

Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews (Volume 1)

Part - 1

Observations related to Engagement and Quality Control Standards



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

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Foreword

The Quality Review Board (QRB) was constituted under the provisions of the Chartered Accountants Act, 1949. QRB conducts quality reviews of audit services of audit firms which are covered under its domain. These quality reviews bring out instances of various non-compliances regarding Standards on Quality Control (SQC), Standards on Auditing (SAs), audit reports, Companies (Auditor's Report) Order (CARO), Accounting Standards (AS), Indian Accounting Standards (Ind AS), Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013.

Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. On the matter, QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI based on common non-compliances observed. The task of developing the guidance was entrusted to the Auditing and Assurance Standards Board of ICAI.

I am happy to note that the Auditing and Assurance Standards Board has brought out the publication, "Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews (Volume 1)". The publication is a compilation of some common non-compliances observed by QRB while conducting quality reviews. The publication also contains suggested guidance by AASB for the members on these common non-compliances.

I compliment CA. (Dr.) Sanjeev Kumar Singhal, Chairman, CA. Vishal Doshi, Vice-Chairman and all other members of the Auditing and Assurance Standards Board for their efforts in developing and bringing out this publication for the benefit of the members at large.

I am confident that the members and other interested readers would find this publication immensely useful.

April 23, 2024
New Delhi

CA. Ranjeet Kumar Agarwal
President, ICAI

Preface

Review of the quality of audit services performed by audit firms is an important mechanism to improve audit quality. In this regard, the role performed by the Quality Review Board (QRB) over the years is significant. The quality reviews conducted by QRB bring out instances of various non-compliances regarding (a) auditing requirements e.g. Standards on Quality Control, Standards on Auditing, audit reports, CARO, and (b) accounting requirements e.g. Accounting Standards, Indian Accounting Standards, Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013. Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI. The task was entrusted to the Auditing and Assurance Standards Board (AASB) of ICAI.

AASB decided to engage various experts to prepare suggested guidance for the members on the matter. AASB also decided to constitute a consolidating group to review guidance prepared by these experts. It was also decided by AASB to bring out the guidance in separate volumes since this task is quite voluminous.

It gives us immense pleasure to place in hands of the members, this publication, “Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews (Volume 1)” brought out by AASB. The publication is a compilation of some common non-compliances of auditing requirements observed by QRB while conducting quality reviews. The publication also contains suggested guidance by AASB for the members on these common non-compliances. The publication is in two parts i.e. Part 1 and Part 2. Part 1 contains the observations related to Engagement and Quality Control Standards. Part 2 contains the observations related to CARO and internal financial controls.

We would like to thank CA. Ranjeet Kumar Agarwal, President, ICAI and CA. Charanjot Singh Nanda, Vice-President, ICAI for their guidance and support in various endeavours of the Board.

We express our sincere thanks to Ms. Shefali Shah, IRS (Retd.), Chairperson, Quality Review Board and all the members and special invitees of the Quality Review Board for providing us the various observations noted by the Quality Review Board during quality reviews, which form the basis of this publication.

We are grateful to all experts viz. CA. Amit Kumar Garg, CA. Harsh Parekh, CA. Nitesh Jain, CA. Rajiv Sengupta and CA. Sumit Aggarwal for preparing the basic draft of guidance which has been included in this publication. We are also grateful to all members of the consolidating group viz. CA. Amit Chugh, CA. Amit Gupta, CA. Ashish Gupta, CA. Gaurav Gupta, CA. Kapil Kedar, CA. Rajeev Saxena and CA. Viren Shah for their contribution in reviewing and finalizing the guidance.

We wish to place on record high appreciation of all Council members and all Board members for their valuable contribution in finalising the publication. We appreciate the technical and administrative contribution/support provided by CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director, CA. Vikas Kumar, CA Professional, CA. Nidhi Mallick, CA Professional, Ms. Anitha P., Private Secretary(SU) and other staff of AASB in finalising the publication.

We are confident that the publication would be well received by the members and other interested readers. We are of the firm belief that the publication would enhance the knowledge of auditors and would help them in performing quality audits.

CA. Vishal Doshi
Vice Chairman, AASB

CA. (Dr.) Sanjeev Kumar Singhal
Chairman, AASB

Introduction

About the Quality Review Board

With a view to improving the quality of audit services in India, the Ministry of Corporate Affairs, Government of India has established the Quality Review Board (“QRB”) under Section 28A of the Chartered Accountants Act, 1949. Section 28B of the Chartered Accountants Act, 1949 authorises the QRB to perform the following functions:

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- (b) to review the quality of services provided by the members of the Institute including audit services;
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements; and
- (d) to forward cases of non-compliance with various statutory and regulatory requirements by the members of the Institute or firms, noticed by it during the course of its reviews, to the Disciplinary Directorate for its examination.

QRB conducts quality reviews of audit services of audit firms which are covered under its domain. These quality reviews involve assessment of the work of statutory auditors so that QRB is able to assess (a) quality of audit and reporting by the statutory auditors; and (b) quality control framework adopted by the audit firms in conducting audit.

These quality reviews bring out instances of various non-compliances regarding Standards on Quality Control, Standards on Auditing, audit reports, CARO, Accounting Standards, Indian Accounting Standards, Schedule VI of Companies Act, 1956/ Schedule III of Companies Act, 2013. Based on observations noticed during these quality reviews, QRB issues necessary advisories to concerned audit firms. QRB also refers these instances to the Council of the Institute of Chartered Accountants of India (ICAI). On the matter, QRB requested the Council of ICAI to bring out necessary guidance for the members of ICAI. The task of developing the guidance was entrusted to the Auditing and Assurance Standards Board (AASB) of ICAI.

About the Publication

This publication is a compilation of some common non-compliances regarding Standards on Quality Control, Standards on Auditing, audit reports, CARO, internal financial controls observed by QRB while conducting quality reviews. This publication also contains suggested guidance developed by the Auditing and Assurance Standards Board on these common non-compliances. This publication is in two parts i.e. Part 1 and Part 2.

- Part 1 contains the observations related to Engagement and Quality Control Standards.
- Part 2 contains the observations related to CARO and internal financial controls.

In Part 1, observations have been classified standard-wise. In Part 2, observations have been classified topic-wise. The number of observations is given in Table below.

Part 1

S. No.	Topic	No. of Observations
1	SQC 1	13
2	SA 200	1
3	SA 210	4
4	SA 220	3
5	SA 230	8
6	SA 250	1
7	SA 300	1
8	SA 315	6
9	SA 320	2
10	SA 330	3
11	SA 500	1
12	SA 505	6
13	SA 530	4
14	SA 540	1
15	SA 550	1
16	SA 580	2
17	SA 610	2
18	SA 700	6
19	SA 706	1
20	SA 710	1
21	SA 720	1
Total		68

Part 2

S. No.	Topic	No. of Observations
1	CARO	9
2	Internal Financial Controls	1
Total		10

Readers may note that some observations given in this publication are based on the past provisions of law (e.g. CARO 2003, CARO 2016) and the pre-revised Standards on Auditing. In case of these observations, guidance has been given based on the current provisions of law (e.g. CARO 2020) and currently applicable Standards on Auditing. Further, these observations should be read in the light of any subsequent amendments/developments.

Readers may also note that this publication neither supersedes nor it is a replacement of any Standards, Guidance Notes, Pronouncements issued by ICAI. Readers are advised to read or use this publication in conjunction with the relevant Standards, Guidance Notes, Pronouncements issued by ICAI.

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Chapter 1

Observations related to SQC 1, Quality Control for Firms that Performs Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

Observation 1

Not establishing policies and procedures designed to provide the Audit Firm with reasonable assurance that it has sufficient personnel with necessary capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements.

Or

The firm has an overall policy document dealing with the aspects covered by SQC 1 including the personnel matters. Whilst there is no detailed policy to address the personnel issues like-

1. Recruitment
2. Performance evaluation
3. Capabilities
4. Competence
5. Career development
6. Promotion
7. Compensation and
8. Estimation of personnel needs.

The firm should have detailed policies and procedures in respect of personnel matters stated above to comply with SQC 1 requirements.

Or

Paragraph 36 of SQC 1 states:

"The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances."

The firm has an overall policy document dealing with the aspects covered by SQC 1, including personnel matters. Whilst there is no specific detailed policy to address the issues related to Recruitment, performance evaluation, Capabilities, Competence, Career development, Promotion, Compensation and Estimation of personnel needs.

Or

Not establishing procedures to assess its staffs' capabilities and competence.

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What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it necessary to establish policies and procedures designed to provide reasonable assurance that the audit firm has sufficient personnel with necessary capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements?</p> <p>Is it necessary as per SQC 1 for an audit firm to establish policies and procedures related to human resources?</p> <p>Why is it necessary to establish procedures to assess the audit firm's staffs' capabilities and competence?</p>	<p>Para 7 of SQC 1:</p> <p>Elements of a System of Quality Control</p> <p>The firm's system of quality control should include policies and procedures addressing each of the following elements:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>Accordingly, there should be systematic manner of ensuring the implementation of documented policies and procedures.</p> <p>Such policies and procedures address the following personnel issues:</p> <ul style="list-style-type: none"> (a) Recruitment; (b) Performance evaluation; (c) Capabilities; (d) Competence; (e) Career development; (f) Promotion; (g) Compensation; and (h) Estimation of personnel needs. <p>Addressing these issues enables the firm to ascertain following aspects:</p> <p>Sufficient Personnel</p> <p>The number and characteristics of</p>	<p>Para 36 of SQC 1:</p> <p>Human Resources</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p> <p>Para 45 of SQC 1:</p> <p>The firm establishes procedures to assess its staff's capabilities and competence. The capabilities and competence considered when assigning engagement teams, and in determining the level of supervision required, include the following:</p> <ul style="list-style-type: none"> - An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation. - An understanding of professional standards and regulatory and legal requirements. - Appropriate technical knowledge, including knowledge of relevant information technology. - Knowledge of the relevant industries in which the clients

	<p>the individuals required for the firm's engagements.</p> <p>Capabilities, competence and commitment</p> <p>The firm's recruitment processes include procedures that help the firm select individuals of integrity as well as the capacity to develop the capabilities and competence necessary to perform the firm's work.</p> <p>Competence building</p> <p>Capabilities and competence are developed through a variety of methods:</p> <ul style="list-style-type: none"> • Professional education. • Continuing professional development including training. • Work experience. • Coaching by more experienced staff. <p>Continuing professional development</p> <p>The need for continuing training for all levels of firm personnel, and providing the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence.</p> <p>The firm may use a suitably qualified external person for the same.</p> <p>Performance evaluation</p> <p>It gives due recognition and reward to the development and maintenance of competence and commitment to ethical principles.</p> <p>Career Development, Promotion; Compensation:</p> <p>The firm:</p> <p>(a) Makes personnel aware of the</p>	<p>operate.</p> <ul style="list-style-type: none"> - Ability to apply professional judgement. - An understanding of the firm's quality control policies and procedures.
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	<p>firm's expectations regarding performance and ethical principles;</p> <p>(b) Provides personnel with evaluation of, and counseling on, performance, progress and career development; and</p> <p>(c) Helps personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles.</p> <p>Smaller firms</p> <p>Smaller firms may employ less formal methods of evaluating the performance of their personnel.</p>	
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Observation 2

Not documenting the firm's policies and procedures setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time.

Or

Para 27 of SQC 1 specifies familiarity threat in the context of financial statement audits of listed entities and advocates rotation of engagement partner. However, in the present case, all limited quarterly review reports and yearly audited financial statements are reviewed and signed by a single partner since the year of allotment till date.

Or

Para 26 of SQC 1 requires firms to establish criteria for determining the need for safeguarding the familiarity threat. No such evidence was produced for rotation of the Senior Staff and the rotation of the Engagement partner.

Or

The requirement of SQC 1, para no 25 to 27, for all audits of listed entities, the engagement partner should be rotated after a predefined period, normally not more than seven years, has not been complied with.

Or

As per Para 27 of the SQC 1, "In case of financial statement audits of listed entities, the engagement partner should be rotated after a pre-defined period, normally not more than seven years". However, it is noticed that in the case of the auditee, the same engagement partner was signing the Audited Financial Statements on behalf of the audit firm since the financial year ending 31st March 2004 till 31st March 2012.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What are the risk factors for using the same senior personnel on an assurance engagement over a long period of time?</p> <p>What does an audit firm's policy on the rotation of assurance engagement team</p>	<p>Para 7 of SQC 1:</p> <p>Elements of a System of Quality Control</p> <p>The firm's system of quality control should include policies and procedures addressing each of the following elements:</p> <p>(a) Leadership responsibilities for quality within the firm.</p> <p>(b) Ethical requirements.</p> <p>(c) Acceptance and continuance of</p>	<p>Para 25 of SQC 1:</p> <p>The Code discusses the familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such a threat. Accordingly, the firm should establish policies and procedures:</p> <p>(a) Setting out criteria for</p>

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<p>entail in relation to familiarity threat?</p> <p>Is engagement partner rotation mandatory for listed entities according to SQC 1?</p>	<p>client relationships and specific engagements.</p> <p>(d) Human resources. (e) Engagement performance. (f) Monitoring.</p> <p>Familiarity threat</p> <p>The familiarity threat that may be created by using the same senior personnel on an assurance engagement over a long period of time and the safeguards that might be appropriate to address such a threat.</p> <p>Listed Entities</p> <p>The familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the engagement partner should be rotated after a pre-defined period, normally not more than seven years.</p> <p>Impact</p> <p>Using the same senior personnel on assurance engagements over a prolonged period may create a familiarity threat or otherwise impair the quality of performance of the engagement.</p> <p>Criteria</p> <p>In determining appropriate criteria, the firm considers such matters as:</p> <p>(a) The nature of the engagement, including the extent to which it involves a matter of public interest. (b) The length of service of the senior personnel on the engagement.</p> <p>Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.</p>	<p>determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and</p> <p>(b) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the Code.</p>
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Observation 3

Not documenting the firm's policies and procedures designed to provide it with reasonable assurance that appropriate consultation takes place on difficult or contentious matters and other matters.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is there a need to document the firm's policies and procedures which will provide a reasonable assurance that appropriate consultation takes place on difficult or contentious matters and other matters?</p>	<p>Para 7 of SQC 1:</p> <p>Elements of a System of Quality Control</p> <p>The firm's system of quality control should include policies and procedures addressing each of the following elements:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>Accordingly, there should be systematic manner of ensuring the implementation of documented policies and procedures.</p> <p>Consultation</p> <p>Consultation on difficult or contentious matters</p> <p>Appropriate Professional Level</p> <p>Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm or, where applicable, outside the firm on significant technical, ethical and other matters.</p>	<p>Para 51 of SQC 1:</p> <p>Consultation</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that:</p> <ul style="list-style-type: none"> (a) Appropriate consultation takes place on difficult or contentious matters. (b) Sufficient resources are available to enable appropriate consultation to take place. (c) The nature and scope of such consultations are documented; and (d) Conclusions resulting from consultations are documented and implemented.

	<p>Consultation within the firm</p> <p><u>Quality</u></p> <p>Consultation uses appropriate research resources as well as the collective experience and technical expertise of the firm. Consultation helps to promote quality and improves the application of professional judgment.</p> <p><u>Culture</u></p> <p>The firm seeks to establish a culture in which consultation is recognized as a strength and encourages personnel to consult on difficult or contentious matters.</p> <p>Consultation with other firms and professional and regulatory bodies</p> <p>Effective consultation</p> <p>All the relevant facts that will enable them to provide informed advice on technical, ethical or other matters.</p> <p>Documentation of consultation</p> <p>It is agreed by both the individual seeking consultation and the individual consulted. The documentation is sufficiently complete and detailed to enable an understanding of:</p> <ul style="list-style-type: none">(a) The issue on which consultation was sought.(b) The results of the consultation, including any decisions taken.(c) The basis for those decisions and how they were implemented.	
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Observation 4

Not documenting the firm's policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is there a need to document the firm's policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer?</p>	<p>Para 7 of SQC 1:</p> <p>Elements of a System of Quality Control</p> <p>The firm's system of quality control should include policies and procedures addressing each of the following elements:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>Accordingly, there should be systematic manner of ensuring the implementation of documented policies and procedures.</p>	<p>Para 57 of SQC 1:</p> <p>Difference of Opinion</p> <p>The firm should establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached should be documented and implemented.</p>

Guidance on Non-Compliances Observed by QRB

Observation 5

Not documenting the firm's policies and procedures for requiring, for appropriate engagements, an engagement quality control review.

Or

Not establishing policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report.

Or

As per Para 60(a) of SQC 1, "Require an engagement quality control review for all audits of financial statements of listed entities" whereas in the case of auditee, the Audit Firm has not provided documents/ working papers related to Engagement Quality Control Review performed by them.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is there a need to document an engagement quality control review for appropriate engagements?</p> <p>What is the purpose of an engagement quality control review (EQCR)?</p>	<p>Para 7 of SQC 1:</p> <p>Elements of a System of Quality Control</p> <p>The firm's system of quality control should include policies and procedures addressing each of the following elements:</p> <p>(a) Leadership responsibilities for quality within the firm.</p> <p>(b) Ethical requirements.</p> <p>(c) Acceptance and continuance of client relationships and specific engagements.</p> <p>(d) Human resources.</p> <p>(e) Engagement performance.</p> <p>(f) Monitoring.</p> <p>Engagement Quality Control Review</p> <p>Criteria for engagements other than audits of financial statements of listed entities</p> <ul style="list-style-type: none"> The nature of the engagement, 	<p>Para 60 of SQC 1:</p> <p>Engagement Quality Control Review:</p> <p>The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should:</p> <p>(a) Require an engagement quality control review for all audits of financial statements of listed entities.</p> <p>(b) Set out criteria against which all other audits and reviews of historical financial information, and</p>

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	<p>including the extent to which it involves a matter of public interest.</p> <ul style="list-style-type: none"> • The identification of unusual circumstances or risks in an engagement or class of engagements. • Whether laws or regulations require an engagement quality control review. <p>The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality control reviewer:</p> <ul style="list-style-type: none"> (a) Is not selected by the engagement partner; (b) Does not otherwise participate in the engagement during the period of review; (c) Does not make decisions for the engagement team; and (d) Is not subject to other considerations that would threaten the reviewer's objectivity. <p>The engagement partner may consult the engagement quality control reviewer during the engagement. Such consultation need not compromise the engagement quality control reviewer's eligibility to perform the role.</p>	<p>other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; and</p> <ul style="list-style-type: none"> (c) Require an engagement quality control review for all engagements meeting the criteria established in compliance with sub paragraph (b). <p>Para 61 of SQC 1:</p> <p>The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued.</p>
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Guidance on Non-Compliances Observed by QRB

Observation 6

Not documenting the firm's policies and procedures designed to provide it with reasonable assurance that it deals appropriately with complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Whether the firm's policies and procedures are in place to deal with complaints and allegations pertaining to work performed by the firm if the firm fails to comply with professional standards and regulatory and legal requirements?</p>	<p>Para 7 of SQC 1:</p> <p>Elements of a System of Quality Control</p> <p>The firm's system of quality control should include policies and procedures addressing each of the following elements:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>Complaints and allegations originate</p> <ol style="list-style-type: none"> 1. From within or outside the firm. 2. Firm personnel. 3. Clients or other third parties. 4. Engagement team members or other firm personnel. <p>Channels</p> <p>The firm establishes clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.</p>	<p>Para 101 of SQC 1:</p> <p>Complaints and Allegations:</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:</p> <ul style="list-style-type: none"> (a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and (b) Allegations of non-compliance with the firm's system of quality control.

	<p>Investigation</p> <p>By Partner:</p> <p>The investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement and includes involving legal counsel as necessary.</p> <p>Qualified external personnel</p> <p>Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation.</p> <p>Results of investigation</p> <p>Where the results of the investigations indicate deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control by an individual or individuals, the firm takes appropriate action to comply with relevant professional standards and regulatory and legal requirements. The firm should also consider obtaining legal advice.</p>	
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Guidance on Non-Compliances Observed by QRB

Observation 7

Non-compliance of SQC 1 for not communicating the firm's quality control policies and procedures to its personnel.

Or

Non-compliance of SQC 1 for not documenting the quality control policies and procedures addressing each of the six elements of the system of quality control.

Or

Not documenting its policies and procedures on each of the elements of Quality Control, that should also be sufficiently comprehensive and suitably designed in relation to the firm's size, nature and complexity of the firm's practice.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it important for audit firms and their managing partners to document and communicate the firm's quality control policies and procedures to all its personnel?</p>	<p>Documentation of Elements of a System of Quality Control</p> <p>The firm's system of quality control should include:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>Communication</p> <p>The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances. The quality control policies and procedures should be documented and communicated to the</p>	<p>Para 8 of SQC 1:</p> <p>The quality control policies and procedures should be documented and communicated to the firm's personnel:</p> <p>Such communication describes the quality control policies and procedures and the objectives they are designed to achieve and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures. In addition, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.</p>

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	<p>firm's personnel.</p> <p>The communication describes the quality control policies and procedures and the objectives they are designed to achieve.</p> <p>The communication that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures.</p> <p>The firm recognizes the importance of obtaining feedback on its quality control system from its personnel.</p>	
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Observation 8

Not keeping current the processes for complying with applicable engagement standards for maintaining consistency in the quality of engagement performance as the checklists for complying with technical standards were not updated.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it necessary to keep current and up to date the processes which comply with applicable engagement standards for maintaining consistency in the quality of engagement performance?</p>	<p>Para 7 of SQC 1:</p> <p>Elements of a System of Quality Control</p> <p>The firm's system of quality control should include policies and procedures addressing each of the following elements:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements. (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>Consistency in the quality of engagement performance</p> <p>This is often accomplished through:</p> <ul style="list-style-type: none"> • Written or electronic manuals. • Software tools or other forms of standardized documentation. • Industry or subject matter-specific guidance materials. <p>Matters addressed include the following:</p> <ul style="list-style-type: none"> • How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work. 	<p>Para 46 of SQC 1:</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issues reports that are appropriate in the circumstances.</p>

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	<ul style="list-style-type: none">• Processes for complying with applicable engagement standards.• Processes of engagement supervision, staff training and coaching.• Methods of reviewing the work performed, the significant judgments made and the form of report being issued.• Appropriate documentation of the work performed and of the timing and extent of the review.• Processes to keep all policies and procedures current.	
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Observation 9

The firm obtains independence declarations from its audit team members. It is noted that declarations of independence obtained for an audit from two partners are undated held on record i.e., obtained before, during or after completion of audit cannot be commented. Further, there is no documentary evidence found on record which can elaborate the review for no breach of independence.

Or

The firm is not in a practice of taking an annual declaration in the form of Independence Policy from all the personnel.

Or

As per Para 20 of SQC 1, the firm should establish policies and procedures to provide it with reasonable assurance that it is notified of breaches of independence requirements and to enable it to take appropriate actions to resolve such situations, etc.

The issue relates to establishing internal checks to identify and communicate the breaches of independence during the conduct of the audit and after obtaining the due confirmation at the start of the audit.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it necessary to take written confirmation on independence from all firm personnel?</p> <p>How can an audit firm satisfy ethical requirements?</p>	<p>Independence is an essential attribute for audits because it determines how credible and reliable financial statements will be to the users.</p> <p>The auditor should be independent of the client company so that the audit opinion will not be influenced by any relationship between them. It provides a clear picture of a company's worth, which helps investors make an informed decision for example when considering whether to purchase a company's shares. Financial analysts and brokers also use independent audits to make sound investment recommendations to clients.</p> <p>All Audit firm's personnel should maintain independence in all required circumstances, perform all professional responsibilities with integrity, and maintain objectivity in discharging professional responsibilities.</p>	<p>Para 18 of SQC 1:</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code. Such policies and procedures should enable the firm to:</p> <p>(a) Communicate its independence requirements to its personnel and, where applicable, to others subject to them; and</p> <p>(b) Identify and evaluate</p>

	<p>Guidance on Independence</p> <p>Comprehensive guidance on threats to independence and safeguards, including application to specific situations are contained in the Code.</p> <p>Written confirmation of independence</p> <p>Written confirmation may be:</p> <ol style="list-style-type: none"> 1. In paper. 2. Electronic form. <p>Breach of independence</p> <p>A firm receiving notice of a breach of independence policies and procedures promptly communicates relevant information to engagement partners, others in the firm, as appropriate and, where applicable, experts contracted by the firm and network firm personnel, for appropriate action.</p> <p>Action on breach of independence</p> <ol style="list-style-type: none"> 1. Applying appropriate safeguards to eliminate the threats to independence or to reduce them to an acceptable level. 2. Withdrawing from the engagement. 3. The firm provides independence education to personnel who are required to be independent. 	<p>circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.</p> <p>Para 19 of SQC 1:</p> <p>Such policies and procedures should require:</p> <ol style="list-style-type: none"> (a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements; (b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and (c) The accumulation and communication of relevant information to appropriate personnel so that: <ol style="list-style-type: none"> (i) The firm and its personnel can readily determine whether they satisfy independence requirements; (ii) The firm can
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		<p>maintain and update its records relating to independence; and</p> <p>(iii) The firm can take appropriate action regarding identified threats to independence.</p> <p>Para 20 of SQC 1:</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures should include requirements for:</p> <p>(a) All who are subject to independence requirements to promptly notify the firm of independence breaches of which they become aware;</p> <p>(b) The firm to promptly communicate identified breaches of these policies and procedures to:</p> <p>(i) The engagement partner who, with the firm, needs to address the breach; and</p> <p>(ii) Other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action;</p>
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		<p style="text-align: center;">and</p> <p>(c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.</p> <p>Para 23 of SQC 1:</p> <p>At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.</p>
<p>What are the policies and procedures in respect of independence matters as per SQC 1?</p>	<p>As per the Implementation Guide to SQC 1, one of the objectives of this element of Quality Control is to provide the Firm with reasonable assurance that it and its personnel comply with relevant ethical requirements. Ethical requirements relating to audits and reviews of historical financial information, and other attestation engagements are contained in the Code of Ethics issued by the Institute of Chartered Accountants of India as well as other relevant pronouncements of the Institute. The other objective of this element of Quality Control is that the personnel maintain independence in all required circumstances, perform all professional responsibilities with integrity, and maintain objectivity in discharging professional responsibilities.</p>	

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	<p>The audit firm should satisfy these objectives by establishing and maintaining the policies and procedures described below:</p> <p>Policy 1 - Personnel adhere to ethical requirements such as those contained in the Code.</p> <p>Policy 2 - The Firm establishes procedures to communicate independence requirements to Firm personnel and, where applicable, others subject to them.</p> <p>Policy 3 - The Firm establishes procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards.</p> <p>Policy 4- The Firm withdraws from the engagement if effective safeguards to reduce threats to independence to an acceptable level cannot be applied.</p> <p>Policy 5- The Firm obtains written confirmation, at least annually, of compliance with its policies and procedures on independence from all Firm personnel and others, if any, who are required to be independent.</p> <p>Policy 6 - The Firm establishes procedures for confirming the independence of another Firm that performs part of the engagement.</p>	
<p>What are the procedures to implement Policy 1 - Personnel adhere to ethical requirements such as those contained in the</p>	<p>Policy 1 of Implementation Guide to SQC 1</p> <p>Personnel adhere to ethical requirements such as those contained in the Code.</p> <p>The audit firm should implement this</p>	

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Code?	<p>policy through the following procedures:</p> <ul style="list-style-type: none"> • Having the managing partner designate an Independence and Ethics partner who is responsible for all aspects of the independence and ethics of the Firm's partners and professional staff. The designated Independence and Ethics partner may be the same individual as the designated Quality Control partner if the Firm so desires. • Empowering the Independence and Ethics partner to perform such checks as may be required to ensure that all personnel respect and follow the independence and ethics policies of the Firm. <p>Breaches, if any, should be promptly reported to the Managing Partner, who should take such disciplinary action as is warranted.</p> <ul style="list-style-type: none"> • Establishing a system for identifying all services performed for each client and evaluating whether any of those services might impair independence. • Regularly consulting the ICAI's journal and website for information about changes in professional ethics and independence standards/ requirements. • Ensuring that all professional personnel attend training in ethics and independence. 	
<p>What are the procedures to implement Policy 2 - The Firm establishes procedures to communicate independence requirements to Firm</p>	<p>Policy 2 of Implementation Guide to SQC 1</p> <p>The audit firm should establish procedures to communicate independence requirements to Firm personnel and, where applicable, others subject to them.</p>	

