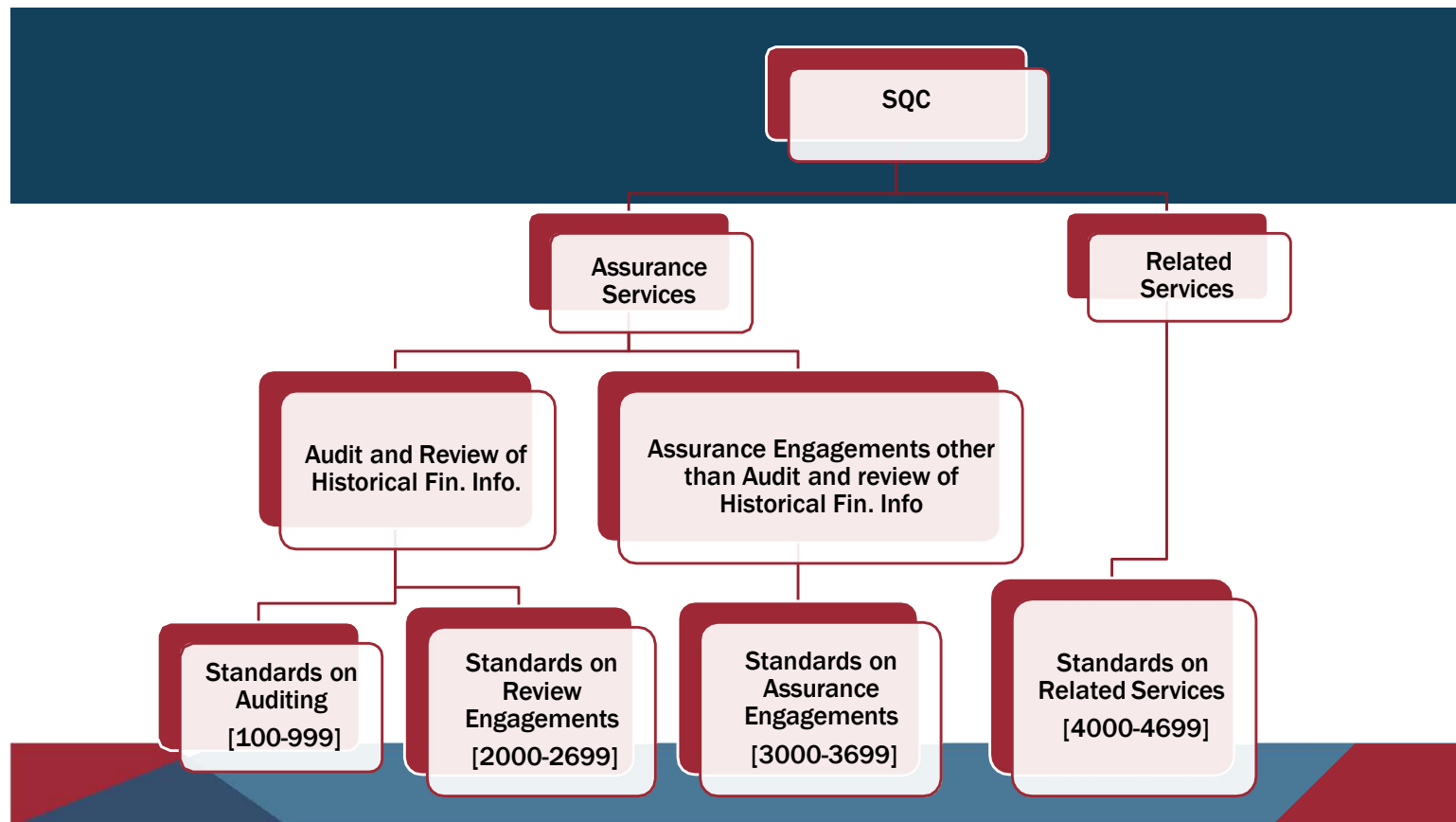
Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

