

- Views expressed herein may not necessarily reflect the views of the firm.
- A presentation which raises ideas and concepts does not amount to an opinion of the firm or of the author but should be merely viewed as matters having potential possibility.
- Presentations are intended to be dissuasive and not conclusive
- A presentation is not a replacement for a formal opinion on a point of law which may require to be addressed.
- The information and views contained in this presentation are to be viewed with caution and should be appropriately considered.
- Information provided herein is only for the benefit of the recipients, and is not to be shared with any other person without our consent



- **SA 210** – Agreeing to the terms of Audit Engagement
- **SA 230** – Audit Documentation
- **Revised SA 260** - Communication with Those Charged with Governance (TCWG)
- **SA 265** - Communicating Deficiencies in Internal Control to TCWG and Management
- **Revised SA 299** - Joint Audit of Financial Statements
- **Documentation Required for Peer Review**



SA 210 – Agreeing to the terms of Audit Engagement

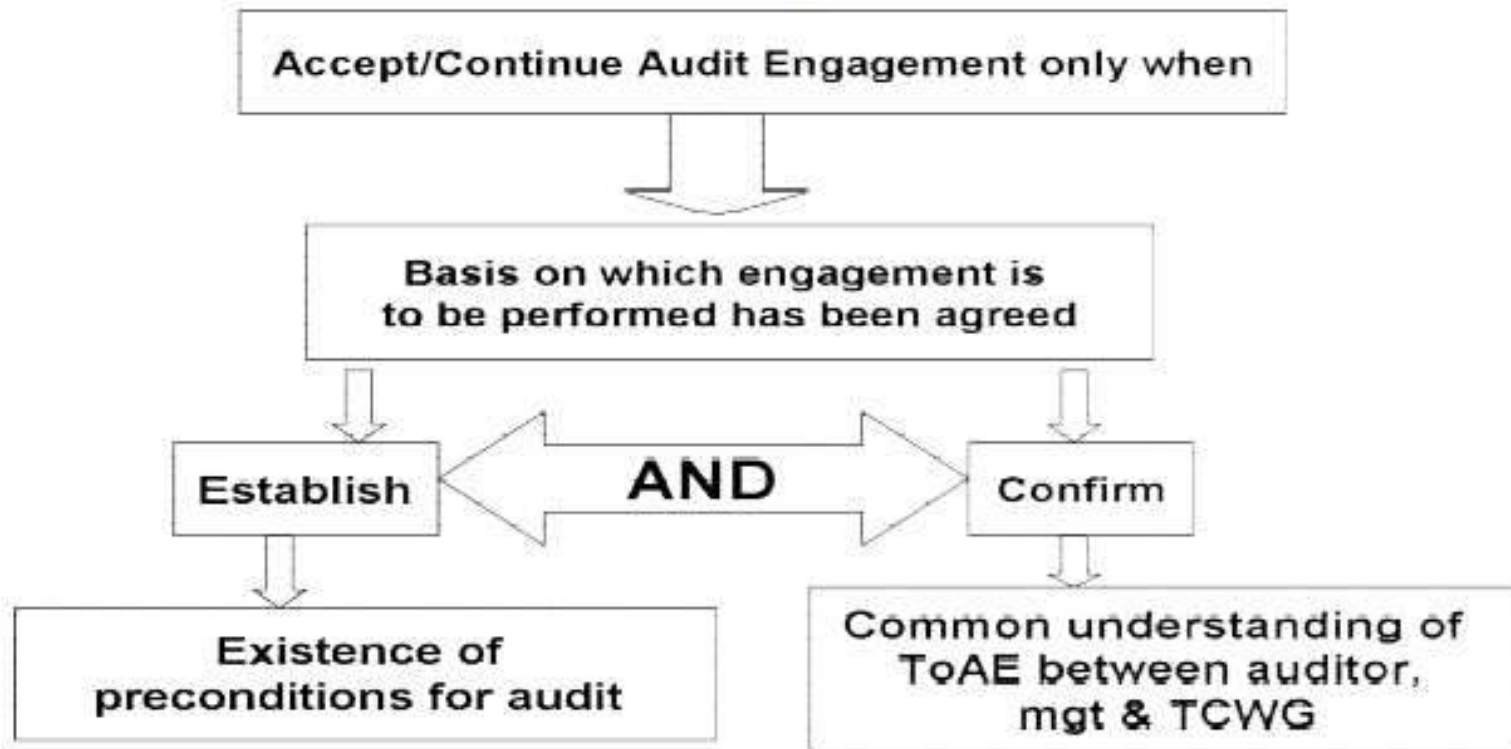
➤ **Effective date**

- ✓ Beginning on or after April 1, 2010.

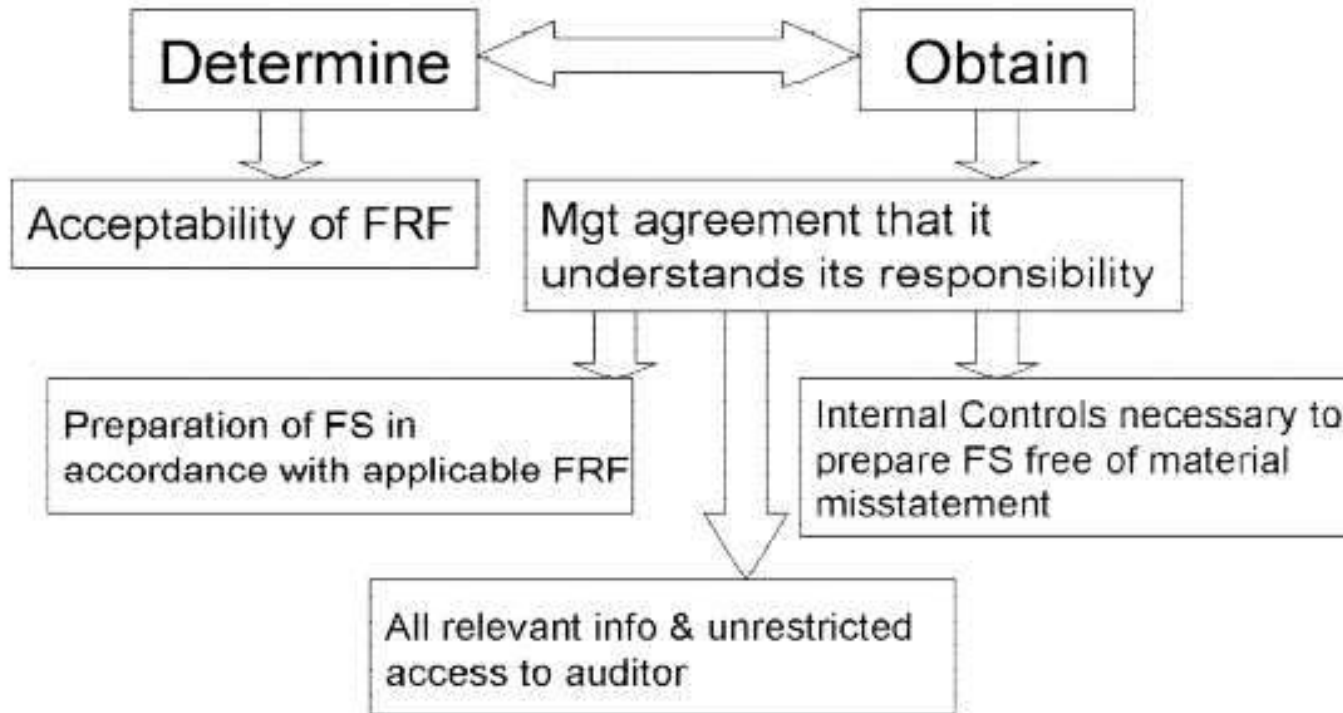
➤ **Scope:**

- ✓ This Revised Standard on Auditing (SA 210) deals with the **auditor's responsibilities in agreeing to the terms of the audit engagement with management/TCWG.**
- ✓ SA 210 establishes the **preconditions for an audit, terms of an audit engagement and changes** thereof, segregates the **responsibility of the management** and auditors etc.

