

Auditing & Assurance Standards – Importance of Standards and Compliance

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Standards on Auditing ... Guides the Auditor



DOCUMENTATION

Objective of the Session

Overview

Relevance

Key points

Overview

Auditing Standard Setters

AASB - Auditing and Assurance Standards Board of ICAI (In July, 2002, the Auditing Practices Committee has been converted into an Auditing and Assurance Standards Board)

IAASB – International Auditing and Assurance Standard Board which is part of International Federation of Accountants (IFAC)

Role of AASB

- review existing and emerging auditing practices
- formulate engagement standards, standards on QC and statements on auditing
- issue of guidance notes / technical guides on auditing issues
- issue of announcements / clarifications on issues arising from standards

Snapshot of Engagement Standards

Broad category / Engagement Standards	Remarks	No. of Standards	Reference
Standards on Quality Control		1	SQC 1
General Principles and Responsibilities	Audit of historical Financial Information (FI)	9	SA 200 to 299
Risk Assessment & Response to Assessed Risks		6	SA 300 to 450
Audit Evidence		11	SA 500 to 580
Using Work of Others		3	SA 600 to 620
Audit Conclusions and Reporting		6	SA 700 to 720
Specialized Areas		3	SA 800 to 810
Standards on Review Engagements (SREs)		Review of historical FI	3
Subject Specific Standards (Assurance Engagements)	Other than historical FI	3	SAE 3400 to 3420
Related Services (AUP, compilation, etc.)	Factual findings/Compilation	3	SRS 4400 to 4410
Total		48	

Level of Assurance

Particulars	Audit	Review	AUP	Compilation
Assurance level	High (Reasonable)	Moderate (Limited)	No assurance	No assurance
Report provided	Positive assurance on assertions	Negative assurance on assertions	Factual findings of procedure	Identification of information complied



Positive Assurance

- Positive expression of opinion under assurance
- The aforesaid financial statement **gives True and Fair view** of state of affairs of the Company

Negative Assurance

- negative expression of opinion under assurance
- **nothing has come to our attention** that causes us to believe that the financial statements are not in accordance with.....

Standard on Quality Control – SQC 1

Quality Control for Firms that performs Audits, Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

Objective : Firms to have Quality Control (QC) to ensure firm comply with professional standards, legal and regulatory requirements and Reports issued by firm or partners are appropriate in the circumstances

Leadership Responsibility

Require CEO/ managing partner to assume ultimate responsibility for QC

Ethical Requirement

- Integrity
- Objectivity
- Professional competence
- Confidentiality
- Professional behavior

Independence

Communication to and maintenance of independence of the engagement team

Client Acceptance and Continuance

Consider :

- Firm Competency
- Ethical requirement
- Client's integrity

Human Resources

Ensure :

- Firm has competent personnel
- Responsibility is clearly communicated
- Personnel are trained

Engagement Performance

- Supervision.
- Review.
- Consultation
- Differences of opinion
- Engagement Q. C. review.& documentation

Monitoring

Assure that procedures are :

- Relevant
- Adequate
- Operating effectively &
- Complied with

Scope of Engagement Standards

Services that can be provided by a Practicing Chartered Accountant



Standard Engagements

Covered under standards

- Audit Engagements
- Review of financial statements, historical financial information, interim financial information
- Examination of prospective financial information, Assurance reports on controls of service organization, compilation of pro forma financial information included in prospectus
- Engagement to perform agreed upon procedures regarding Financial information compilation engagements

SAs

SREs

SAEs

SRSs



Other Engagements

Not covered under specific standards

Examples:

- Certification engagements
- Audit of internal financial controls over financial reporting
- Guidance Note on Combined and Carve – Out Financial Statements
- Guidance note on tax audit under u/s 44AB of Income Tax Act,1961

Guidance notes + Specific Standards as applicable

Use of SA on other Engagements

Guidance Notes:

- Articulates various standards that needs to be complied with for the purpose of addressing the specific scenarios
- Offer advice on priority issues and on tackling practical difficulties
- Also describes dilemmas, controversies or gaps in current knowledge