Revocation of Peer Review Certificate

The Board may, subject to the principle of natural justice, revoke the Peer Review Certificate of the Practice unit during its currency, if-

- (i) The Practice Unit has not complied with the order or advisory issued by the Peer Review Board; or
 - (ii) The Peer Review Board receives any Directions from the Secretary, ICAI, Disciplinary Directorate or directions from any Regulator through Secretary, ICAI or the Council.
 - (iii) On an information received from the Practice Unit or otherwise that the Practice Unit or any of its partners are held guilty by the Disciplinary Committee or the Court within one month of the final order issued by the DC/ Court as the case may be, the Board may take such immediate action as is considered necessary, including suspending or revoking the Peer Review Certificate.
 - (iv) On an information received from Practice Unit that there is a change of one half or more of the partners, the Certificate shall be revoked on the expiry of six months from the date of such change or shorter period in case the change has occurred during the last six months of the validity of the certificate.
- (2) The Practice Unit shall be given an opportunity to present its response in Form 10.
- (3) The name of the Practice Unit whose Certificate has been revoked shall be hosted on the ICAI website.

STRUCTURE OF STANDARDS ISSUED BY ICAI



Types of ES

SAs

- # To **Audit** Historical Financial Info.
- # To express an opinion
- # 35 Standards on Audit

SREs

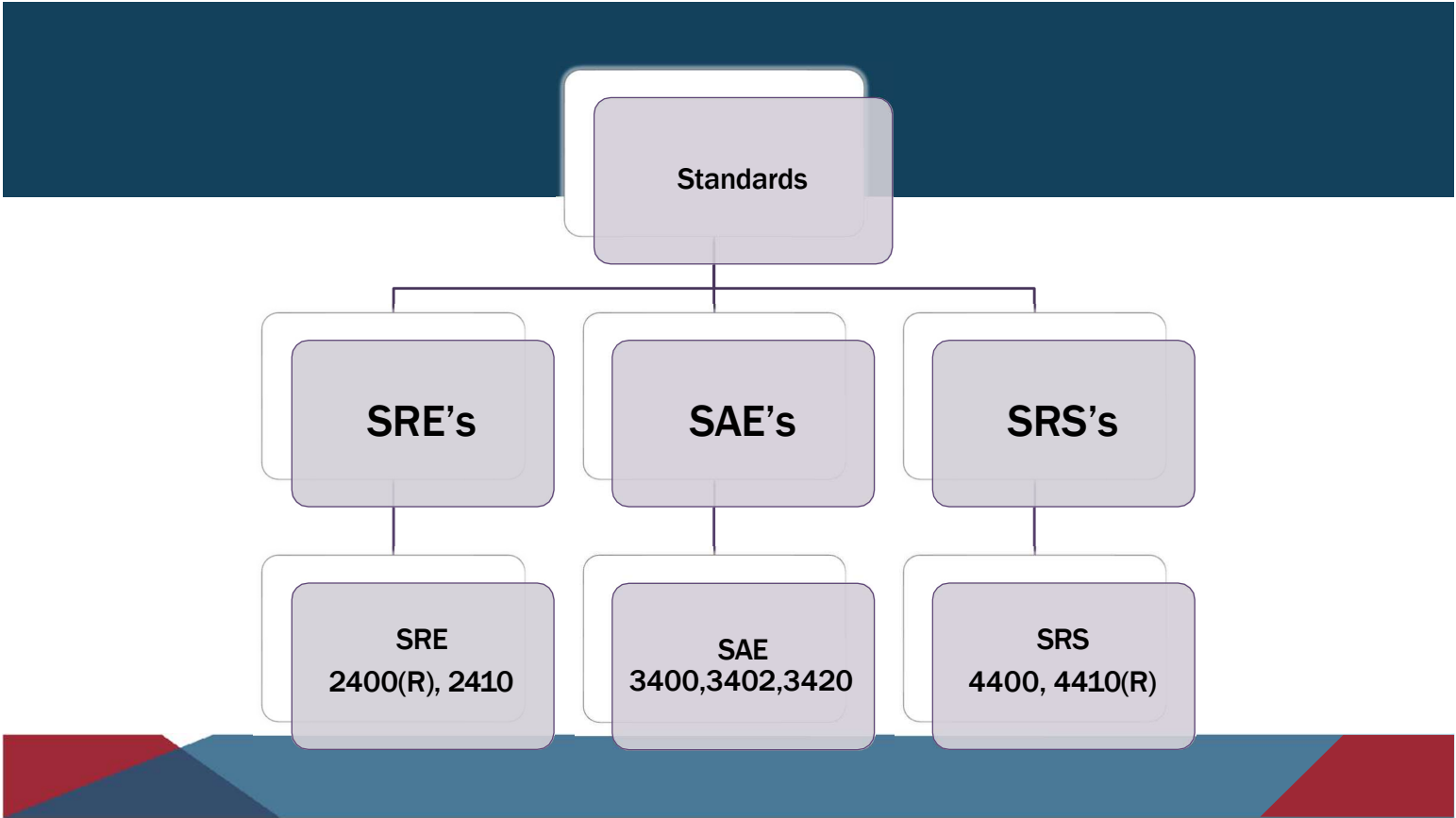
- # To **review** of Historical Fin. Info.
- # Review of Interim Financial Reporting
- # Level of assurance is less than an audit report.
 - **Limited Assurance with Negative reporting**
- # 2 SRE