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<p>personnel and, where applicable, others subject to them?</p>	<p>The audit firm should implement this policy through the following procedures:</p> <ul style="list-style-type: none"> • Informing personnel of their responsibilities with regard to independence by doing the following on a timely basis: <ul style="list-style-type: none"> ○ Preparing and maintaining a list of entities with which Firm personnel and others, if any, are prohibited from having a financial or business relationship (such entities would normally include the Firm's audit and attest clients). ○ Making the list available to the concerned personnel so they may evaluate their independence. ○ Notifying personnel of changes in the list as soon as such changes occur. • Providing frequent reminders of professional responsibilities to personnel, such as avoiding behaviour that might be perceived as impairing their independence or objectivity. 	
<p>What are the procedures to implement Policy 3 - The Firm establishes procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a</p>	<p>Policy 3 of Implementation Guide to SQC 1</p> <p>The Firm establishes procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat that may be created by using the same senior personnel on an audit or attest engagement over a long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards. The Firm implements this policy through the</p>	

<p>long period of time, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards?</p>	<p>following procedures:</p> <ul style="list-style-type: none"> • Requiring the engagement partner to consider relevant information about client engagements, including the scope of services, to enable him to evaluate the overall impact, if any, on independence requirements. • Providing training to partners and professional staff on what constitutes threats to independence and the nature of safeguards that may be taken to eliminate or reduce the threats to an acceptable level. <p>Such training should include ICAI's responses to matters dealing with ethical conduct.</p> <ul style="list-style-type: none"> • Accumulating and communicating relevant information to appropriate personnel so that the following can occur: <ul style="list-style-type: none"> ○ The Firm, the engagement partner, Firm personnel and others, if any, can readily determine whether they satisfy independence requirements. ○ The Firm can maintain and update information relating to independence. ○ The Firm and the engagement partner can take appropriate action regarding identified threats to independence, in consultation with the Independence and Ethics partner. • Requiring personnel to promptly report circumstances and relationships that create a threat to independence and independence breaches of which they become aware to the Independence and 	
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	<p>Ethics partner so that appropriate action can be taken.</p> <ul style="list-style-type: none">• Establishing criteria to determine the need for safeguards for engagements where the following have taken place:<ul style="list-style-type: none">○ The Firm's monitoring procedures or peer review has identified weaknesses in previous years.○ The same senior personnel have been used for five years or more on an audit or attestation engagement.○ The client pressurizes the engagement partner to take a particular position or an accounting or auditing issue.• Promptly communicating identified breaches of these policies and procedures, and the required corrective actions, to the following personnel:<ul style="list-style-type: none">○ The engagement partner who, with the Firm, needs to address the breach.○ The Independence and Ethics partner who should report the breaches to the Managing Partner for necessary action.○ Other relevant personnel in the Firm and those subject to the independence requirements who need to take appropriate action.• Requiring the engagement partner and the other individuals referred to in the previous list to confirm to the Firm that the required corrective actions have been taken.• Having the Independence and Ethics partner, or an individual	
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	<p>designated by him, periodically review unpaid fees from clients to ascertain whether any outstanding amounts impair the Firm's independence.</p> <ul style="list-style-type: none"> • Establishing additional procedures that provide safeguards when the Firm performs audit or other attest work for <ul style="list-style-type: none"> (a) significant clients or (b) clients at which partners or other senior personnel are offered key management positions or have accepted offers of employment. • Documenting the threats and the safeguards applied to eliminate or reduce them to an acceptable level in each instance. 	
<p>What are the procedures to implement Policy 4 - The Firm withdraws from the engagement if effective safeguards to reduce threats to independence to an acceptable level cannot be applied?</p>	<p>Policy 4 of Implementation Guide to SQC 1</p> <p>The Firm withdraws from the engagement if effective safeguards to reduce threats to independence to an acceptable level cannot be applied.</p> <p>The Firm implements this policy through the following procedures:</p> <ul style="list-style-type: none"> • Consulting within the Firm, and with legal counsel and other parties, if necessary, when the Firm believes that safeguards to reduce threats to independence to an acceptable level cannot be effectively applied. • Withdrawing from the engagement if safeguards to reduce threats to independence to an acceptable level cannot be effectively applied. 	
<p>What are the procedures to implement Policy 5 -</p>	<p>Policy 5 of Implementation Guide to SQC 1</p>	

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<p>The Firm obtains written confirmation, at least annually, of compliance with its policies and procedures on independence from all Firm personnel and others, if any, who are required to be independent?</p>	<p>The audit firm should obtain written confirmation, at least annually, of compliance with its policies and procedures on independence from all Firm personnel and others, if any, who are required to be independent.</p> <p>The audit firm should implement this policy through the following procedures:</p> <ul style="list-style-type: none"> • Obtaining written representations from Firm personnel, upon hire and on an annual basis, stating that they have read the Firm's independence, integrity, and objectivity policies, understand the applicability of those policies to their activities, and have complied with the requirements of those policies since their last representation. Any exceptions should be declared by those making these representations. • Reviewing these independence representations and resolving reported exceptions. • Requiring the engagement partner to sign a step in the engagement program attesting to compliance with independence requirements that apply to the engagement. 	
<p>What are the procedures to implement Policy 6 - The Firm establishes procedures for confirming the independence of another Firm that performs part of the engagement?</p>	<p>Policy 6 of Implementation Guide to SQC 1</p> <p>The audit firm should establish procedures for confirming the independence of another Firm that performs part of the engagement.</p> <p>The audit firm should implement this policy through the following procedures:</p> <ul style="list-style-type: none"> • Using practice aids that prescribe the form and content of independence representations, 	

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	<p>and frequency with which they are to be obtained.</p> <ul style="list-style-type: none">• Requiring that such representations be documented in the engagement working papers file.	
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Observation 10

The firm has not documented the policies and procedures as per requirements of SQC 1. However, on discussion with the engagement partner of the firm, they confirm that they are complying with the six elements of SQC 1. They further stated that the Senior Partner of the firm will be monitoring the work done by the other partners and staff. However, there is no documentation found on record in respect of Monitoring and Engagement Performance review.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What are the objectives of leadership responsibilities for quality within the firm?</p>	<p>As per the Implementation Guide to SQC 1, the objective of this element of Quality Control is to promote an internal culture based on the recognition that quality is essential in performing engagements. Policies and procedures should require the Firm's chief executive officer or the Firm's Managing Partner (MP) or equivalent (MP) to assume ultimate responsibility for the Firm's system of Quality Control. The promotion of a quality oriented internal culture depends on clear, consistent and frequent communications from the Firm's management emphasizing the Firm's Quality Control policies and procedures.</p> <ul style="list-style-type: none"> • The Firm should satisfy this objective by establishing and maintaining the policies and procedures described below: <ul style="list-style-type: none"> (a) Policy 1 - The Firm's Managing Partner assumes ultimate responsibility for the Firm's system of Quality Control. (b) Policy 2 - Commercial considerations do not override the quality of the work performed. (c) Policy 3 - Responsibility for developing, implementing, and operating the Firm's Quality Control system is assigned to 	<p>Para 7 of SQC 1:</p> <p>The firm's system of quality control should include policies and procedures addressing each of the following elements:</p> <ul style="list-style-type: none"> (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements. (c) Acceptance and continuance of client relationships and specific engagements (d) Human resources. (e) Engagement performance. (f) Monitoring. <p>Para 8 of SQC 1:</p> <p>The quality control policies and procedures should be documented and communicated to the firm's personnel. Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for</p>

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	<p>personnel with sufficient and appropriate experience, authority, and ability.</p> <p>(d) Policy 4 - Performance evaluation, compensation, and advancement (including incentive systems) with regard to personnel demonstrate the Firm's overarching commitment to the objectives of the system of Quality Control.</p> <p>(e) Policy 5 - The Firm devotes sufficient and appropriate resources for the development, communication, and support of its Quality Control policies and procedures.</p> <p>Leadership Communication</p> <p>The promotion of a quality-oriented internal culture depends on clear, consistent and frequent actions and messages from all levels of the firm's management emphasizing the firm's quality control policies and procedures and the requirement to:</p> <p>(a) Perform work that complies with professional standards and regulatory and legal requirements; and</p> <p>(b) Issue reports that are appropriate in the circumstances.</p> <p>Such actions and messages encourage a culture that recognises and rewards high-quality work. These actions and messages may be communicated by training seminars, meetings, formal or informal dialogue, mission statements, newsletters, or briefing memoranda.</p> <p>Source of communication:</p> <p>They may be incorporated in the:</p>	<p>quality and is expected to comply with these policies and procedures. In addition, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.</p> <p>Para 9 of SQC 1:</p> <p>The firm should establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's chief executive officer (or equivalent) or, if appropriate, the firm's managing partners (or equivalent), to assume ultimate responsibility for the firm's system of quality control.</p> <p>Para 12 of SQC 1:</p> <p>Any person or persons assigned operational responsibility for the firm's quality control system by the firm's chief executive officer or managing board of partners should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.</p>
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	<p>1. Firm's internal documentation, 2. Training materials, 3. In partner and staff appraisal procedures, such that they will support and reinforce the firm's view on the importance of quality and how, practically, it is to be achieved.</p> <p>Overriding business strategy</p> <p>The firm's leadership to recognize that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Accordingly:</p> <p>(a) The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed;</p> <p>(b) The firm's policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel, are designed to demonstrate the firm's overriding commitment to quality; and</p> <p>(c) The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures.</p> <p>Any person or persons assigned operational responsibility for the firm's quality control system by the firm's chief executive officer or managing board of partners should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.</p>	
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	<p>Sufficient and appropriate experience and ability enable the responsible person or persons to identify and understand quality control issues and to develop appropriate policies and procedures. Necessary authority enables the person or persons to implement those policies and procedures.</p>	
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Observation 11

SQC 1 requires the firm to obtain information considered necessary in the circumstances such as integrity of the client and its principal owners, KMP, competency of the engagement team, including time and resources, ethical requirements, etc. before accepting an engagement with a new client and where deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. (Refer Para 28 of SQC 1, Para 12 of SA 220 and Para A8 of SA 220)

The firm had filled up Acceptance and Continuance checklist based on certain parameters and by awarding risk rating, however, there were no supporting documents being available for having conducted the background checking in respect of the client's principal owner, their KMP, etc. Further the acceptance clearance had been signed by the Engagement Partner himself. It would be more appropriate if the final clearance is obtained by the firm's National Level Risk & Quality Partner when there is one.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it necessary to have policies and procedures for the acceptance and continuance of client relationships and specific engagements?</p>	<p>As per Implementation Guide to SQC 1, the objective of this element of Quality Control is to provide the Firm with reasonable assurance that it will undertake or continue relationships and engagements only where it:</p> <ul style="list-style-type: none"> • Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity; • Is competent to perform the engagement and has the capabilities, time and resources to do so; and • Can comply with the ethical requirements. <p>The audit Firm should satisfy this objective, with respect to the initial period for which the Firm is performing its service and other subsequent periods, by establishing and maintaining the policies and procedures as described below:</p>	<p>Acceptance and Continuance of Client Relationships and Specific Engagements</p> <p>Para 28 of SQC 1:</p> <p>The firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it:</p> <p>(a) Has considered the integrity of the client and does not have information that would lead it to conclude that the client lacks integrity;</p> <p>(b) Is competent to perform the engagement and has the capabilities, time and resources to do so; and</p>

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	<p>(a) Policy 1 - The Firm evaluates factors that have a bearing on management's integrity and considers the risk associated with providing professional services in particular circumstances.</p> <p>(b) Policy 2 - The Firm evaluates whether the engagement can be completed with professional competence; undertakes only those engagements for which the Firm has the capabilities, resources, and professional competence to complete; and evaluates, at the end of specific periods or upon occurrence of certain events, whether the relationship should be continued.</p> <p>(c) Policy 3 - The Firm obtains an understanding with the client regarding the services to be performed.</p> <p>(d) Policy 4 - The Firm establishes procedures on withdrawal from an engagement or from both the engagement and the client relationship.</p> <p>(e) Policy 5- The Firm documents how issues relating to acceptance or continuance of client relationships and specific engagements were resolved.</p> <p>Integrity of client</p> <p>Matters that the firm considers:</p> <ul style="list-style-type: none"> • The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance. • The nature of the client's operations, including its 	<p>(c) Can comply with the ethical requirements.</p> <p>The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.</p> <p>Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.</p> <p>Para 34 of SQC 1:</p> <p>Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:</p> <p>(a) The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and</p> <p>(b) The possibility of</p>
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	<p>business practices.</p> <ul style="list-style-type: none"> • Matters such as aggressive interpretation of accounting standards and the internal control environment. • Whether the client is aggressively concerned with maintaining the firm's fees as low as possible. • Indications of an inappropriate limitation in the scope of work. • Indications that the client might be involved in money laundering or other criminal activities. • The reasons for the proposed appointment of the firm and non-reappointment of the previous firm. <p>Source of information on integrity of client</p> <ul style="list-style-type: none"> • Communication with existing or previous providers of professional accountancy services to the client in accordance with the Code. • Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers. • Background searches of relevant databases. <p>Competence of Firm</p> <p>The firm considers to include whether:</p> <ul style="list-style-type: none"> • Firm personnel have knowledge of relevant industries or subject matters; • Firm personnel have experience with relevant regulatory or reporting 	<p>withdrawing from the engagement or from both the engagement and the client relationship.</p> <p>Para 35 of SQC 1:</p> <p>Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:</p> <ul style="list-style-type: none"> • Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances. • If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal. • Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client
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	<p>requirements;</p> <ul style="list-style-type: none"> • The firm has sufficient personnel with the necessary capabilities and competence; • Experts are available, if needed; • Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and • The firm would be able to complete the engagement within the reporting deadline. <p>Conflict of interest</p> <p>The firm also considers whether accepting an engagement from a new or an existing client may give rise to an actual or perceived conflict of interest.</p> <p>Where a potential conflict is identified, the firm considers whether it is appropriate to accept the engagement.</p> <p>Continuance of client relationships</p> <p>It includes consideration of significant matters that have arisen during the current or previous engagements, and their implications for continuing the relationship.</p> <p>For example, a client may have started to expand its business operations into an area where the firm does not possess the necessary knowledge or expertise.</p>	<p>relationship, together with the reasons for the withdrawal, to regulatory authorities.</p> <ul style="list-style-type: none"> • Documenting significant issues, consultations, conclusions and the basis for the conclusions.
<p>What are the procedures to implement Policy 1 - The Firm evaluates factors that have a bearing on management's</p>	<p>Policy 1 of Implementation Guide to SQC 1</p> <p>The audit firm should evaluate factors that have a bearing on</p>	

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<p>integrity and considers the risk associated with providing professional services in particular circumstances?</p>	<p>management's integrity and consider the risk associated with providing professional services in particular circumstances.</p> <p>The audit firm should implement this policy through the following procedures:</p> <ul style="list-style-type: none"> • Informing Firm personnel of the Firm's policies and procedures for accepting and continuing clients. • Obtaining and evaluating relevant information such as the following before accepting or continuing a client: <ul style="list-style-type: none"> ○ The nature and purpose of the services to be provided and management's understanding thereof. ○ The identity of the client's principal owners, key management, related parties, and those charged with its governance. ○ Information obtained from internet searches on the client and its associates. ○ Information obtained from inquiries of third parties who have business relationships with the entity about management's reputation and integrity. ○ The nature of the client's operations, including its business practices, from sources such as annual reports, interim financial statements, reports to and from regulators, income tax returns, credit reports 	
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	<p>and websites.</p> <ul style="list-style-type: none"> ○ Information concerning the attitude of the client's principal owners, key management, and those charged with its governance toward such matters as aggressive interpretation of accounting standards and internal control over financial reporting. ● Evaluating the risk of providing services for the following engagements: <ul style="list-style-type: none"> ○ Engagements for entities operating in highly specialized or regulated industries, (including financial institutions, technology companies, and governmental entities) or in industries or environments that are traditionally perceived to be operated in a manner that is less than ethical. ○ Engagements where the firm has concerns about the attitude of the client's principal owners, key management personnel and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment. ● Engagements where the client is aggressively concerned with maintaining the Firm's fees as low as possible. ● Engagements where there is an inappropriate limitation in 	
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	<p>the scope of work.</p> <ul style="list-style-type: none">• Engagements where there are indications that the client might be involved in money laundering or other criminal activities.• Engagements that require an inordinate amount of time to complete relative to the available resources of the Firm.• Communicating with the predecessor auditor when required or recommended by professional standards. This communication also includes inquiries regarding the nature of objections, if any.• Conducting a background check of the business, its officers, and the person(s) in question, and evaluating the information obtained regarding management's integrity. Background checks are conducted when the Firm is unable to obtain sufficient information about the prospective client after taking the steps described above, or there is an indication that management or someone affiliated with the prospective client may be less than reputable.• Evaluating the risk of providing services to significant clients or to other clients for which the Firm's objectivity or the appearance of independence may be impaired. In broad terms, the significance of a client to a Firm refers to relationships that could diminish an auditor's objectivity	
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	<p>and independence in performing attest services. In determining the significance of a client, the Firm considers</p> <ul style="list-style-type: none"> (a) the amount of time the partner devotes to the engagement, (b) the effect on the partner's stature within the Firm as a result of service to the client, (c) the manner in which the partner is compensated, and (d) the effect that losing the client would have on the partner and the Firm. 	
<p>What are the procedures to implement Policy 2 - The Firm evaluates whether the engagement can be completed with professional competence; undertakes only those engagements for which the Firm has the capabilities, resources, and professional competence to complete; and evaluates, at the end of specific periods or upon occurrence of certain events, whether the relationship should be continued?</p>	<p>Policy 2 of Implementation Guide to SQC 1</p> <p>The audit firm should evaluate whether the engagement can be completed with professional competence; undertakes only those engagements for which the Firm has the capabilities, resources, and professional competence to complete; and evaluates, at the end of specific periods or upon occurrence of certain events, whether the relationship should be continued.</p> <p>The audit firm should implement this policy through the following procedures:</p> <ul style="list-style-type: none"> • Evaluating whether the Firm has obtained or can reasonably expect to obtain the knowledge and expertise necessary to perform the engagement, including relevant regulatory or reporting requirements. • Evaluating whether the 	

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	<p>following are in place:</p> <ul style="list-style-type: none">○ The Firm has sufficient personnel with the necessary capabilities and competence.○ Specialists are available if needed.○ Individuals meeting the criteria and eligibility requirements to perform an engagement Quality Control review are available, when needed, whether internally or externally.○ The Firm is able to complete the engagement within the agreed reporting deadline. <ul style="list-style-type: none">• Specifying conditions that trigger the requirement to re-evaluate a specific client or engagement. The following are examples of such conditions:<ul style="list-style-type: none">○ Significant changes in the client, such as a major change in senior client personnel, ownership, advisers, the nature of its business, or the financial stability of the client.○ Changes in the nature or scope of the engagement, including requests for additional services.○ Changes in the composition of the Firm, such as the loss of and inability to replace key personnel who are particularly knowledgeable about a specialized industry.	
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	<ul style="list-style-type: none">○ The Firm's decision to discontinue services to clients in a particular industry.○ The existence of conditions that would have caused the Firm to reject the client or engagement had such conditions existed at the time of the initial acceptance.○ The client's delinquency in paying fees. (This may also affect the Firm's independence.)○ Engagements for entities operating in highly specialized or regulated industries, such as financial institutions, technology companies and governmental entities.○ Engagements for entities in which there may be substantial doubt about the entity's ability to continue as a going concern.○ Engagements in which the client has ignored prior recommendations, such as those that address deficiencies in internal control. <ul style="list-style-type: none">• Obtaining relevant information to determine whether the relationship should be continued and establishing a frequency for evaluations (for example, continuance decisions are made at least annually).• Evaluating the information obtained regarding acceptance or continuance of the client or	
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	<p>engagement through the following activities:</p> <ul style="list-style-type: none">○ The engagement partner assesses the information obtained about the client or the specific engagement, including information about the significance of the client to the Firm, and makes a recommendation about whether the client or engagement should be accepted or continued.○ The engagement partner completes a client acceptance form and submits it to the Managing Partner for approval.○ The engagement partner signs a step in the planning program noting consideration of client continuance and completes a form documenting the rationale and conclusion regarding client continuance if conditions exist that trigger the requirement to reevaluate a client or engagement between annual audits.○ The Managing Partner assesses and approves the recommendation made by the engagement partner. If the Managing Partner recommends not accepting a client or discontinuing a client relationship, the Managing Partner discusses reasons for the acceptance or continuance decision with the other partners.	
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	<ul style="list-style-type: none"> Establishing procedures for dealing with information that would have caused the Firm to decline the engagement if the information had been available earlier. 	
<p>What are the procedures to implement Policy 3 - The Firm obtains an understanding with the client regarding the services to be performed?</p>	<p>Policy 3 of Implementation Guide to SQC 1</p> <p>The audit firm should obtain an understanding with the client regarding the services to be performed.</p> <p>The audit firm should implement this policy by requiring that, for all engagements, the Firm prepare a written engagement letter documenting the understanding with the client and obtain the client's signature on that letter, thus minimizing the risk of misunderstanding regarding the nature, scope, and limitations of the services to be performed.</p>	
<p>What are the procedures to implement Policy 4 - The Firm establishes procedures on withdrawal from an engagement or from both the engagement and the client relationship?</p>	<p>Policy 4 of Implementation Guide to SQC 1</p> <p>The Firm should establish procedures on withdrawal from an engagement or from both the engagement and the client relationship.</p> <p>The Firm should implement this policy through the following procedures:</p> <ul style="list-style-type: none"> Discussing with the appropriate level of the client's management and those charged with its governance the appropriate action that the Firm might take based on the relevant facts and circumstances. Considering whether there is a 	

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	<p>professional, regulatory, or legal requirement for the Firm to remain in place or for the Firm to report to regulatory authorities its withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal.</p> <ul style="list-style-type: none"> • Discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement, or from both the engagement and the client relationship, if the Firm determines that it is appropriate to withdraw. 	
<p>What are the procedures to implement Policy 5 - The Firm documents how issues relating to acceptance or continuance of client relationships and specific engagements were resolved?</p>	<p>Policy 5 of Implementation Guide to SQC 1</p> <p>The Firm should document how issues relating to acceptance or continuance of client relationships and specific engagements were resolved.</p> <p>The Firm should implement this policy by documenting, in a memorandum to the engagement working papers file, significant issues, consultations, conclusions, and the basis for the conclusions relating to acceptance or continuance of client relationships and specific engagements. Alternatively, such memoranda may be preserved at a common location for the Firm as a whole e.g., in the custody of the designated Quality Control partner.</p>	

Observation 12

The firm entrusts responsibility for the monitoring process to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility. Monitoring of the firm's system of quality control is performed by competent individuals and covers both the appropriateness of the design and the effectiveness of the operation of the system of quality control.

Monitoring of the implementation of the policy containing the parameters of SQC 1 can be strengthened by providing a review by partner in checklist form on each requirement of SQC 1.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Should the audit firm have a policy for monitoring relating to the system of quality control?</p>	<p>The firm needs to establish clear policies and procedures to ensure the effectiveness and adherence of its quality control system. These policies should include ongoing evaluations of the quality control system, including periodic inspections of completed engagement.</p> <p>The main goal of monitoring compliance with these policies is to assess:</p> <ul style="list-style-type: none"> (a) Whether the firm meets professional standards and legal requirements. (b) Whether the quality control system is well-designed and functioning effectively. (c) Whether the firm's quality control policies are consistently applied, ensuring that reports issued by the firm are appropriate for each situation. <p>Competent Individuals</p> <p>The firm entrusts responsibility for the monitoring process to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.</p> <p>Monitoring system covers both the</p>	<p>Para 86 of SQC 1:</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.</p>

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	<p>appropriateness of the design and the effectiveness of the operation of the system of quality control.</p> <p>Ongoing consideration and evaluation of the system of quality control includes matters such as the following:</p> <p>Inspection</p> <p>The inspection of a selection of completed engagements is ordinarily performed on a cyclical basis. Engagements selected for inspection include at least one engagement for each engagement partner over an inspection cycle, which ordinarily spans no more than three years. Some of which may be selected without prior notification to the engagement team.</p> <p>The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors.</p> <p>Small firms</p> <p>Small firms and sole practitioners may wish to use:</p> <ul style="list-style-type: none"> • Suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. • Establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities. 	
<p>Should the audit firm have a checklist for monitoring relating to the system of quality control?</p>	<p>Comprehensive monitoring documentation encompasses several key elements. It includes defining monitoring procedures, including criteria for selecting engagements. It involves documenting assessments of compliance with professional standards, regulatory mandates, the effectiveness of quality control systems, and the correct application of firm's policies to ensure the accuracy of</p>	<p>Para 100 of SQC 1:</p> <p>Appropriate documentation relating to monitoring:</p> <p>(a) Sets out monitoring procedures, including the procedure for selecting completed engagements to be inspected;</p>

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	<p>reports.</p> <p>The appropriate format can take various forms, such as a checklist or other methods, if it is appropriately documented.</p>	<p>(b) Records the evaluation of:</p> <ul style="list-style-type: none"> (i) Adherence to professional standards and regulatory and legal requirements (ii) Whether the quality control system has been appropriately designed and effectively implemented; and (iii) Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances; and <p>(c) Identifies the deficiencies noted, evaluates their effect, and sets out the basis for determining whether and what further action is necessary.</p>
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Observation 13

Paragraph 36 of SQC 1 states:

"The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances."

The manner of implementation of certain aspects of the policy in terms of Recruitment of Human Resources needs enhancement.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Should the audit firm have a recruitment policy for human resources?</p>	<p>The firm needs to establish clear policies and procedures to ensure that it has the right people with the right skills and ethical commitment to meet professional standards and legal requirements. These policies should cover recruitment, performance evaluation, skill development, promotions, compensation, and estimating staffing needs. By addressing these areas, the firm can determine the requisite number of qualified individuals for its engagement and ensure that its recruitment process selects individuals with integrity and the potential to develop the necessary skills.</p>	<p>Para 36 of SQC 1:</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p> <p>Para 37 of SQC 1:</p> <p>Such policies and procedures address the following personnel issues:</p> <ul style="list-style-type: none"> (a) Recruitment; (b) Performance evaluation; (c) Capabilities; (d) Competence; (e) Career development; (f) Promotion; (g) Compensation; and

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		<p>(h) Estimation of personnel needs.</p> <p>Addressing these issues enables the firm to ascertain the number and characteristics of the individuals required for the firm's engagements. The firm's recruitment processes include procedures that help the firm select individuals of integrity as well as the capacity to develop the capabilities and competence necessary to perform the firm's work.</p>
<p>Should an audit firm ensure the proper implementation of human resource policies?</p>	<p>The proper implementation of policies also helps personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.</p>	<p>Para 39 of SQC 1:</p> <p>The continuing competence of the firm's personnel depends to a significant extent on an appropriate level of continuing professional development so that personnel maintain and also enhance their knowledge and capabilities. The firm therefore emphasizes in its policies and procedures, the need for continuing training for all levels of firm personnel and provides the necessary training resources and assistance to enable personnel to develop and maintain the required capabilities and competence. Where internal technical and training resources are unavailable, or for any other reason, the firm may use a suitably qualified external person for that purpose.</p> <p>Para 40 of SQC 1:</p> <p>The firm's performance evaluation, compensation and promotion procedures give due recognition and reward to the development and maintenance of competence and commitment to ethical principles. In particular, the firm:</p>

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		<ul style="list-style-type: none">(a) Makes personnel aware of the firm's expectations regarding performance and ethical principles.(b) Provides personnel with evaluation of, and counseling on, performance, progress and career development; and(c) Helps personnel understand that advancement to positions of greater responsibility depends, among other things, upon performance quality and adherence to ethical principles, and that failure to comply with the firm's policies and procedures may result in disciplinary action.
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Chapter 2

Observations related to SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

Observation 1

Independence declaration from audit team members is dated as of the sign-off date of the audit report. It is not possible to ensure whether or not the team was independent from the start and during the course of audit. SA 200 requirements have not been complied with fully.