Auditor's Objective



Establishing Existence



- Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable.
- Agreement of management that it acknowledges and understands its responsibility:
 - For the **preparation of FS** in accordance with the applicable FRF, including their fair presentation
 - For **IC necessary to enable the preparation of FS** that are free from material misstatement, whether due to fraud or error; and
 - To provide the auditor with
 - **Access to all information** relevant to the preparation of the FS, records, documentation and other matters;
 - **Additional information** that the auditor may request from management for the purpose of the audit; and
 - **Unrestricted access to persons** within the entity from whom the auditor determines it necessary to obtain audit evidence

- **Limitation of Scope:** The Auditor shall discuss with the management and if such pre-conditions cannot be ensured then the Auditor shall **not accept** the engagement unless required by law. **Limitation will result in – disclaiming opinion**

- **Other factors:** to be discussed with management
 - Agreement on the FRF is not acceptable then the auditor shall discuss to adopt a suitable FRF else, he shall not accept the assignment.
 - Agreement on other Preconditions

- Agreement in writing – engagement letters or letter of engagement (EL) – Appendix to SA 210

Also gives guidance on determining the acceptable FRF – **sometimes prescribed by Law or Regulation**

- Objective and Scope of the audit
- Auditor's responsibilities
- Management's responsibilities
- Identification of the applicable financial reporting framework
- Reference to the expected **form and content of any reports** to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content

- The **auditor may decide not to send a new audit engagement letter** or other written agreement each period.
- Following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:
 - ✓ *Any indication that the entity misunderstands the objective and scope of the audit.*
 - ✓ *Any revised or special terms of the audit engagement.*
 - ✓ *A recent change of senior management.*
 - ✓ *A significant change in ownership.*
 - ✓ *A significant change in nature or size of the entity's business.*
 - ✓ *A change in legal or regulatory requirements.*
 - ✓ *A change in the financial reporting framework adopted in the preparation of the financial statements.*
 - ✓ *A change in other reporting requirements.*