SAEs

- # For Assurance Engagements other than above
- # Examination of **Prospective** Financial Information, review of **Forecast** etc., # 3 SAE

SRSSs

- # **Carry out agreed upon procedures**
- # Compilation Engagement includes collect, classify, and summarise Financial information.
- # 2 SRS





Technical and Professional Standards



Standards on Quality Control



Accounting Standards & Standards on Auditing



Ethical Standards



Guidance Notes



Statements Issued by ICAI



Notifications/Directions, including those of a self-regulatory nature



Relevant Statutes and Regulations



Technical Guides

An Audit of Financial Statements

The SAs contain items designed to **support the auditor** in obtaining reasonable assurance.

The SAs **require**, that the auditor exercise **professional judgment and maintain professional skepticism** and **shall**:

1. Identify and assess **risks of material misstatement**, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.
2. Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to **assessed risks**
3. **Form an opinion** on the financial statements based on conclusions drawn from the audit evidence obtained.

Misstatement

- A difference between the amount, classification, presentation, or disclosure of a **reported financial statement** item and the amount, classification, presentation, or disclosure **that is required for the item** to be in accordance with the applicable financial reporting framework.

Misstatements can arise from error or fraud.

Why does it happen

This may arise in relation to :

Appropriateness of the selected accounting policies

- ✓ **Selected accounting policies are not consistent** with the applicable financial reporting framework ;
- ✓ Financial statements , including notes thereon , **do not represent underlying transactions and events that achieves fair presentation**

Application of selected accounting policies

- ✓ When **accounting policies are not applied consistently**, including consistency between periods , similar transactions and events;
- ✓ **Method of application is erroneous**

Appropriateness or adequacy of disclosures in the financial statements :

- ✓ Financial statements **do not include all disclosures** required by the applicable financial reporting framework
- ✓ Disclosures are **not presented in accordance with the applicable financial reporting frame work**
- ✓ The financial statements **do not provide the disclosures necessary to achieve fair presentation**

Types of Audit Report

**Unmodified /
Unqualified
Report
(SA 700R)**

Modified Report

**Matters that affect
Auditor's Opinion
(SA 705)**

- ✓ Qualified Report
- ✓ Adverse Report
- ✓ Disclaimer Report

**Matters that do NOT
affect Auditor's Opinion
(SA 706)**

**Emphasis of Matter
Paragraph and
Other Matter Paragraph**

Qualified Opinion

The auditor shall express qualified opinion when :