Audit program has initials of some team members from whom independence confirmation has not been obtained. SA 200 requirements have not been complied with fully.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>The audit firm could not establish that the audit team was independent throughout the audit period, i.e. from the start of audit to the conclusion of audit, including the period under audit.</p> <p>The independence confirmation was not obtained from each of the team members, who were part of Audit Team / who signed the Audit program.</p>	<p>As per the requirements of SQC 1, SA 200 and the ICAI's Code of Ethics, the auditor and audit team members need to be independent of the auditee.</p> <p>Further, the auditor needs to satisfy the requirements of the applicable laws and regulations related to independence.</p> <p>As per SA 200:</p> <p>In the case of an audit engagement, it is in the public interest and, therefore, required by the Code of Ethics, that the auditor be independent of the entity subject to the audit.</p> <p>The Code describes independence as comprising both independence of mind and independence in appearance. The auditor's independence from the entity</p>	<p>Para 14 of SA 200:</p> <p>The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. (Ref: Para. A14-A17)</p> <p>Please also refer:</p> <p>(i) Section 141(3) of the Companies Act, 2013 which lays down the disqualifications for appointment of auditors of companies, the underlying intention of which is to ensure that a practitioner who is appointed as an auditor is able to maintain independence <i>vis-a-vis</i> the auditee company.</p> <p>(ii) Section 144 of the Companies Act, 2013 which lists out the prohibited non-audit services for auditors of companies.</p>

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	<p>safeguards the auditor’s ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor’s ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. In addition to the Code, the auditor may also be required to comply with the applicable laws and regulations.</p>	
<p>Does audit firm need to establish policies and procedures for independence requirement?</p> <p>What should be the frequency of seeking independence confirmation from firms’ personnel?</p>	<p>As per SQC 1:</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code. Such policies and procedures should enable the firm to:</p> <p>(a) Communicate its independence requirements to its personnel and, where applicable, to others subject to them; and</p> <p>(b) Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to</p>	<p>Para 19 of SQC 1:</p> <p>Such policies and procedures should require:</p> <p>(a) Engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements;</p> <p>(b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and</p> <p>(c) The accumulation and communication of relevant information to appropriate personnel so that:</p> <p>(i) The firm and its personnel can readily determine whether they satisfy independence requirements;</p>

	<p>an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.</p> <p>As per SQC 1:</p> <p>At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.</p>	<p>(ii) The firm can maintain and update its records relating to independence; and</p> <p>(iii) The firm can take appropriate action regarding identified threats to independence.</p> <p>Para 20 of SQC 1:</p> <p>The firm should establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures should include requirements for:</p> <p>(a) All who are subject to independence requirements to promptly notify the firm of independence breaches of which they become aware.</p> <p>(b) The firm to promptly communicate identified breaches of these policies and procedures to:</p> <p>(i) The engagement partner who, with the firm, needs to address the breach; and</p> <p>(ii) Other relevant personnel in the firm and those subject to the independence requirements who need to take appropriate action; and</p> <p>(c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in</p>
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		<p>subparagraph (b)(ii) of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.</p> <p>Para 21 of SQC 1:</p> <p>Comprehensive guidance on threats to independence and safeguards, including application to specific situations are contained in the Code.</p>
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Chapter 3

Observations related to SA 210, Agreeing the Terms of Audit Engagements

Observation 1

Non-compliance of SA 210 towards issuance of Engagement Letter prior to commencement of audit.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it necessary for Auditor to issue Audit Engagement Letter to client prior to commencement of audit?</p>	<p>As per SA 210: The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:</p> <ul style="list-style-type: none"> (a) Establishing whether the preconditions for an audit are present; and (b) Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement. <p>As per SA 210, it is in the interests of both the entity and the auditor that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit.</p> <p>It is implied from above that audit firm should ensure that the terms of engagement have been agreed with management, prior to the commencement of the audit.</p>	<p>Para 6(b) of SA 210: In order to establish whether the preconditions for an audit are present, the auditor shall:</p> <ul style="list-style-type: none"> (b) Obtain the agreement of management that it acknowledges and understands its responsibility: (Ref: Para A10-A13, A20 of SA 210) <ul style="list-style-type: none"> (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation; (Ref: Para A14 of SA 210), (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: Para A15-A18). (iii) To provide the auditor with: <ul style="list-style-type: none"> a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters; b. Additional information that the auditor may request from

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		<p>management for the purpose of the audit; and (Ref: Para. A19)</p> <p>c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.</p> <p>Para 9 of SA 210: The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (Ref: Para. A21)</p> <p>Para 10 of SA 210: Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A22-A26 of SA 210)</p> <p>(a) The objective and scope of the audit of the financial statements.</p> <p>(b) The responsibilities of the auditor.</p> <p>(c) The responsibilities of management.</p> <p>(d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and</p> <p>(e) 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. (Ref: Para. A24)</p> <p>Also Refer Para 11 and A27 of SA 210</p>
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Observation 2

Non-compliance of SA 210 in respect of not specifying in the engagement letter that management acknowledges and understands its responsibility for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Or

Non-compliance of SA 210 for not including in the engagement letter the terms for reporting on internal financial controls over financial reporting.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it important to specify in the engagement letter that management acknowledges and understands its responsibility for such internal control (including internal financial controls over financial reporting) as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error?</p>	<p>SA 210 requires the auditor to establish whether the preconditions for an audit are present. These preconditions include the condition that management acknowledges and understands its responsibility for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.</p>	<p>Para 6(b)(ii) of SA 210:</p> <p>In order to establish whether the preconditions for an audit are present, the auditor shall:</p> <p>(b) Obtain the agreement of management that it acknowledges and understands its responsibility: (Ref: Para. A10-A13, A20)</p> <p>(ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. (Ref: Para. A15-A18)</p> <p>Para 75 of Guidance Note on Audit of Internal Financial Controls Over Financial Reporting</p> <p>The auditor should properly plan the audit of internal financial controls over financial reporting and properly supervise any assistants. The activities will include pre-engagement activities such as agreeing the terms of the engagement. (Refer Appendix I for illustrative format of the engagement letter). When planning a combined audit of internal financial controls over financial reporting and financial statements, the auditor should</p>

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		<p>evaluate whether the following matters are important to the company's financial statements and internal financial controls over financial reporting and, if so, how they will affect the auditor's procedures:</p> <ul style="list-style-type: none"> • Knowledge of the company's internal financial controls over financial reporting obtained during other engagements performed by the auditor; • Matters affecting the industry in which the company operates, such as financial reporting practices, economic conditions, laws and regulations, and technological changes; • Matters relating to the company's business, including its organisation, operating characteristics, and capital structure; • The extent of recent changes, if any, in the company, its operations, or its internal financial controls over financial reporting; • The auditor's preliminary judgements about materiality, risk, and other factors relating to the determination of material weaknesses; • Control deficiencies previously communicated to the audit committee or management by the auditor or the internal auditor; • Legal or regulatory matters of which the company is aware; • The type and extent of available evidence related to the effectiveness of the company's internal financial controls over financial reporting; • Preliminary judgements about the effectiveness of internal financial controls over financial reporting;
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		<ul style="list-style-type: none">• Public information about the company relevant to the evaluation of the likelihood of material financial statement misstatements and the effectiveness of the company's internal financial controls over financial reporting;• Knowledge about risks related to the company evaluated as part of the auditor's KYC guidelines; and• The relative complexity of the company's operations. <p>Note: Many smaller companies have less complex operations. Additionally, some larger, complex companies may have less complex units or processes. Factors that might indicate less complex operations include: fewer business lines; less complex business processes and financial reporting systems; more centralised accounting functions; extensive involvement by senior management in the day-to-day activities of the business; and fewer levels of management, each with a wide span of control.</p>
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Observation 3

SA 210 requires that the firm has to issue an audit engagement letter comprising relevant scope, responsibilities etc.

The firm has informed that they do not issue Engagement Letter each year for recurring audit of the client under review. In the opinion of the firm, of any factor enlisted in Para A29 of SA 210 has not arisen requiring either revision of the terms of audit engagement or to remind the entity existing terms of engagement.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Is it mandatory to issue an Engagement Letter each year for recurring audits?</p>	<p>As per SA 210, it is not mandatory for the auditor to issue an engagement letter each year in case of recurring audits. However, the auditor needs to assess whether circumstances of the audit require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.</p>	<p>Para 13 of SA 210:</p> <p>On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. (Ref: Para. A29)</p> <p>Para A29 of SA 210:</p> <p>The auditor may decide not to send a new audit engagement letter or other written agreement each period. However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:</p> <ul style="list-style-type: none"> • 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.

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		<ul style="list-style-type: none">• A change in the financial reporting framework adopted in the preparation of the financial statements.• A change in other reporting requirements.
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Observation 4

- (i) The Engagement letter did not refer to the responsibility of the management for preparation of consolidated financial statements, as envisaged by Para 6 of SA 210 read with the responsibilities of the management of the parent company stated in Para 6 of Guidance Note on Audit of Consolidated Financial Statements (Revised 2016) issued by ICAI.
- (ii) The clause pertaining to the responsibility of the management to provide the auditor with - Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence as per para 6(b)(iii)(c) of SA 210 also read with para A2 and A10 of SA 200 was missing in the engagement letter.
- (iii) The engagement letter so issued did not contain any reference to the basis on which fees are computed and any billing arrangements as required in terms of Para A23 of SA 210.
- (iv) Acceptance of Engagement Letter signed by the Client was not dated, neither it contained the name and designation of the person accepting the engagement on behalf of the client.
- (v) It is further observed that the engagement letter was signed by some other authorised officer of the Company and not by the Director of the Company. Further the copy of Board Resolution Authorising the said officer to sign the Engagement Letter/MRL on behalf of the Board of Directors was not available with the Firm.
- (vi) No separate engagement letters were issued for assignment pertaining to review of interim financial statements / unaudited financial statements, corporate governance certification etc. (Refer Para 10 and 11 of SRE 2410).

What is the issue?	AASB Suggested Guidance	Technical Literature
What should the terms of audit engagement include?	SA 210 provides the various contents of engagement letter. The engagement letter should contain these contents.	<p>Para 10 of SA 210:</p> <p>Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A22-A26)</p> <ul style="list-style-type: none"> (a) The objective and scope of the audit of the financial statements; (b) The responsibilities of the auditor; (c) The responsibilities of management; (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and

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		<p>(e) 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. (Ref: Para. A24)</p> <p>Para 11 of SA 210:</p> <p>If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b). (Ref: Para. A22, A27-A28)</p>
<p>With whom the terms of audit engagements are required to be agreed?</p>	<p>The auditor is required to agree the terms of the audit engagement with management or those charged with governance, as appropriate.</p> <p>The way in which the responsibilities for financial reporting are divided between management and those charged with governance will vary according to the resources and structure of the entity and any relevant law or regulation, and the respective roles of management and those charged with governance within the entity.</p> <p>In most cases, management is responsible for execution while those charged with governance have oversight of management.</p> <p>In some cases, those charged with governance will have, or will assume, responsibility for approving the financial statements</p>	<p>Para 9 of SA 210:</p> <p>The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (Ref: Para. A21)</p> <p>Para A21 of SA 210:</p> <p>The roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant law or regulation.</p>

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	<p>or monitoring the entity's internal control related to financial reporting.</p> <p>Under the Companies Act, 2013, the Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Act with respect to the preparation of the financial statements that give a true and fair view of the financial position, financial performance, changes in equity and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act.</p> <p>Accordingly, where the responsibility for the preparation of the financial statements rests with the company's Board of Directors, however, the audit engagement letter has been signed by some other person/officer of the company, the auditor also needs to obtain a Board Resolution giving authority to the person/officer of the company signing the audit engagement letter.</p>	
<p>Is the person accepting the engagement on behalf of the client, needs to mention his/her name and designation and date of acceptance?</p>	<p>As per illustrative formats of engagement letter given in SA 210, the person accepting the engagement on behalf of the client needs to mention his/her name and designation and date of acceptance.</p>	<p>Refer Appendix 1 of SA 210: Examples of an Audit Engagement Letter</p>
<p>Is it necessary for the auditor to</p>	<p>As per requirements of SRE 2410, the auditor is required to issue</p>	<p>Para 10 and 11 of SRE 2410, Review of Interim Financial</p>

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<p>issue engagement letter for assignment pertaining to review of interim financial statements?</p>	<p>engagement letter for assignment pertaining to review of interim financial statements.</p>	<p>Information Performed by the Independent Auditor of the Entity</p> <p>Para 10. The auditor and the client should agree on the terms of the engagement.</p> <p>Para 11. The agreed terms of the engagement are ordinarily recorded in an engagement letter. Such a communication helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management’s responsibilities, the extent of the auditor’s responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:</p> <ul style="list-style-type: none"> • The objective of a review of interim financial information. • The scope of the review. • Management’s responsibility for the interim financial information. • Management’s responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information. • Management’s responsibility for making all financial records and related information available to the auditor. • Management’s agreement to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity’s records. • The anticipated form and content of the report to be issued, including the identity of the
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		<p>addressee of the report.</p> <ul style="list-style-type: none">• Management’s agreement that where any document containing interim financial information indicates that the interim financial information has been reviewed by the entity’s auditor, the review report will also be included in the document. <p>An illustrative engagement letter is set out in Appendix 1 to this SRE. The terms of engagement to review interim financial information can also be combined with the terms of engagement to audit the annual financial statements.</p>
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Chapter 4

Observations related to SA 220, Quality Control for an Audit of Financial Statements

Observation 1

Documents were not available for engagement quality control review performed by second partner.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What engagements require an engagement quality control review?</p>	<p>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.</p>	<p>Para 19 of SA 220:</p> <p>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, the engagement partner shall:</p> <ul style="list-style-type: none"> (a) Determine that an engagement quality control reviewer has been appointed. (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and (c) Not date the auditor's report until the completion of the engagement quality control review. (Ref: Para. A23-A25) <p>Para 60 of SQC 1:</p> <p>The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by</p>

		<p>the engagement team and the conclusions reached in formulating the report. Such policies and procedures should:</p> <p>(a) Require an engagement quality control review for all audits of financial statements of listed entities;</p> <p>(b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; and</p> <p>(c) Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).</p> <p>Para 62 of SQC 1:</p> <p>Criteria that a firm considers when determining which engagements other than audits of financial statements of listed entities are to be subject to an engagement quality control review include the following:</p> <ul style="list-style-type: none"> • The nature of the engagement, including the extent to which it involves a matter of public interest. • The identification of unusual circumstances or risks in an engagement or class of engagements. • Whether laws or regulations require an engagement quality control review.
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<p>Who can be an Engagement quality control reviewer?</p>	<p>Technical qualifications and the reviewer's objectivity are primary considerations in determining an Engagement quality control reviewer for an audit engagement. The firm's policies and procedures should establish the eligibility criteria for Engagement quality control reviewer through:</p> <p>(a) The technical qualifications required to perform the role, including the necessary experience and authority.</p> <p>(b) Need to maintain the objectivity of the engagement quality control reviewer. The engagement partner may consult the engagement quality control reviewer during the engagement without compromising his/her eligibility to perform the role. Where it is not possible to maintain the reviewer's objectivity, another individual within the firm or a suitably qualified external person (mainly in case of sole practitioners or small firms identifying engagements requiring engagement quality control reviews) should be appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement.</p>	<p>Para 63 of SQC 1:</p> <p>The firm should establish policies and procedures setting out: (a) The nature, timing and extent of an engagement quality control review; (b) Criteria for the eligibility of engagement quality control reviewers; and (c) Documentation requirements for an engagement quality control review.</p> <p>Para 68 of SQC 1:</p> <p>The firm's policies and procedures should address the appointment of engagement quality control reviewers and establish their eligibility through:</p> <p>(a) The technical qualifications required to perform the role, including the necessary experience and authority; and</p> <p>(b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.</p> <p>Para 69 of SQC 1:</p> <p>The firm's policies and procedures on the technical qualifications of engagement quality control reviewers address the technical expertise, experience and authority necessary to perform the role. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. In addition, the engagement quality control reviewer for an audit of the financial statements of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit</p>
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		<p>engagement partner on audits of financial statements of listed entities.</p> <p>Para 70 of SQC 1:</p> <p>The firm's policies and procedures are designed to maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality control reviewer:</p> <ul style="list-style-type: none">(a) Is not selected by the engagement partner;(b) Does not otherwise participate in the engagement during the period of review;(c) Does not make decisions for the engagement team; and(d) Is not subject to other considerations that would threaten the reviewer's objectivity. <p>Para 71 of SQC 1:</p> <p>The engagement partner may consult the engagement quality control reviewer during the engagement. Such consultation need not compromise the engagement quality control reviewer's eligibility to perform the role. Where the nature and extent of the consultations become significant, however, care is taken by both the engagement team and the reviewer to maintain the reviewer's objectivity. Where this is not possible, another individual within the firm or a suitably qualified external person is appointed to take on the role of either the engagement quality control reviewer or the person to be consulted on the engagement. The firm's policies provide for the replacement of the engagement quality control reviewer</p>
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		<p>where the ability to perform an objective review may be impaired.</p> <p>Para 72 of SQC 1:</p> <p>Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Where the firm contracts suitably qualified external persons, the firm follows the requirements and guidance in paragraphs 69-72.</p>
<p>What is the role of the engagement quality control reviewer?</p>	<p>The engagement quality control reviewer conducts the review in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued.</p> <p>While SA 220 makes a distinction between the Engagement quality control reviewer's review procedures required on listed entities and those required on other entities, it also gives guidance that the matters relevant to evaluating the significant judgments made by the engagement team on a listed entity may also be applicable to the Engagement quality control reviewer's review on the audit of other entities. The same matters are expected to be covered by the Engagement quality control reviewer's review, whether the review is in relation to a listed entity or a non-listed entity.</p> <p>Following is the illustrative list of items to be considered by the Engagement quality control</p>	<p>Para 66 of SQC 1:</p> <p>The engagement quality control reviewer conducts the review in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued.</p> <p>Para 67 of SQC 1:</p> <p>Where the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction, the report is not issued until the matter is resolved by following the firm's procedures for dealing with differences of opinion.</p> <p>Para 19 of SA 220:</p> <p>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, the engagement partner shall:</p>

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	<p>reviewer as part of their review:</p> <ul style="list-style-type: none"> • Independence. • Significant risks. • Matters to be communicated to the management and those charged with governance. • Judgments made. • Consultation on matters involving differences of opinion or other difficult or contentious matters. • Discussion of significant matters. • Financial statements. • Audit report. 	<p>(a) Determine that an engagement quality control reviewer has been appointed;</p> <p>(b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and</p> <p>(c) Not date the auditor's report until the completion of the engagement quality control review. (Ref: Para. A23-A25)</p> <p>Para 20 of SA 220:</p> <p>The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:</p> <p>(a) Discussion of significant matters with the engagement partner;</p> <p>(b) Review of the financial statements and the proposed auditor's report;</p> <p>(c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and</p> <p>(d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26-A28, A30-A32)</p> <p>Para 21 of SA 220:</p> <p>For audits of financial statements of listed entities, the engagement quality control reviewer, on</p>
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		<p>performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none">(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached. (Ref: Para. A29-A32)
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Observation 2

There are no written policies and procedures on record in respect of the firm w.r.t. engagement quality control review as required under SA 220. As stated by the firm, the review is conducted by a senior partner orally and through mails.

Or

Para A24 of SA 220 states that conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report. Further Para A29 of SA 220 provides that matters that may be considered in an engagement quality control review of a listed entity on evaluation of significant judgments include:

- Significant risks identified during the engagement in accordance with SA 315, and the responses to those risks in accordance with SA 330, including the engagement team's assessment of, and response to, the risk of fraud in accordance with SA 240.
- Judgments made, particularly with respect to materiality and significant risks.
- The significance and disposition of corrected and uncorrected misstatements identified during the audit.
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

On review of the work papers of the audit entity, few of the significant judgments made viz., non-provisioning for diminution in value of investments in the summary of uncorrected misstatements had not been highlighted by the Engagement Quality Control Reviewer. Similarly, significant work papers like the 'Tailored Audit Plan', 'Understanding the Entity & its Environment', & standard checklists on Accounting Standards, Revised Schedule VI, CARO work papers, etc. had not been reviewed and signed off by the Engagement Quality Control Reviewer.

Or

The engagement quality control review was completed on or before the date of the auditor's report. No such documentation was maintained and also there was no signature of the engagement quality control reviewer on the documents reviewed by him, hence the requirement of SA 220 is not fulfilled.

What is the issue?	AASB Suggested Guidance	Technical Literature
When the Engagement quality control review should be completed?	SA 700 requires the auditor's report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the	Para 19 of SA 220: For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an

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	<p>auditor's opinion on the financial statements.</p> <p>As per SA 220, Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant matters to be promptly resolved to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.</p> <p>Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements in paragraphs 20-21 of SA 220, and where applicable, compliance with paragraph 22 of SA 220.</p>	<p>engagement quality control review is required, the engagement partner shall:</p> <ul style="list-style-type: none"> (a) Determine that an engagement quality control reviewer has been appointed; (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and (c) Not date the auditor's report until the completion of the engagement quality control review. (Refer Para A23 – A25) <p>Para 25 of SA 220:</p> <p>The engagement quality control reviewer shall document, for the audit engagement reviewed, that:</p> <ul style="list-style-type: none"> (a) The procedures required by the firm's policies on engagement quality control review have been performed; (b) The engagement quality control review has been completed on or before the date of the auditor's report; and (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.
<p>What is the nature, timing and extent of Engagement Quality Control Review?</p>	<p>As per SA 220, conducting the engagement quality control review in a timely manner at appropriate stages during the engagement i.e., planning, risk assessment, execution and conclusion allows significant matters to be promptly resolved to</p>	<p>Para 19 of SA 220:</p> <p>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, the engagement partner</p>

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	<p>the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.</p> <p>The extent of the engagement quality control review may depend, among other things, on the complexity of the audit engagement, whether the entity is a listed entity, and the risk that the auditor's report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner for the audit engagement and its performance.</p> <p>Completion of the engagement quality control review means the completion by the engagement quality control reviewer of the requirements in paragraphs 20-21 of SA 220, and where applicable, compliance with paragraph 22 of SA 220.</p>	<p>shall:</p> <ul style="list-style-type: none"> (a) Determine that an engagement quality control reviewer has been appointed; (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and (c) Not date the auditor's report until the completion of the engagement quality control review. (Refer Para A23 – A25) <p>Para 20 of SA 220:</p> <p>The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:</p> <ul style="list-style-type: none"> (a) Discussion of significant matters with the engagement partner; (b) Review of the financial statements and the proposed auditor's report; (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Refer Para A26 – A28 & A30-A32) <p>Para 21 of SA 220:</p> <p>For audits of financial statements of</p>
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		<p>listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:</p> <ul style="list-style-type: none">(a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;(b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and(c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached. (Ref: Para. A29-A32) <p>Para 22 of SA 220:</p> <p>If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion.</p> <p>Para 23 of SA 220:</p> <p>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, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information</p>
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		<p>circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (Refer Para A33 – A35)</p> <p>Para 24 of SA 220:</p> <p>The auditor shall document:</p> <ul style="list-style-type: none"> (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved. (b) Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions. (c) Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements. (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. (Refer Para A36)
<p>What should be documented by engagement quality control reviewer?</p>	<p>The engagement quality control reviewer should document, for the audit engagement reviewed, that:</p> <ul style="list-style-type: none"> (a) The procedures required by the firm’s policies on engagement quality control review have been performed; (b) The engagement quality control review has been completed on or before the date of the auditor’s report; and (c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments 	<p>Para 19 of SA 220:</p> <p>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, the engagement partner shall:</p> <ul style="list-style-type: none"> (a) Determine that an engagement quality control reviewer has been appointed; (b) Discuss significant matters arising during the audit engagement, including those identified during the

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	<p>the engagement team made and the conclusions they reached were not appropriate.</p>	<p>engagement quality control review, with the engagement quality control reviewer; and</p> <p>(c) Not date the auditor's report until the completion of the engagement quality control review. (Refer Para A23 – A25)</p> <p>Para 25 of SA 220:</p> <p>The engagement quality control reviewer shall document, for the audit engagement reviewed, that:</p> <p>(a) The procedures required by the firm's policies on engagement quality control review have been performed;</p> <p>(b) The engagement quality control review has been completed on or before the date of the auditor's report; and</p> <p>(c) The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.</p>
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Observation 3

The audit planning and audit program to ensure the compliance of ASs and SAs are not adequately covering all the requirements of ASs and SAs. It was noted that the firm has not developed detailed standard checklist for Accounting Standards and for Standards on Auditing which could ensure total compliance of these SAs and ASs.

Or

Requirement of SA 230:

Para 8: The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- a. The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
- b. The results of the audit procedures performed, and the audit evidence obtained; and
- c. Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Deficiencies:

Incomplete / inadequate and incorrect information in the audit checklists in support of audit procedure performed for verification of the compliances of the Companies Act, 2013, Indian Accounting Standards and Auditing, Review and other Standards, as applicable on the Company. Therefore, how the compliances of the same was ensured by the firm could not be established.

What is the issue?	AASB Suggested Guidance	Technical Literature
Which policies and procedures should be established to cover all the requirements of SAs and ASs?	<p>As per SQC 1, the firm should establish policies to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements.</p> <p>Further, as per SA 230, the auditor is required to document the nature, timing and extent of audit procedures performed to comply with SAs and applicable legal and regulatory requirements.</p>	<p>Para 2 of SA 220:</p> <p>Quality control systems, policies and procedures are the responsibility of the audit firm. Under SQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:</p> <ol style="list-style-type: none"> (a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and (b) The reports issued by the firm or engagement partners are appropriate in

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		<p>the circumstances. This SA is premised on the basis that the firm is subject to SQC 1. (Refer Para. A1)</p>
<p>What are the nature and purpose of documentation?</p>	<p>As per SA 230, the objective of the audit firm should be to prepare documentation that provides:</p> <p>(a) A sufficient and appropriate record of the basis for the auditor's report; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Therefore, the audit firm should keep record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.</p> <p>This will help to enhance the quality of the audit and facilitate the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized.</p> <p>Documentation prepared after performing the audit work is likely to be less accurate than documentation prepared at the time of performing such work.</p>	<p>Para 2 of SA 230:</p> <p>Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides:</p> <p>(a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Para 3 of SA 230:</p> <p>Audit documentation serves a number of additional purposes, including the following:</p> <ul style="list-style-type: none"> • 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

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		<p>inspections in accordance with SQC 1.</p> <ul style="list-style-type: none"> • Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements. <p>Para 5 of SA 230:</p> <p>The objective of the auditor is to prepare documentation that provides:</p> <p>(a) A sufficient and appropriate record of the basis for the auditor's report; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Para 7 of SA 230:</p> <p>The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)</p>
<p>What are the factors on which form, content and extent of audit documentation depends?</p>	<p>The form, content and extent of audit documentation depend on various factors such as:</p> <ul style="list-style-type: none"> • 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 	<p>Para 8 of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Refer Para A2 – A5, A16-A17)</p> <p>(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Refer Para A6 – A7)</p> <p>(b) The results of the audit procedures performed, and the audit evidence</p>

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	<p>documentation of the work performed or audit evidence obtained.</p> <ul style="list-style-type: none"> • The audit methodology and tools used. <p>Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include:</p> <ul style="list-style-type: none"> • Audit programmes. • Analyses. • Issues memoranda. • Summaries of significant matters. • Letters of confirmation and representation. • Checklists. • Correspondence (including e-mail) concerning significant matters. • Enquiry with management. • Abstracts or copies of the entity's records (for example, significant and specific contracts and agreements). Audit documentation, however, is not a substitute for the entity's accounting records. <p>Oral explanations by the audit firm, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached.</p> <p>The documentation is not limited to records prepared by the audit firm but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and</p>	<p>obtained; and</p> <p>(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Refer Para A8 – A11)</p> <p>Para 9 of SA 230:</p> <p>In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:</p> <p>(a) The identifying characteristics of the specific items or matters tested; (Refer Para A12)</p> <p>(b) Who performed the audit work and the date such work was completed; and</p> <p>(c) Who reviewed the audit work performed and the date and extent of such review. (Refer Para A13)</p> <p>Para 10 of SA 230:</p> <p>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (Refer Para A14)</p> <p>Para 11 of SA 230:</p> <p>If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.</p>
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	<p>external parties, such as persons providing professional advice to the entity.</p> <p>SA 220 requires the audit firm should review the audit work performed. The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.</p>	<p>(Refer Para A15)</p>
<p>What is the procedure for assembly of final audit file?</p>	<p>As per 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.</p> <p>The audit workpapers should be sorted, collated and cross referenced properly to enable the better assessment of workpapers for the reviewer.</p> <p>After the assembly of the final audit file has been completed, the audit firm should not delete or discard audit documentation of any nature before the end of its retention period which is ordinarily not shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.</p>	<p>Para 14 of SA 230:</p> <p>The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. (Refer Para A21-A22 of SA 230)</p> <p>Para 15 of SA 230:</p> <p>After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.(Refer Para A23 of SA 230)</p> <p>Para 16 of SA 230:</p> <p>In circumstances other than those envisaged in paragraph 13 where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of</p>

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		<p>the modifications or additions, document: (Refer Para A24-A25)</p> <ul style="list-style-type: none">(a) The specific reasons for making them; and(b) When and by whom they were made and reviewed.
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Chapter 5

Observations related to SA 230, Audit Documentation

Observation 1

Non-compliance of SA 230 in respect of not documenting discussions of significant matters with management, those charged with governance, and others, including the nature of significant matters discussed and when and with whom the discussions took place.