Guidance Note (GN) issued by ICAI

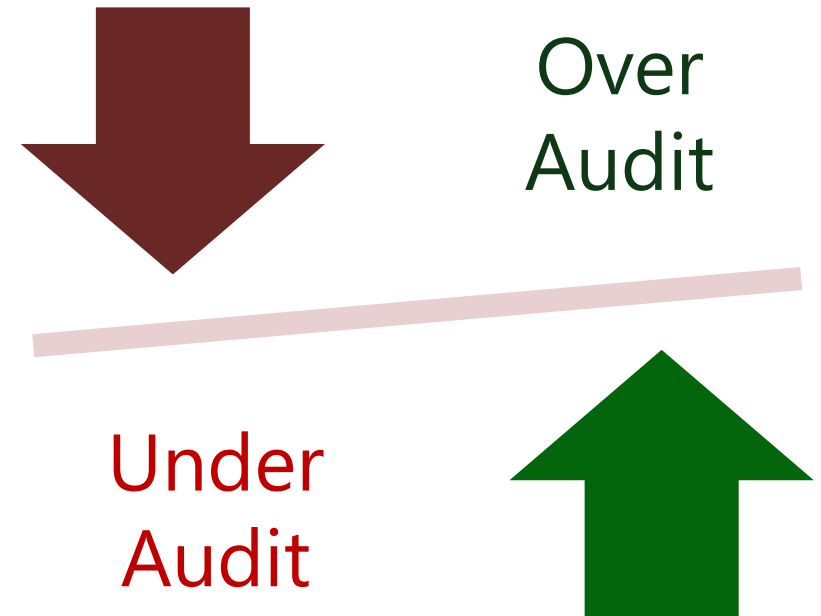
GN on Reports or Certificates for Special Purposes (Revised 2016)

- This GN is applicable only where reporting is not covered by SA
- GN encompass the essence of all relevant SA
- It is equivalent to a complete standard on standalone basis
- Elaborative guidance is given for each of the components in the entire engagement life cycle
- GN reiterate that opinion cannot be true and correct hence our assurance can be reasonable assurance or limited as the case may be

GAAS (Generally Accepted Auditing Standards)

Key points

- Consistency in audit approach & assistance in field work
- SQC 1 is a Bible for the auditors
- Streamline the audit process to safeguard the auditors
- Indian GAAS are aligned with IAS
- Growing expectation of stakeholders from auditors – play key role in enhancing corporate governance
- Finding Fault is no longer relevant
- Professional Skepticism
- Zero tolerance for unethical behaviour





Relevance

Regulatory requirements

Mandatory reporting in statutory audit report and tax audit report

- Compliance with Standards on Auditing is mandatory u/s 143 (10) of Companies Act 2013.
- National Financial Reporting Authority to have powers to recommend Standards on Auditing (section 132)
- SA also applies to tax audit

Class action suit under Companies Act, 2013

- Class action suit on auditor / audit firm
- To prove innocence the auditor requires proper documentation

Quality assurance of audit

- To ensure that the audit complies with the professional standards as provided by SQC – 1

Audit of listed entities

- Peer review certificate is must for audit of listed entity under SEBI Regulation.
- Audit Quality review is also conducted by QRB / FRRB

Compliance with standards

Benefits on compliance with the standards in an engagement



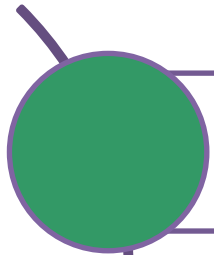
- Timely Completion of assignment
 - Serves the purpose of guidance in various situation
- Quality assurance in the assignment
- Required as per statutory framework
- Safeguarding the auditor's and firm's interest

SAs represents Generally accepted procedures of audit if member does not disclose such departure therefrom, he/ she shall be liable to disciplinary proceeding under Clause 9 of Part I of Chartered Accountant Act, 1949

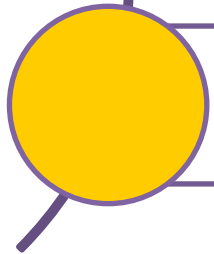
Findings of QRB

Quality Review Board (QRB) has issued reports on audit quality reviews conducted during the period 2012-2017. Recently report is issued for the reviews conducted in FY 2016-2017. Graphical summary of findings is given in next slide.