- He is unable to obtain sufficient appropriate audit evidence but also concludes that the possible effects of undetected misstatements could be MATERIAL, BUT NOT PERVASIVE

- He concludes that the misstatements, individually or in aggregate , are MATERIAL , BUT NOT PERVASIVE to the financial statements

Adverse Opinion

The Auditor shall issue an adverse opinion when :

- When the auditor concludes that having obtained sufficient appropriate audit evidence, the misstatements, individually or in aggregate, are **BOTH MATERIAL AND PERVASIVE**, he issues an adverse opinion

Disclaimer of Opinion

The Auditor shall issue a Disclaimer of opinion when :

- In extremely rare circumstances , having obtained sufficient appropriate audit evidence, BUT due to multiple uncertainties , the auditor is not able to form an opinion , due to possible interaction of those uncertainties and their possible cumulative outcomes , he issues a disclaimer of opinion.
- When the auditor is unable to obtain sufficient appropriate audit evidence and concludes that the possible effects of undetected misstatements are BOTH MATERIAL AND PERVASIVE, he issues a disclaimer of opinion .

Modifications in the Report

Auditors' Report Modification Matrix:

Nature of matter giving rise to the modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but not pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Form of Audit Report

Types of paragraph

Emphasis of Matter

- An Emphasis of Matter paragraph is not a substitute for either the auditor expressing a qualified opinion or an adverse opinion or disclaiming an opinion.
- An emphasis of matter is not a part of the audit opinion at all. It is a separate, independent paragraph designed to provide “additional communication” to the users.
- Insertion of an emphasis of matter paragraph in the Auditor’s Report does not make the opinion “modified”
- Emphasis On a matter that is appropriately presented or disclosed in Financial Statements.

Other paragraphs

Other matters Paragraph covers matters other than those presented or disclosed in Financial Statements.

Other Matter Vs Emphasis of Matter

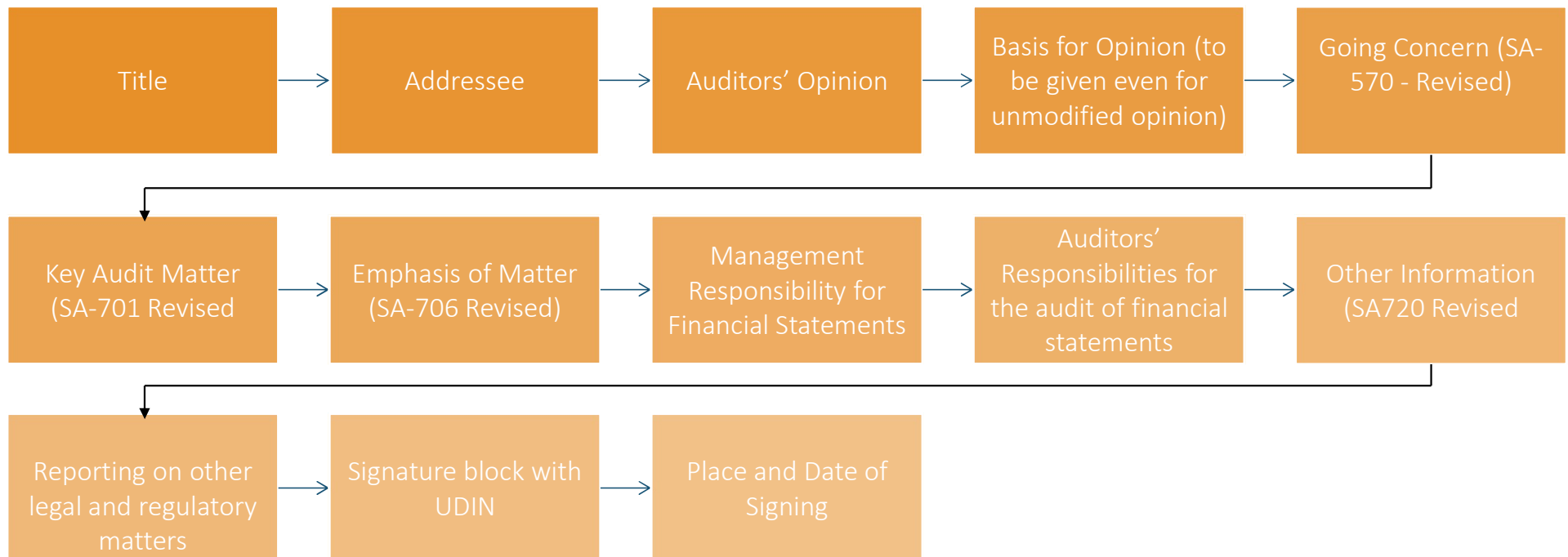
The emphasis of matter paragraph shall be **placed immediately after the Opinion** paragraph in the Auditor's Report under the heading "Emphasis of Matter Paragraph"