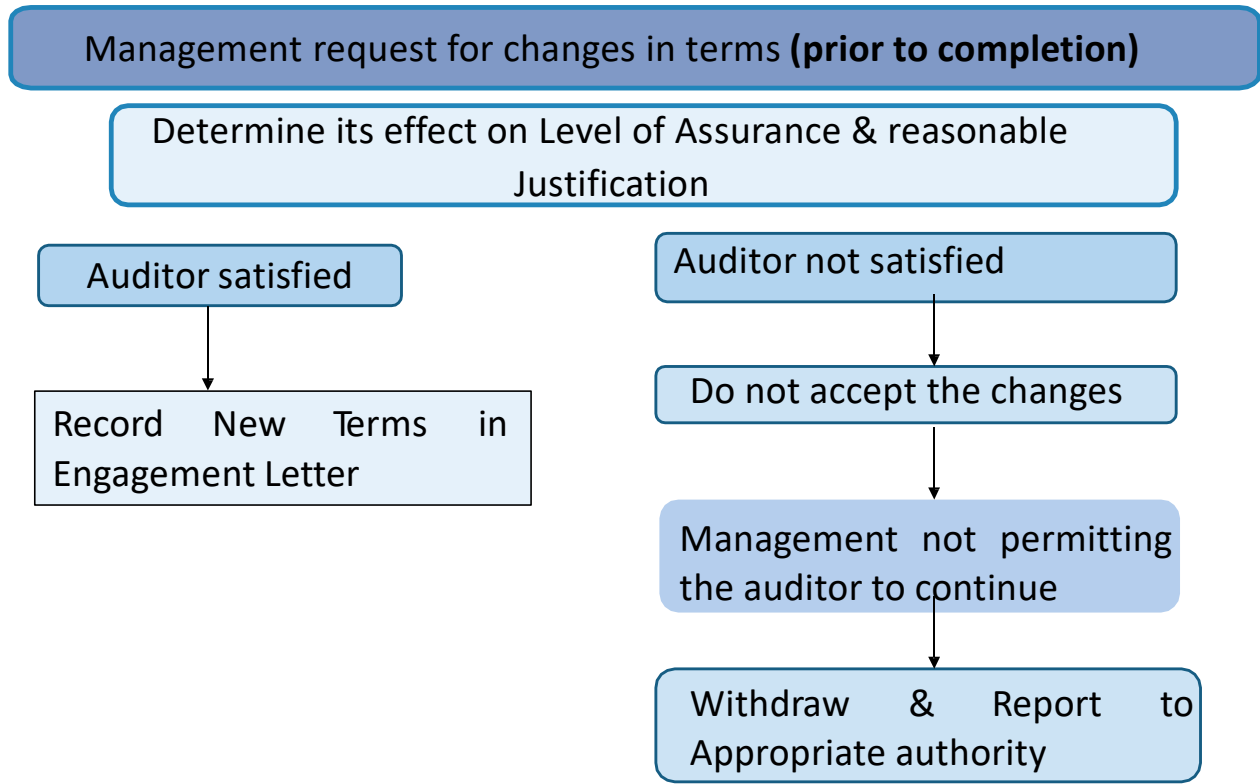
Y

((b

((s

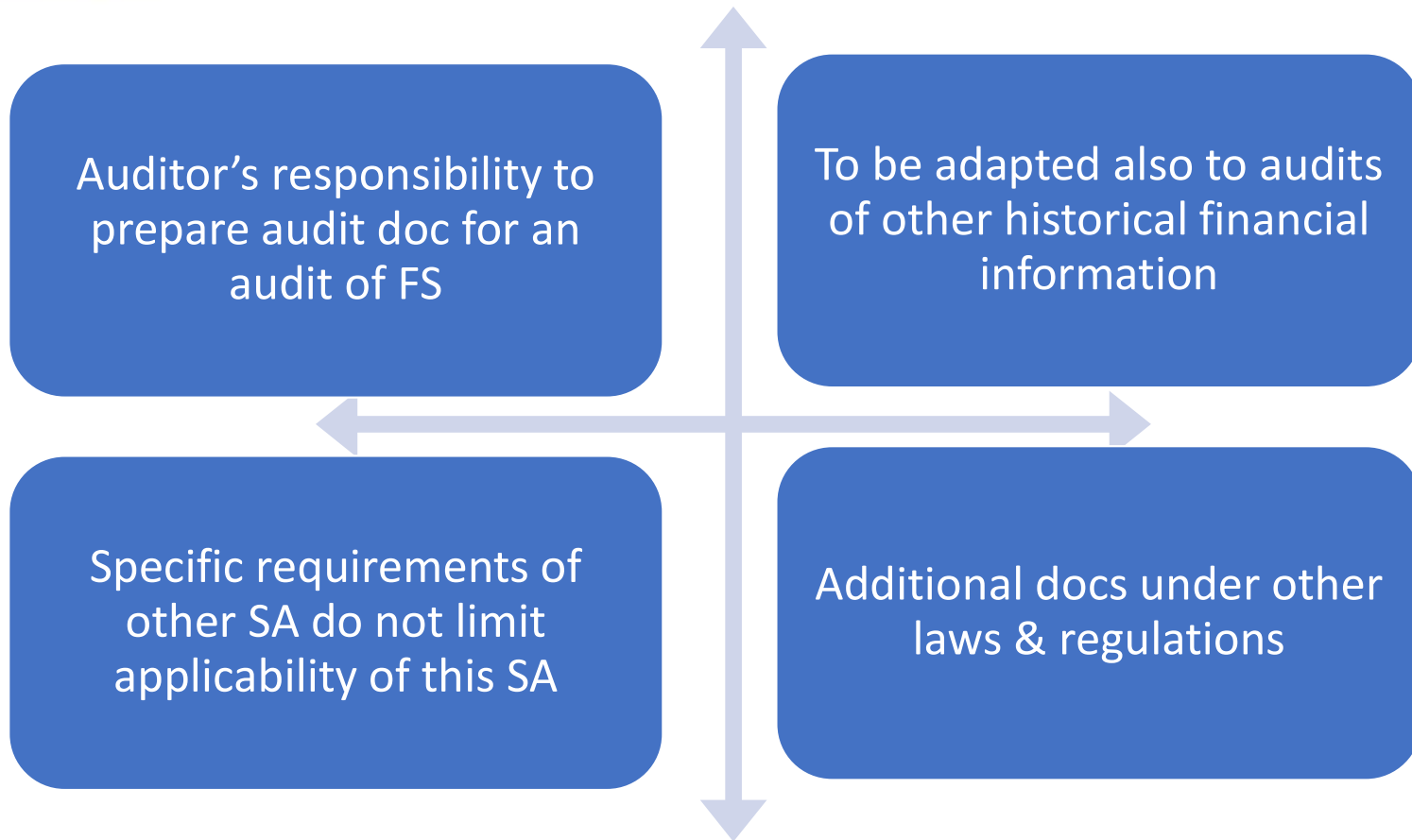
((

Y



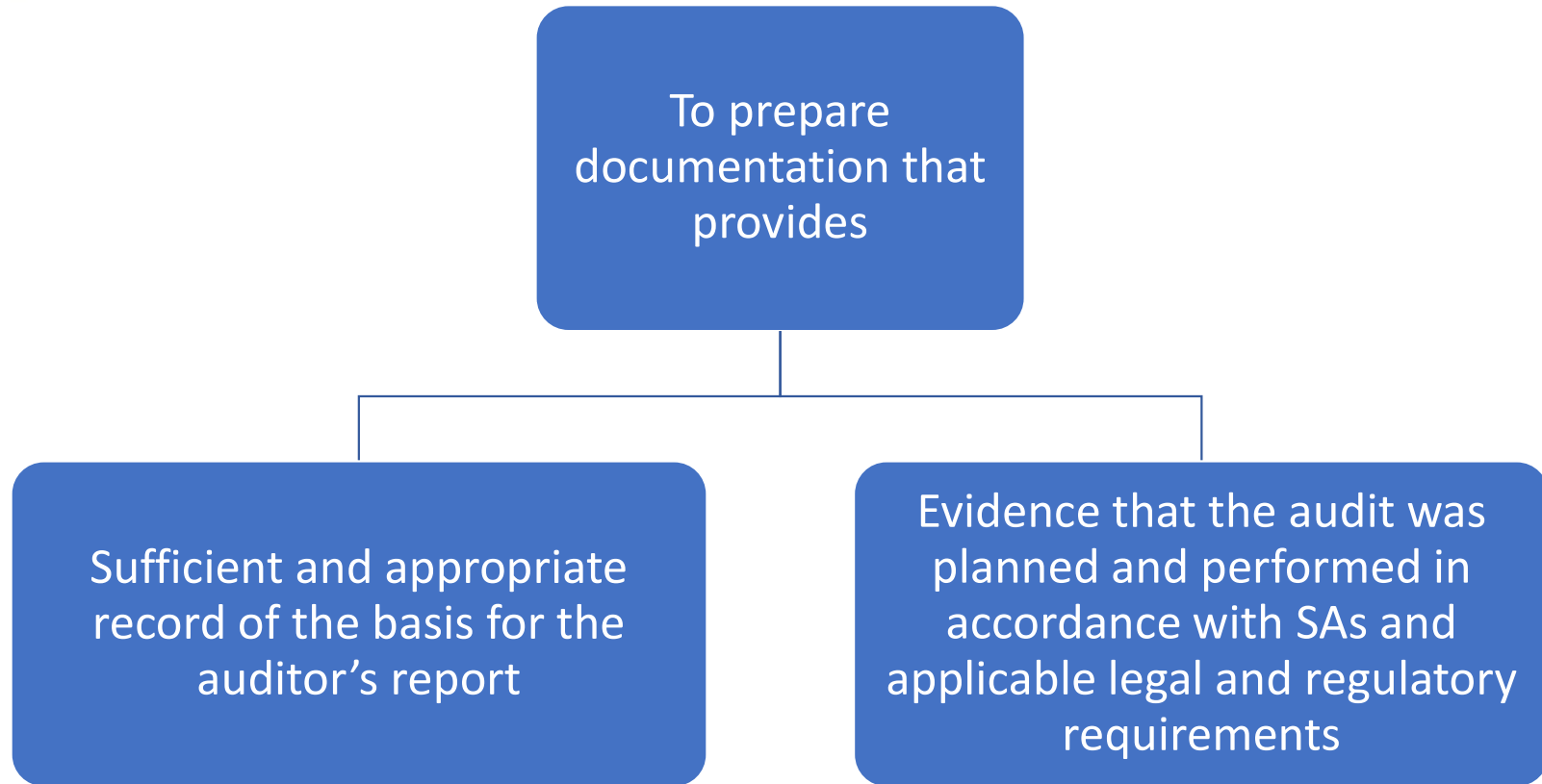


SA 230 – Audit Documentation



- **Evidence** of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and
- **Evidence** that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements

- Assisting the engagement team to plan and perform the audit
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with SA 220
- Enabling the engagement team to be accountable for its work
- Retaining a record of matters of continuing significance to future audits
- Enabling the conduct of quality control reviews and inspections in accordance with SQC
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements



- **Audit Documentation:** The record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached (working papers, work papers).
- **Audit File:** One or more folders or other storage media in physical or electronic form, containing the records that comprise of the audit documentation for a specific engagement.
- **Experienced Auditor:** An Individual (whether Internal or external to the firm) who has practical audit experience and a reasonable understanding of **audit processes, SAs and applicable legal and regulatory requirements**, the **business environment** in which the entity operates and **auditing and financial reporting issues** relevant to the entity's industry.

An auditor should prepare audit documentation sufficient to enable an experienced auditor having no previous connection with the audit to understand.

- **Nature, timing and extent** of audit procedures:
 - ✓ Identifying characteristics of specific items and matters tested.
 - ✓ Who performed the audit and the date of completion.
 - ✓ Who reviewed the report, the date and extent of review.
- **Results of the audit procedures performed**, and evidence obtained:
 - ✓ Document discussions of significant matters.
 - ✓ Nature of the significant matters – when and with whom discussed.
- **Significant matters arising during the audit:**
 - ✓ Document how the inconsistencies have been addressed.
 - ✓ In case of departure from the standard, the relevant requirements and the reason for departure, the alternative audit procedures performed to achieve the aim of that requirement.

The form, content and extent of audit documentation depend on factors such as:

- The size and complexity of the entity.
- The nature of the audit procedures to be performed.
- The identified risks of material misstatement.
- The significance of the audit evidence obtained.
- The nature and extent of exceptions identified.
- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The audit methodology and tools used.

*“The skills of an accountant
can always be ascertained by
an inspection of his working
papers”*

Robert H Montgomery, *Montgomery's Auditing*, 1912

*The auditor is required to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; the results of the audit procedures performed, and the audit evidence obtained; and significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. **The audit documentation, therefore, should be adequate in itself for all purposes.***

- **Time recording by Auditor** (EP and members of the ET) is mandatory in under Para 9 of SA 230 which requires the auditor **to record the nature, timing and extent of audit procedures performed** in the Audit documentation.
- The identity and the role of the **EP communicated orally to the Management and TCWG**, but however **no documentation was kept**. This is a key communication mandated by SAs and it goes without saying that this had to be in writing. In any case, in the absence of record of oral communication.
- The Audit Firm had explained that they were **not required to keep all agreements** that were verified by them during the course of audit in the Audit File. This statement was found to be completely violative of the basic principles underlying audit documentation.
- The mandatory requirements of the SAs have to be considered holistically and harmoniously. It is not acceptable to look at any single extract from the SAs that ignores the overall context.



How much to document??

- Enough to:
 - ✓ Assist in planning and performing
 - ✓ Record matters of continuing significance
 - ✓ Create accountability
 - ✓ Assist external inspection
 - ✓ Assist supervision and direction
 - ✓ Assist quality control review

When to document?

- Timely manner (docs prepared after audit are less accurate)
- Within 60 days of completion of audit (SQC 1)
- Retain for 7 years from the date of audit report

Departure from a Relevant Requirement –

- *“If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure”*

If, in the exceptional circumstances, auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor’s report, the auditor shall document:

- Circumstances encountered
- Newer additional procedures performed, evidence obtained, conclusions reached and its effect on auditor’s report.
- When and by whom the resulting changes to audit documentation were made and reviewed.



- Assemble the audit documentation in an audit file on a timely basis after the date of the auditor's report.
- Not to delete or discard audit documentation of any nature before the end of its retention period.
- Modification or addition in existing audit documentation:
 - ✓ The specific reasons for making them; and
 - ✓ When and by whom they were made and reviewed
 - ✓ Regardless of the nature

❖ Ownership of the Audit Documentation/working papers

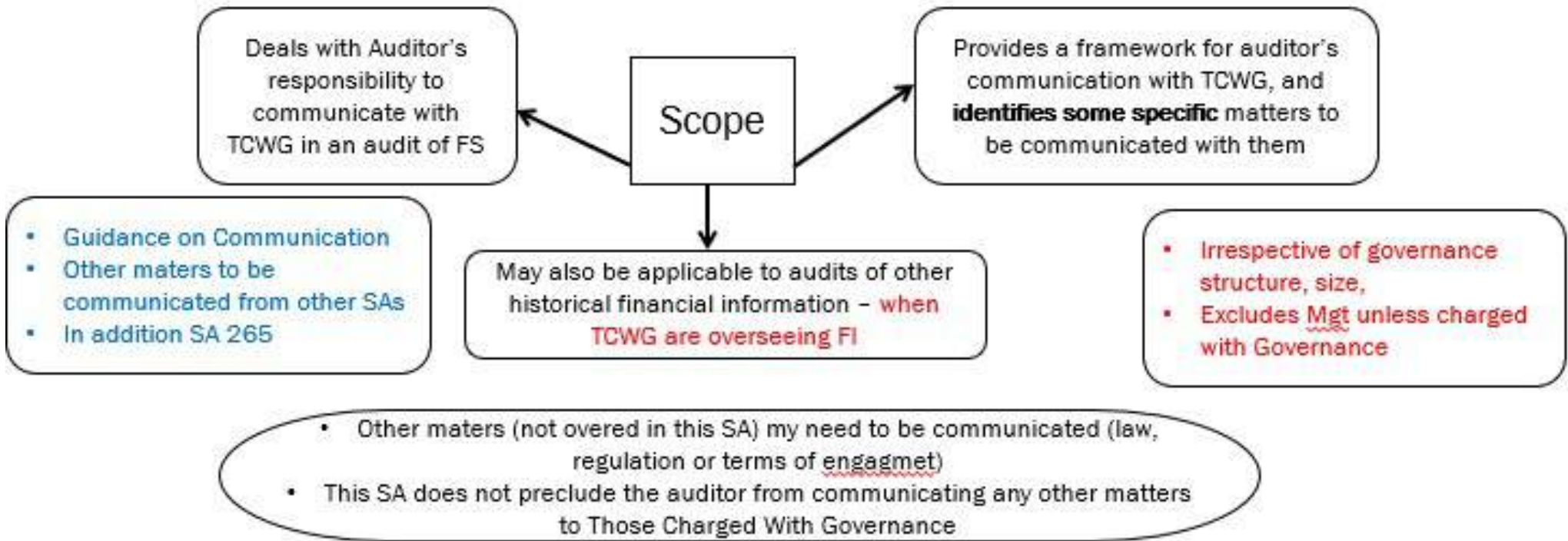
**WHY DID AUDIT TRAINEE
CROSSED THE ROAD???**