Or

Non-compliance of SA 230 for not providing for interest on its loans to one of its subsidiaries and the same was not discussed in the note to Audit Committee by the Audit Firm.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why it is necessary for the auditor to document discussions of significant matters with management, those charged with governance, and others, including nature of the significant matters discussed and when and with whom the discussions took place?</p> <p>Why should the auditor document significant matters pertaining to transactions between Holding and Subsidiary Companies for the purpose of review by the Audit Committee?</p>	<p>The auditor should document significant matters arising during the audit, conclusion drawn thereon and significant professional judgments made in reaching those conclusions in such a way so as to enable an experienced auditor (another auditor) having no previous connection with the audit to understand the basis of the conclusion reached.</p> <p>The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed to by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.</p>	<p>Para 8(c) of SA 230:</p> <p>The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para.A2-A5, A16-A17)</p> <p>(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para A8-A11)</p> <p>Para 10 of SA 230:</p> <p>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (Ref: Para. A14)</p>

Observation 2

Non-compliance of SA 230 that adequate documentation is not maintained to confirm non-diminution in the value of investments in wholly owned subsidiary (WOS).

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why should adequate audit documentation be maintained to confirm non-diminution in the value of Investments in Wholly Owned Subsidiary (WOS)?</p>	<p>The auditor should document significant matters arising during the audit, conclusion drawn thereon, and significant professional judgments made in reaching those conclusions in such a way so as to enable an experienced auditor (another auditor) having no previous connection with the audit to understand the basis of the conclusion reached.</p>	<p>Para 2 of SA 230:</p> <p>Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides:</p> <p>(a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Para 3 of SA 230:</p> <p>Audit documentation serves a number of additional purposes, including the following:</p> <ul style="list-style-type: none"> • 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

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What is the issue?	AASB Suggested Guidance	Technical Literature
		control reviews and inspections in accordance with SQC 1. <ul style="list-style-type: none">• Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements. Also refer Para A3 of SA 230

Observation 3

(1): The firm has not documented the audit procedures performed during the course of audit for identifying and assessing the risk of material misstatement (SA 315).

(2): Proper documentation was not kept on record in respect of working papers and observations made during the course of audit (SA 220).

(3): On reviewing the documentation on hand with the firm, the firm has not kept the documentation as required under SA 230.

(4): The firm has not documented the audit procedures performed during the course of audit as required under SA 330.

(5): The statutory auditor has given in Para (ix)(a) of annexure to the Auditors' Report that "During the year, the Company was not required to deposit any dues in respect of wealth Tax". For drawing such conclusion, the firm has not documented the computation of wealth tax. Further, the auditors need to give comments through annexure to auditors' report but not opinion. In this case, the firm has mentioned that "During the year, the Company was not required to deposit any dues in respect of Wealth Tax". By mentioning this, it would result in giving of judgement instead of giving of comment (SA 200).

Or

Following short comings have been observed during course of review of records of the firm:

- (i) In audit working papers of the staff, the name of the audit staff and date of work performed are not mentioned.
- (ii) In many of these working papers there is no indication of review of audit work, date & extent of such review.
- (iii) In respect of some of audit observations there is no evidence of follow up management discussion and conclusion of such observations.

Or

The firm has not complied with requirements of Guidance Note on CARO according to which auditor needs to comply with the requirements of SA 230, "Audit Documentation" and have not prepared checklist, questionnaire or documented inquires and explanations obtained from the management.

Or

The system of filling of records and audit working papers were not satisfactory at all. There was no chronological order or any proper index in which the papers were kept and maintained.

What is the issue?	AASB Suggested Guidance	Technical Literature
What are the nature and	As per SA 230, the objective of the audit firm should be to prepare documentation	Para 2 of SA 230:

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<p>purpose of audit documentation?</p>	<p>that provides:</p> <p>(a) A sufficient and appropriate record of the basis for the auditor’s report; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Therefore, the audit firm should keep record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.</p> <p>This will help to enhance the quality of the audit and facilitate the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor’s report is finalised.</p> <p>Documentation prepared after performing the audit work is likely to be less accurate than documentation prepared at the time of performing such work.</p>	<p>Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides:</p> <p>(a) Evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Para 3 of SA 230:</p> <p>Audit documentation serves a number of additional purposes, including the following:</p> <ul style="list-style-type: none"> • 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
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		<p>with SQC 1.</p> <ul style="list-style-type: none"> • Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements. <p>Para 5 of SA 230:</p> <p>The objective of the auditor is to prepare documentation that provides:</p> <ul style="list-style-type: none"> (a) A sufficient and appropriate record of the basis for the auditor's report; and (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. <p>Para 7 of SA 230:</p> <p>The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)</p>
<p>Whether documentation is necessary for every standard on auditing?</p>	<p>As per SA 230, compliance with the requirements of SA 230 will result in the audit documentation being sufficient and appropriate in the circumstances. However, other SAs contain specific documentation requirements that are intended to clarify the application of this SA in the particular circumstances of those SAs. The specific documentation requirements of other SAs do not limit the application of this SA. Furthermore, in the absence of a documentation requirement in any particular SA, the audit firm should not intend that there is no documentation that will be prepared as a result of complying with that SA.</p>	<p>Para 8(a) of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16- A17)</p> <ul style="list-style-type: none"> (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Ref: Para.A6-A7)

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<p>What are the factors on which form, content and extent of audit documentation depends?</p>	<p>The form, content and extent of audit documentation depend on various factors such as:</p> <ul style="list-style-type: none"> • 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. <p>Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include:</p> <ul style="list-style-type: none"> • Audit programmes. • Analyses. • Issues memoranda. • Summaries of significant matters. • Letters of confirmation and representation. • Checklists. • Correspondence (including e-mail) concerning significant matters. • Enquiry with management. • Abstracts or copies of the entity's records (for example, significant and specific contracts and agreements). Audit documentation, however, is not a substitute for the entity's 	<p>Para 8 of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16- A17)</p> <ul style="list-style-type: none"> (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7) (b) The results of the audit procedures performed, and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8- A11) <p>Para 9 of SA 230:</p> <p>In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:</p> <ul style="list-style-type: none"> (a) The identifying characteristics of the specific items or matters tested;(Ref: Para. A12) (b) Who performed the audit work and the date such work was completed; and (c) Who reviewed the audit
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	<p>accounting records.</p> <p>Oral explanations by the audit firm, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached.</p> <p>The documentation is not limited to records prepared by the audit firm but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.</p> <p>SA 220 requires the audit firm should review the audit work performed. The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.</p>	<p>work performed and the date and extent of such review. (Ref: Para. A13)</p> <p>Para 10 of SA 230:</p> <p>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (Ref: Para A14)</p> <p>Para 11 of SA 230:</p> <p>If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency. (Ref: Para A15)</p>
<p>Which policies and procedures should be established to cover all the requirements of SAs and ASs?</p>	<p>As per SQC 1, the firm should establish policies to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements.</p> <p>Further, as per SA 230, the auditor is required to document the nature, timing and extent of audit procedures performed to comply with SAs and applicable legal and regulatory requirements.</p>	<p>Para 2 of SA 220:</p> <p>Quality control systems, policies and procedures are the responsibility of the auditor. Under SQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:</p> <p>(a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and</p>

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		<p>(b) The reports issued by the firm or engagement partners are appropriate in the circumstances.</p> <p>This SA is premised on the basis that the firm is subject to SQC 1. (Ref. Para. A1)</p>
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Observation 4

Para 18 of SA 330 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure, irrespective of the assessed risks of material misstatement.

As per Para A43 of SA 330: Depending on the circumstances, the auditor may determine that (a) performing only substantive analytical procedures will be sufficient to reduce audit risk to an acceptably low level, (b) only tests of details are appropriate, and (c) a combination of substantive analytical procedures and tests of details are most responsive to the assessed risks.

The Audit firm had taken reasonable care in identifying and assessing the risks of material misstatement, conducting test of controls and other substantive audit procedures, however, few lapses noted during the course of the review are enumerated below: -

- While conducting the test of controls, test of details for the journal entries, most of the entries on the dates beginning at each of the months had been selected for verification, the sample did not cover the other dates as well.
- Related party transactions being substantial to the entity's operation; no separate sampling procedure had been obtained to select such transactions (especially in the case of audit of purchase transactions).
- In the audit process of deletion of fixed assets, evidence of verification of removal of the asset through gate registers were not available.

What is the issue?	AASB Suggested Guidance	Technical Literature
How sample should be selected?	<p>The sample should be selected in such a way that each sampling unit in the population has a chance of being selected. The sample size can be determined by the application of a statistically based formula or through the exercise of professional judgment.</p> <p>There are many methods of selecting samples. The principal methods are as follows:</p> <p>(a) Random selection (applied through random number generators, for example, random number tables).</p> <p>(b) Systematic selection, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for</p>	<p>Para 8 of SA 530:</p> <p>The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. (Ref: Para. A12-A13 and Appendix 4)</p>

	<p>example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerised random number generator or random number tables.</p> <p>When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.</p> <p>(c) Monetary Unit Sampling is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.</p> <p>(d) Haphazard selection, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.</p> <p>(e) Block selection involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such</p>	
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	<p>that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances, it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.</p>	
<p>How to evaluate the results of audit sampling?</p>	<p>When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.</p> <p>In such cases, the auditor should:</p> <ol style="list-style-type: none"> (1) Request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or (2) Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures. 	<p>Para 15 of SA 530:</p> <p>The auditor shall evaluate:</p> <ol style="list-style-type: none"> (a) The results of the sample; and (Ref: Para. A21-A22) (b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. (Ref: Para. A23)
<p>What are the nature and purpose of audit documentation?</p>	<p>As per SA 230, the objective of the auditor is to prepare documentation that provides:</p> <ol style="list-style-type: none"> (a) A sufficient and appropriate record of the basis for the auditor's report; and (b) Evidence that the audit was 	<p>Para 2 of SA 230:</p> <p>Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides:</p> <ol style="list-style-type: none"> (a) Evidence of the auditor's

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	<p>planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Therefore, the audit firm should keep record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.</p> <p>This will help to enhance the quality of the audit and facilitate the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised.</p> <p>Documentation prepared after performing the audit work is likely to be less accurate than documentation prepared at the time of performing such work.</p>	<p>basis for a conclusion about the achievement of the overall objectives of the auditor; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Para 3 of SA 230:</p> <p>Audit documentation serves a number of additional purposes, including the following:</p> <ul style="list-style-type: none"> • 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 1. • Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements. <p>Para 5 of SA 230:</p> <p>The objective of the auditor is to prepare documentation that provides:</p>
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		<p>(a) A sufficient and appropriate record of the basis for the auditor's report; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Para 7 of SA 230:</p> <p>The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)</p>
<p>What are the factors on which form, content and extent of audit documentation depends?</p>	<p>The form, content and extent of audit documentation depend on various factors such as:</p> <ul style="list-style-type: none"> • 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. <p>Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include:</p> <ul style="list-style-type: none"> • Audit programmes. • Analyses. 	<p>Para 8 of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-A17)</p> <p>(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7)</p> <p>(b) The results of the audit procedures performed, and the audit evidence obtained; and</p> <p>(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11)</p> <p>Para 9 of SA 230:</p> <p>In documenting the nature, timing and extent of audit</p>

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	<ul style="list-style-type: none"> • Issues memoranda. • Summaries of significant matters. • Letters of confirmation and representation. • Checklists. • Correspondence (including e-mail) concerning significant matters. • Enquiry with management. • Abstracts or copies of the entity's records (for example, significant and specific contracts and agreements). <p>Audit documentation, however, is not a substitute for the entity's accounting records.</p> <p>Oral explanations by the audit firm, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached.</p> <p>The documentation is not limited to records prepared by the audit firm but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.</p> <p>SA 220 requires the audit firm should review the audit work performed. The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.</p>	<p>procedures performed, the auditor shall record:</p> <p>(a) The identifying characteristics of the specific items or matters tested; (Ref: Para. A12)</p> <p>(b) Who performed the audit work and the date such work was completed; and</p> <p>(c) Who reviewed the audit work performed and the date and extent of such review. (Ref: Para. A13)</p> <p>Para 10 of SA 230:</p> <p>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (Ref: Para. A14)</p> <p>Para 11 of SA 230:</p> <p>If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency. (Ref: Para. A15)</p>
<p>What is the procedure for</p>	<p>The audit firm should assemble the audit documentation in an audit file and</p>	<p>Para 14 of SA 230:</p>

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<p>assembly of final audit file?</p>	<p>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.</p> <p>After the assembly of the final audit file has been completed, the audit firm should not delete or discard audit documentation of any nature before the end of its retention period which is ordinarily not shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.</p>	<p>The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. (Ref. Para A21-A22)</p> <p>Para 15 of SA 230:</p> <p>After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period. (Ref: Para. A23)</p> <p>Para 16 of SA 230:</p> <p>In circumstances other than those envisaged in paragraph 13 where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document: (Ref: Para. A24-A25)</p> <p>(a) The specific reasons for making them; and</p> <p>(b) When and by whom they were made and reviewed.</p>
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Observation 5

As per Para 8(c) read with Para A8 to A11 of SA 230, the auditor needs to record significant matters arising under the Audit, the conclusions reached thereon, and significant professional judgements considered.

The issue is with reference to joint discussion on Audit issues upon finalization. Although the Audit programme on finalization covers this aspect but no documentation of the discussion is found on record.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What documentation should an auditor prepare for significant matters?</p>	<p>An auditor shall document the following, to the extent applicable:</p> <ul style="list-style-type: none"> • Description of the matter. • Background facts and circumstances. • Evidence obtained, including supporting and contradictory evidence, including reference to other more detailed documentation on file as appropriate. • Technical reference and analysis, including implications of the matter. • Results of consultations with others and, if applicable, any significant alternative views or positions that were discussed and the rationale for rejecting them. • Record of discussion with management and others, including when and with whom the matter was discussed. • Final conclusions reached, basis thereof and significant professional judgments made in reaching the conclusions, including how any significant information or evidence obtained, that contradicts or is 	<p>Para 8 of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16- A17)</p> <p>(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7)</p> <p>(b) The results of the audit procedures performed, and the audit evidence obtained; and</p> <p>(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8- A11)</p> <p>Para 10 of SA 230:</p> <p>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and</p>

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	<p>inconsistent with auditor’s final conclusion has been addressed.</p> <ul style="list-style-type: none"> • Review by the team manager, engagement partner and quality review partner (if assigned) prior to the date of the audit report. 	<p>when and with whom the discussions took place. (Ref: Para. A14)</p> <p>Para 11 of SA 230:</p> <p>If the auditor identified information that is inconsistent with the auditor’s final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency. (Ref: Para. A15)</p>
<p>What is a significant matter?</p>	<p>What is a significant matter is not clearly defined in Standards on Auditing (SAs) and therefore what amounts to significant matter while conducting audit engagement is left over the auditor to decide by exercising his professional judgement.</p> <p>A significant matter is a finding or issue that in an auditor’s judgment is significant to the procedures performed, evidence obtained, or conclusions reached. Significant matters either are, or could be, important to auditor’s opinion or to the support for auditor’s opinion. They require consideration by the team manager and review and sign-off by the engagement partner, and frequently also require appropriate consultation. Significant matters require appropriate documentation and resolution by the engagement team and timely review by the engagement partner and quality review partner (if assigned).</p> <p>Examples of significant matters include:</p> <ul style="list-style-type: none"> • Matters that give rise to significant risks (as defined in SA 315). • Results of audit procedures indicating that the financial 	<p>Para 8(c) of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-A17)</p> <p>(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8- A11)</p>

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	<p>statements could be materially misstated, where judgment is involved.</p> <ul style="list-style-type: none">• New significant risks of material misstatement assessed after the risk assessment performed for planning purposes, and the auditor's responses to those risks.• Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.• Findings that could result in a modification to the auditor's opinion or the inclusion of an emphasis of matter paragraph in the auditor's report.	
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Observation 6

As per Para 9(b) & 9(c) of SA 230, the details of the persons who performed the audit work and the date of such work completed and the persons who reviewed the work to be noted.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What should an auditor record as part of the documentation of review of audit work?</p>	<p>An audit engagement team documents in their working papers, the nature, timing and extent of their review of the audit engagement team's work.</p> <p>In applying SA 230, the audit engagement team documents details of their review sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the procedures performed by the audit engagement team, the results of those procedures, and any significant matters arising from them. The audit engagement team's documentation of their review generally includes a description of:</p> <ul style="list-style-type: none"> • What was reviewed (e.g., an entire financial Statement Line Item, a specific work paper, or documentation relating to a specific risk). • Why the Financial Statement Line Item, work-paper, or risk was selected for review (e.g. because it relates to a significant or elevated risk, or the work-paper relates to a required procedure). • Who performed the review and the date of their 	<p>Para 8 of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-17)</p> <ul style="list-style-type: none"> (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7) (b) The results of the audit procedures performed, and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11) <p>Para 9 of SA 230:</p> <p>In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:</p> <ul style="list-style-type: none"> (a) The identifying characteristics of the specific items or matters tested; (Ref: Para. A12) (b) Who performed the audit work and the date such work was completed; and (c) Who reviewed the audit work performed and the date and

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	<p>review?</p> <ul style="list-style-type: none">• Discussions held as part of the review.• A description of the nature, timing, and extent of procedures performed by the audit engagement team.• A description of the evidence obtained by the audit engagement team.• Whether the audit engagement team reviewer agrees with the conclusions reached by the audit engagement team.	<p>extent of such review. (Ref: Para. A13)</p>
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Observation 7

Requirement of SA 230:

Para 14: The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

Deficiencies:

The firm has a computerized software for documentation of their audit files / working papers namely 'Engagement Management System (EMS)' and all the documents and working papers of the audit conducted by the firm are maintained and signed off by the respective team members electronically therein.

It is observed that the creation and signing off of the documents in the EMS are not on real time basis, and as such when these documents were initiated / prepared and signed off could not be known and commented.

As such, it is not possible to comment on the authenticity of the mentioned dates particularly of the 'sign off i.e. the final closure / signing off the document' in the EMS as EMS has not updated the date of further updation / sign-off in the said workpaper, therefore any update made post archival also might be not recorded by the EMS and could not be known / identified with the timely archival post completion of the audit.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What are the requirements in relation to preparation and signing-off of audit documentation?</p> <p>What are the requirements in relation to integrity of audit documentation?</p>	<p>An audit firm should design and implement appropriate controls for engagement documentation to:</p> <p>(a) Enable the determination of when and by whom engagement documentation was created, changed or reviewed.</p> <p>(b) Protect the integrity of the information at all stages of the engagement.</p> <p>(c) Prevent unauthorized changes to the engagement documentation.</p>	<p>Para 77 of SQC 1:</p> <p>The firm should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.</p> <p>Para 79 of SQC 1:</p> <p>Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged. Accordingly, the firm designs and implements appropriate controls for</p>

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		<p>engagement documentation to:</p> <ul style="list-style-type: none"> (a) Enable the determination of when and by whom engagement documentation was created, changed or reviewed; (b) Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet; (c) Prevent unauthorized changes to the engagement documentation; and (d) Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities. <p>Para 80 of SQC 1:</p> <p>Controls that the firm may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include, for example:</p> <ul style="list-style-type: none"> • The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users. • Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement. • Procedures for properly distributing engagement documentation to the team members at the start of engagement, processing it
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		<p>during engagement, and collating it at the end of engagement.</p> <ul style="list-style-type: none">• Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation. <p>Para 81 of SQC 1:</p> <p>For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:</p> <ul style="list-style-type: none">(a) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;(b) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and(c) Enable the scanned copies to be retrieved and printed as necessary. <p>The firm considers whether to retain original paper documentation that has been scanned for legal, regulatory or other reasons.</p>
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Observation 8

In one of the Subsidiary, Independent Auditor in his audit report given para on “Material Uncertainty related to Going Concern” as follows:

'We draw attention to Note No. 13 in the Ind AS financial statements which indicate that the Company has accumulated losses, and its net worth has been fully eroded, the Company has incurred a net cash loss during the current and previous year, the Company's current liabilities exceeded its current assets as at the balance sheet date. These conditions, along with other matters set forth in Note 13, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

In the Independent Auditor's Report on Consolidated Ind AS Financial Statements prepared as per Ind AS 110, the said matter of emphasis has not been included. It has been explained that the said subsidiary is having insignificant impact in the group, accordingly, their said emphasis has not been repeated.

The facts shall be supported by documentary evidence in the working paper files as required under SA 230.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What is the purpose of maintaining audit documentation?</p>	<p>As per Para 3 of SA 230, the benefits of maintaining audit documentation include:</p> <p>Evidence of the Auditor's Basis for a Conclusion:</p> <p>Audit documentation provides evidence that the audit was conducted in accordance with the applicable auditing standards and other legal and regulatory requirements.</p> <p>It helps in demonstrating that the audit firm has obtained sufficient and appropriate audit evidence to support the audit opinion.</p> <p>Facilitation of Supervision and Review:</p> <p>Clear and comprehensive audit documentation facilitates supervision and review by senior members of the audit team or external reviewers. It enables those reviewing the work to understand the nature, timing, and</p>	<p>Para 2 of SA 230:</p> <p>Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides:</p> <p>(a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Para 3 of SA 230:</p> <p>Audit documentation serves a number of additional purposes, including the following:</p> <ul style="list-style-type: none"> • Assisting the engagement team to plan and perform the

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	<p>extent of audit procedures performed and the results obtained.</p> <p>Support for Compliance with Auditing Standards:</p> <p>Audit documentation serves as a tool to ensure compliance with auditing standards. It provides a record of the procedures performed and the conclusions reached during the audit.</p> <p>Assistance in Planning and Performing Future Audits:</p> <p>Well-documented audit files can assist in planning and performing future audits by providing insights into the client's business, significant transactions, and areas of audit focus.</p>	<p>audit.</p> <ul style="list-style-type: none"> • 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 1. • Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.
<p>What is the objective of SA 230?</p>	<p>The main objective of SA 230 is to establish principles and provide guidance to audit firms on the documentation of audit procedures performed, audit evidence obtained, and conclusions reached during the audit engagement.</p> <p>The standard emphasizes the importance of creating and retaining audit documentation that is sufficient and appropriate to support the auditor's report and demonstrate compliance with auditing standards. Proper documentation helps in providing a clear record of the audit work performed, facilitates the supervision and review of the audit, and enables effective communication among engagement team members. Overall, SA 230 aims to enhance the quality and transparency of audit</p>	<p>Para 5 of SA 230:</p> <p>The objective of the auditor is to prepare documentation that provides:</p> <ul style="list-style-type: none"> (a) A sufficient and appropriate record of the basis for the auditor's report; and (b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

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	documentation, ensuring that it is robust, complete, and facilitates accountability in the audit process.	
What are the timelines for the preparation of audit documentation?	An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.	<p>Para 14 of SA 230:</p> <p>The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. (Ref: Para A21-A22)</p>
How to determine that audit documentation is appropriate?	The audit firm must ensure that the audit documentation is sufficient and appropriate to support the audit opinion. This involves documenting the nature, timing, and extent of audit procedures performed, as well as the results and evidence obtained. The appropriateness of audit documentation is determined by its relevance and reliability, ensuring it provides a clear trail of the audit work performed and supports the audit firm's conclusions. The documentation should be organized, detailed, and should enable a knowledgeable and experienced auditor to understand the work performed, evidence obtained, and conclusions reached. Regular review and updating of documentation throughout the audit process are essential to maintain its relevance and completeness, meeting the requirements of SA 230.	<p>Para 8 of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-17)</p> <p>(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7)</p> <p>(b) The results of the audit procedures performed, and the audit evidence obtained; and</p> <p>(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11)</p> <p>Para 6(c) of SA 230: Experienced auditor – An individual (whether internal or external to the firm) who has</p>

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		<p>practical audit experience, and a reasonable understanding of:</p> <ul style="list-style-type: none"> (i) Audit processes; (ii) SAs and applicable legal and regulatory requirements; (iii) The business environment in which the entity operates; and (iv) Auditing and financial reporting issues relevant to the entity's industry.
<p>What information audit documentation should contain?</p>	<p>As per para 8, 9, 10 and 11 of SA 230, in addition to mandatory documentation as per standards on auditing, following things shall be documented:</p> <ul style="list-style-type: none"> • nature, timing and extent of audit procedures performed. • discussions of significant matters with management, those charged with governance, and others. • final conclusion regarding a significant matter and how it is addressed. 	<p>Para 8 of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16- A17)</p> <ul style="list-style-type: none"> (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7) (b) The results of the audit procedures performed, and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11) <p>Para 9 of SA 230:</p> <p>In documenting the nature, timing and extent of audit procedures performed, the</p>

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		<p>auditor shall record:</p> <ul style="list-style-type: none"> (a) The identifying characteristics of the specific items or matters tested; (Ref: Para. A12) (b) Who performed the audit work and the date such work was completed; and (c) Who reviewed the audit work performed and the date and extent of such review. (Ref: Para. A13) <p>Para 10 of SA 230:</p> <p>The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (Ref: Para. A14)</p> <p>Para 11 of SA 230:</p> <p>If the auditor identified information that is inconsistent with the auditor’s final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency. (Ref: Para. A15)</p>
<p>How to ensure that the documentation done is complete in all aspects?</p>	<p>SA 230 requires audit firm to prepare audit documentation that is sufficient and appropriate to enable an experienced auditor to understand the nature, timing, and extent of audit procedures performed, the results of those procedures, and the audit evidence obtained.</p>	<p>Para 8 of SA 230:</p> <p>The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16- A17)</p> <ul style="list-style-type: none"> (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and

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		<p>applicable legal and regulatory requirements; (Ref: Para. A6-A7)</p> <p>(b) The results of the audit procedures performed, and the audit evidence obtained; and</p> <p>(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11)</p> <p>Para 6(c) of SA 230: Experienced auditor – An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:</p> <p>(i) Audit processes;</p> <p>(ii) SAs and applicable legal and regulatory requirements;</p> <p>(iii) The business environment in which the entity operates; and</p> <p>(iv) Auditing and financial reporting issues relevant to the entity's industry.</p>
<p>Can audit documentation be retained electronically?</p>	<p>Audit documentation can be retained electronically, provided that the electronic documents are secure, reliable, and accessible for the required retention period. Adequate controls should be in place to ensure the integrity and confidentiality of electronic documents.</p>	<p>Para A3 of SA 230: Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include:</p> <ul style="list-style-type: none"> • Audit programmes. • Analyses. • Issues memoranda. • Summaries of significant

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		<p>matters.</p> <ul style="list-style-type: none"> • Letters of confirmation and representation. • Checklists. • Correspondence (including e-mail) concerning significant matters. <p>The auditor may include abstracts or copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation. Audit documentation, however, is not a substitute for the entity's accounting records.</p>
<p>What are the key requirements of SA 230 concerning document retention?</p>	<p>SA 230 requires audit firm to prepare audit documentation that is sufficient and appropriate to enable an experienced auditor to understand the nature, timing, and extent of audit procedures performed, the results of those procedures, and the audit evidence obtained. This documentation must be retained for a specific period, typically not less than seven years from the date of the audit report.</p>	<p>Para 15 of SA 230:</p> <p>After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period. (Ref: Para A23)</p>

Chapter 6

Observations related to SA 250, Consideration of Laws and Regulations in an Audit of Financial Statements

Observation 1

Non-compliance of SA 250 for not obtaining sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements.

Or

The audit firm has to mandatorily comply with the requirements of standard on auditing and where departures are made, should document such circumstances and perform alternative procedures in accordance with the requirements of the standards.