Include a **clear reference** to the matter being emphasized and to the relevant disclosures

Indicate that the Auditor's opinion is **NOT** modified by using words like "Without qualifying our opinion" or "Our report is not qualified on this account"

These lines are necessary to dispel any doubts in the mind of the user's that the Emphasis of Matter is a form of qualification or uncertainty

Flow of the report as per Revised SA-700 for a clean opinion




Important SA's Regarding Ensuring Quality Audit Work- Must for SMPs

SA	Important SA's Regarding Ensuring Quality Audit Work- Must for SMPs
210	Agreeing The Terms Of Audit Engagements
220	Quality Control for an Audit of Financial Statements
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
250	Consideration of Laws and Regulations in an Audit of Financial Statements
300	Planning an Audit of Financial Statements
315	Identifying & Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment
450	Evaluation of Misstatements Identified during the Audit
550	Related Parties
570	Reporting on Going Concern
600	Using the Work of Another Auditor
700 701-705 720	Forming an Opinion & Audit Report Format Key Audit Matters Reporting - Modifications in Audit Reporting Other Information


Overall Objectives of the Independent Auditor & the Conduct of an Audit in Accordance with SA (SA 200)

- It was noted that the firm had not obtained the confidentiality undertakings from its audit team members, which is not in line with requirements of SA 200
- It was observed that the firm has not obtained annual declarations from its personnel confirming compliance with independence policies and procedures.


Agreeing the Terms of Audit Engagements (SA 210)

- Separate engagement letters should be issued for assignments pertaining to tax audits, review of interim financial statements / unaudited financial statements, corporate governance certification etc.
 - The engagement letter was wrongly dated prior to the date of appointment at the AGM.
 - Acceptance of Engagement Letter (EL) signed by the Client should be dated and it should contain the name and designation of the person accepting the engagement on behalf of the client. Further, where the EL was signed by some other authorised officer of the Company and not by the Director of the Company, the copy of Board Resolution Authorising the said officer to sign the EL on behalf of the Board of Directors should be obtained by the Audit Firm.
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Quality Control for an Audit of Financial Statements (SA 220)

- An engagement quality control review is required for audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required.
 - An audit firm should establish criteria for identifying 'other audit engagements' where an engagement quality control review is required. An audit firm shall consider factors like: the profile of the client, nature of engagement, experience of the engagement team, requirement of any specific laws or regulations etc. for involving the Engagement quality control reviewer in other audit engagements.
 - Not documenting that ECQR has performed an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the auditor's report.
- 


Audit Documentation (SA 230)

- The audit firm should assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely and reasonable basis after the date of the auditor's report that is ordinarily not more than 60 days after the date of the auditor's report. The audit workpapers should be sorted, collated and cross referenced properly to enable the better assessment of workpapers for the reviewer.
 - Audit documentation must be retained for a specific period, typically not less than seven years from the date of the audit report. The auditor shall not delete or discard audit documentation of any nature before the end of its retention period.
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The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (SA 240)