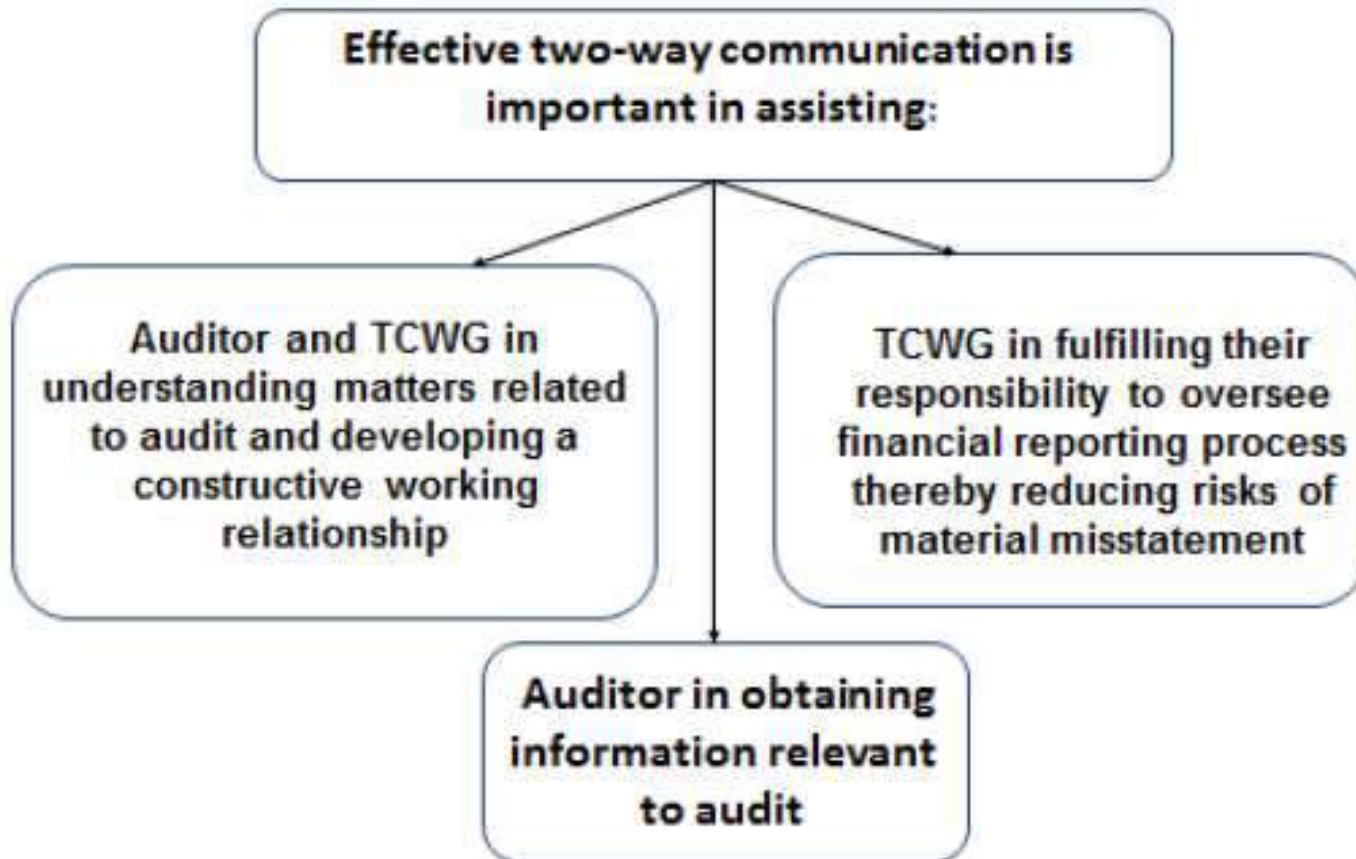


**HE CHECKED THE FILE,
AND THATS WHAT SENIOR
DID LAST YEAR**



**Revised SA 260 - Communication with Those Charged
with Governance (TCWG)**





- Management's responsibility to communicate with TCWG; Auditor's communication does not relieve management
- Auditor not relieved of responsibility even if management has communicated to TCWG
- Clear communication with TCWG (on specific matters) is integral part of this SA – but no additional audit procedures need to be carried out
- Law & Regulation or specific assignment – may restrict communication
 - ✓ Potential conflict between auditor's obligation of confidentiality and obligation to communicate
 - ✓ Complex circumstances
 - ✓ May resort to obtain legal opinion

Communicate clearly with TCWG responsibilities of auditor w.r.t. audit of FS and overview of planned scope and timing of audit

Obtain from TCWG information relevant to audit

Objectives

Provide TCWG with timely observations – significant and relevant to oversee financial reporting process

Promote effective two-way communication between auditor and TCWG

- Those charged with governance:
 - ✓ Person(s) with responsibility for overseeing strategic direction of the entity, and
 - ✓ Obligations related to accountability of the entity.
 - ✓ This Includes overseeing the financial reporting process.
 - ✓ For some entities, TCWG may include management personnel.
- Management:
 - ✓ Person(s) with executive responsibility for conduct of the entity's operations.
 - ✓ For some entities, mgt. includes some or all of TCWG.

- Determine the appropriate person(s) within entity's governance structure with whom to communicate.
- If auditor communicates with sub-group of TCWG - Determine need for communicating with Governing Body.
- When all TCWG involved in managing entity e.g. Single Owner Manager - No need to communicate once again with those same person in their Governance role.

Auditor's Responsibilities in relation to FS audit. To communicate:

- Auditor's responsibilities for forming and expressing an opinion on FS prepared by Mgt. with oversight of TCWG
- Audit of FS does not relieve Mgt. and TCWG of their responsibilities.

Planned Scope and Timing of the Audit. To communicate:

- Overview of planned scope and timing of audit.
- Significant risks identified by the auditor.

Significant Findings from the Audit. To communicate:

- Auditor's views about significant qualitative aspects of entity's accounting practices, including accounting policies, accounting estimates and FS disclosures.
- Significant difficulties encountered during audit, if any.

Unless all TCWG are involved in managing the entity:

- Significant matters arising during audit that were discussed with Management.
- Written Representations requested.

Circumstances that affect form and content of auditor's report.

Any other significant matters arising during audit that in auditor's professional judgment are relevant to financial reporting process.

In case of listed entities, to communicate:

- A statement that Engagement Team, others in the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.
- All relationships and other matters between the firm, network firms, and the entity that in auditors professional judgement may thought to bear on independence.
- Related safeguards applied to eliminate identified threats to independence or reduce them to acceptable level



Communicate with TCWG:

- The form, timing and expected general content of communications. Plan, scope, timing,

Smaller Entities:

- Communication in less structured manner.

