

SA 220 - Quality Control for an Audit of Financial  
Statements

SA 300 – Planning an Audit of Financial Statements &  
SA 320 – Materiality in Planning and Performing an Audit

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# SA 220 - Quality Control for an Audit of Financial Statements

- Effective Date: 01/04/2010
- Deals with the
  - specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements
  - where applicable, the responsibilities of the engagement quality control reviewer.
- The firm has an obligation
  - to establish &
  - maintain a system of quality control to provide it with reasonable assurance

# Objective

- The objective of the auditor is to **implement quality control procedures** at the engagement level that provide the auditor with reasonable assurance that:
  - a. The audit complies with professional standards, regulatory and legal requirements;
  - b. The auditor's report issued is appropriate in the circumstances.

# Definitions

- a. **Engagement partner** – the partner or other person in the firm who is a member of ICAI & is in full time practice & is responsible for the **engagement,its performance**, and for **the report** that is issued on behalf of the firm
- b. **Engagement quality control review** – a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report
- c. **Engagement quality control reviewer** – a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate and provide quality control reviewbefore the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report
- d. **Quality Control for an Audit of Financial Statements** - provide evidence of compliance by engagement teams with the firm’s quality control policies

# Definitions

- e. **Engagement team** – all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement
- f. **Inspection** – in relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm’s quality control policies and procedures
- g. **Monitoring** – a process comprising an ongoing consideration and evaluation of the firm’s system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively
- h. **Network firm** – A firm or entity that belongs to a network
- i. **Professional Standards**
- j. **Relevant Ethical Requirements**
- k. **Staff**
- l. **Firm**
- m. **Network**

# Requirements

## ➤ **Leadership Responsibilities for Quality on Audits**

Engagement partner shall take responsibility for the overall quality

## ➤ **Relevant Ethical Requirements**

Throughout the audit engagement, the engagement partner shall remain alert

- Through observation

- Making inquiries as necessary

for evidence of non-compliance with relevant ethical requirements by members of the engagement team

## ➤ **Independence**

The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:

- Obtain relevant information

- Evaluate firm's independence policies and procedures

- Take appropriate action.

# REQUIREMENTS

## ➤ **Acceptance and Continuance of Client Relationships & Audit Engagements**

- appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements

## ➤ **Assignment of Engagement Teams**

- The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to
- ✓ Perform the audit engagement in accordance with professional standards and regulatory and legal requirements; and
- ✓ Enable an auditor's report that is appropriate in the circumstances to be issued.

# Requirements

## ➤ Engagement Performance

- i. Direction, Supervision and Performance
- ii. Reviews
- iii. Consultation
- iv. Engagement Quality Control Review
  - Discussion of significant matters
  - Review of the financial statements & Auditor's Report
  - Review of selected audit documentation
  - Evaluation of the conclusions
  - Consideration of whether the proposed auditor's report is appropriate
  - Evaluation of Firm's Independence
  - Whether appropriate consultation has taken place
  - Whether audit documentation selected for review reflects the work performed
- v. Differences of Opinion



# Requirements

## ➤ **Monitoring**

An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are

- Relevant
- adequate
- operating effectively

The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement

# Documentation

## ➤ **The auditor shall document**

- Issues identified w.r.t. compliance with relevant ethical requirements resolution
- Conclusions on compliance with independence requirements & relevant discussions with the firm that support
- Conclusions reached regarding the acceptance and continuance
- The nature and scope of, and conclusions resulting from, consultations undertaken

## ➤ **The EQCR shall document**

- The procedures required as per the firm's policies
- The engagement quality control review has been completed on or before the date of the auditor's report

# SA 300 – Planning an Audit of Financial Statements

- Effective date 01/04/2008
- Applies to the planning process of the audit of financial statements
- Is framed in the context of recurring audits
- Objective of the auditor is to plan the audit so that it will be performed in an effective manner
- Planning should be continuous throughout the engagement and involves
  - developing an overall plan
  - developing an audit programme

# Audit Planning Procedure - Requirements

- Involvement of Key Engagement Team Members
- Evaluating continuance of the client relationship (SA 220)
- Evaluating compliance with ethical requirements (SA 220)
- Understanding Terms of Audit Engagements (SA 210)

# Planning Activities

- **Auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit**
  - Identify the characteristics of the engagement
  - Ascertain the reporting objectives of the engagement
  - Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts
  - Consider the results of preliminary engagement activities
  - where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant
  - Ascertain the nature, timing and extent of resources necessary to perform the engagement
- **The auditor will consider factors such as:**
  - complexity of the audit,
  - the environment in which the entity operates,
  - his previous experience with the client, and
  - knowledge of the client's business

# Developing the Audit Programme

- The nature, timing and extent of planned risk assessment procedures (SA 315)
- The nature, timing and extent of further planned audit procedures at the assertion level (SA 330)
- Other planned audit procedures that are required to be carried out so that the engagement complies with SAs
- The auditor shall update and change the overall audit strategy
- Update and change the overall audit strategy and the audit plan as necessary during the course of the audit

## Documentation

- The overall audit strategy
- The audit plan
- Significant changes made to the overall audit strategy or the audit plan, and the reasons for such changes

# SA 320 – Materiality in Planning and Performing an Audit

- Effective 01/04/2010
- Deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements
- SA 450, *Evaluation of Misstatements Identified During the Audit*, explains how materiality is applied in evaluating the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements

# Definition

- **Performance materiality** means the amount or amounts set by the auditor
  - at less than materiality for the financial statements as a whole
  - to reduce to an appropriately low level the probability that the aggregate of uncorrected & undetected misstatements exceeds Overall materiality
  
- For the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.
  
- It also refers to the amount or amounts set by the auditor at less than the materiality level or levels for
  - particular classes of transactions
  - account balances or
  - Disclosures



# Determination of Materiality

- The auditor's determination of materiality
  - is a matter of professional judgment, and
  - is affected by the auditor's perception of the financial information
  
- Reasonable assumption by auditors that users:
  - Have a reasonable knowledge of business, economic activities and accounting
  - Understand that financial statements are prepared, presented and audited to levels of materiality
  - Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events;
  - Make reasonable economic decisions on the basis of the information in the financial statements.

# Benchmarks in Determining Materiality

- Factors that may affect the identification of an appropriate benchmark include the following:
  - The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses)
  - The nature of the entity, where the entity is at in its life cycle,
  - The industry and economic environment in which the entity operates
  - The entity's ownership structure and the way it is financed

# Other Aspects

- Revise Materiality - in the event of becoming aware of other information
- If the auditor concludes that a lower materiality than that initially determined is appropriate

## Documentation

- The audit documentation shall include the following amounts and the factors considered in their determination
  - Materiality for the financial statements as a whole
  - the materiality level or levels for particular classes of transactions, account balances or disclosures
  - Performance materiality
  - Any revision in above as the audit progresses

# Connectivity

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