- Not documenting performance of necessary audit procedures including making inquiries of management or those charged with governance,
 - Not making inquiries of internal auditor to determine whether they have knowledge of any actual, suspected or alleged fraud,
 - Not included the audit procedures related to presumed risk of management overriding of controls
- 

Consideration of Laws and Regulations in an Audit of Financial Statements (SA 250)


- Not documenting obtaining a general understanding of the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and how the entity is complying with that framework.
 - Not obtaining sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.
- 

Communication with Those Charged with Governance (SA 260)


- Not documenting the appropriate person who needs to be communicated .
 - Not documenting communication on matters of concerns to TCWG.
 - Not documenting matters orally communicated to management.
 - In the case of listed entities, the auditor shall communicate with those charged with governance 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.
- 

Joint Audit of Financial Statements (SA 299)

- It was noted that there is non-compliance with SA-299, “Joint Audit of Financial Statements”, as despite the appointment of joint auditors, there is no written communication made with those charged with governance regarding distinct areas of work and coverage to be audited by joint auditors

 - Independence Declaration amongst the Joint Audit Firms.
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Planning an Audit of Financial Statements (SA 300)

- Not developing an Audit Strategy, Audit Planning Document
 - Not determining the time and resources necessary to perform the audit while making overall audit strategy and audit plan.
 - The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit and shall document the significant changes made along with recording the reasons for such change.
 - Audit plan did not cover the nature, timing and extent of direction and supervision of engagement team members.
- 

Materiality in Planning and Performing an Audit (SA 320)

- Not documenting the factors considered in determination of materiality
 - for the financial statements as a whole;
 - For particular class or classes of transactions
 - Clearly Trivial Threshold

- Not determining performance materiality for the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures to be performed.

External Confirmations (SA 505)

- Not performing external confirmation procedures to obtain relevant and reliable audit evidence.
- Inefficient use of the external confirmation procedure as an audit evidence, as the external confirmations were obtained directly by the client rather than being obtained independently by the Audit Firm.
- If management refuses to allow auditor to send external balance confirmations, the audit firm should assess the reasons for the refusal. If there are valid reasons, alternative audit procedures should be performed to obtain sufficient and appropriate audit evidence. The audit firm should also consider the impact of the refusal on the assessment of the risk of material misstatement.

Initial Audit Engagements- Opening Balances (SA 510)

- Not carrying out the audit procedures for opening balances.
- Not obtaining sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements.
- It was observed that the auditor has not properly documented the reasons of management's refusal for obtaining external confirmation and the details of alternative procedures performed by the firm

Related Parties (SA 550)


- For all related party transactions, the auditor should test whether the entity has taken suitable approvals as required by the underlying laws and regulations.
- Not making any observations on not disclosing information as required by AS-18/ Ind AS-24.
- Following was noted from the Related Party Disclosures given in the Financial Statements “Related party relationship is as identified by the Company and relied upon by the Auditors”

Such kind of statement in the Financial Statements, gives the impression to the reader that auditor has simply relied on the management for the related parties. It implies that auditor did not obtain an independent understanding and did not assess the risks related to such transactions which is not in line with the requirements of SA 550- Related Parties.

Going Concern (SA 570)

- In the event, a going concern test fails, and the entity is not considered as a going concern, the financial statements are required to be stated at another basis, for instance, liquidation basis. In the event, the entity has not stated the financial statements in the above manner, the auditor is advised to give an adverse opinion as the matter is material and pervasive to the financial statements.

Written Representations (SA 580)

- The auditor should request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.
 - Written representation from the management was dated after the date of the auditor's report on the financial statements.
 - An auditor shall obtain a written representation from management while performing a Review of Interim Financial information.
 - An auditor shall obtain written representation from management while performing certification of Corporate Governance.
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Using the Work of Internal Auditors (SA 610)

- Not documenting conclusions regarding the evaluation of the adequacy of the work of the internal auditors when using specific work of the internal auditor as not even a copy of the internal audit report was kept on record.