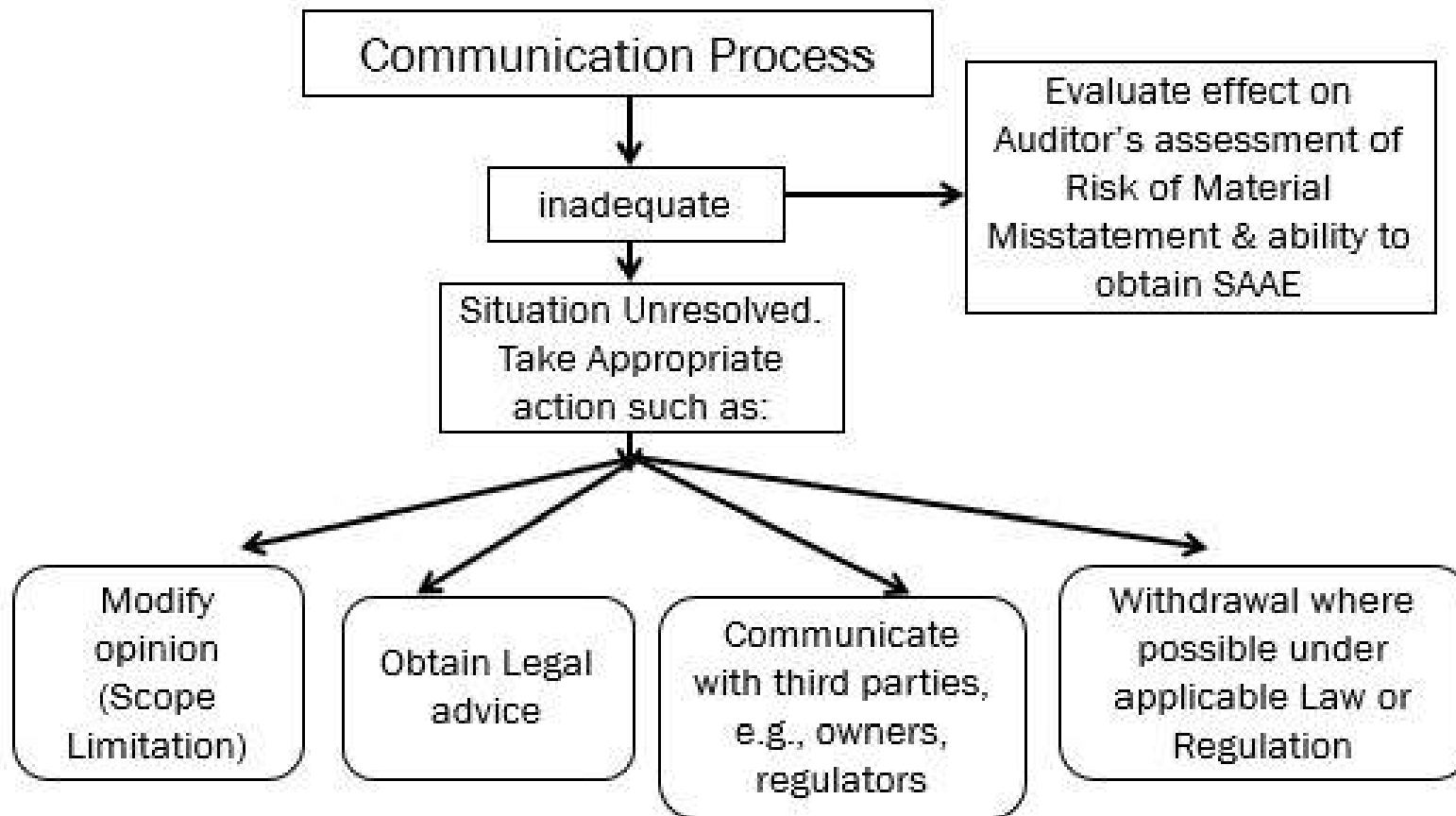


- If in auditor's professional judgement, oral communication is not adequate, then Communicate in writing with TCWG:
 - ✓ Significant findings from the audit and auditor independence.
- Written communications need not include all matters that arose during course of the audit
- Communicate in writing with TCWG about Auditor Independence when required.
- Auditor shall communicate with TCWG on a timely basis, throughout – practically not possible in all cases – based on circumstances





- Evaluate adequacy of two-way communication process between auditor and TCWG for purpose of audit.
- If it is inadequate, evaluate the effect, if any, on:
 - ✓ Auditor's assessment of risk of material misstatement
 - ✓ Auditor's ability to obtain Sufficient Appropriate Audit Evidence.
- If situation is unresolved, auditor to take appropriate action



- Matters communicated orally:
 - ✓ Document matters; and
 - ✓ When and to whom the matters were communicated.
- Matters communicated in writing:
 - ✓ Retain a copy of the communication.

- SQC 1: Para 42: *The identity and role of the EP to be communicated to key members of the client's management and TCWG*

SA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements:

- *Para 21 "The auditor shall make inquiries of TCWG to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity"*
- *Para 42 "the auditor shall communicate with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to their responsibilities."*

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

- *Para 14 “Inquiring of management and, where appropriate, TCWG, as to whether the entity is in compliance with such laws and regulations”*
- *Para 22. Unless all of TCWG are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor, the auditor shall communicate with TCWG matters involving noncompliance with laws and regulations that come to the auditor’s attention during the course of the audit, other than when the matters are **clearly inconsequential***
- *Para 23. If, in the auditor’s judgment, the non-compliance referred to in paragraph 22 is believed to be intentional and material, the auditor shall communicate the matter to TCWG as soon as practicable*
- *Para 24. If the auditor suspects that management or TCWG are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice*

SA 450 Evaluation of Misstatements Identified During the Audit:

- *Para 12 “The auditor shall communicate with TCWG uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor’s report, unless prohibited by law or regulation. The auditor’s communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected.*
- *Para 13 The auditor shall also communicate with TCWG the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.”*

SA 505 External Confirmations

- *Para 9 “If the auditor concludes that management’s refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with TCWG in accordance with SA 260. The auditor also shall determine the implications for the audit and the auditor’s opinion in accordance with SA 705”*

SA 550 Related Parties

- *Para 27 “Unless all of those charged with governance are involved in managing the entity¹⁶, the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity’s related parties.”*

SA 701 Communicating Key Audit Matters in the Independent Auditor's Report

- *Para 17 "The auditor shall communicate with TCWG:*
 - ✓ *Those matters the auditor has determined to be the key audit matters; or*
 - ✓ *If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report."*

SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

- *Para 12 " If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with TCWG regarding this expectation and the wording of this paragraph."*

Communication with Those Charged With Governance (TCWG)

2.4.1 The prima facie conclusion of the NFRA on the above matter, vide its communication dated 28th June, 2019, was that:

- (a) No evidence has been produced from the **Audit File** to show what was discussed with the management/TCWG prior to the date of the audit report and the financial statement signing date.
- (b) There is no record of any communication addressed to the Audit Committee/Management/TCWG by the ET.

2.4.2 The response of the Audit Firm was as follows:

- (a) Discussions were had with TCWG throughout the audit period;
- (b) Not all discussions are required to be documented in the form of minutes of discussions;
- (c) Our written communications with the Audit Committee are as follows:
 - (i) Engagement letter
 - (ii) Presentation made at the time of the half year review; and
 - (iii) Presentation made at the time of audit for the year ended 31st March, 2018, jointly with the joint statutory auditors.
- (d) Our discussions with the Management are embedded within each work paper as, prima facie, all information was provided by the Management and hence would not require separate documentation.
- (e) All work was performed at the client's offices, and hence communication with the Management was on a daily basis.

2.4.3 NFRA had examined the above contentions of the Audit Firm and had concluded as follows in the DAQRR:

- (b) The **Audit Firm**'s contention that discussions with the Management are embedded within each work paper, as prima facie, all information obtained by them from the company are provided by the Management, and hence would not require separate documentation is not acceptable, since this is a clear admission that nothing really was communicated to TCWG. This argument completely ignores the requirement of SA 260 (Revised) which is about communication **FROM** the **Audit Firm** to the company on all important and serious issues arising from the audit and which is distinct from the documentation and evidence provided by the company to the **Audit Firm**.
- (c) The **Audit Firm** has also disregarded and violated the requirements of Para 23 (read with Para A54) of SA 260 (Revised) which provides that "where matters required by this SA to be communicated are communicated orally, the auditor shall document them, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation. Documentation of oral communication may include a copy of the minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication".

- (c) The assertion of the **Audit Firm** that they have exercised their professional judgement in making their written communications cannot be taken to justify that nothing was required to be communicated. There were serious issues like non-compliance of RBI guidelines, issues relating to going concern, NPAs, etc. which were very significant and were mandatorily required to be communicated to TCWG as per SA 260 (Revised).

2.3.5 After examining the responses of the Audit Firm to the DAQRR, NFRA concludes as follows:

The objective of the SA 260 (Revised) is to communicate with TCWG on timely basis and to provide timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process. The **Audit Firm** has not been able to show a single communication with TCWG in this regard.

Further, the Audit Firm itself has admitted that except for the engagement letter given to the company as acceptance to be a joint auditor, and the final presentation made to the Audit Committee on 28th May, 2018, there was no other communication that was made to the Audit Committee/Management/TCWG. The Audit Firm has also admitted that they have failed to communicate an overview of the planned scope and timing of the audit to TCWG.

2.3.6 In view of above, NFRA is reinforced in its earlier conclusion that:

- a) The **Audit Firm** has not complied with SA 260 and SA 300 by failing to communicate an overview of the planned scope and timing of the audit to TCWG.
- b) The WPs quoted by the Management are either the presentation made to the Audit Committee or minutes of meetings with Management. These cannot be construed as communication with TCWG, so as to satisfy the requirements of SA 260.
- c) The **Audit Firm** has clearly shown very poor judgement by concluding that they did not find anything to trigger a communication with TCWG. The **Audit Firm** was grossly negligent in the discharge of its professional duties.



- d) The **Audit Firm** has failed to communicate significant matters in a timely manner to appropriate persons or TCWG and has thus failed to comply with Para 9 (c) and 21 of SA 260.
- e) The **Audit Firm** has failed to document the additional matters including any major issues discussed with the Management in connection with the initial selection as Auditor, the communication of these matters to TCWG and how these matters affect the overall Audit Strategy and Audit Plan in accordance with Para A21 of SA 300.
- f) All the documents quoted by the **Audit Firm** were modified after the completion of audit creating a doubt on the integrity of the Audit File.
- g) In the absence of any documentation that conforms to the requirements of the SAs, **NFRA** concludes that there has been virtually no communication with TCWG, and that, therefore, the **Audit Firm** has completely failed to comply with the requirements of SA 260.