Or

SA 250: Note No. 19: Other Expenses - Repairs & Maintenance

As per clause (vi) of General Instructions for preparation of Statement of Profit and Loss, the expenditure incurred on Repairs should be disclosed separately for each item in respect of following:

- Repairs to buildings
- Repairs to machinery

Disclosure of Repairs & Maintenance is not in accordance with requirements of Revised Schedule VI under Companies Act.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What are the responsibilities of an audit firm in relation to SA 250?</p>	<p>As per SA 250, it is the responsibility of management, with the oversight of those charged with governance, to ensure compliance by the entity with the applicable laws and regulations.</p> <p>As per SA 250, the audit firm's responsibility is to consider the effect of laws and regulations on the financial statements and accordingly design the audit procedures. However, the audit firm is not responsible for preventing / detecting non-compliance of all laws and</p>	<p>Para 4 of SA 250:</p> <p>The requirements in this SA are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.</p>

	<p>regulations.</p> <p>SA 250 categorizes the various laws and regulations into two broad categories as under:</p> <ul style="list-style-type: none"> • Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. • Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but non-compliance with them may have a material effect on the financial statements. 	<p>Para 6 of SA 250:</p> <p>This SA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:</p> <p>(a) 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 such as tax and labour laws. (see paragraph 13); and</p> <p>(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements (see paragraph 14).</p> <p>Para 8 of SA 250:</p> <p>The auditor is required by this SA to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances</p>
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		<p>of identified or suspected non-compliance to the auditor's attention. Maintaining professional skepticism throughout the audit, as required by SA 200, is important in this context, given the extent of laws and regulations that affect the entity.</p>
<p>What should be the key objectives of the audit firm as per SA 250?</p>	<p>As per SA 250, the key objectives of the audit firm include:</p> <p>Identifying Laws and Regulations:</p> <p>The audit firm should identify the laws and regulations that are relevant to the entity and its financial statements. This includes understanding the legal and regulatory framework applicable to the entity's activities.</p> <p>Assessing the Impact of Identified Laws and Regulations:</p> <p>Once the audit firm has identified the relevant laws and regulations, they should assess their potential impact on the financial statements. This involves determining whether non-compliance with such laws and regulations can have a material effect on the financial statements.</p> <p>Responding to Assessed Risks:</p> <p>The audit firm is required to respond to the assessed risks of material misstatement due to non-compliance with laws and regulations. This involves designing and performing audit procedures to address the risks, which may include obtaining sufficient appropriate audit evidence regarding compliance.</p> <p>Reporting:</p> <p>The audit firm should communicate any identified or suspected non-compliance with laws and regulations to the appropriate level of management on a timely basis, and also report to those charged with governance, unless the non-</p>	<p>Para 10 of SA 250:</p> <p>The objectives of the auditor are:</p> <p>(a) To obtain 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;</p> <p>(b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and</p> <p>(c) To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.</p>

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	<p>compliance is clearly inconsequential.</p> <p>Documentation:</p> <p>The audit firm is required to document the procedures performed, the results of those procedures and the audit firm's conclusion regarding the identified or suspected non-compliance. Documentation is crucial for providing evidence of the work performed and the basis for the audit firm's conclusion.</p>	
<p>How an audit firm should obtain the understanding of an entity for the purpose of compliance with SA 250?</p>	<p>As per para 12 of SA 250, the Audit firm should obtain a general understanding of the legal and regulatory framework relevant to the entity and its industry. This includes knowledge of laws and regulations that directly affect the financial statements, as well as those that may have an indirect impact on the financial statements.</p>	<p>Para 12 of SA 250:</p> <p>As part of obtaining an understanding of the entity and its environment in accordance with SA 315, the auditor shall obtain a general understanding of:</p> <ul style="list-style-type: none"> (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and (b) How the entity is complying with that framework. (Ref: Para. A7)
<p>What are key requirements of SA 250 when it comes to compliance with laws and regulations?</p>	<p>SA 250 distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations mentioned in para 6 of SA 250.</p> <p>SA 250 provides different audit requirements for each of these two categories of laws and regulations.</p>	<p>Para 13 of SA 250:</p> <p>The auditor shall obtain 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. (Ref: Para. A8)</p> <p>Para 14 of SA 250:</p> <p>The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial</p>

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		<p>statements:</p> <p>(a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and</p> <p>(b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities. (Ref: Para. A9-A10)</p> <p>Para 15 of SA 250:</p> <p>During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (Ref: Para. A11)</p>
<p>What steps should be taken by audit firm if it suspects that there may be non-compliance with Laws and Regulations?</p>	<p>The audit firm can take following steps, if it suspects non-compliance with any laws / regulations:</p> <p>Understand the Legal and Regulatory Framework:</p> <p>Obtain a thorough understanding of the relevant legal and regulatory framework applicable to the entity being audited. This involves identifying and understanding the key laws and regulations that could have a significant impact on financial statements.</p> <p>Incorporate Procedures in Audit Plan:</p> <p>Include procedures in the audit plan that specifically address compliance with laws and regulations. These procedures may involve obtaining an understanding of the entity's internal controls related to legal compliance, as well as substantive procedures to detect instances of non-compliance.</p>	<p>Para 18 of SA 250:</p> <p>If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A13)</p> <p>(a) An understanding of the nature of the act and the circumstances in which it has occurred; and</p> <p>(b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A14)</p> <p>Para 19 of SA 250:</p> <p>If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where</p>

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	<p>Communication with Management: Communicate with management to obtain an understanding of their processes for ensuring compliance with laws and regulations. This communication should be ongoing throughout the audit process.</p> <p>Inquiry and Confirmation: Make inquiries with management and, where appropriate, those charged with governance, about their knowledge of any actual or possible non-compliance with laws and regulations. Confirm responses in writing when necessary.</p> <p>Documentation:</p>	<p>appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A15-A16)</p>
<p>What steps should be taken by audit firm if it finds that there is a non compliance with Laws and regulations?</p>	<p>Document any identified instances of non-compliance with laws and regulations. This documentation should include the nature of the non-compliance, its potential impact on the financial statements, and any management actions taken or planned.</p> <p>Reporting to Those Charged with Governance: Report identified or suspected non-compliance with laws and regulations to those charged with governance, unless the non-compliance is clearly inconsequential.</p> <p>Consideration of Legal Advice: In situations where the audit firm suspects non-compliance, it may be appropriate to seek legal advice to understand the implications and determine the appropriate course of action.</p>	<p>Para 20 of SA 250: If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.</p> <p>Para 21 of SA 250: The auditor shall evaluate the implications of non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. A17-A18)</p>
<p>How an audit firm should communicate non compliance with laws and regulations to those charged with governance?</p>	<p>Evaluate the Effect on Financial Statements: Assess the impact of identified instances of non-compliance on the financial statements. This may involve working with legal experts and other specialists to quantify the potential financial effects.</p> <p>Consideration of Withdrawal: In extreme cases, where the non-compliance is pervasive and management is unwilling to rectify the situation, the audit</p>	<p>Para 22 of SA 250: Unless all of those charged with governance 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 those charged with governance matters involving non-compliance with laws and regulations that</p>

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	<p>firm should consider withdrawal from the engagement. This is a serious step and should be taken in consultation with legal advisors.</p> <p>Documentation of Professional Judgment:</p> <p>Document the audit firm's professional judgment regarding the assessment of identified or suspected non-compliance and the appropriateness of the actions taken.</p>	<p>come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.</p> <p>Para 24 of SA 250:</p> <p>If the auditor suspects that management or those charged with governance 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.</p>
<p>What are the reporting requirements in case of non compliance with laws and regulations?</p>	<p>The audit firm should evaluate the potential effects of non-compliance on the financial statements. If non-compliance is material to the financial statements, it could lead to a modification of the audit firm's opinion.</p> <p>If the audit firm concludes that non-compliance is material to the financial statements, the audit firm should include an appropriate paragraph in the audit firm's report describing the non-compliance. This is usually included in the section on the audit firm's opinion.</p>	<p>Para 25 of SA 250:</p> <p>If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with SA 705 (Revised), express a qualified or adverse opinion on the financial statements.</p> <p>Para 26 of SA 250:</p> <p>If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis</p>

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		<p>of a limitation on the scope of the audit in accordance with SA 705(Revised).</p> <p>Para 27 of SA 250:</p> <p>If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with SA 705(Revised).</p>
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Chapter 7

Observations related to SA 300, Planning an Audit of Financial Statements

Observation 1

The firm has not documented the nature, timing and extent of audit procedures in the audit plan (SA 300 & SA 330).

Or

The firm has not documented the audit plan as per SA 300.

Or

The audit program developed by the firm does not elaborate the following important aspects:

- (1) Nature, Timing & extent of audit procedures. Detailed audit procedure and steps for each component of audit program.
- (2) Name of the audit staff carrying out respective procedure and reviewer.
- (3) Cross reference to auditors working notes and evidence.

Sample selected not mentioned in audit programme against respective heads.

Or

Audit strategy does not contain applicable Financial Reporting framework and other legal and regulatory framework not documented.

Or

Documentation related issues with respect to Planning an Audit of Financial Statements (Refer Para 11 read with Para A17 to A19 of SA 300).

What is the issue?	AASB Suggested Guidance	Technical Literature
Why it is necessary to make audit planning?	Audit planning is necessary to perform audit engagement in an effective manner. There are several benefits of audit planning e.g. timely completion of audit, optimum use of audit firm's resources.	Para 3 of SA 300: The objective of the auditor is to plan the audit so that it will be performed in an effective manner. Para A1 of SA 300: Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following:

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		<ul style="list-style-type: none"> • Helping the auditor to devote appropriate attention to important areas of the audit. • Helping the auditor identify and resolve potential problems on a timely basis. • Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner. • Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them. • Facilitating the direction and supervision of engagement team members and the review of their work. • Assisting, where applicable, in coordination of work done by auditors of components and experts.
<p>What are the main requirements of audit planning?</p>	<p>Audit planning requires establishing an overall audit strategy for the audit engagement and developing a detailed audit plan for the audit engagement. The audit plan supplements the overall audit strategy.</p>	<p>Para 6 of SA 300:</p> <p>The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.</p> <p>Para 8 of SA 300:</p> <p>The auditor shall develop an audit plan that shall include a description of:</p> <p>(a) The nature, timing and extent of planned risk assessment procedures, as determined under SA 315 “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment”.</p> <p>(b) The nature, timing and extent of planned further audit procedures</p>

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		<p>at the assertion level, as determined under SA 330 “The Auditor’s Responses to Assessed Risks”.</p> <p>(c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs. (Ref: Para. A13)</p>
<p>What are various considerations in establishing the overall audit strategy?</p>	<p>Auditor needs to establish an overall audit strategy for each audit engagement. In establishing the overall audit strategy, the auditor needs to consider various matters prescribed in para 7 of SA 300.</p> <p>Further, Appendix of SA 300 provides examples of various matters the auditor may consider in establishing the overall audit strategy. Many of these matters will also influence the auditor’s detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to in the Appendix may be required by other SAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.</p>	<p>Para 7 of SA 300:</p> <p>In establishing the overall audit strategy, the auditor shall:</p> <p>(a) Identify the characteristics of the engagement that define its scope;</p> <p>(b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;</p> <p>(c) Consider the factors that, in the auditor’s professional judgment, are significant in directing the engagement team’s efforts;</p> <p>(d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and</p> <p>(e) Ascertain the nature, timing and extent of resources necessary to perform the engagement. (Ref: Para. A9-A12)</p> <p>Also Refer Appendix of SA 300: Considerations in Establishing the Overall Audit Strategy.</p>
<p>What are various considerations in developing the audit plan?</p>	<p>The auditor needs to develop a detailed audit plan (also known as audit program) for each audit engagement. The audit plan should include description of the nature, timing and extent of planned risk assessment</p>	<p>Para 8 of SA 300:</p> <p>The auditor shall develop an audit plan that shall include a description of:</p> <p>(a) The nature, timing and extent of planned risk assessment procedures, as determined under</p>

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	<p>procedures as per SA 315, planned further audit procedures as per SA 330 and other planned audit procedures required to be performed to ensure compliance with SAs.</p> <p>Audit plan also needs to include the nature, timing and extent of direction, supervision and review of work of engagement team members.</p>	<p>SA 315 “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment”.</p> <p>(b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 “The Auditor’s Responses to Assessed Risks”.</p> <p>(c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs. (Ref: Para. A13)</p> <p>Para 10 of SA 300:</p> <p>The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A15-A16)</p>
<p>Whether overall audit strategy and audit plan can be modified during the audit or the original audit strategy and audit plan need to be adhered to throughout the engagement?</p>	<p>The auditor needs to make the necessary modifications in audit strategy and audit plan based on various factors such as unexpected events, changes in conditions, the results of audit procedures performed by auditor.</p>	<p>Para 9 of SA 300:</p> <p>The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A14)</p>
<p>What are the documentation requirements prescribed in SA 300?</p>	<p>The auditor is required to document overall audit strategy, audit plan, significant changes made to overall audit strategy/audit plan during the course of audit and the reasons for making such changes.</p>	<p>Para 11 of SA 300:</p> <p>The auditor shall document:</p> <p>(a) The overall audit strategy;</p> <p>(b) The audit plan; and</p> <p>(c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. (Ref: Para. A17-A20)</p>

Chapter 8

Observations related to SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment

Observation 1

Non-compliance of SA 330, SA 315, SA 320, SA 500, SA 520 & SA 530, in respect of not documenting the extent of verification of the work/tests performed.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why it is important to document the extent of verification of the work/tests performed?</p>	<p>The auditor should document the audit evidence (including nature, timing and extent of procedures performed) to support the opinion that the financial statements taken as a whole are free of material misstatement, whether due to fraud or error.</p> <p>Some of the key documentation requirements have been prescribed in:</p> <ul style="list-style-type: none"> • Para 28-30 of SA 330. • Para 32 of SA 315. • Para 14 of SA 320. 	<p>Para 28 of SA 330:</p> <p>The auditor shall document:</p> <p>(a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed.</p> <p>(b) The linkage of those procedures with the assessed risks at the assertion level; and</p> <p>(c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para. A63)</p> <p>Para 29 of SA 330:</p> <p>If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall document the conclusions reached about relying on such controls that were tested in a previous audit.</p> <p>Para 30 of SA 330:</p> <p>The auditor's documentation shall demonstrate that the financial statements agree or reconcile with</p>

		<p>the underlying accounting records.</p> <p>Para 32 of SA 315:</p> <p>The auditor shall document:</p> <p>(a) The discussion among the engagement team where required by paragraph 10, and the significant decisions reached.</p> <p>(b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14-24; the sources of information from which the understanding was obtained; and the risk assessment procedures performed.</p> <p>(c) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and</p> <p>(d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27-30. (Ref: Para. A143-A146)</p> <p>Para 14 of SA 320:</p> <p>The audit documentation shall include the following amounts and the factors considered in their determination:</p> <p>(a) Materiality for the financial statements as a whole (see paragraph 10);</p> <p>(b) If applicable, the materiality level or levels for particular classes of transactions, account balances</p>
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		<p>or disclosures (see paragraph 10);</p> <p>(c) Performance materiality (see paragraph 11); and</p> <p>(d) Any revision of (a)-(c) as the audit progressed (see paragraphs 12-13).</p> <p>Para 15 of SA 530:</p> <p>The auditor shall evaluate:</p> <p>(a) The results of the sample; and (Ref: Para. A21-A22)</p> <p>(b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. (Ref: Para. A23).</p> <p>Para 6 of SA 500:</p> <p>The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A1-A25)</p> <p>Para 7 of SA 500:</p> <p>When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A26-A33).</p> <p>Para 8 of SA 500:</p> <p>When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes, (Ref: Para. A34-A36)</p> <p>(a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A37-A43)</p> <p>(b) Obtain an understanding of the</p>
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		<p>work of that expert; and (Ref: Para. A44- A47)</p> <p>(c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. (Ref: Para. A48).</p> <p>Para 9 of SA 500:</p> <p>When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances:</p> <p>(a) Obtaining audit evidence about the accuracy and completeness of the information; and (Ref: Para. A49-A50)</p> <p>(b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. (Ref: Para. A51)</p> <p>Para 5 of SA 520:</p> <p>When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall: (Ref: Para. A4-A5)</p> <p>(a) Determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions; (Ref: Para. A6-A11)</p> <p>(b) Evaluate the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of</p>
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		<p>information available, and controls over preparation; (Ref: Para. A12-A14)</p> <p>(c) Develop an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and (Ref: Para. A15)</p> <p>(d) Determine the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 7. (Ref: Para. A16).</p>
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Observation 2

SA 315 states that the auditor shall identify and assess the risks of material misstatement at: (a) the financial statement level, and (b) the assertion level for classes of transactions, account balances, and disclosures, to provide a basis for designing and performing further audit procedures (Para 25 of SA 315).

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures (Refer Para 10 of SA 320)

The Audit Firm has determined overall materiality for the financial statements as a whole. The Firm had identified Profit before tax (PBT) as the benchmark and determined 5% of the PBT as the overall materiality. 75% of the Planning Materiality is determined as Performance Materiality, and 5% of Planning Materiality is considered as Audit Misstatement Posting Threshold (AMPT). However, no evaluation had been done to determine materiality level for particular class of transactions, account balances or disclosures. For example, during the course of review, no specific sampling methodology had been done for related party transactions as such either at the time of test of controls or at the time of test of details. Similarly, while conducting the test of journal entries, the firm had selected samples mostly on dates at the beginning of each of the months. Therefore, extending the audit planning to identify the materiality levels at class of transaction, account balances, etc. would have been more appropriate.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>How shall the auditor identify and assess the risk of material misstatement at financial statement level and assertion level?</p>	<p>The auditor should consider risks of material misstatement for classes of transactions, account balances, and disclosures. This consideration determines the nature, timing, and extent of audit procedures required at the assertion level to obtain sufficient appropriate audit evidence. SA 315 prescribes necessary considerations for risk assessment and the manner of dealing with the identified risks. Key considerations are as follows:</p> <p>As per SA 315, to identify and assess the risk of material misstatement, the auditor should:</p>	<p>Para 25 of SA 315:</p> <p>The auditor shall identify and assess the risks of material misstatement at:</p> <p>(a) the financial statement level; and (Ref: Para. A117-A120)</p> <p>(b) the assertion level for classes of transactions, account balances, and disclosures; (Ref: Para. A121-A125)</p> <p>to provide a basis for designing and performing further audit procedures.</p>

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	<p>(a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;</p> <p>(b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;</p> <p>(c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and</p> <p>(d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.</p>	
<p>What are the risk assessment procedures and related activities that should be performed by the auditor for identification and assessment of the risks of material misstatement?</p>	<p>As per SA 315, the objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. This will help the auditor to reduce the risk of material misstatement to an acceptably low level.</p> <p>As per SA 315, the auditor should obtain an understanding of the following:</p>	<p>Para 5 of SA 315:</p> <p>The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A1-A5)</p>

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	<p>(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.</p> <p>(b) The nature of the entity, including:</p> <ul style="list-style-type: none">(i) its operations;(ii) its ownership and governance structures;(iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and(iv) the way that the entity is structured and how it is financed; <p>to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.</p> <p>(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.</p> <p>(d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.</p> <p>(e) The measurement and review of the entity's financial performance.</p>	
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Observation 3

As per SA 315, the firm needs to include in its audit plan, formal risk assessment procedures and related activities.

No Risk Assessment procedures found in the Audit Plan.

No formal documentation of performance of Risk Assessment Procedures as specified in SA 315. Communication and clearance of audit deficiencies is different from the performance of Risk Assessment Procedures.

Audit programmes with checking of various records on the basis of samplings as verified from the audit working papers. It is accepted that being a recurring audit the risks assessments is based on the past experience but the process of inquiry with the management and others within the entity, analytical procedures of review and observation and Inspection for the purpose of risk assessment to be documented. Noting and communication of audit deficiencies during the course of audit is different from the process of risk assessment which is to be performed at each audit irrespective of the existence of audit deficiencies and preferably at the planning stage itself.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>As part of risk assessment procedures, can an auditor rely on past experience alone?</p>	<p>The auditor is required to determine whether information obtained in prior periods remains relevant, if the auditor intends to use that information for the purposes of the current audit. This is because changes in the control environment, for example, may affect the relevance of information obtained in the prior year.</p> <p>Auditor should identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material</p>	<p>Para 3 of SA 315:</p> <p>The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. This will help the auditor to reduce the risk of material misstatement to an acceptably low level.</p> <p>Para 5 of SA 315:</p> <p>The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit</p>

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	<p>misstatement.</p> <p>Accordingly, as part of risk assessment procedures, as prescribed under SA 315, the auditor shall:</p> <ul style="list-style-type: none"> • perform inquiries of management and of others within the entity, • perform analytical procedures, • perform observation and inspection, • consider information obtained from the auditor's client acceptance or continuance process, • consider relevant information obtained from performance of other engagements. <p>Information obtained in prior periods should be used in conjunction with other risk assessment procedures performed during the current period to identify risk of material misstatement and design appropriate audit procedures to reduce the risk of material misstatement to an acceptably low level.</p>	<p>opinion. (Ref: Para. A1-A5)</p> <p>Para 6 of SA 315:</p> <p>The risk assessment procedures shall include the following:</p> <ul style="list-style-type: none"> (a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. A6-A12) (b) Analytical procedures. (Ref: Para. A13-A16) (c) Observation and inspection. (Ref: Para. A17) <p>Para 9 of SA 315:</p> <p>When the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit. (Ref: Para.A18-A19).</p>
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Observation 4

Para A146 of SA 315 requires for recurring audits, certain documentation may be carried forward, however, regular updation of documentation is necessary to reflect changes in the entity's business or processes.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>For recurring audits, can an auditor carry forward audit documentation relating to risks identification and related controls without updating it?</p>	<p>SA 315 permits certain documentation to be carried forward. However, the documentation should be updated to reflect changes in the entity's business or processes, if any. The auditor should consider the requirements of paragraph A146 of SA 315.</p>	<p>Para 32 of SA 315:</p> <p>The auditor shall document:</p> <ul style="list-style-type: none"> (a) The discussion among the engagement team where required by paragraph 10, and the significant decisions reached; (b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14-24; the sources of information from which the understanding was obtained; and the risk assessment procedures performed; (c) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and (d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27-30. (Ref: Para. A143-A146) <p>Para A146 of SA 315:</p> <p>For recurring audits, certain documentation may be carried forward, updated as necessary to reflect changes in the entity's business or processes.</p>

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Observation 5

SA 315, Para 23 requires that:

“If the entity has an internal audit function, the auditor shall obtain an understanding of the nature of the internal audit function’s responsibilities, its organisational status, and the activities performed, or to be performed. (Ref: Para. A108-A115)”

Appendix to SA 300: Consideration in Establishing the Overall Audit Strategy.

- The availability of the work of internal auditors and the extent of the auditor’s potential reliance on such work, or internal auditors can be used to provide direct assistance.

The audit firm has not documented properly the aspects of internal audit required by SA 315, to be documented in order to minimize risk of misstatement. Also, audit planning needs to be standard as required by Appendix to SA 300.

What is the issue?	AASB Suggested Guidance	Technical Literature
Is it necessary as per the Standards on Auditing that the auditor should understand the internal audit function?	<p>The auditor should understand the internal audit function.</p> <p>The auditor should understand and evaluate the scope of the internal auditor and understand its organizational status. The auditor should also understand the activities performed or activities to be performed by the internal auditor.</p> <p>Also, under CARO, 2020, for the majority of companies, auditor’s reporting in relation to internal audit function has been prescribed, which casts additional responsibility on auditor to understand internal audit function.</p>	<p>Para 23 of SA 315:</p> <p>If the entity has an internal audit function, the auditor shall obtain an understanding of the nature of the internal audit function’s responsibilities, its organisational status, and the activities performed, or to be performed. (Ref: Para. A108-A115)</p> <p>Para 15 of SA 610 (Revised):</p> <p>The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:</p> <p>(a) The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors; (Ref: Para. A5–A9)</p>
Why is the scope of the internal auditor relevant to the external auditor?	As per SA 315, risk assessment procedures are required to be performed by auditor. These procedures include, inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor’s judgment may	<p>(b) The level of competence of the internal audit function; and (Ref: Para. A5– A9)</p> <p>(c) Whether the internal audit function applies a systematic</p>

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	<p>have information that is likely to assist in identifying risks of material misstatement due to fraud or error.</p> <p>Para A108 of SA 315 inter alia requires the auditor to obtain an understanding of the role that the internal audit function plays in the entity's monitoring of internal control over financial reporting. This understanding, together with the information obtained from the auditor's inquiries, may also provide information that is directly relevant to the auditor's identification and assessment of the risks of material misstatement.</p> <p>When the auditor determines that the internal audit function is likely to be relevant to the audit, SA 610(Revised) is applied to determine the extent to which the work of internal auditor can be utilized.</p>	<p>and disciplined approach, including quality control. (Ref: Para. A10–A11)</p>
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Observation 6

Documentation related issues with respect to Identifying and Assessing the Risks of Material Misstatement.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Is documentation necessary with respect to identifying and assessing the risks of material misstatement?</p>	<p>Para A1 of SA 230 requires that preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.</p> <p>The manner in which the requirements of paragraph 32 of SA 315 are documented is for the auditor to determine using professional judgment. For example, in audits of small entities the documentation may be incorporated in the auditor's documentation of the overall strategy and audit plan that is required by SA 300, "Planning an Audit of Financial Statements". Similarly, for example, the results of the risk assessment may be documented separately or may be documented as part of the auditor's documentation of further procedures.</p>	<p>Para 32 of SA 315:</p> <p>The auditor shall document:</p> <ul style="list-style-type: none"> (a) The discussion among the engagement team where required by paragraph 10, and the significant decisions reached. (b) Key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 11 and of each of the internal control components specified in paragraphs 14-24; the sources of information from which the understanding was obtained; and the risk assessment procedures performed. (c) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level as required by paragraph 25; and (d) The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27-30. (Ref: Para. A143-A146)
<p>Is it necessary for an auditor to identify and assess the risk of</p>	<p>SA 315 requires the auditor to perform risk assessment procedures to provide a basis for</p>	<p>Para 5 of SA 315:</p> <p>The auditor shall perform risk</p>

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material misstatement?	the identification and assessment of risks of material misstatement at the financial statement and assertion levels.	<p>assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: Para. A1-A5)</p> <p>Para 25 of SA 315:</p> <p>The auditor shall identify and assess the risks of material misstatement at:</p> <ul style="list-style-type: none">(a) the financial statement level; and (Ref: Para. A117-A120)(b) the assertion level for classes of transactions, account balances, and disclosures; (Ref: Para. A121-A125) <p>to provide a basis for designing and performing further audit procedures.</p>
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Chapter 9

Observations related to SA 320, Materiality in Planning and Performing an Audit

Observation 1

Non-compliance of SA 320 in respect of not documenting Planning and Performance Materiality to enable the firm in performing an effective and efficient audit of Financial Statements.

Or

The firm has not documented the materiality in planning and performing the audit. However, the firm stated during the course of review, the audit will be carried out based on the materiality.

Or

There were no documents on record determining the materiality for the report and for assessing the risk of material misstatement.

Or

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para 10 and A2-A11 of SA 320)

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why it is important to develop and document planning materiality and performance materiality in an audit of financial statements?</p>	<p>Materiality is the magnitude of an omission or misstatement that, individually or in aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.</p> <p>The auditor should apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on</p>	<p>Para 10 of SA 320:</p> <p>When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall</p>

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	<p>the audit and in forming the auditor's opinion.</p>	<p>also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para. A2-A11)</p> <p>Para 11 of SA 320:</p> <p>The auditor shall determine performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. (Ref: Para. A12)</p>
<p>What should be documented in relation to materiality in Planning and Performing an audit?</p>	<p>As per SA 320, the audit documentation of an auditor should include the following amounts and the factors considered in their determination:</p> <ul style="list-style-type: none"> • Materiality for the financial statements as a whole; • If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures; • Performance materiality and • Any revision of above as the audit progressed. 	<p>Para 14 of SA 320:</p> <p>The audit documentation shall include the following amounts and the factors considered in their determination:</p> <p>(a) Materiality for the financial statements as a whole (see paragraph 10);</p> <p>(b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures (see paragraph 10);</p> <p>(c) Performance materiality (see paragraph 11); and</p> <p>(d) Any revision of (a) –(c) as the audit progressed (see paragraph 12-13);</p>
<p>How to determine materiality for the financial statements as a whole?</p>	<p>Determining materiality requires the exercise of professional judgment and is influenced by many factors including perspectives and expectations of users of the financial statements.</p>	<p>Para A2 of SA 320:</p> <p>Determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Factors that may affect the identification of an appropriate benchmark include the following:</p> <ul style="list-style-type: none"> • The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses); • Whether there are items on which the attention of the users of the particular

		<p>entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets).</p> <ul style="list-style-type: none"> • The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates; • The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and • The relative volatility of the benchmark. <p>Para A3 of SA 320:</p> <p>Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value. Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.</p> <p>Para A4 of SA 320:</p> <p>In relation to the chosen benchmark, relevant financial data ordinarily includes prior periods' financial results and financial positions, the period-to-date financial results and financial position, and budgets or forecasts for the current period, adjusted for significant changes in the circumstances of the entity (for example, a significant business acquisition) and relevant changes of conditions in the industry or economic environment in which the entity operates.</p>
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		<p>For example, when, as a starting point, the materiality for the financial statements as a whole is determined for a particular entity based on a percentage of profit before tax from continuing operations, circumstances that give rise to an exceptional decrease or increase in such profit may lead the auditor to conclude that the materiality for the financial statements as a whole is more appropriately determined using a normalized profit before tax from continuing operations figure based on past results.</p> <p>Para A5 of SA 320:</p> <p>Materiality relates to the financial statements on which the auditor is reporting. Where the financial statements are prepared for a financial reporting period of more or less than twelve months, such as may be the case for a new entity or a change in the financial reporting period, materiality relates to the financial statements prepared for that financial reporting period.</p> <p>Para A6 of SA 320:</p> <p>Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue. For example, the auditor may consider five percent of profit before tax from continuing operations to be appropriate for a profit-oriented entity in a manufacturing industry, while the auditor may consider one percent of total revenue or total expenses to be appropriate for a not-for-profit entity. Higher or lower percentages, however, may be deemed appropriate in different circumstances.</p>
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<p>What performance materiality?</p>	<p>is Under SA 320, performance materiality is an amount (less than materiality for the financial statements as a whole) set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.</p>	<p>Para A12 of SA 320:</p> <p>Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated and leaves no margin for possible undetected misstatements. Performance materiality (which, as defined, is one or more amounts) is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance or disclosure exceeds the materiality level for that particular class of transactions, account balance or disclosure. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.</p>
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Observation 2

The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. (Ref: Para. 5 and A1 of SA 320)

Materiality in Planning and Performing an Audit

Materiality in Planning and Performing an Audit (Para A2 to A13 of SA 320)

Materiality assessment not separately carried out for Balance Sheet and Profit & Loss Account and criteria for fixing materiality thresholds was not documented and reviewed by the Engagement Partner and Internal Quality Control reviewer.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Is it necessary for the auditor to determine planning materiality?</p>	<p>In conducting an audit of financial statements, the overall objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Materiality and audit risk are considered throughout the audit when:</p> <ul style="list-style-type: none"> (a) Identifying and assessing the risks of material misstatement; (b) Determining the nature, timing and extent of further audit procedures; and (c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. 	<p>Para 5 of SA 320:</p> <p>The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. (Ref: Para. A1)</p> <p>Para 10 of SA 320:</p> <p>When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to</p>

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		<p>influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para. A2-A11)</p>
<p>At what level, materiality and performance materiality should be determined?</p>	<p>Factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include the following:</p> <ul style="list-style-type: none"> • Whether law, regulations or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, and the remuneration of management and those charged with governance). • The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company). • Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, a newly acquired business). 	<p>Para 10 of SA 320:</p> <p>When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para A2-A11)</p> <p>Para 11 of SA 320:</p> <p>The auditor shall determine performance materiality for the purpose of assessing the risks of material misstatement and</p>

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	<p>In considering whether, in the specific circumstances of the entity, such classes of transactions, account balances or disclosures exist, the auditor may find it useful to obtain an understanding of the views and expectations of those charged with governance and management.</p>	<p>determining the nature, timing and extent of further audit procedures. (Ref: Para. A12)</p>
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Chapter 10

Observations related to SA 330, The Auditor's Responses to Assessed Risks

Observation 1

The audit procedure of designing and performing Tests of Controls as per Para A20 to A23 of SA 330 not found documented in the Audit File.