Comparative Information- Corresponding Figures and Comparative Financial Statements (SA 710)


- Not stating in 'Other Matter' paragraph in the auditor's report in a case where the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so:
 - That the financial statements of the prior period were audited by the predecessor auditor including the date of Audit Opinion;
 - The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons thereof.
- If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

Some Illustrative Qualifications


1. The PU does not have any documented policies for its system of quality control in accordance with SQC 1, Standard on Quality Control. In view of this it was not possible for us to evaluate compliance with the PU's quality controls. We did, however make specific inquiries of the managing partner of the PU with regard to policies implemented with regard to the various elements given in the Standard. On an overall basis, it was found that policies implemented were rudimentary and not commensurate with the size of the PU and the nature of its practice. There were particular deficiencies in establishing and implementing quality control policies and procedures in the areas of (i) Ethical requirements, and (ii) Acceptance and continuance of client relationships and specific engagements.

2. While the PU has documented policies for independence, there was no evidence on record to show that the said policies or the related quality controls were implemented. The engagement files examined also contained no evidence that any engagement-specific procedures were followed to ensure that the engagement teams were independent of the client.

Some Illustrative Qualifications

3. The PU does not have a practice of obtaining engagement letters as required under SA 210, Agreeing the Terms of Audit Engagement.
 4. It was observed during examination of engagement files that the staff deployed lacked industry expertise and was, in general, inexperienced. The PU does not have a system of supporting and encouraging its resources to undergo relevant professional education necessary to execute audits of entities in specialized industries. Moreover, there was no evidence in the working papers prepared by articled assistants of any review performed by a senior resource.
 5. The PU does not have any standard documented policy or procedure for planning and performing audits. Nor does it have any standard checklists to ensure that resources performing the engagement have ensured compliance with relevant technical standards, either accounting or auditing. There is also no standard documentation policy, with the result that engagement files lack consistency and file contents vary significantly from one file to another.
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Some Illustrative Qualifications