SA 265 - Communicating Deficiencies in Internal
Control to TCWG and Management

- Auditor's responsibility to communicate to TCWG and Mgt. on deficiencies in IC - identified in an audit. SA 315
- Not an additional responsibility regarding obtaining an understanding IC & designing & performing control tests over and above SA 315 & SA 330
- Over and above SA 260
- Responsibility to communicate identified deficiencies in IC – not only during risk assessment process but also at any other stage of audit

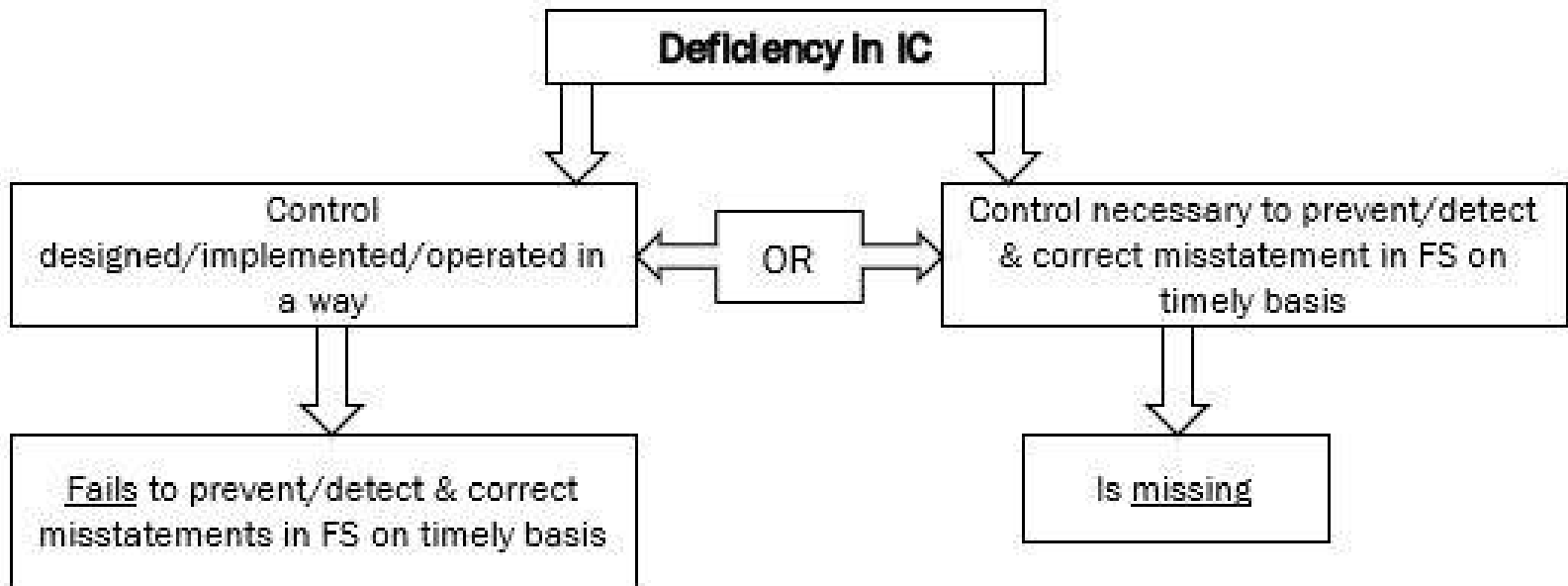
ED - Beginning on or after April 1, 2010

- Deals with communicate to TCWG and Mgt. on deficiencies in IC - identified in an audit & in his judgment are of sufficient importance to merit their respective attentions

Deficiency in Internal Control – Exists when:

- A control is designed, implemented or operated in such a way that it is **unable to prevent, or detect and correct**, misstatements in the FS on a timely basis; or
- A control **necessary** to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing

Significant Deficiency in Internal Control – A deficiency or combination of deficiencies in Internal Control that in auditor’s Professional Judgement is of sufficient importance to merit the attention of those charged with governance

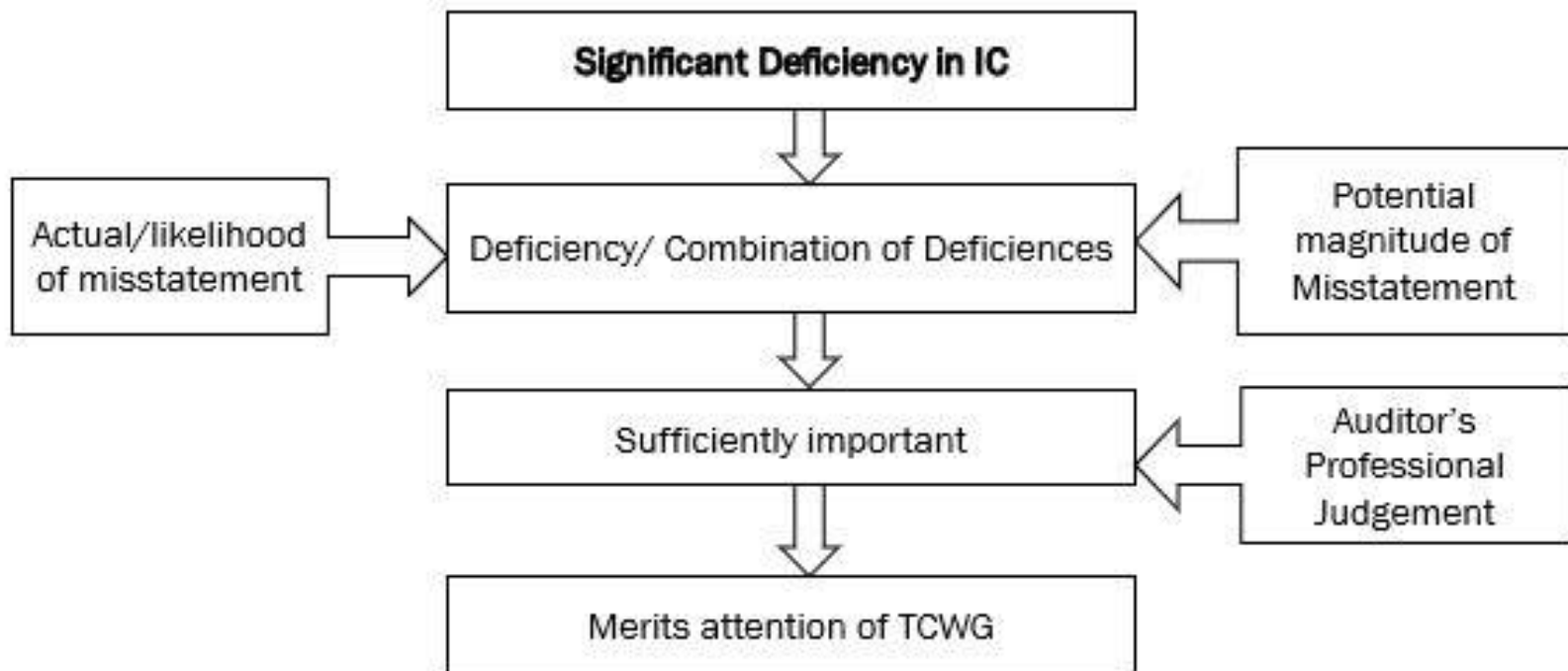


r

(c

(h

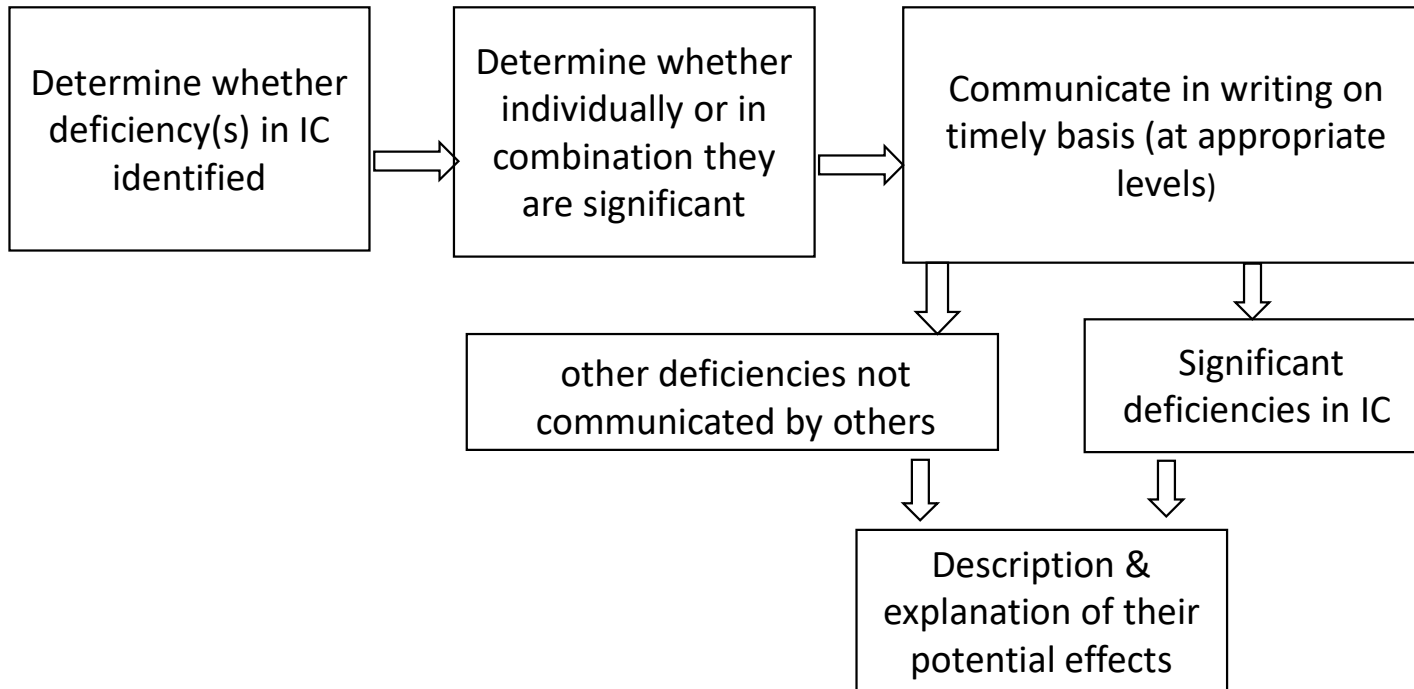
(b



b

(c

(1b



Communication at appropriate levels (auditor's judgment, circumstantial to case):

- On a timely basis – first orally – remedial action to minimize risk of MMS– followed by formal communication
- Deficiencies in IC to be communicated to management –not significant but merit mgt's attention
- Deficiencies in IC to be communicated TCWG – fraud, noncompliance of law/regulation, involving integrity, non competence etc.