Or

The review of the finalization files schedules and analysis are prepared for all accounts wherever applicable, however, the review criteria need to be comprehensively documented.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Is it mandatory to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls?</p>	<p>When using a controls reliance strategy, the audit firm should understand the design of those controls that have been implemented to prevent, or detect and correct, material misstatements at the assertion level as part of obtaining understanding of the significant processes. Based upon the understanding of the design of each control, the audit firm should determine which of these controls are relevant to the audit.</p>	<p>Para 8 of SA 330:</p> <p>The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls when:</p> <ul style="list-style-type: none"> (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing, and extent of substantive procedures); or (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. (Ref: Para A20-A24)

Observation 2

Documentation related issues with regard to the Auditor's Responses to Assessed Risks (Refer Para 28 to 30 of SA 330).

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What are the documentation considerations with regard to the Auditor's Responses to Assessed Risks?</p>	<p>Para A7 of SA 230 requires the auditor to document necessary evidence that the audit complies with SAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. Further, the form and extent of audit documentation is a matter of professional judgment, and is influenced by the nature, size and complexity of the entity and its internal control, availability of information from the entity and the audit methodology and technology used in the audit.</p>	<p>Para 28 of SA 330:</p> <p>The auditor shall document:</p> <ul style="list-style-type: none"> (a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed. (b) The linkage of those procedures with the assessed risks at the assertion level; and (c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para. A63) <p>Para 29 of SA 330:</p> <p>If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall document the conclusions reached about relying on such controls that were tested in a previous audit.</p> <p>Para 30 of SA 330:</p> <p>The auditors' documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.</p>

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Observation 3

- (1) Documentation with regard to the test of controls (Refer Para 8 to 17 of SA 330)
- (2) Audit Evidence (Refer Para 10 and A52 to A56 of SA 500)
- (3) Audit Sampling (Refer Para 6 to 15 of SA 530)

There is no formal documentation available in the audit files for test of controls and complete evidence for determining the operating effectiveness of the controls. (SA 330, SA 500, and SA 530).

What is the issue?	AASB Suggested Guidance	Technical Literature
Do auditors need to prepare documentation?	SA 230 requires that preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.	<p>Para 7 of SA 230: The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)</p> <p>Para 8 of SA 230: The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-A17)</p> <ul style="list-style-type: none"> (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements. (Ref: Para. A6-A7) (b) The results of the audit procedures performed, and the audit evidence obtained; and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. (Ref: Para. A8-A11) <p>Para 10 of SA 230: The auditor shall document</p>

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		<p>discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (Ref: Para. A14)</p> <p>Para 14 of SA 230:</p> <p>The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. (Ref: Para. A21-A22)</p>
<p>Do auditors need timely completion of documentation?</p>	<p>SQC 1 requires firms to complete documentation in a timely manner. The period prescribed in SQC 1 is maximum 60 days after the date of the auditor's report.</p>	<p>Para A21 of SA 230:</p> <p>SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.</p>
<p>Is it necessary for the auditor to document the testing of controls and operating effectiveness?</p>	<p>SA 230 requires that preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed. The form and extent of audit documentation is a matter of professional judgment, and is influenced by the nature, size and complexity</p>	<p>Para 28 of SA 330:</p> <p>The auditor shall document:</p> <ul style="list-style-type: none"> (a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed; (b) The linkage of those procedures with the assessed risks at the assertion level; and (c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para. A63)

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	<p>of the entity and its internal control, availability of information from the entity and the audit methodology and technology used in the audit.</p>	<p>Para 29 of SA 330: If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall document the conclusions reached about relying on such controls that were tested in a previous audit.</p> <p>Para 30 of SA 330: The auditor's documentation shall demonstrate that the financial statements agree or reconcile with the underlying accounting records.</p>
<p>Is the auditor required to obtain sufficient appropriate audit evidence?</p>	<p>Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of a management's expert. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for</p>	<p>Para 4 of SA 500: The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</p> <p>Para 6 of SA 500: The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A1-A25)</p> <p>Para 7 of SA 500: When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A26-A33)</p> <p>Para 9 of SA 500: When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in</p>

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	<p>example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.</p> <p>SAs require the auditor to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.</p>	<p>the circumstances:</p> <p>(a) Obtaining audit evidence about the accuracy and completeness of the information; and (Ref: Para. A49-A50)</p> <p>(b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. (Ref: Para. A51)</p>
<p>Is it necessary for the auditor to perform sampling?</p>	<p>Para A56 of SA 500 requires that audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it.</p>	<p>Para 4 of SA 530:</p> <p>The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.</p> <p>Para 6 of SA 530:</p> <p>When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A4-A9)</p> <p>Para 7 of SA 530:</p> <p>The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. (Ref: Para. A10-A11)</p> <p>Para 8 of SA 530:</p> <p>The auditor shall select items for the</p>

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		<p>sample in such a way that each sampling unit in the population has a chance of selection. (Ref: Para. A12-A13)</p> <p>Para 9 of SA 530:</p> <p>The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.</p> <p>Para 15 of SA 530:</p> <p>The auditor shall evaluate:</p> <ul style="list-style-type: none"> (a) The results of the sample; and (Ref: Para. A21-A22) (b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. (Ref: Para. A23).
<p>What is the appropriate sample size?</p>	<p>The auditor should determine an appropriate sample size in light of relevant facts and circumstances of the auditee.</p>	<p>Para A10 of SA 530:</p> <p>The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.</p> <p>Para A11 of SA 530:</p> <p>The sample size can be determined by the application of a statistically based formula or through the exercise of professional judgment. Appendices 2 and 3 indicate the influences that various factors typically have on the determination of sample size. When circumstances are similar, the effect on sample size of factors such as those identified in Appendices 2 and 3 will be similar regardless of whether a statistical or non-statistical approach is chosen.</p>

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<p>Is it necessary for the auditor to perform additional procedures if audit sampling does not provide reasonable assurance?</p>	<p>If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population that has been tested, the auditor may:</p> <ul style="list-style-type: none"> • Request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or • tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures. 	<p>Para 10 of SA 530:</p> <p>If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item. (Ref: Para. A14)</p> <p>Para 11 of SA 530:</p> <p>If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details. (Ref: Para. A15-A16)</p> <p>Para 12 of SA 530:</p> <p>The auditor shall investigate the nature and cause of any deviations or misstatements identified and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit. (Ref: Para. A17)</p> <p>Para 13 of SA 530:</p> <p>In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.</p> <p>Para 15 of SA 530:</p> <p>The auditor shall evaluate:</p>
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		<p>(a) The results of the sample; and (Ref: Para. A21-A22)</p> <p>(b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. (Ref: Para. A23)</p>
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Chapter 11

Observations related to SA 500, Audit Evidence

Observation 1

Non-compliance of SA 500 for not documenting sufficient appropriate audit evidence in the form of agreement/contract entered with the holding and related companies in relation to accounting of unearned revenue.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What is the necessity for obtaining and documenting sufficient appropriate audit evidence in the form of agreement/contract entered with the holding and related companies in relation to accounting of unearned revenue?</p>	<p>Some important points of SA 500</p> <p>Audit evidence is primarily obtained from audit procedures performed during the course of the audit. Audit evidence may also include information obtained from other sources such as:</p> <ol style="list-style-type: none"> 1. Previous audits (provided the auditor also needs to consider the changes which have occurred since the previous audit that may affect its relevance to the current audit). 2. Firm's quality control procedures. 3. The entity's accounting records are an important source of audit evidence. The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. For example, source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce, or may be discarded after scanning when an entity uses image 	<p>Para 6 of SA 500:</p> <p>The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A1-A25)</p> <p>Para 7 of SA 500:</p> <p>When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence. (Ref: Para. A26-A33)</p>

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	<p>processing systems to facilitate storage and reference.</p> <ol style="list-style-type: none">4. Secretarial Records, MCA filings and Board minutes etc.5. Information from management's expert: When information from management's expert is used, the auditor shall evaluate the competence, objectivity of the expert, appropriateness of the expert's work.6. Auditor may obtain written representations from management. <p>Sources of Audit Evidence</p> <ol style="list-style-type: none">1. Some audit evidence is obtained by performing audit procedures to test the accounting records.2. More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually.3. Information from sources independent of the entity that the auditor may use as audit evidence may include confirmations from third parties, analysts' reports, and comparable data about competitors (bench marking data).	
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Chapter 12

Observations related to SA 505, External Confirmations

Observation 1

Non-compliance of SA 505 for not permitting Auditor to obtain external confirmation towards year end Bank Balances and Outstanding Loans.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What procedure auditor should follow on management's refusal to allow the auditor to obtain independent external confirmations?</p>	<p>A refusal by management to allow the auditor to send a confirmation request is a limitation on the audit evidence that the auditor may wish to obtain. The auditor is therefore required to inquire as to the reasons for the limitation. A common reason advanced is the existence of a legal dispute or ongoing negotiation with the intended confirming party, the resolution of which may be affected by an untimely confirmation request. The auditor is required to seek audit evidence as to the validity and reasonableness of the reasons because of the risk that management may be attempting to deny the auditor access to audit evidence that may reveal fraud or error.</p> <p>The auditor may conclude from the evaluation of the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures that it would be appropriate to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures in accordance with SA 315.</p>	<p>Para 8 of SA 505: If management refuses to allow the auditor to send a confirmation request, the auditor shall:</p> <ul style="list-style-type: none"> (a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness; (Ref: Para A8) (b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and (Ref: Para A9) (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. (Ref: Para A10)

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Observation 2

On review of the confirmations received by the firm, it was observed that the firm has not maintained the log showing how many confirmations were sent, confirmations received, not received, reconciled and un-reconciled (SA 505).

What is the issue?	AASB Suggested Guidance	Technical Literature
What is the purpose of maintaining log?	The audit firm should maintain the log to evaluate the outcome of confirmation procedure. The log helps the audit firm in maintaining track of pending confirmations. It also helps audit firm in assessing the need of reconciliation for the differences identified based on confirmation received.	<p>Para 16 of SA 505:</p> <p>The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing further audit procedures is necessary. (Refer Para A24-A25)</p>
Is it necessary as per the standards on Auditing to maintain the log showing how many confirmations were sent, confirmations received, not received, reconciled and un-reconciled?	<p>When using external confirmation procedures, the auditor should maintain control over external confirmation requests, including:</p> <ul style="list-style-type: none"> (a) Determining the information to be confirmed or requested. (b) Selecting the appropriate confirming party. (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (d) Sending the requests, including follow-up requests when applicable, to the confirming party. 	<p>Para 3 of SA 230:</p> <p>Audit documentation serves a number of additional purposes, including the following:</p> <ul style="list-style-type: none"> • 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 1.

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		<ul style="list-style-type: none">• Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements. <p>Para 5 of SA 505:</p> <p>The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.</p>
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Observation 3

SA 500 – “Audit Evidence” indicates that the reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. Audit evidence is more reliable when it is obtained from independent sources outside the entity. Evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference. Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium. Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. (Para 2 of SA 505)

The procedures for obtaining external confirmations were evident from the audit work papers of the firm generally, however, in respect of related party balances, no such external confirmations had been obtained though it was represented that the audit process included verifying the balances confirmed by the parties through a separate module in the accounting software SAP.

Or

SA 500 – “Audit Evidence” indicates that the reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. Audit evidence is more reliable when it is obtained from independent sources outside the entity. Evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference. Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium. Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. (Para 2 of SA 505).

The procedures for obtaining external confirmations were evident from the audit work papers of the firm in respect of accounts receivables, however, in respect of the following account balances, the procedures of obtaining external confirmations had not been carried out in respect of (a) related party balances, (b) Accounts Payable, and (c) Inventory. In respect of audit of inventories, the Auditor's comment under CARO emphasizes that the inventory lying at customs bonded warehouse and with third parties had been substantially confirmed. However, there was no audit evidence available for the performance of obtaining external confirmations in respect of stocks held with third parties.

In respect of audit procedures on confirmation of Receivables, few of the differences highlighted in the work papers between the Balance Confirmation & the carrying amount in the balance sheet were not explained, for example, in case of one specific party, the balance as per confirmation obtained was Rs 3.11 Crores as against the carrying amount of Rs.2.76 Crores. In respect of the difference of Rs.35.27 lakhs, an amount of Rs.17.57 lakhs were identified with the invoices, however, in respect of the balance Rs. 17.70 lakhs, no explanation was provided. To that extent the work papers were not complete.

Or

As required in terms of SA 505, there was no procedure adopted to obtain external confirmations as an audit Evidence.

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Or

It was observed that the firm did not have confirmation from the Banks for Fixed deposits and confirmation available for few of vendors, debtors and for advances as at 31st March, 2014. List of parties to whom request for confirmation sent is also not available.

Or

To obtain audit evidence in accordance with the requirements of SA 330 & SA 500, the audit firm is required to obtain external confirmations as per SA 505. On the basis of documents & files examined, it appears that the audit firm has not complied with the requirements of SA 505.

It was noted that procedure of getting external confirmations as per SA 505 not complied.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Is it necessary as per the Standards on Auditing that external confirmations are to be circulated?</p>	<p>As per SA 200, the overall objectives of an audit firm are:</p> <p>(a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the audit firm to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and</p> <p>(b) To report on the financial statements, and communicate as required by the SAs, in accordance with the audit firm's findings.</p> <p>Further, as per Para 5 of SA 200, to acquire reasonable assurance, the audit firm should obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.</p> <p>External confirmation is a substantive method used to acquire audit confirmation.</p> <p>SA 505 deals with the audit firm's use of external confirmation procedures to obtain audit evidence in accordance</p>	<p>Relevant Paragraphs of SA 505, External Confirmations</p> <p>Para 2 and 3 of SA 505 emphasize the importance of obtaining external confirmations. These Para are given below.</p> <p>Para 2 of SA 505:</p> <p>SA 500 indicates that the reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. That SA also includes the following generalisations applicable to audit evidence:</p> <ul style="list-style-type: none"> • Audit evidence is more reliable when it is obtained from independent sources outside the entity. • Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference. • Audit evidence is more

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	with the requirements of SA 330 and SA 500 as audit evidence is more reliable when it is obtained directly by the audit firms from independent sources outside the entity in documentary form.	reliable when it exists in documentary form, whether paper, electronic or other medium. Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This SA is intended to assist the auditor in designing and performing external confirmations procedures to obtain relevant and reliable audit evidence.
Why is it considered necessary to circulate confirmations independently?	When designing and performing audit procedures, the audit firm should consider the relevance and reliability of the information to be used as audit evidence. Further as per SA 500, the reliability of audit evidence is increased when- <ul style="list-style-type: none"> • It is obtained from independent sources outside the entity. • It is directly obtained by the audit firm. 	
What procedures may be performed by the audit firm to resolve doubts over the reliability of information being used as audit evidence?	The audit firm may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the audit firm may telephone the confirming party to determine whether the confirming party did, in fact, send the response.	Para 3 of SA 505: Other SAs recognise the importance of external confirmations as audit evidence, for example: <ul style="list-style-type: none"> • SA 330 discusses the auditor's responsibility to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and to design and perform further audit procedures whose nature, timing and extent are based on, and are responsive to, the assessed risks of material misstatement at the assertion level. In addition, SA 330 requires that, irrespective of the assessed risks of material misstatement, the auditor designs and performs substantive procedures
If an oral response is received in relation to a confirmation request sent to an external party – can the same be considered as appropriate audit evidence?	An oral response to a confirmation request does not meet the definition of an external confirmation because it is not a direct written response to the audit firm. However, upon obtaining an oral response to a confirmation request, the audit firm may, depending on the circumstances, request the confirming party to respond in writing directly to the audit firm. If no such response is received, in accordance with Para 36 of SA 505, the audit firm seeks other audit evidence to support the information in the oral response.	
In case a response is not received, what	As per Para 12 of SA 505, in the case of each non-response, the audit firm	

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<p>audit procedures are to be performed to ensure the existence of the debtor/creditor?</p>	<p>should perform alternative audit procedures to obtain relevant and reliable audit evidence.</p> <p>Examples of alternative audit procedures the audit firm may perform include:</p> <ul style="list-style-type: none"> • For accounts receivable balances <ul style="list-style-type: none"> – When no confirmation has been received, consider the reasons for non-response, including whether collectability/fraud with fictitious customers exists. <ul style="list-style-type: none"> ○ Perform alternative procedures to verify existence (i.e., subsequent receipts testing & inspection of shipping documentation) when necessary. ○ If the above procedures do not provide sufficient audit evidence to address completeness, the audit firm should perform one or more of the following procedures: <ul style="list-style-type: none"> - Consider evidence obtained from testing of related accounts. - Develop an expectation of the accounts receivable balance based on the accounts receivable turnover ratio. - Perform tests of details on cash receipts received subsequent to year-end (Subsequent Cash Receipt Testing). • For accounts payable balances – <ul style="list-style-type: none"> – When no confirmation has been received, consider the reasons for non-response. <ul style="list-style-type: none"> ○ Perform alternative procedures to verify the existence (i.e., 	<p>for each material class of transactions, account balance, and disclosure. The auditor is also required to consider whether external confirmation procedures are to be performed as substantive audit procedures.</p> <ul style="list-style-type: none"> • SA 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk. To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both. For example, the auditor may place more emphasis on obtaining evidence directly from third parties or obtaining corroborating evidence from a number of independent sources. SA 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error. • SA 240 indicates that the auditor may design confirmation requests to obtain additional corroborative information as a response to address the assessed risks of
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	<p>subsequent cash disbursements testing & inspection of good receipts notes) when necessary.</p> <ul style="list-style-type: none"> ○ If the above procedures do not provide sufficient audit evidence to address completeness, the audit firm should perform one or more of the following procedures: ○ Consider evidence obtained from testing of related accounts. ○ Develop an expectation of the accounts payable balance based on the accounts payable turnover ratio. ○ Perform test of details on cash payments made subsequent to year-end (Subsequent Cash Disbursement Testing). 	<p>material misstatement, whether due to fraud at the assertion level.</p> <ul style="list-style-type: none"> • SA 500 indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from the representations made by the management. <p>Para 7 of SA 505 provides the manner in which the auditor needs to obtain external confirmation.</p>
<p>What are the various steps to be taken by an audit firm in case there are exceptions noted in the confirmation responses received?</p>	<p>The audit firm should investigate exceptions to determine whether or not they are indicative of misstatements. Exceptions noted in responses to confirmation requests may indicate misstatements or potential misstatements in the financial statements. When a misstatement is identified, the audit firm is required by SA 240 to evaluate whether such misstatement is indicative of fraud. Exceptions also may indicate a deficiency, or deficiencies, in the entity's internal control over financial reporting.</p> <p>Some exceptions do not represent misstatements. For example, the audit firm may conclude that differences in responses to confirmation requests are due to timing, measurement, or clerical errors in the external confirmation procedures.</p>	<p>Para 7 of SA 505:</p> <p>When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:</p> <ul style="list-style-type: none"> (a) Determining the information to be confirmed or requested; (Ref: Para. A1) (b) Selecting the appropriate confirming party; (Ref: Para. A2) (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Ref: Para. A3-A6)
<p>What are the audit procedures to be</p>	<p>For audit of listed entities, the audit firm should investigate relevant</p>	<ul style="list-style-type: none"> (d) Sending the requests, including follow-up

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<p>performed in case of responses to negative confirmation requests?</p>	<p>information provided on negative confirmations that have been returned to the audit firm to determine the effect such information may have on the audit. If the audit firm's investigation of responses to negative confirmation requests indicates a pattern of misstatements, the audit firm should reconsider their combined assessed level of inherent and control risk and consider the effect on planned audit procedures.</p>	<p>requests when applicable, to the confirming party. (Ref. Para. A7)</p>
<p>What are the roll forward procedures to be performed in case the confirmation requests had been circulated at an interim period?</p>	<p>If substantive procedures are performed at an interim date, the audit firm should cover the remaining period by performing:</p> <ul style="list-style-type: none"> (a) substantive procedures, combined with tests of controls for the intervening period; or (b) if the audit firm determines that it is sufficient, further substantive procedures only, <p>that provides a reasonable basis for extending the audit conclusions from the interim date to the period end.</p> <p>A test of details rolls forward procedure ordinarily involves testing the activity (e.g., sales and cash received for accounts receivable) related to the account for the period between the interim date and balance sheet date using audit sampling.</p>	

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Observation 4

As per Para 7(a) to 7(d) of SA 505, all external confirmations require auditors to maintain the control over entire process, if not then further process needs to be followed as specified in Para 8 of SA 505.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>How should an auditor maintain control over external confirmation requests?</p>	<p>An auditor shall maintain control over the entire external confirmation process to minimize the risk of requests and responses being intercepted and altered. An auditor shall send confirmation requests directly to and receive returned confirmations directly from the confirming parties and not allow the client or any party that is not part of the engagement team to send or receive them on auditor's behalf. Maintaining control of the confirmation request process generally includes the following core elements:</p> <ul style="list-style-type: none"> • Selecting the appropriate confirming party. • Providing a format for the confirmation request that outlines the information to be requested. • Testing the validity of the address details provided. • Sending the confirmation directly to the confirming party. • Where sending through the postal mail service, providing a self-addressed envelope with the confirmation requests to enable the confirming party to return the confirmation directly to the auditor. • Performing additional follow-up procedures in circumstances where the confirmation request is returned to the entity's premises or received via email and subsequently provided 	<p>Para 7 of SA 505:</p> <p>When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:</p> <ol style="list-style-type: none"> (a) Determining the information to be confirmed or requested; (Ref: Para. A1) (b) Selecting the appropriate confirming party; (Ref: Para. A2) (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Ref: Para. A3-A6) (d) Sending the requests, including follow-up requests when applicable, to the confirming party. (Ref: Para. A7) <p>Para 8 of SA 505:</p> <p>If management refuses to allow the auditor to send a confirmation request, the auditor shall:</p> <ol style="list-style-type: none"> (a) Inquire as to management's reasons for the refusal and seek audit evidence as to their validity and reasonableness;

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	<p>to the audit engagement team (e.g., requesting the confirming party to send a new response directly to the auditor).</p>	<p>(Ref: Para. A8)</p> <p>(b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and (Ref: Para. A9)</p> <p>(c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. (Ref: Para. A10)</p>
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Observation 5

External confirmations obtained, if any, were not available with the firm. Further details and records were also not available with the firm with regard to the list of parties selected for confirmation, evidence for request sent for confirmation, the follow-up request and the details of action taken, if any, post receipt of confirmation as required under SA 505.