The Board has formed the study group for the following matters:



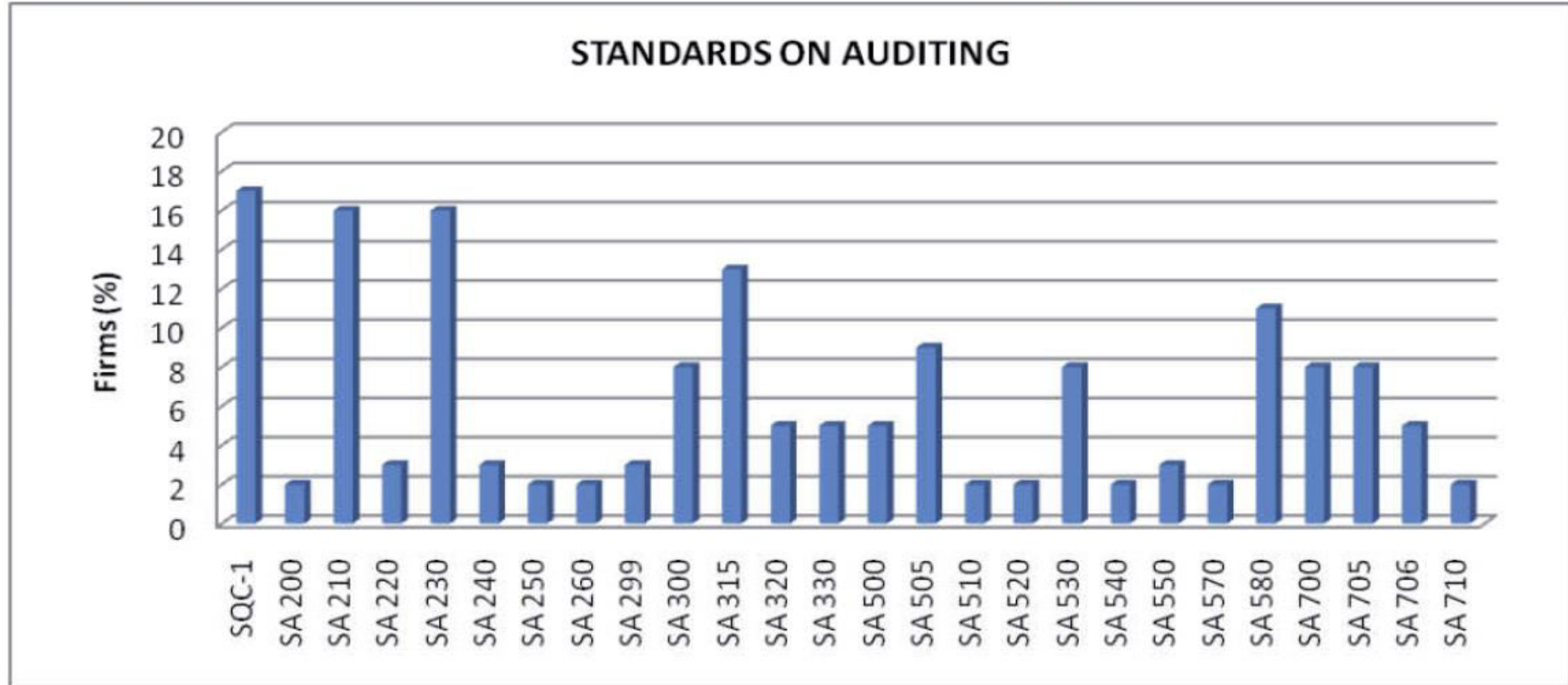
Holistic review of procedure for quality review of audit services of audit firms



Measure to raise the bar of audit quality

Outcome of 2016-2017 QRB Report

Graphical Presentation of Observations on Standards on Auditing (SA):



Auditing Standards covered in this presentation

Highlights of the following engagement standards as reported by the QRB are covered in this presentation.