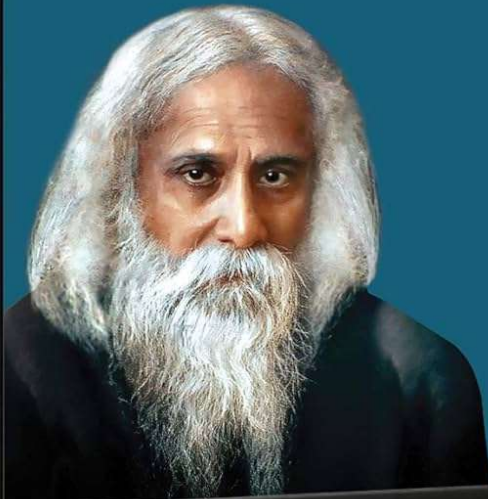
6. The PU was found to have complied with none of the requirements of SA 240, The Auditor's Responsibilities Relating to Fraud.
 7. The PU has no practice of documenting the samples selected for tests of details, what audit procedures were applied to test the samples, or the outcome of such testing, if performed. The only document that evidences performance of tests of details are query sheets. In several instances it was observed that queries were raised but there is nothing to evidence how they were solved or disposed of.
 8. The PU's audit files lack evidence of how significant estimates and judgements were audited or how the engagement teams reached a conclusion that the process adopted by the clients for making those estimates and judgements was sufficient and appropriate.
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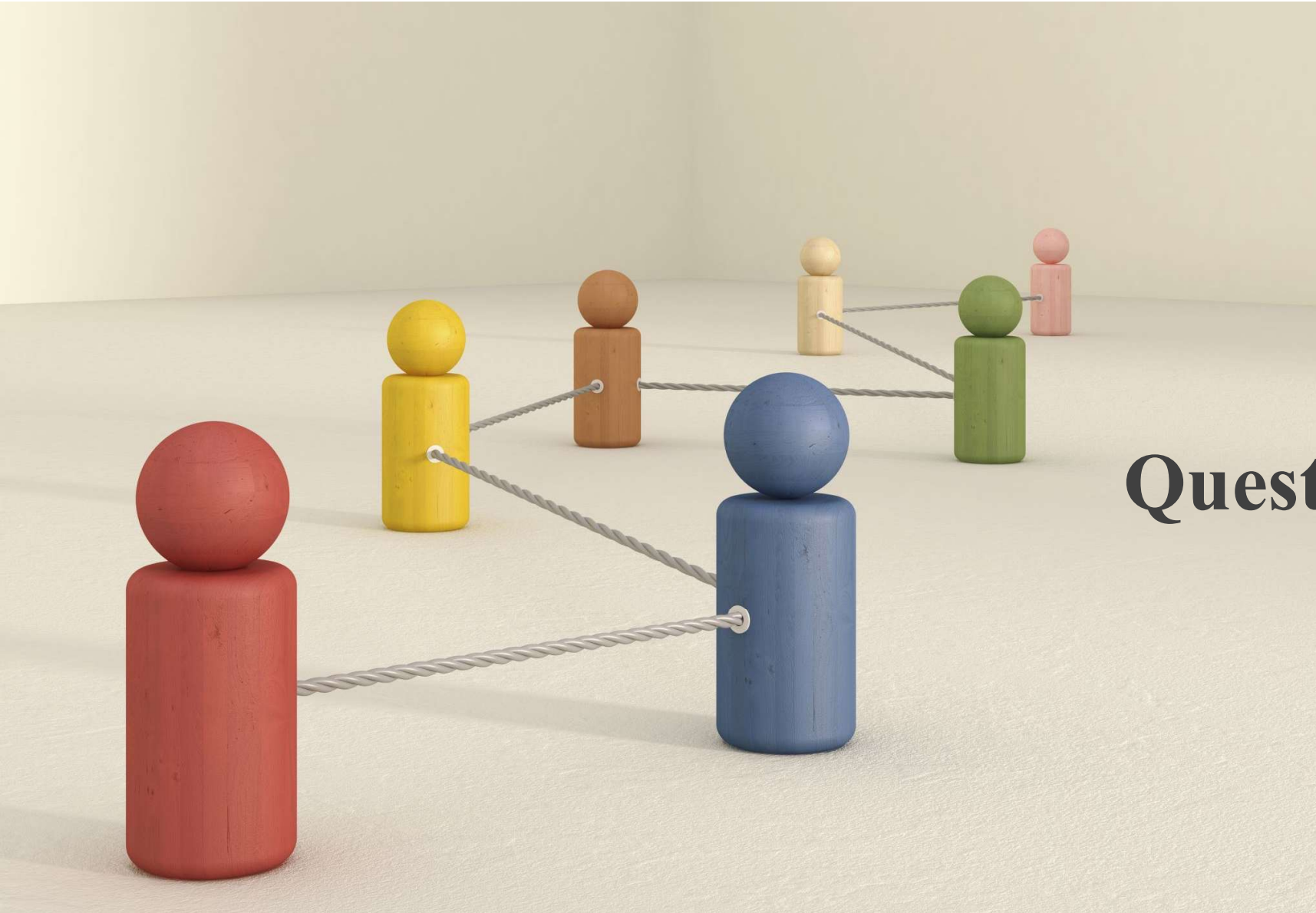
Important Readings

- Peer Review Manual – Volume 1 & 2.
- Peer Review Guidelines & Handbook on Peer Review Forms.
- Code of Ethics – Volume I & II and the available PPTs.
- Accounting Standards & Indian Accounting Standards- Checklist issued by ICAI
- Standards of Auditing- Checklists issued by ICAI
- SQC 1 & its Implementation Guide
- Audit working papers Templates of ICAI – June 2023.
- Audit of Small entities of ICAI – 2020
- Audit Quality Maturity Model – Revised Version 2.0 & its Implementation Guide

It is very **simple** to be
happy, but it is very
difficult to be simple.

◆ ————— *Rabindranath Tagore* ————— ◆





Questions??

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