What to communicate (in writing at appropriate level and on timely basis)?

- Deficiencies in IC that the auditor has communicated (orally) or intends to communicate, unless it would be inappropriate to communicate directly to management in the circumstances
- Other deficiencies identified during the audit that have not been communicated to mgt. by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.
- A **description** of the deficiencies and an explanation of their **potential effects**; and

Communicate sufficient information to enable TCWG/Mgt to understand the context of communication.

Auditor should explain:

- The purpose of the audit - express an opinion on the FS;
- Audit included consideration of IC relevant to the preparation of the FS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Reported matters - limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded that they are of sufficient importance to merit being reported.



Revised SA 299 - Joint Audit of Financial Statements

Scope

- Lay down broad principles for effective conduct of JA – to achieve overall objective under SA 200
- Special considerations in carrying out JA.
- Additional requirements under this SA – besides that of other SAs.
- Does not deal with relationship between principal and component auditor (division/branch/Sub/JV others) – SA 600

- **ED** - Beginning on or after April 1, 2018

Objectives:

- lay down broad principles for effective conduct of JA
- provide a uniform approach to joint audit process.
- identify distinct areas of work and coverage thereof by each JA.
- identify individual and joint responsibilities

'Joint Audit' and 'Joint Auditors'

- A joint audit is an audit of financial statements of an entity by two or more auditors appointed with the objective of issuing the audit report.
- Such auditors are described as joint auditors.



- Involvement of JA's in planning audit – EP & key members of the ET
- Jointly Establishing overall audit strategy - scope, timing, direction of audit & development of audit plan
- Develop the joint audit plan.

Develop the joint audit plan. Factors to consider:

- Identify division of audit areas and common audit areas amongst the JA that **define scope of the work** of each JA; areas of work allocation
- Ascertain reporting objectives of engagement to plan timing of the audit and nature of communications required;
- Communicate among all JA the significant factors in directing engagement team's efforts;
- Consider the results of preliminary engagement activities and knowledge gained on other or similar engagements performed earlier by respective engagement partner for the entity is relevant.
- Ascertain the N/T/E of resources necessary to perform the engagement

- Documentation & communication of ROMM
- Discussion and Documentation of N/T/E of audit procedures
- Common Engagement Letter (EL) & Common Management representation Letter (MRL)
- Signing of work allocation document and communicating same to TCWG
 - Documentation of allocation of work helps in avoiding any dispute or confusion **which may arise among the JA** regarding the scope of work to be carried out by them.
 - Further, communication of allocation of work to the entity helps in avoiding any dispute or confusion **which may arise between the entity and the JA.**

Individual Responsibility of each JA - audit work divided among the JA - each auditor only responsible for allocated area

Joint Responsibility of all JA:

- audit work not divided and carried out by all JA
- decisions taken by all JA wrt common audit areas concerning the N/T/E of audit procedures to be performed by each of JA
- matters brought to notice of JA by any one of them and on which there is an agreement among JA
- examining that FS comply with requirements of relevant statutes
- presentation and disclosure of FS as required by applicable FRF
- ensuring that AR complies with requirements of relevant statutes, applicable SAs and other relevant pronouncements of ICAI.

Co-ordination: If a JA comes across matters relevant to areas of responsibility of other JA and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other JA:

- Said JA to communicate it to all JA in writing prior to completion of audit.

- Common Audit Report
 - ✓ JA are required to issue common audit report
- Separate Audit Reports in case of disagreement
 - ✓ In case of disagreement among JA wrt opinion/any matter to be covered in AR, JA need to express their opinion in a separate AR
 - ✓ JA not bound by views of majority of JA wrt opinion/any matter to be covered in AR, and need to express his opinion in separate AR in case of disagreement
 - ✓ In such cases, separate AR to make reference under heading 'Other Matter Paragraph' to AR issued by other JA. SA 706
- Discussion before finalising Audit Report
 - ✓ Before finalizing their AR, JA need to discuss and communicate with each other their respective conclusions that would form content of AR.

➤ Each JA is entitled to assume that:

- ✓ Other JA have done their part of audit work in accordance with SAs
- ✓ Not necessary for a JA to review work performed by other JA or perform any tests to ascertain the work performed in such manner.
- ✓ Other JA have brought to his notice any departure from applicable FRF or significant observations relevant to their responsibilities noticed in course of audit.
- ✓ FS of a division/branch audited by other JA comply with all legal & regulatory requirements and present a true and fair view of state of affairs and results of operations of division/branch concerned.

- If JA expect to modify opinion or include EOM /OM para in AR, they need to communicate with TCWG:
 - ✓ Circumstances that led to expected modification or EOM/OM. SA 705 & 706
 - ✓ proposed wording of modification or EOM/OM para.

- Statutory Central Auditors in case of PSBs
- Private Banks
- Geographical/locational division
- Segmental division
- Area wise division (Revenue, PPE, Manufacturing costs etc.)
- Asset, Liability, Income and Expenditure division



Documentation Required for Peer Review

- An Examination and Review of the **systems and procedures** to determine whether they have been put in place by the **practice unit** for ensuring quality of attestation services as envisaged and implied/mandated by the Technical Standards and whether these were **effective or not** during the **period under review**

- **Quality Control for Audit of FS**

- Presently a self-regulatory mechanism by the ICAI
- Ensures standardized processes
- Ensure high standards of audit
- Improves the skills of the members
- Basic Assumptions:
 - ✓ No connection with regulatory or disciplinary mechanism
 - ✓ To improve professionalism

- Compliance with the Relevant Ethical and independence requirements
 - Issues identified with respect to compliance with relevant ethical requirements and how they were resolved
 - Confirmation of independence and documenting the same
 - Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.

- Acceptance and Continuance of Client relationship and audit engagements: Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.

- Consultations: The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement

➤ **Engagement Quality Control Review – Timing and Procedures**

- The procedures required by the firm’s policies on engagement quality control review have been performed; and activities performed with respect to this could be documented
- The engagement quality control review has been completed on or before the date of the auditor’s report; and
- The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that significant judgments the engagement team made and the conclusions they reached, were not appropriate.

➤ **Documentation of Consultations**

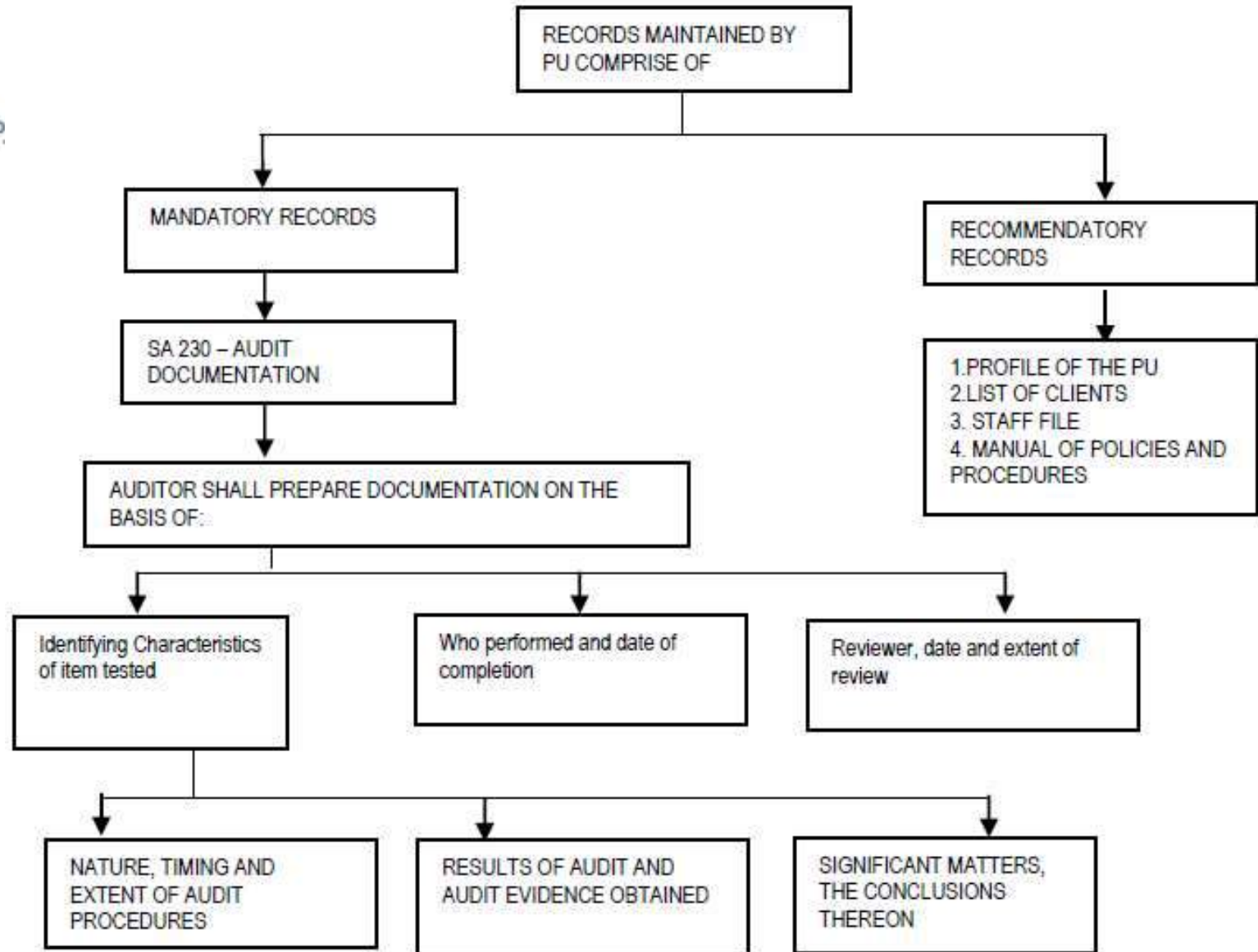
- Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete, detailed and contributes to an understanding of:
 - the issue on which consultation was sought; and
 - the results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