1. SQC 1 – Quality controls
2. SA 210 - Agreeing to terms of audit engagement
3. SA 230 - Audit documentation
4. SA 240 – Auditor’s responsibilities relating to fraud in an audit of financial statement
5. SA 300, 315, 320 and 330 - Audit planning, risk assessment, materiality & response to assessed risk
6. SA 500-580 - Audit evidence
7. SA 700 / 705 / 706 - Audit conclusion and reporting

Turbulent Events which raised many questions

Satyam - Falsely boosted revenue

Enron - Kept huge debts off balance sheet

Ricoh – Fictitious sales / unsupported adjustments

WorldCom – Inflated assets

Lehman Brothers – Loan liability accounted as sales

Holistic viewpoint of why Standards are relevant

Trust and faith of stakeholders

Work in interest of stakeholders

Governance

Following code of ethics in true spirit

Quality Assurance

Credibility and wider acceptance at global level

Key Points -
observations made
by QRB

SQC 1

- Failure to implement various elements of the system of QC
- Audit firms have not established policies and procedures
- Lack of awareness of audit firms in maintain staff appraisal policy and policy with regard to delegation of improved and increase responsibility
- Poor audit documentation (Independence, client acceptance and continuance, HR, engagement quality control review, engagement performance and monitoring)
- Failure to have learning calendar and ensuring that firm's partners and employees are complying ICAI CPE Rules

SA 210 - Agreeing the terms of audit engagement

- EL does not cover all aspects of the objective and scope of audit of financial statement including management and auditors responsibilities
- Financial reporting framework not defined
- No reference of form and content of any report to be issued by the auditor
- EL not signed and dated within reasonable time frame from the date of appointment

SA 230 – Audit documentation

Significant observations without reference of source documents

Improper / no linking of documents

Unsatisfactory documentation of audit plan, nature, timing, etc.

No documentation for verification of key management estimated

Lack of proper segregation and indexation of working papers

Lack of documents to ensure that firm adhered with the ethical standards laid down by ICAI

Documents prepared for certain areas only

Contingent liability disclosed does not reconcile with work papers

No back up / mismatch for comments given in CARO

SA 240 – Auditor's responsibilities relating to fraud in an audit of financial statements

- Lack of awareness of audit firm in showing professional scepticism thought the audit report
- Documentation containing the background of the client was found to be lacking
- Based on documents available, it was difficult to conclude whether fraud risk was considered during the audit of financial statement i.e. revenue recognition, related party transactions etc.

Risk Assessment & response to assessed risk

[SA 300, 315, 320, 330]

- Audit plan / strategy / risk assessment not documented
- Controls not validated (e.g. IT controls)
- Materiality levels not documented for class of transaction
- No back up for test of controls and balances

Audit Evidence [SA 500 -580]

Back up not maintained for validating the date given to actuary

No control on external confirmation and alternate audit procedures not performed

Failure to test the opening balances brought forward

Methodology of selection of sample not documented

Management assertions not tested / not documented

LOR – does not cover the key audit aspects

No working for analytical procedures conducted

Audit Conclusions and Reporting [SA 700-706]

- Auditors report issued in old format i.e. not as per SA 700
- Auditor's responsibility not worded appropriately [illustrative format is given in the standard]
- Name of the signing partner and membership number not mentioned on financials and certificates issued
- Quantification of the impact of qualifications not mentioned in the report nor reasons for non-quantification of such qualifications was mentioned
- EOM not given for key items which would otherwise require reader attention

Other Key points

Why documentation is relevant

- **“WORK NOT DOCUMENTED = WORK NOT DONE”**
- Poor documentation depicts poor performance in audit – reflect firm’s process
- Emphasis on use of detailed checklist for ensuring completeness and compliance with all standards
- Significant responsibility cast on auditors under regulatory framework
- When things go wrong the onus is on auditors to “prove” that he / she was not professionally negligent in performing his duties
- Auditing Standards neither favour nor discriminate based on size of the practitioner
- Guide for new team members. Also assist in reviewing the work of team and also serve the purpose of ready reckoner for subsequent engagements

External auditor relying on work done by others

SA 600: Using the work of another auditor

Reporting considerations



Co-ordination with other auditor (branch or component)



Division of Responsibility

SA 610: Using the work of an Internal auditor

Understanding the scope of Internal Audit Function (IA)



Determining whether and to what extent rely on IA function



Using specific work of IA function



Using direct assistance of IA function by EA

SA 620: Using the work of an expert

Determining need for expert's work



Evaluating the competency and capability of the expert



Obtaining the understanding the field of an expert



Responsibility of the auditor and need for reference in audit report

Engagements based on Agreed Upon Procedures (AUP) regarding financial information (SRS 4400)