It has been informed and given to understand by the Firm, that the firm has duly sought for external confirmation although the related files and documents containing such external confirmation were kept at the office of the client due to space constraint at the firm's premises.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What are the requirements relating to the storage of audit working papers?</p>	<p>SQC 1 requires audit firms to design and implement controls to maintain the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation.</p>	<p>Para 77 of SQC 1:</p> <p>The firm should establish policies and procedures designed to maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.</p> <p>Para 78 of SQC 1:</p> <p>Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so. Specific laws or regulations may impose additional obligations on the firm's personnel to maintain client confidentiality, particularly where data of a personal nature are concerned.</p> <p>Para 79 of SQC 1:</p> <p>Whether engagement documentation is in paper, electronic or other media, the integrity, accessibility or retrievability of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged.</p>

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		<p>Accordingly, the firm designs and implements appropriate controls for engagement documentation to:</p> <ul style="list-style-type: none"> (a) Enable the determination of when and by whom engagement documentation was created, changed or reviewed. (b) Protect the integrity of the information at all stages of the engagement, especially when the information is shared within the engagement team or transmitted to other parties via the Internet. (c) Prevent unauthorized changes to the engagement documentation; and (d) Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities. <p>Para 80 of SQC 1:</p> <p>Controls that the firm may design and implement to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation include, for example:</p> <ul style="list-style-type: none"> • The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users. • Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement. • Procedures for properly distributing engagement documentation to the team members at the start of engagement, processing it during
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		<p>engagement, and collating it at the end of engagement.</p> <ul style="list-style-type: none">• Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation. <p>Para 81 of SQC 1:</p> <p>For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:</p> <ul style="list-style-type: none">(a) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations.(b) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and(c) Enable the scanned copies to be retrieved and printed as necessary. <p>The firm considers whether to retain original paper documentation that has been scanned for legal, regulatory or other reasons.</p>
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Observation 6

During the review, it was observed that the audit firm has obtained audit evidence with respect to balance outstanding on account of finance lease is the initial schedule of repayment to the lessor. As per SA 500 & SA 505, audit evidence is reliable when the auditor obtains it directly from the independent source and it is in the documentary form. Obtaining year end confirmation of balance from the lessor would be sufficient and appropriate audit evidence in accordance with SAs.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why should an audit firm obtain external confirmation?</p>	<p>Following are the reasons why an audit firm should obtain external confirmation:</p> <p>Independent and Objective Evidence:</p> <p>External confirmations provide independent and objective evidence directly from a third party. This can enhance the reliability of the audit evidence obtained, as it comes from a source external to the entity being audited.</p> <p>Corroboration of Management Assertions:</p> <p>External confirmation helps corroborate the information provided by the management of the audited entity. By obtaining confirmation from external parties, the audit firm can verify the accuracy and completeness of the information reported in the financial statements.</p> <p>Reduced Risk of Fraud:</p> <p>External confirmation can help reduce the risk of fraud, as it involves communication with parties outside the control of the audited entity. This is particularly important for key audit areas where there is a higher risk of material misstatement due to fraud.</p>	<p>Para 2 of SA 505:</p> <p>SA 500 indicates that the reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. That SA also includes the following generalisations applicable to audit evidence:</p> <ul style="list-style-type: none"> • Audit evidence is more reliable when it is obtained from independent sources outside the entity. • Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference. • Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium. <p>Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties</p>

	<p>Enhanced Credibility:</p> <p>External confirmation enhances the credibility of the audit process and the financial statements. It demonstrates to users of financial statements, such as investors and creditors, that the audit firm has taken additional steps to verify the information provided by the entity.</p> <p>Completeness of Information:</p> <p>External confirmation helps ensure the completeness of information. It can provide the audit firm with information about transactions or balances that may not have been previously disclosed by the entity.</p> <p>Legal and Regulatory Requirements:</p> <p>In some cases, legal or regulatory requirements may mandate the use of external confirmations. Adherence to these requirements ensures that the audit is conducted in accordance with applicable professional standards and laws and regulations.</p> <p>Adequate and Appropriate Audit Evidence:</p> <p>SA 505 emphasizes that the audit firm should obtain sufficient, appropriate audit evidence to support the audit opinion. External confirmation is often considered appropriate audit evidence when the audit firm can obtain it from knowledgeable and independent sources.</p> <p>Addressing Informational Asymmetry:</p> <p>External confirmation helps address the informational asymmetry between the audited entity and external parties. It provides the audit firm with a means to independently verify financial information with parties who have a direct interest in the accuracy of that information.</p>	<p>may be more reliable than evidence generated internally by the entity. This SA is intended to assist the auditor in designing and performing external confirmations procedures to obtain relevant and reliable audit evidence.</p> <p>Para 5 of SA 505:</p> <p>The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.</p>
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<p>What steps should be taken by an audit firm while performing audit procedures relating to balance confirmation?</p>	<p>As per para 7 of SA 505, the steps include:</p> <ul style="list-style-type: none"> (a) Determining the information to be confirmed or requested; (b) Selecting the appropriate confirming party; (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (d) Sending the requests, including follow-up requests when applicable, to the confirming party. 	<p>Para 7 of SA 505:</p> <p>When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:</p> <ul style="list-style-type: none"> (a) Determining the information to be confirmed or requested; (Ref. Para. A1) (b) Selecting the appropriate confirming party; (Ref. Para. A2) (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Ref. Para. A3-A6) (d) Sending the requests, including follow-up requests when applicable, to the confirming party. (Ref. Para.A7)
<p>What steps should be taken by an audit firm when management refuses to allow auditor to send external balance confirmations?</p>	<p>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.</p>	<p>Para 8 of SA 505:</p> <p>If management refuses to allow the auditor to send a confirmation request, the auditor shall:</p> <ul style="list-style-type: none"> (a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness; (Ref. Para. A8) (b) Evaluate the implications of management's refusal on the auditor's

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		<p>assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and (Ref. Para. A9)</p> <p>(c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. (Ref. Para. A10)</p>
<p>What steps would be taken by an audit firm if it has doubts about the reliability of external confirmations?</p>	<p>If the audit firm has doubts about the reliability of external confirmations, they should consider performing additional procedures, such as contacting the confirming party to discuss and resolve the doubts or using alternative procedures to obtain the necessary audit evidence.</p>	<p>Para 10 of SA 505:</p> <p>If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those doubts. (Ref. Para. A11–A16)</p> <p>Para 11 of SA 505:</p> <p>If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including the risk of fraud, and on the related nature, timing and extent of other audit procedures. (Ref. Para. A17)</p>
<p>What procedure should be performed by an audit firm if response to external confirmation requests is not received?</p>	<p>SA 505 requires the audit firm to perform alternative procedures when there is a lack of response to external confirmation requests. The audit firm should assess the reasons for non-response and perform additional audit procedures to address any identified risks.</p>	<p>Para 12 of SA 505:</p> <p>In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. (Refer Para A18-A19)</p>

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<p>What is the meaning of the term "sufficiency and appropriateness of audit evidence"?</p>	<p>Sufficiency refers to the quantity or the amount of audit evidence obtained. It is about the quantity of evidence needed to support the auditor's opinion. The audit firm must gather enough evidence to have a reasonable basis for forming an opinion on the financial statements. The sufficiency criterion addresses the question of how much evidence is necessary.</p> <p>Appropriateness refers to the quality or relevance of the audit evidence. It involves assessing the relevance and reliability of the evidence collected. Audit evidence should be appropriate in terms of its reliability and relevance to the financial statement assertions being tested. The appropriateness criterion addresses the question of the quality of evidence.</p>	<p>Para A4 of SA 500:</p> <p>The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.</p> <p>Para A5 of SA 500:</p> <p>Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained.</p>
<p>What is the reliability of external confirmations as per SA?</p>	<p>SA 500 acknowledges that external confirmations can provide high-quality audit evidence when the information being confirmed is significant to the audit. The standard emphasizes the importance of designing external confirmation requests in a way that encourages a response and considers factors affecting reliability.</p> <p>Audit firms should consider the competence and independence of the</p>	<p>Para A57 of SA 500:</p> <p>Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example,</p>

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	<p>respondent, the nature and purpose of the information being confirmed, and the method of confirmation (e.g., mail, electronic). Additionally, follow-up procedures for non-responses or inconsistent responses should be part of the assessment.</p>	<p>responses to inquiries of management, internal audit, and others are inconsistent, or when responses to inquiries of those charged with governance made to corroborate the responses to inquiries of management are inconsistent with the response by management. SA 230 includes a specific documentation requirement if the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter.</p> <p>Para A31 of SA 500:</p> <p>The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalisations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or a management's expert may lack objectivity. While recognising that exceptions may exist, the following</p>
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		<p>generalisations about the reliability of audit evidence may be useful:</p> <ul style="list-style-type: none">• The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.• The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.• Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).• Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).• Audit evidence provided by original documents is more reliable than audit
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		<p>evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.</p>
<p>What procedure should be carried out by an audit firm while using the work of management's expert?</p>	<p>In order to use the work of Management's expert, an audit firm should perform the following:</p> <p>Understanding the Expertise:</p> <p>The audit firm should understand the nature and extent of the expert's expertise and evaluate whether the expert has the appropriate qualifications and experience.</p> <p>Assessing the Objectivity:</p> <p>The audit firm should assess the objectivity of the expert. It is essential to consider any relationships or interests that might affect the expert's objectivity.</p> <p>Understanding the Work of the Expert:</p> <p>The audit firm needs to understand the work performed by the expert, including the methods and assumptions used. This involves discussing with the expert, the nature and scope of the work.</p> <p>Evaluating the Relevance and Reliability:</p> <p>The audit firm should evaluate the relevance and reliability of the expert's work to the audit. This includes assessing the appropriateness of the expert's methods and the data used.</p> <p>Testing the Data and Assumptions:</p> <p>If the auditor is unable to obtain</p>	<p>Para 8 of SA 500:</p> <p>When information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes: (Ref: Para. A34-A36)</p> <p>(a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A37-A43)</p> <p>(b) Obtain an understanding of the work of that expert; and (Ref: Para. A44-A47)</p> <p>(c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. (Ref: Para. A48)</p>

	<p>sufficient appropriate audit evidence regarding the expert's data or assumptions, they should consider the impact on the audit opinion and may need to perform additional procedures.</p> <p>Documentation:</p> <p>The audit firm should document their understanding of the expert's work, the conclusions reached, and the relevance and reliability of the expert's findings. This documentation is crucial for supporting the audit opinion.</p> <p>Evaluating the Consistency of the Expert's Work:</p> <p>The audit firm should evaluate the consistency of the expert's conclusions with other audit evidence. Inconsistencies may require further investigation.</p> <p>Communication with the Expert:</p> <p>Effective communication with the expert is important throughout the audit process. This includes discussing the terms of the engagement, the objectives of the expert's work, and any significant findings.</p> <p>Considering the Auditor's Expert: If the audit firm engages their own expert, they should also consider the qualifications, competence, and objectivity of their expert.</p> <p>Using the Expert's Work as Audit Evidence:</p> <p>The audit firm can use the work of management's expert as audit evidence, but it is not a substitute for the audit firm's responsibility to obtain sufficient appropriate audit evidence.</p>	
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Chapter 13

Observations related to SA 530, Audit Sampling

Observation 1

Non-compliance of SA 530, absence of testing of financial controls over audit sample selected and fixation of the sample threshold limit commensurate with the audit universe.

What is the issue?	AASB Suggested Guidance	Technical Literature
Why should audit sampling be drawn on the basis of results obtained by testing of financial controls and on the basis of degree of sampling risk the auditor carries in the audit of financial statements?	SA 530 deals with the auditor's use of audit sampling in an audit of financial statements. SA 530 contains requirements and guidance on various aspects of audit sampling e.g. how to design sample, how to determine sample size, how to select items for sample. Complying with requirements of SA 530 ensure an appropriate sample which is representative of the population from which the sample is selected.	<p>Para 6 of SA 530:</p> <p>When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A4-A9)</p> <p>Para 7 of SA 530:</p> <p>The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. (Ref: Para. A10-A11)</p> <p>Para 8 of SA 530:</p> <p>The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. (Ref: Para. A12-A13).</p> <p>Also refer para A15-A16 and Appendix 2 of SA 530.</p>

Observation 2

On review of documentation on hand, the firm has not documented as to how it selects items, audit sampling for testing that are effective in meeting the purpose of the audit procedure.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why it is important for the auditor to identify samples for testing?</p>	<p>As per SA 530, the objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.</p>	<p>Para A4 of SA 530:</p> <p>Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can be applied using either non-statistical or statistical sampling approaches.</p> <p>Para A5 of SA 530:</p> <p>When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling. In fulfilling the requirement of paragraph 9 of SA 500, when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.</p> <p>Para A6 of SA 530:</p> <p>The auditor's consideration of the purpose of the audit procedure, as</p>

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		<p>required by paragraph 6, includes a clear understanding of what constitutes a deviation or misstatement so that all, and only, those conditions that are relevant to the purpose of the audit procedure are included in the evaluation of deviations or projection of misstatements. For example, in a test of details relating to the existence of accounts receivable, such as confirmation, payments made by the customer before the confirmation date but received shortly after that date by the client, are not considered a misstatement. Also, a mis posting between customer accounts does not affect the total accounts receivable balance. Therefore, it may not be appropriate to consider this a misstatement in evaluating the sample results of this particular audit procedure, even though it may have an important effect on other areas of the audit, such as the assessment of the risk of fraud or the adequacy of the allowance for doubtful accounts.</p> <p>Para A7 of SA 530:</p> <p>In considering the characteristics of a population, for tests of controls, the auditor makes an assessment of the expected rate of deviation based on the auditor's understanding of the relevant controls or on the examination of a small number of items from the population. This assessment is made in order to design an audit sample and to determine sample size. For example, if the expected rate of deviation is unacceptably high, the auditor will normally decide not to perform tests of controls. Similarly, for tests of details, the auditor makes an assessment of the expected</p>
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		<p>misstatement in the population. If the expected misstatement is high, 100% examination or use of a large sample size may be appropriate when performing tests of details.</p> <p>Para A8 of SA 530:</p> <p>In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection is appropriate. Appendix 1 provides further discussion on stratification and value-weighted selection.</p> <p>Para A9 of SA 530:</p> <p>The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's judgment; however, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.</p>
<p>How sample should be selected?</p>	<p>As per SA 530, the sample size can be determined by the application of a statistically based formula or through the exercise of professional judgment. Appendices 2 and 3 of SA 530 indicate the examples that various factors typically have on the determination of sample size. When circumstances are similar, the effect on sample size of factors such as those identified in Appendices 2 and 3 will be similar regardless of whether a statistical or non-statistical approach is chosen.</p>	<p>Para A12 of SA 530:</p> <p>With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected. With non-statistical sampling, judgment is used to select sample items. Because the purpose of sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected, it is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items which have characteristics typical of the population.</p> <p>Para A13 of SA 530:</p> <p>The principal methods of selecting samples are the use of random selection, systematic selection and</p>

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		haphazard selection. Each of these methods is discussed in Appendix 4 of SA 530.
<p>How to evaluate the results of audit sampling?</p>	<p>As per SA 530, the audit firm should evaluate:</p> <ul style="list-style-type: none"> (a) The results of the sample; and (b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. <p>When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested.</p> <p>In such cases, the auditor should:</p> <ul style="list-style-type: none"> (1) Request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or (2) Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures. 	<p>Para A21 of SA 530:</p> <p>For tests of controls, an unexpectedly high sample deviation rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained. For tests of details, an unexpectedly high misstatement amount in a sample may cause the auditor to believe that a class of transactions or account balance is materially misstated, in the absence of further audit evidence that no material misstatement exists.</p> <p>Para A22 of SA 530:</p> <p>In the case of tests of details, the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population. When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested. The closer the projected misstatement plus anomalous misstatement is to tolerable misstatement, the more likely that actual misstatement in the population may exceed tolerable misstatement. Also, if the projected misstatement is greater than the auditor's expectations of misstatement used to determine the sample size, the auditor may conclude that there is an unacceptable sampling risk that the actual misstatement in the</p>

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		<p>population exceeds the tolerable misstatement. Considering the results of other audit procedures helps the auditor to assess the risk that actual misstatement in the population exceeds tolerable misstatement, and the risk may be reduced if additional audit evidence is obtained.</p> <p>Para A23 of SA 530:</p> <p>If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population that has been tested, the auditor may:</p> <ul style="list-style-type: none"> • Request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or • Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures.
<p>Why is it important to document the procedures performed by auditors relating to audit sampling and testing?</p>	<p>Audit documentation that meets the requirement of SA 230 and the specific documentation requirements of other relevant SAs provides:</p> <p>(a) Evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory</p>	<p>Para 3 of SA 230:</p> <p>Audit documentation serves a number of additional purposes, including the following:</p> <ul style="list-style-type: none"> • 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.

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	<p>requirements.</p> <p>Therefore, audit firm should document the procedures performed relating to audit sampling and testing.</p>	<ul style="list-style-type: none">• 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 1.• Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.
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Observation 3

Sample selected purely on random basis and in such cases each sampling unit in the population does not have a chance of selection.

What is the issue?	AASB Suggested Guidance	Technical Literature
What is the purpose of Sampling?	The purpose of sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected. Accordingly, it is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items that have characteristics typical of the population.	<p>Para 6 of SA 530:</p> <p>When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A4-A9)</p> <p>Para 7 of SA 530:</p> <p>The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. (Ref: Para. A10-A11)</p> <p>Para 8 of SA 530:</p> <p>The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. (Ref: Para. A12-A13)</p>
What are the approaches to audit sampling?	<p>As per SA 530, there are two approaches of audit sampling:</p> <ul style="list-style-type: none"> • Statistical Sampling. • Non-Statistical Sampling. 	<p>As per para 5(g) of SA 530:</p> <p>Statistical sampling – An approach to sampling that has the following characteristics:</p> <ul style="list-style-type: none"> (i) Random selection of the sample items; and (ii) The use of probability theory to evaluate sample results, including measurement of sampling risk. <p>A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.</p> <p>Para 6 of SA 530:</p>

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		<p>When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A4-A9)</p>
<p>What are the methods of sample selection?</p>	<p>The principal methods of selecting samples are the use of random selection, systematic selection, and haphazard selection.</p> <p>Appendix 4 of SA 530 also provides other methods of sampling:</p> <ul style="list-style-type: none"> • Monetary Unit Sampling. • Block selection. <p>The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.</p>	<p>Para A13 of SA 530:</p> <p>The principal methods of selecting samples are the use of random selection, systematic selection and haphazard selection. Each of these methods is discussed in Appendix 4.</p>

Observation 4

Test Check of Audit Evidence: Non-compliance of SA 530 for not documenting sampling method used, population and sample size selected, items for sample and evaluation of the results of sampling (Para 6, 7, 8, 15 of SA 530).

What is the issue?	AASB Suggested Guidance	Technical Literature
What factors should be considered while determining the sample size for audit testing?	The determination of sample size is a matter of professional judgment. Factors to consider include the nature and size of the population, the audit firm's risk assessment, and the desired level of confidence. Audit firms should also consider the tolerable error, expected error, and other relevant factors in determining the sample size.	<p>Para 7 of SA 530: The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. (Ref. Para. A10-A11)</p> <p>Para 8 of SA 530: The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. (Ref. Para. A12-A13)</p>
What should be the process of evaluation of the results of audit sampling by the audit firm?	Audit firm should evaluate the results of audit sampling by comparing the sample results to the population and assessing the implications of any exceptions or deviations found. The audit firms should consider whether the sample results are consistent with their expectations, and if not, they may need to perform additional procedures or modify the audit approach accordingly.	<p>Para 15 of SA 530: The auditor shall evaluate:</p> <p>(a) The results of the sample; and (Ref. Para. A21-A22)</p> <p>(b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. (Ref. Para. A23)</p>
What steps should be taken by an audit firm if any deviation(s) is identified in the audit samples?	If audit firm identifies any deviations in the audit samples, the audit firm should take appropriate steps to address the identified deviations. These steps typically involve performing additional audit procedures to obtain sufficient and appropriate audit evidence. The audit firm may need to expand the sample size, investigate the nature and cause of the deviations, and assess	<p>Para 12 of SA 530: The auditor shall investigate the nature and cause of any deviations or misstatements identified and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit. (Ref. Para. A17)</p> <p>Para 13 of SA 530: In the extremely rare circumstances</p>

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	<p>their potential impact on the financial statements.</p> <p>Furthermore, the audit firm should consider the implications of the identified deviations for the overall assessment of control risk or the nature, timing, and extent of substantive procedures. Depending on the nature and materiality of the deviations, the audit firm may need to reassess the risk of material misstatement and adjust the audit approach accordingly.</p> <p>It is essential for the audit firm to document the nature of the deviations, the actions taken in response, and their impact on the audit conclusions. Clear and thorough documentation is crucial for supporting the audit firm's findings and conclusions, as well as for providing a basis for review by supervisors, external parties, or regulatory authorities.</p>	<p>when the audit firm considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.</p>
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Chapter 14

Observations related to SA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Observation 1

Non-compliance of SA 580 and SA 540 for not obtaining written representation from management that significant assumptions used in making accounting estimates were reasonable.

Or

Non-compliance of SA 540 in respect of not obtaining written representation from the management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it necessary to obtain written representations from management confirming that significant assumptions used while making accounting estimates were reasonable?</p>	<p>SA 580 discusses the use of written representations. Depending on the nature, materiality and extent of estimation uncertainty, written representations about accounting estimates recognised or disclosed in the financial statements may include representations:</p> <ul style="list-style-type: none"> • About the appropriateness of the measurement processes, including related assumptions and models, used by management in determining accounting estimates in the context of the applicable financial reporting framework, and the consistency in application of the processes. • That the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures. 	<p>Para 9 of SA 580:</p> <p>The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement. (Para.A7-A9, A14, A22)</p> <p>Para 10 of SA 580:</p> <p>The auditor shall request management to provide a written representation that:</p> <p>(a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and</p>

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	<ul style="list-style-type: none"> • That disclosure related to accounting estimates is complete and appropriate under the applicable financial reporting framework. • That no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements. 	<p>(b) All transactions have been recorded and are reflected in the financial statements. (Para.A7-A9, A14, A22)</p> <p>Para 11 of SA 580: Management’s responsibilities shall be described in the written representations required by Para 9 and 10 in the manner in which these responsibilities are described in the terms of the audit engagement.</p> <p>Para 12 of SA 580: Other SAs require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations. (Ref: Para.A10-A13, A14, A22)</p> <p>Para 13 of SA 580: The date of the written representations shall be as near as practicable to, but not after, the date of the auditor’s report on the financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor’s report. (Para.A15-A18)</p> <p>Para 14 of SA 580: The written representations</p>
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		<p>shall be in the form of a representation letter addressed to the auditor. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required by Para 9 or 10, the relevant matters covered by such statements need not be included in the representation letter.(Para.A19-A21)</p> <p>Para 22 of SA 540:</p> <p>The auditor shall obtain written representations from management and, where appropriate, those charged with governance whether they believe significant assumptions used in making accounting estimates are reasonable. (Refer Para. A126-A127)</p>
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Chapter 15

Observations related to SA 550, Related Parties

Observation 1

The firm has not documented the audit procedures conducted for the arm's length transactions as required under SA 550.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it necessary to obtain an understanding of the entity's related party relationships and transactions?</p>	<p>The auditor is required to opine if the financial statements taken as a whole are free from material misstatements whether due to fraud or error. Related Party transactions inherently suffer from management bias and therefore, it is pertinent that auditor carefully performs appropriate and sufficient audit procedures regarding related party transactions.</p> <p>Further, under the Companies Act, 2013 and SEBI LODR Regulations 2015, there are stringent requirements regarding related party transactions. The shareholders' and other stakeholders' interest will only be protected if an entity appropriately identifies related parties, establishes mechanisms to ensure that transactions with those related parties are conducted on an arm's length basis and transparent disclosures are made in the financial statements.</p> <p>As per SA 550, because related parties are not independent, and financial reporting framework requires identification of related parties, therefore, audit firm should perform audit procedures to identify the related parties.</p>	<p>Para 3 of SA 550:</p> <p>Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. Where the applicable financial reporting framework establishes such requirements, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.</p> <p>Para 4 of SA 550:</p> <p>Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and</p>

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	<p>Audit firm should also obtain an understanding of the entity's related party relationships and transactions to be able to conclude whether the financial statements are affected by those relationships and transactions.</p>	<p>transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions: (Ref: Para. A1)</p> <p>(a) Achieve a true and fair presentation (for fair presentation frameworks); or (Ref: Para. A2)</p> <p>(b) Are not misleading (for compliance frameworks) (Ref: Para. A3)</p> <p>Para 5 of SA 550</p> <p>In addition, an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by SA 240 because fraud may be more easily committed through related parties.</p>
<p>How can auditor obtain an understanding of the entity's related party relationships and transactions?</p>	<p>The auditor should perform enquiry procedures with the appropriate management to identify:</p> <p>(a) the related parties of the entity.</p> <p>(b) nature of transactions.</p> <p>(c) completeness of transactions.</p> <p>(d) the controls in the organisation to identify and disclose the related party relationships and transactions.</p> <p>The auditor should also make enquiries of those charged with governance about their review of the management's processes to identify and determine related party transactions and related controls to ensure that those transactions are identified, are at</p>	<p>Para 12 of SA 550:</p> <p>The engagement team discussion that SA 315 and SA 240 require shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions. (Ref: Para. A9-A10)</p> <p>Para 13 of SA 550:</p> <p>The auditor shall inquire of management regarding:</p> <p>(a) The identity of the entity's related parties, including changes from the prior period; (Ref: Para. A11-A14)</p> <p>(b) The nature of the</p>

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	<p>arm's length, are in normal course of business of the entity, are disclosed appropriately. Further, the auditor should enquire about actions that those charged with governance have taken to review the aforementioned management's processes and controls.</p> <p>In identifying related party transactions, it is important for the auditor to:</p> <ul style="list-style-type: none"> • Understand the capital structure of the entity (who are the shareholders, other related entities, relatives defined under the Companies Act, 2013 and other regulations). • Understand the organizational structure of the entity (parent, subsidiary, associates, joint ventures). • Review list of key customers and vendors to determine if those customers or vendors have any relationships with the owners of the entity or other affiliates of the entity. • Review management committees' notes and of those charged with governance. • Obtain and review Risk control matrices and through the procedures of controls testing, determine if there are any exceptions made for certain transactions and whether those exceptions indicate any unidentified related party transactions. • Review the scope of work of internal auditors and also the reports of the internal auditors to determine whether they have performed procedures to test identification of the related 	<p>relationships between the entity and these related parties; and</p> <p>(c) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions.</p> <p>Para 14 of SA 550:</p> <p>The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to: (Ref: Para. A15-A20)</p> <p>(a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework;</p> <p>(b) Authorise and approve significant transactions and arrangements with related parties; and (Ref: Para. A21)</p> <p>(c) Authorise and approve significant transactions and arrangements outside the normal course of business.</p>
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	<p>parties and whether the transactions with related parties are at arm's length in the normal course of business of the entity and that these transactions have been disclosed appropriately.</p>	
<p>Why is it necessary to test whether the transactions with related parties are at Arm's length and what procedures should be performed by auditor?</p>	<p>Examples of audit procedures that may be performed by the auditor to test if the transactions with related parties are at arm's length:</p> <ul style="list-style-type: none"> • If transactions are with the subsidiaries, associates, parent company or joint ventures, determine if transactions are covered under international transactions under Income Tax Act, 1961 and whether the management has determined the arm's length through a management's expert. • For such international transactions where management's expert is used, consider involving an auditor's expert, where available, to review the scope of the management's expert, read the report of management's expert, test the conclusion of management's expert by exercising professional skepticism. Where auditor's expert is not available, auditor needs to perform above procedures himself. • For transactions with subsidiaries, joint ventures, parent, associates that do not involve use of any management's expert, compare those transactions with other similar transactions with third parties (using adequate sampling approach) and conclude whether there 	<p>Para 10(a) of SA 550</p> <p>Arm's length transaction – A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.</p> <p>Para 24 of SA 550:</p> <p>When management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion. (Ref: Para A42-A45)</p>

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	<p>are exceptions that need to be further evaluated and reported upon.</p> <ul style="list-style-type: none">• For transactions with other related parties, determine the nature, amount and timing of those transactions and test whether such transactions are indeed comparable with third party transactions on a sample basis.• For all related party transactions, test whether the entity has taken suitable approvals as required by the underlying laws and regulations.• Test the operating effectiveness of controls that management has put in place to determine that transactions are conducted at arm's length. <p>Management is responsible for the substantiation of an assertion that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction. Management's support for the assertion may include:</p> <ul style="list-style-type: none">• Comparing the terms of the related party transaction to those of an identical or similar transaction with one or more unrelated parties.• Engaging an external expert to determine a market value and to confirm market terms and conditions for the transaction.• Comparing the terms of the transaction to known market terms for broadly similar transactions on an open market.	
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Chapter 16

Observations related to SA 580, Written Representations

Observation 1

Non-compliance of SA 580 in relation to not containing the appropriate management representation accepting the responsibility regarding design, implementation and maintenance of internal control to prevent and detect fraud.

Or

Non-compliance of SA 580, failure to obtain management representation letter in respect of various matters under audit including those for consolidation of accounts.

Or

The firm has no management representation letter from the auditee, instead they have a management certificate which states the major accounting changes and estimates during the year.

Or

In terms of SA 580, written representation letter obtained from management have no information in relation to the following:

"We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with Financial Reporting Standards; in particular the financial statements are fairly presented (or give a true and fair view) in accordance with the applicable accounting standards in India."

"Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of applicable accounting standards in India. (SA 550)".

What is the issue?	AASB Suggested Guidance	Technical Literature
Why it is necessary to obtain written representations from management for various matters under audit?	Written representations are an important form of audit evidence. Written representations supplement the audit evidence obtained through other means.	Para 2 of SA 580: Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: Para. A1)

		<p>Para 3 of SA 580:</p> <p>Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.</p> <p>Para 5 of SA 580:</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none">(a) To obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor;(b) To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations, if determined necessary by the auditor or required by other SAs; and(c) To respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or if management or, where appropriate, those charged with governance do not provide the written representations requested by the auditor.
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<p>From whom the auditor should request written representations?</p>	<p>The auditor should request written representations from appropriate management of the entity.</p>	<p>Para 8 of SA 580: The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: Para. A2-A6)</p>
<p>What are various written representations required to be obtained by auditors?</p>	<p>Broad types of Written Representations required to be obtained by auditors:</p> <ol style="list-style-type: none"> (1) Written Representations about Management's Responsibilities (Para 9-11 of SA 580) (2) Written Representations required by other SAs (These written representations are given in respective SAs) (3) Other Written Representations (Para 12 of SA 580) 	<p>Para 9 of SA 580: The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement. (Ref: Para. A7-A9, A14, A22)</p> <p>Para 10 of SA 580: The auditor shall request management to provide a written representation that:</p> <ol style="list-style-type: none"> (a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and (b) All transactions have been recorded and are reflected in the financial statements. (Ref: Para. A7-A9, A14, A22) <p>Para 11 of SA 580: Management's responsibilities shall be described in the written representations required by paragraphs 9 and 10 in the manner in which these responsibilities are described in the terms of the audit engagement.</p> <p>Para 12 of SA 580: Other SAs require the auditor to request written representations. If, in</p>

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		<p>addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations. (Ref: Para. A10-A13, A14, A22)</p> <p>Also refer Appendix of SA 580, which contains illustrative written representation letter. The illustrative written representation letter is based on written representations required by SA 580 and other SAs.</p>
What should be Date of and Period(s) Covered by Written Representations?	The date of written representations should be as near as practicable to, the date of auditor's report. Further, written representations should cover all period(s) referred to in auditor's report.	<p>Para 13 of SA 580:</p> <p>The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor's report. (Ref: Para. A15-A18)</p>
What should be the Form of Written Representations?	Written representations should be in the form of a representation letter addressed to the auditor i.e. written representations should be in writing.	<p>Para 14 of SA 580:</p> <p>The written representations shall be in the form of a representation letter addressed to the auditor. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required by paragraphs 9 or 10, the relevant matters covered by such statements need not be included in the representation letter. (Ref: Para. A19-A21)</p>
What procedures	In such situation, auditor should	Para 15 of SA 580:

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<p>should be carried out by an auditor if he has doubt as to the reliability of Written Representations?</p>	<p>perform procedures given in para 15-17 of SA 580.</p>	<p>If the auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, the auditor shall determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: Para. A24-A25)</p> <p>Para 16 of SA 580:</p> <p>In particular, if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: Para. A23)</p> <p>Para 17 of SA 580:</p> <p>If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705(Revised), having regard to the requirement in paragraph 19 of this SA.</p>
<p>What audit procedures should be carried out by an auditor if requested Written Representation is not provided?</p>	<p>In such situation, auditor should perform procedures given in para 18 of SA 580.</p>	<p>Para 18 of SA 580:</p> <p>If management does not provide one or more of the requested written representations, the auditor shall:</p> <ul style="list-style-type: none"> (a) Discuss the matter with management; (b) Re-evaluate the integrity of management and evaluate the

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		<p>effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and</p> <p>(c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705(Revised), having regard to the requirement in paragraph 19 of this SA.</p>
<p>What should auditor do if written representations about management's responsibilities are not reliable or management does not provide them?</p>	<p>In such situation, the auditor should disclaim opinion on financial statements as per SA 705(Revised).</p>	<p>Para 19 of SA 580:</p> <p>The auditor shall disclaim an opinion on the financial statements in accordance with SA 705(Revised) if: (Ref: Para. A26-A27)</p> <p>(a) The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by paragraphs 9 and 10 are not reliable; or</p> <p>(b) Management does not provide the written representations required by paragraphs 9 and 10.</p>

Observation 2

- (i) The Management Representation letter obtained did not cover the following aspects:
- Whether all transactions have been recorded in the accounting records and are reflected in the financial statements. (Para 10 of SA 580)
 - Whether the management has disclosed to the Auditor, the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud. (Para 39(b) read with Para A58(a) of SA 240)
 - Whether they believe significant assumptions used in making accounting estimates were reasonable. (Para 22 read with Para A126 of SA 540).
 - Representation from the management regarding provisioning and payment of dividend, unpaid dividend and the amount liable to be transferred to Investor Education and Protection Fund. (Para 33 of Guidance Note on Audit of Payment of Dividend)
- (ii) Management Representation Letter from the parent's management on the consolidated financial statements was not obtained. (Para 45 of Guidance Note on Audit of Consolidated Financial Statements (Revised 2016)).
- (iii) Management Representation Letters were also not obtained for:
- Issuance of certificate on Corporate Governance- (Para 10 of Guidance Note on Certification of Corporate Governance)
 - Limited Review Assignments (Para 34 of SRE 2410).