Profile of the Practice Unit (PU)

- Registration papers – Partnership Deed, Firm Registration with Registrar of Firms and with ICAI and all documents regarding changes therein
- Details of Employees – Qualified, Semi- skilled and unskilled, including articled assistants
- Details of branches, if any.
- List of Attestation Clients

Policies

- Independence Policy and procedures – for partners as well as employees
- Continuing Professional Education Programme Policy for Partners, Employees and Articles Trainees.
- Employment Policy
- Training Policy
- Staff files and records







Checklists for Accounting Standards

- Checklists for Auditing Standards
- Procedure for arriving at an opinion
- Review of opinion
- Drafting of Report
- Fully filled up questionnaire
- Records of sample clients selected



The working papers are classified as follows :

- Permanent Audit Files
- Current Audit Files

A permanent audit file normally includes:

➤ **Engagement:**

- ✓ Letter of engagement
- ✓ Correspondence with retiring auditor (NOC)

➤ **Constitution:**

- ✓ Copies of Memorandum and Articles of Association in case of corporate entities or
- ✓ Partnership agreement in case of partnership firm or
- ✓ Act, Regulation, byelaws, trust deeds, as applicable under which the entity functions

➤ **Background and Organisation Structure:**

- ✓ Nature and history of the business
- ✓ Profile of ownership
- ✓ Registered office details
- ✓ Management structure including organisation chart
- ✓ Industry specification with reference to client's size, economic factors affecting the industry, seasonal fluctuations and demands
- ✓ Facility locations, plant capacity, owned or leased, age, capital expenditure budget, etc. Products specifying diverse range along with classification
- ✓ Purchase volumes, main suppliers, policies

➤ **Background and Organisation Structure:**

- ✓ Purchase volumes, main suppliers, policies
- ✓ Inventory norms, inventory levels during last five years and related ratios.
- ✓ Sales volumes including exports, main customers, methods of distribution, pricing policies, credit policy
- ✓ Personnel showing numbers, analyses by departments or function, method of remuneration, contracts, union agreements, HR policy
- ✓ Copy of audited financial statement for previous five years, if it exists.
- ✓ Study and evaluation of internal controls
- ✓ Significant audit observations of past

➤ **Systems (for larger Audits, this section could be held on a separate file):**

- ✓ Details of methods of accounting including cost accounting, flow charts, specimens of accounting documents, code structure and list of accounting records
- ✓ EDP-systems security, source code security, authorisation and back up policy

➤ **Group:**

- ✓ Group structure - subsidiaries, associates
- ✓ Joint venture
- ✓ Names of auditors

➤ **Contracts, agreements, Minutes:**

- ✓ Leases agreements photocopies/ extracts of the same
- ✓ Title deeds inspected annually by auditor
- ✓ Royalty agreements
- ✓ Minutes of continuing importance such as Directors' meeting, Members' meeting

➤ **Other professional advisor's list:**

- ✓ Bankers
- ✓ Solicitors
- ✓ Investment Analysts
- ✓ Registrars
- ✓ Credit Rating Agency

➤ **Miscellaneous:**

- ✓ Details of other client information of a permanent
- ✓ nature



➤ **Engagement:**

- ✓ Acceptance of annual reappointment

➤ **Accounts:**

- ✓ Copy of draft financial statement
- ✓ Copy of final signed financial statement

➤ **Reports and Final Papers:**

- ✓ Copies of all draft and final reports issued to client
- ✓ Correspondence with other auditors and experts
- ✓ Comments received from client and letter of representation
- ✓ Observations on accounts and points carried forward to next year
- ✓ Final journal entries
- ✓ Company accounts checklist - directors' report
- ✓ Audit completion report

➤ **Audit Plan:**

- ✓ Planning programme
- ✓ Time and cost summary
- ✓ Briefing notes
- ✓ Copy of planning letter to client
- ✓ Points carried forward from previous year



➤ **Balance sheet, statement of profit and loss account and cash flow statement audit – systems testing:**

- ✓ Lead schedules/ Notes
- ✓ Audit programme's
- ✓ Detailed working papers and conclusions
- ✓ Company accounts and Accounting Standard, if any, checklists
- ✓ Queries raised and explanations received
- ✓ Third party confirmations and certificates
- ✓ Weaknesses identified and copy of letter of
- ✓ Weaknesses sent to client

➤ **Accounts preparation:**

- ✓ Schedules/ Notes
- ✓ Trial balance
- ✓ Cross-reference to audit work performed

➤ **Audit Programme:**

- ✓ Audit procedure (compliance and substantive)
- ✓ Detailed working papers and conclusions
- ✓ Queries raised and explanations received

➤ **Extracts from minutes relating to accounting:**

- ✓ Directors' meetings
- ✓ Members' meetings
- ✓ Audit committee meetings
- ✓ Investment and other Board committee meetings

➤ **Statistical information:**

- Performance indicators collected which have a bearing on the extent, nature, timing of substantive tests

➤ **Illustrative checklist:**

- ✓ Understand the Client's business, accounting systems and control environment
 - ✓ Review of the past financial statement & reports of internal/statutory auditors
 - ✓ Working papers to have adequate audit evidence for assertion made in the financial statements
 - ✓ Working papers to appropriately agree with the books of accounts
 - ✓ Perform financial statements review
 - ✓ Ensure updation of permanent audit file
 - ✓ Review individual and aggregate effect of unadjusted errors
 - ✓ Check compliance with legal and regulatory requirements, ICAI Accounting Standards
- In case of any discrepancies observed by the reviewer in terms of non-co-operation /unavailability of information by the PU, such discrepancies must be documented and submitted on a timely manner to the Board to avoid delays
- Proper mechanism to be defined by the reviewer to ensure that all the branches and other offices of the Practice Unit are covered under the review, which can be decided on the basis of the number of transactions, turnover, employee head count etc

➤ **Each audit working paper file should be contain the following information:**

- ✓ Name of the Client
- ✓ Period covered by the audit
- ✓ Subject-matter
- ✓ File reference
- ✓ Initials of the member of the audit team who prepared it and the date on which it was prepared
- ✓ Initials of the member of the audit team who reviewed the working paper.
- ✓ Complete lead schedules
- ✓ Working papers to agree with books of accounts, financials and are cross-referenced.
- ✓ Audit Summary Memorandum

➤ **General guidelines for preparation of working papers:**

- ✓ Clarity and Understanding
- ✓ Completeness and Accuracy
- ✓ Pertinence
- ✓ Logical Arrangement
- ✓ Legibility and Neatness
- ✓ Safety
- ✓ Initial and Date
- ✓ Summary of conclusions

Remember: WHAT IS NOT DOCUMENTED IS NOT DONE

- Ensure that all SAs have been followed during planning, performing, concluding and reporting on the audit.
- Think of what is required to be done on the audit under each SA (use checklist) and see whether documentary evidence of having done it exists in the working papers file – if not, put it in
- Ensure that there is a written justification in the file for the nature, timing and extent of all audit work done
- Ensure that there is a written justification in the file for all decisions taken in areas where “professional judgement” was exercised
- Do not keep anything in your w/p file that has not been subjected to your audit procedures (eg unaudited client’s documents) – you will be held responsible for everything that is found in your file
- Where there was disagreement with management on any issue, document how that disagreement was resolved and the audit justification used therefor, referencing the concerned law or accounting standard and its interpretation

// sgYmj (xn t //