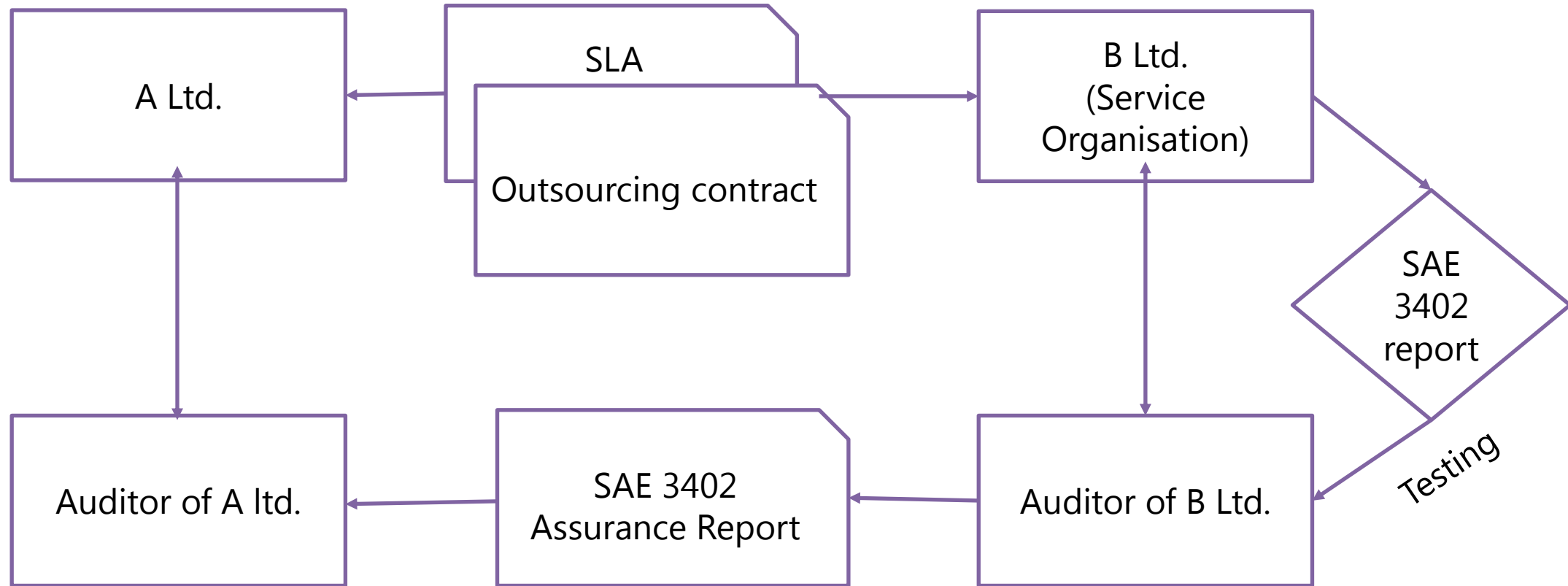
Key elements of AUP are as given below:

1. Engaged to issue report on factual findings based on specified procedures performed on specified subject matters
2. This is also a complete standard on standalone basis (all relevant attributes of other auditing standards are covered in the auditing standard)
3. This SA is an useful guidance for engagements to perform AUP regarding non-financial information as well.
4. It is neither an audit nor a review hence to be specifically mention in the report issued.
5. Restricted purpose and distribution
6. Example – balance confirmation, profit of a segment, etc.

Review of financial statements [SRE 2400 & 2410]

1. SRE 2400 is applied for review of financial statements
2. SRE 2410 is applied for review of interim financial statement conducted by independent auditor
3. Both the SRE are complete standard on standalone basis and borrows all attributes from other standards on auditing
4. Review is based in inquiry and analytical procedures
5. Negative assurance

Assurance Reports on controls at Service Organization [SAE 3402]



Common errors in Audit Report

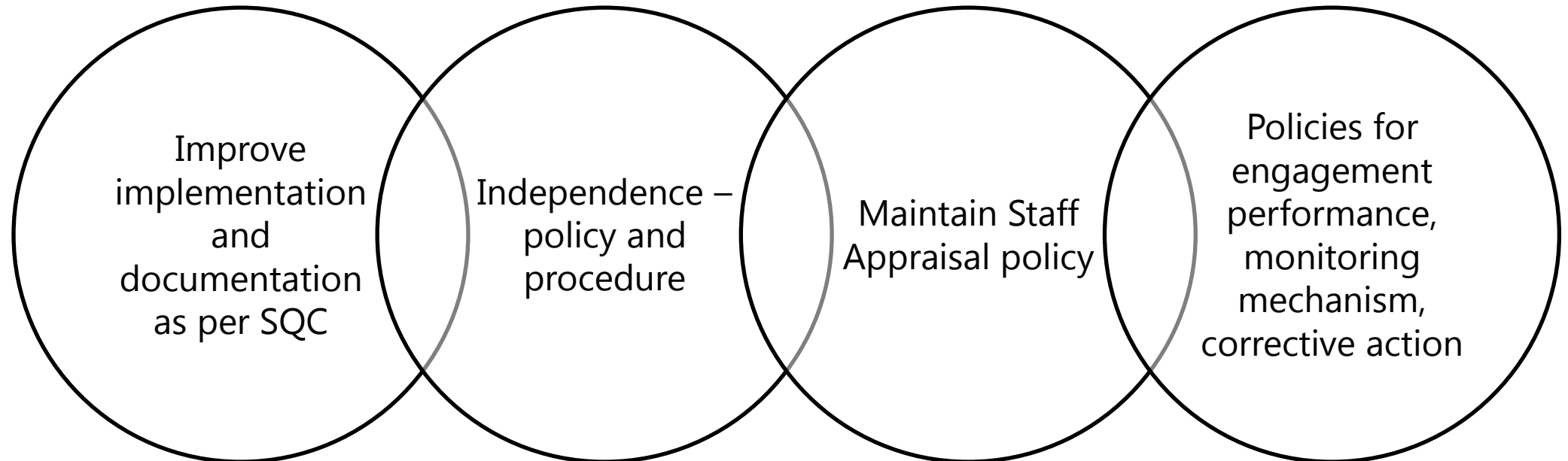
1. Other matter paragraph not given for change in auditors
2. In case where CARO reporting is not applicable, reporting is required to mention such fact
3. Separate report is issued on IFC however auditors responsibility paragraph incorrectly includes that opinion is not required for such controls
4. EOM not given for negative net worth / going concern
5. Inconsistency in reporting for standalone and consolidated financial statement (e.g. EOM given in audit report for standalone financials but not in consolidated financials)
6. Qualification given in previous year report but not continued in ensuing year [comparative figures are reported hence it is required to continue the qualification with appropriate changes]
7. Cross Reference not given for pending litigation / disputes

Changes in Reporting Standards – mainly KAM

Introduction of SA 701 and amendments in other Reporting standards applicable from 1st April 2018

New and revised SAs	Description of changes and scope
SA 701: Communicating Key Audit Matters in the Independent Auditor's Report (<u>New Standard</u>)	New dimension to audit report to include key matters and how are they resolved.
SA 700: (Revised), Forming an Opinion and Reporting on Financial Statements	Audit opinion para will be given as first paragraph and other incidental changes as per SA 701.
SA 705: (Revised), Modifications to the Opinion in the Independent Auditor's Report	Clarification of how the new reporting elements (KAM) are affected when expressing a modified opinion.
SA 706: (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Clarification of the relationship between the emphasis of matter and other matter paragraphs and KAM section of the auditor's report

Key Take Away for Audit Firms (SQC 1)



Few Thoughts



No audit tool will be of use unless there is desire and efforts are given to achieve

Resource materials

1. Implementation guides on various auditing standards [SA 501: Audit Evidence – Specific considerations for selected items (like inventory, litigation an claims and segment information, SA: 300 Planning, SA: 700-706 Reporting, SA: 230 Audit documentation)]
2. Hand book of Auditing Pronouncements Volume I and II
3. Audit Quality Review Report conducted by QRB [2016-2017]
4. Illustrative audit reports issued by AASB
5. Announcements issued by ICAI
6. Clarification issued by AASB

Thank You