What is the issue?	AASB Suggested Guidance	Technical Literature
What should be included as part of the Management Representation letter in relation to an audit of financial statements?	<p>An auditor shall request the management to provide the following written representations:</p> <ul style="list-style-type: none"> • Management has fulfilled its responsibility for the preparation of the financial statements in accordance with applicable financial reporting framework. • Management has provided all relevant information and access to the auditor, and all transactions have been recorded and are 	<p>Para 8 of SA 580:</p> <p>The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: Para. A2-A6)</p> <p>Para 9 of SA 580:</p> <p>The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement. (Ref: Para. A7-A9, A14, A22)</p>

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	<p>reflected in the financial statements.</p> <ul style="list-style-type: none"> • Such other representations as are required by other SAs. • Other representations, that the auditor determines necessary to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements. 	<p>Para 10 of SA 580:</p> <p>The auditor shall request management to provide a written representation that:</p> <ul style="list-style-type: none"> (a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and (b) All transactions have been recorded and are reflected in the financial statements. (Ref: Para. A7-A9, A14, A22) <p>Para 12 of SA 580:</p> <p>Other SAs require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations. (Ref: Para. A10-A13, A14, A22)</p> <p>Also refer Appendix of SA 580, which contains illustrative written representation letter. The illustrative written representation letter is based on written representations required by SA 580 and other SAs.</p>
<p>An auditor has obtained a management representation letter while reporting on the standalone financial statements. Whether a management representation letter is required from the parent's management</p>	<p>Considering the requirements of SA 580 and Guidance Note on Audit of Consolidated Financial Statements (Revised 2016), an auditor reporting on the standalone financial statements and consolidated financial statements shall obtain separate management representation letters for the standalone financial statements and consolidated financial statements.</p>	<p>Para 5 of SA 580:</p> <p>The objectives of the auditor are:</p> <ul style="list-style-type: none"> (a) To obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor; (b) To support other audit evidence relevant to the financial statements or

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<p>while reporting on the consolidated financial statements?</p>		<p>specific assertions in the financial statements by means of written representations, if determined necessary by the auditor or required by other SAs; and</p> <p>(c) To respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or if management or, where appropriate, those charged with governance do not provide the written representations requested by the auditor.</p> <p>Para 45 of Guidance Note on Audit of Consolidated Financial Statements (Revised 2016)</p> <p>Standard on Auditing (SA) 580, —Written Representations requires the auditor to obtain appropriate representations from management. The auditor of the consolidated financial statements should obtain evidence that the management of the parent acknowledges its responsibility for a true and fair presentation of the consolidated financial statements in accordance with the financial reporting framework applicable to the parent and that parent’s management has approved the consolidated financial statements. In addition, the auditor of the consolidated financial statements should obtain written representations from parent’s management on matters material to the consolidated financial statements. Examples of such representations include:</p> <p>(a) Completeness of components included in the consolidated financial statements;</p> <p>(b) Identification of reportable segments for segment reporting;</p> <p>(c) Identification of related parties and related party transactions for</p>
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		<p>reporting;</p> <p>(d) Appropriateness and completeness of permanent and current period consolidation adjustments, including the elimination of intra-group transactions.</p>
<p>Is it mandatory to obtain written representations from management while performing a Review of Interim Financial information?</p>	<p>An auditor shall obtain a written representation from management while performing a Review of Interim Financial information.</p>	<p>Para 34 of SRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity</p> <p>The auditor should obtain written representation from management that:</p> <p>(a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;</p> <p>(b) The interim financial information is prepared and presented in accordance with the applicable financial reporting framework;</p> <p>(c) It believes the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. A summary of such items is included in or attached to the written representations;</p> <p>(d) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;</p> <p>(e) It has disclosed to the auditor the results of its assessment of the risks that the interim financial information may be materially misstated as a result of fraud;</p> <p>(f) It has disclosed to the auditor all known actual or possible noncompliance with laws and regulations whose effects are to be considered when preparing the</p>

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		<p>interim financial information; and</p> <p>(g) It has disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the interim financial information.</p> <p>Para 35 of SRE 2410:</p> <p>The auditor obtains additional representations as are appropriate related to matters specific to the entity's business or industry. An illustrative management representation letter is set out in Appendix 3 to this SRE.</p>
<p>Is it mandatory to obtain written representation from management while performing certification of Corporate Governance?</p>	<p>An auditor shall obtain written representation from management while performing certification of Corporate Governance.</p>	<p>Para 10 of Guidance Note on Certification of Corporate Governance (Revised 2009)</p> <p>The auditor should consider obtaining management representations on conditions of Corporate Governance in accordance with SA 580, "Written Representations".</p>

Chapter 17

Observations related to SA 610(Revised), Using the Work of Internal Auditors

Observation 1

Non-compliance of SA 610 for 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.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it considered necessary to document conclusions regarding the evaluation of the adequacy of the work of the internal auditors?</p> <p>Whether auditor is required to read internal audit reports?</p>	<p>As per SA 610(Revised), the auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced when the auditor uses the work of the internal audit function.</p> <p>SA 610(Revised) provides that if the auditor decides to use specific work of internal audit function, the auditor is required to perform certain audit procedures to evaluate the adequacy of that work for purposes of audit. These procedures include reading the internal audit reports. Further, SA 610(Revised) requires the auditor to document the audit procedures performed to evaluate adequacy of work of internal audit function.</p>	<p>Para 21 of SA 610(Revised):</p> <p>If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of its work with the function as a basis for coordinating their respective activities. (Ref: Para. A24–A26)</p> <p>Para 22 of SA 610(Revised):</p> <p>The external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.</p> <p>Para 23 of SA 610(Revised):</p> <p>The external auditor shall perform sufficient audit procedures on the body of work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether:</p> <p>(a) The work of the function had been properly planned,</p>

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		<p>performed, supervised, reviewed and documented;</p> <p>(b) Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and</p> <p>(c) Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed. (Ref: Para. A27–A30)</p> <p>Para 24 of SA 610(Revised):</p> <p>The nature and extent of the external auditor’s audit procedures shall be responsive to the external auditor’s evaluation of:</p> <p>(a) The amount of judgment involved;</p> <p>(b) The assessed risk of material misstatement;</p> <p>(c) The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors; and</p> <p>(d) The level of competence of the function; (Ref: Para. A27–A29)</p> <p>and shall include reperformance of some of the work. (Ref: Para. A30)</p> <p>Para 25 of SA 610(Revised):</p> <p>The external auditor shall also evaluate whether the external auditor’s conclusions regarding the internal audit function in paragraph 15 of this SA and the determination of the nature and extent of use of the work of the function for purposes of the audit in paragraphs 18–19 of this SA remain</p>
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		<p>appropriate.</p> <p>Para 36 of SA 610(Revised)</p> <p>If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:</p> <p>(a) The evaluation of:</p> <ul style="list-style-type: none">(i) Whether the function’s organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors;(ii) The level of competence of the function; and(iii) Whether the function applies a systematic and disciplined approach, including quality control; <p>(b) The nature and extent of the work used and the basis for that decision; and</p> <p>(c) The audit procedures performed by the external auditor to evaluate the adequacy of the work used.</p>
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Observation 2

There is no documentation on record for evaluation of scope of internal audit and their independence. Further, there is no document on record as to how the firm evaluated the points raised by the internal auditors in their internal audit reports (SA 610).

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it necessary to document evaluation of internal auditor's work and evaluation of independence of internal auditor?</p>	<p>As per SA 610(Revised), the auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced when the auditor uses the work of the internal audit function.</p> <p>SA 610(Revised) provides that before deciding to use specific work of internal audit function, the auditor needs to evaluate various factors. These factors include objectivity of internal audit function. SA 610(Revised) also provides that if the auditor decides to use specific work of internal audit function, the auditor is required to perform certain audit procedures to evaluate the adequacy of that work for purposes of audit. These procedures include reading the internal audit reports. Further, SA 610(Revised) requires the auditor to document the audit procedures performed to:</p> <p>(a) Evaluate the objectivity of internal audit function. (b) Evaluate adequacy of work of internal audit function.</p> <p>As per SA 230, the objective of the audit firm should be to prepare documentation that provides:</p> <p>(a) A sufficient and</p>	<p>Para 36 of SA 610(Revised):</p> <p>If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:</p> <p>(a) The evaluation of:</p> <p>(i) Whether the function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; (ii) The level of competence of the function; and (iii) Whether the function applies a systematic and disciplined approach, including quality control;</p> <p>(b) The nature and extent of the work used and the basis for that decision; and</p> <p>(c) The audit procedures performed by the external auditor to evaluate the adequacy of the work used.</p> <p>Para 2 of SA 230:</p> <p>Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides:</p> <p>(a) Evidence of the auditor's basis for a conclusion about the</p>

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	<p>appropriate record of the basis for the auditor's report; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>The audit firm should keep record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.</p> <p>Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.</p>	<p>achievement of the overall objectives of the auditor; and</p> <p>(b) Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.</p> <p>Para 3 of SA 230:</p> <p>Audit documentation serves a number of additional purposes, including the following:</p> <ul style="list-style-type: none"> • 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 1. • Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.
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Chapter 18

Observations related to SA 700(Revised), Forming an Opinion and Reporting on Financial Statements

Observation 1

Non-compliance of SA 700(Revised) for not mentioning the period for which the accounts of external branches have been considered for consolidation purposes.

What is the issue?	AASB Suggested Guidance	Technical Literature
Is it mandatory to mention the period for which accounts of different branches have been considered for consolidation purposes?	SA 700(Revised) contains various requirements regarding the form and content of the auditor's report on financial statements. These requirements include the requirement to mention the period of each financial statement which is part of the financial statements.	Para 24(e) of SA 700 (Revised): The Opinion section of the auditor's report shall also: Specify the date of, or period covered by, each financial statement comprising the financial statements. (Ref: Para. A17–A18).

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Observation 2

Non-compliance of SA 700(Revised) for the Independent Auditor's Report was signed by a Partner other than the Engagement Partner where the Audit Firm was appointed as the auditor.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Whether a partner other than the engagement partner can sign the Audit Report?</p>	<p>SA 700(Revised) contains requirements regarding the manner of signing of auditor's report.</p> <p>SA 700(Revised) requires engagement partner to sign the auditor's report.</p>	<p>Para 46 of SA 700(Revised):</p> <p>The auditor's report shall be signed. The report is signed by the auditor (i.e. the engagement partner) in his personal name. Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India. They also include the registration number of the firm, wherever applicable, as allotted by ICAI, in the audit reports signed by them. (Ref: Para. A56-A57)</p> <p>Para 7(a) of SA 220:</p> <p>Engagement partner – the partner or other person in the firm who is a member of the Institute of Chartered Accountants of India and is in full time practice and is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.</p> <p>Para 15 of SA 220:</p> <p>The engagement partner shall take responsibility for:</p>

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		<p>(a) The direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements; and (Ref: Para. A13-A15, A20)</p> <p>(b) The auditor's report being appropriate in the circumstances.</p> <p>Para 17 of SA 220:</p> <p>On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: Para.A18-A20)</p> <p>Para 18 of SA 220:</p> <p>The engagement partner shall:</p> <p>(a) Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters.</p> <p>(b) Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.</p> <p>(c) Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with</p>
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		the party consulted; and (d) Determine that conclusions resulting from such consultations have been implemented. (Ref: Para A21-A22)
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Observation 3

Para 5 of the report "Information other than the standalone financial statements and auditor's report" thereon (subject to modification on case-to case basis) is incomplete. The firm should have incorporated complete para as per SA 700(Revised).

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Is Information other than the standalone financial statements and auditor's report required to be reported in auditor's report?</p>	<p>SA 700(Revised) requires reporting on other information, where applicable, in accordance with SA 720(Revised).</p> <p>Para 21 of SA 720(Revised) requires auditors to include a separate section on "Other Information" in auditor's report.</p>	<p>Para 32 of SA 700(Revised)</p> <p>Where applicable, the auditor shall report in accordance with SA 720 (Revised).</p> <p>Para 21 of SA 720 (Revised)</p> <p>The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:</p> <p>(a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or</p> <p>(b) For an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)</p>
<p>What should be reported under "other information" section?</p>	<p>The contents of Other Information Section to be given in auditor's report depend on various factors such as:</p> <ul style="list-style-type: none"> • Whether the entity is a listed entity or unlisted corporate entity. • Whether other information has been obtained by auditor prior to or after the date of the auditor's report. • Whether auditor has concluded that an uncorrected material misstatement of other information 	<p>Para 22 of SA 720 (Revised)</p> <p>When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)</p> <p>(a) A statement that management is responsible for the other information.</p> <p>(b) An identification of:</p> <p style="padding-left: 20px;">(i) Other information, if any,</p>

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	<p>exists.</p> <p>Illustrative Para in audit report on other information</p> <p>The Company's Board of Directors is responsible for the other information.</p> <p>The other information comprises the [information included in the XX report but does not include the financial statements and our auditor's report thereon.]</p> <p>Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.</p> <p>In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.</p>	<p>obtained by the auditor prior to the date of the auditor's report; and</p> <p>(ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report.</p> <p>(c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon.</p> <p>(d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this SA; and</p> <p>(e) When other information has been obtained prior to the date of the auditor's report, either:</p> <p>(i) A statement that the auditor has nothing to report; or</p> <p>(ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.</p>
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Observation 4

The accounting policy followed by the company on revenue recognition is not in line with AS 9 and the audit firm should have brought this to the notice of those responsible for the compilation of annual financial statements.

As per Para 8 and 9 of AS 11 and requirements of disclosure instructions as given in para 5(i) under Instructions for Profit & Loss account in Schedule III of the Companies Act 2013, the impact of foreign exchange fluctuation should be separately disclosed.

In the financial statements a separate disclosure of the impact of foreign exchange fluctuation has not been made.

Employee's benefit: The company has not made the disclosures as required under Para 119-120 of AS 15. The firm has also not reported the matter of non-disclosure in its audit report and/or to those responsible for compilation of financial statements.

The Company has not made the required disclosures. The firm has also not reported the matter of non-disclosure in its audit report and/or to those responsible for compilation of financial statements.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Whether auditor needs to evaluate misstatements identified during the audit before forming opinion on the financial statements?</p>	<p>The auditor needs to evaluate the misstatements identified during the audit before forming an opinion on the financial statements. The auditor needs to evaluate the effect of uncorrected misstatements on the financial statements. During this evaluation, the auditor needs to determine whether uncorrected misstatements are material to the financial statements, either individually or in aggregate.</p> <p>SA 450 contains relevant requirements for auditors in this regard.</p>	<p>Para 5 of SA 450:</p> <p>The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. (Ref: Para. A2-A3)</p> <p>Para 8 of SA 450:</p> <p>The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor shall request management to correct those misstatements. (Ref: Para. A7-A9)</p> <p>Para 9 of SA 450:</p> <p>If management refuses to correct some or all of the misstatements communicated by</p>

		<p>the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement. (Ref: Para. A 10)</p> <p>Para 10 of SA 450:</p> <p>Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320 to confirm whether it remains appropriate in the context of the entity's actual financial results. (Ref: Para. A11-A12)</p> <p>Para 11 of SA 450:</p> <p>The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:</p> <p>(a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; and (Ref: Para. A13-A17, A19-A20)</p> <p>(b) 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.</p>
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		<p align="center">(Ref: Para. A18)</p> <p>Para 12 of SA 450:</p> <p>The auditor shall communicate with those charged with governance 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. (Ref: Para. A21-A23)</p> <p>Para 13 of SA 450:</p> <p>The auditor shall also communicate with those charged with governance 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.</p>
<p>What are the requirements when forming an opinion on financial statements?</p>	<p>As per SA 700(Revised)</p> <p>The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:</p> <p>(a) The auditor’s conclusion, in accordance with SA 330, whether</p>	<p>Para 12 of SA 700 (Revised):</p> <p>The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments. (Ref: Para. A1–A3)</p> <p>Para 13 of SA 700 (Revised):</p> <p>In particular, the auditor shall</p>

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	<p>sufficient appropriate audit evidence has been obtained.</p> <p>(b) The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate.</p>	<p>evaluate whether, in view of the requirements of the applicable financial reporting framework:</p> <p>(a) The financial statements adequately disclose the significant accounting policies selected and applied.</p> <p>(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate.</p> <p>(c) The accounting estimates made by management are reasonable.</p> <p>(d) The information presented in the financial statements is relevant, reliable, comparable and understandable.</p> <p>(e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para.A4)</p> <p>(f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.</p> <p>Para 14 of SA 700 (Revised):</p> <p>When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor's</p>
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		<p>evaluation as to whether the financial statements achieve fair presentation shall include consideration of:</p> <p>(a) The overall presentation, structure and content of the financial statements; and</p> <p>(b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.</p> <p>Para 15 of SA 700 (Revised):</p> <p>The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A5–A10)</p>
<p>When should auditor form an unmodified opinion and modified opinion as per SA 700(Revised)?</p>	<p>As per SA 700(Revised):</p> <p>Unmodified opinion</p> <p>The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>Modified opinion</p> <p>If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with SA 705(Revised).</p>	
<p>When should an auditor form unmodified</p>	<p>As per SA 705 (Revised)</p> <p>SA 700 (Revised) requires the auditor,</p>	<p>Para 6 of SA 705 (Revised)</p> <p>The auditor shall modify the</p>

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<p>opinion as per SA 705(Revised)?</p>	<p>in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with SA 450.</p> <p>As per SA 705 (Revised)</p> <p>SA 450 defines a misstatement as 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. Accordingly, a material misstatement of the financial statements may arise in relation to:</p> <ul style="list-style-type: none"> (a) The appropriateness of the selected accounting policies. (b) The application of the selected accounting policies; or (c) The appropriateness or adequacy of disclosures in the financial statements. 	<p>opinion in the auditor's report when:</p> <ul style="list-style-type: none"> (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2–A7) (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8– A12)
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Observation 5

In terms of section 227(3)(b) of Companies Act 1956, [Presently, section 143(3)(b) of Companies Act 2013] the Auditors' report is required to state, "whether in his opinion proper books of account as required by law has been kept by the company so far as appears from his examination of those books & proper returns adequate for the purpose of his audit have been received from branches not visited by him". The audit firm in its audit report has not stated the fact about the receipt of returns from the branches not visited by them.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Are there any additional reporting responsibilities to be presented in the auditor's report with respect to maintenance of books of account by companies?</p> <p>Are there any specific guidelines or requirements for reporting on other legal and regulatory requirements in the auditor's report?</p>	<p>Section 143(3) of Companies Act 2013 requires auditors to report on certain matters in their audit report. These reporting responsibilities are in addition to the reporting responsibilities prescribed under Standards on Auditing. These reporting responsibilities include the requirement of Section 143(3)(b) w.r.t. maintenance of books of account by companies.</p> <p>These additional reporting responsibilities are covered by auditors in their audit report under a separate section – "Report on Other Legal and Regulatory Requirements".</p> <p>As per SA 700 (Revised)</p> <p>In the case of some entities, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under the SAs. For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records, internal control over financial reporting or other information. Standard on Auditing and/or other relevant</p>	<p>Para 43 of SA 700 (Revised)</p> <p>If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the SAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the SAs. (Ref: Para. A53–A55)</p> <p>Para 45 of SA 700 (Revised)</p> <p>If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirement of paragraphs 20-</p>

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	<p>pronouncements of the ICAI often provide guidance on the auditor’s responsibilities with respect to specific additional reporting responsibilities in such situations.</p>	<p>40 of this SA shall be included under a section with a heading “Report on the Audit of the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” shall follow the “Report on the Financial Statements.” (Ref: Para. A55)</p>
<p>Is there any illustrative format of an auditor’s report on reporting on other legal and regulatory requirements?</p>	<p>Illustrative Reporting given under SA 700(Revised)</p> <p>Report on Other Legal and Regulatory Requirements</p> <p>1. As required by the Companies (Auditor’s Report) Order, 2020 (“the Order”), issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act, 2013, we give in the Annexure, a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.</p> <p>2. As required by Section 143(3) of the Act, we report that:</p> <p>(a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.</p> <p>(b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.]</p> <p>(c) [The reports on the accounts of the branch offices of the Company audited under Section 143(8) of the Act by branch auditors have been sent to us and have been properly dealt with by us in preparing this</p>	<p>Refer illustrative formats of auditor’s report given in SA 700(Revised)</p>

	<p>report].</p> <p>(d) The Balance Sheet, the Statement of Profit and Loss, (the Statement of Changes in Equity) and the Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from the branches not visited by us].</p> <p>(e) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act.</p> <p>(f) On the basis of the written representations received from the directors as on 31st March, 20XX taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 20XX from being appointed as a director in terms of Section 164(2) of the Act.</p> <p>(g) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in “Annexure A”.</p> <p>(h) With respect to the other matters to be included in the Auditor’s Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:</p> <p style="padding-left: 20px;">i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Note XX to the financial statements; [or the Company does not have any pending litigations which</p>	
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	<p>would impact its financial position]</p> <p>ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts – Refer Note XX to the financial statements; [or the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.]</p> <p>iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company {or, following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company or there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company}.</p>	
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Observation 6

Under Auditor’s Report - Report on Other Legal and Regulatory Requirements - Point g(iii), it is mentioned “there has been no delay in transferring amount required to be transferred to the Investor Education and Protection Fund by the company”. While going through the working papers of the audit firm with respect to any amount to be transferred to Investor Education and Protection Fund, it was observed that there was no amount which was required to be transferred.

The reporting done indicates that there was some amount to be transferred and there was no delay, however this was not the case.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What is the responsibility of an Audit Firm while forming an opinion on the financial statements?</p>	<p>As per SA 700(Revised), the audit firm is responsible to ensure that their audit report promotes the user’s understanding and to identify unusual circumstances when they occur.</p> <p>As per SA 700(Revised), the audit firm is required to ensure that an opinion on the financial statements is formed based on an evaluation of the conclusions drawn from the audit evidence obtained; and also ensure that a clear opinion is expressed through a written report which is not ambiguous.</p>	<p>Para 4 of SA 700 (Revised):</p> <p>The requirements of this SA are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor’s report more relevant to users. This SA promotes consistency in the auditor’s report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor’s report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user’s understanding and to identify unusual circumstances when they occur.</p> <p>Para 6 of SA 700 (Revised):</p>

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		<p>The objectives of the auditor are:</p> <p>(a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and</p> <p>(b) To express clearly that opinion through a written report.</p>
<p>What steps should an audit firm take to ensure that audit report issued by them is clear and correct?</p>	<p>As per SQC 1, the engagement quality control reviewer wherever appointed should perform following procedures:</p> <ul style="list-style-type: none"> • Discussion with engagement partner. • Review of Financial Statements. • Review of Audit report. • Review of select working papers. 	<p>Para 64 of SQC 1:</p> <p>An engagement quality control review ordinarily involves discussion with the engagement partner, a review of the financial statements or other subject matter information and the report, and, in particular, consideration of whether the report is appropriate. It also involves a review of selected working papers relating to the significant judgments that the engagement team made and the conclusions they reached. The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.</p>

Chapter 19

Observations related to SA 706(Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Observation 1

Non-execution of title deeds in case some land in favour of the company has been disclosed in the footnote to Note No. 9 of the financial statements. The disclosure has been made only in respect of the area of the Land without specifying the value. The auditors should have obtained the information regarding aggregate value of such land and if material the same should have been reported under emphasis of matter.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What is the reporting requirement under SA 706 (Revised)?</p>	<p>As per SA 706(Revised), While reporting emphasis of matter paragraph, the audit firm should assess if the matter is of such importance that it is fundamental to users' understanding of the financial statements, if so, the audit firm should include an Emphasis of Matter paragraph in the auditor's report provided:</p> <p>(a) The auditor would not be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter; and</p> <p>(b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.</p>	<p>Para A16 of SA 706(Revised):</p> <p>The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with SA 700 (Revised). For example:</p> <p>Emphasis of Matter Paragraphs</p> <ul style="list-style-type: none"> • When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable, the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion. • When a Key Audit Matters section is

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		<p>presented in the auditor’s report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor’s judgment as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading “Emphasis of Matter”, such as “Emphasis of Matter – Subsequent Event”, to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.</p> <p>Para 9 of SA 706(Revised):</p> <p>When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall:</p> <p>(a) Include the paragraph within a separate section of the auditor’s report with an appropriate heading that includes the term “Emphasis of Matter”;</p> <p>(b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and</p> <p>(c) Indicate that the auditor’s opinion is not modified in respect of the matter emphasized. (Ref: Para. A7–A8, A16–A17)</p>
<p>Why it is important to present emphasis of matter para in audit report?</p>	<p>As per SA 706(Revised), the objective of the auditor, having formed an opinion on the financial statements, is to draw users’ attention, when in the auditor’s judgment it is necessary to do so, by way of</p>	<p>Para 8 of SA 706(Revised):</p> <p>If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of</p>

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	<p>clear additional communication in the auditor's report, to:</p> <p>(a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or</p> <p>(b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.</p>	<p>the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. A5–A6)</p> <p>(a) The auditor would not be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter; and</p> <p>(b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A1–A3)</p>
<p>What are the circumstances in which an Emphasis of Matter Paragraph may be necessary?</p>	<p>As per SA 706(Revised), while reporting emphasis of matter paragraph, the audit firm should assess if the matter is of such importance that it is fundamental to users' understanding of the financial statements, if so, the audit firm should include an Emphasis of Matter paragraph in the auditor's report provided:</p> <p>(a) The auditor would not be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter; and</p> <p>(b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.</p> <p>However, the audit firm must note that a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such</p>	<p>Para A4 of SA 706(Revised):</p> <p>Appendix 1 identifies SAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances. These circumstances include:</p> <ul style="list-style-type: none"> • When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation. • To alert users that the financial statements are prepared in accordance with a special purpose framework. • When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events). <p>Para A5 of SA 706(Revised):</p> <p>Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:</p> <ul style="list-style-type: none"> • An uncertainty relating to the future

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	<p>matters.</p> <p>The audit firm must understand that Emphasis of Matter paragraph is not a substitute for modified opinion in accordance with SA 705(Revised).</p>	<p>outcome of exceptional litigation or regulatory action.</p> <ul style="list-style-type: none">• A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.• Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.• A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
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Chapter 20

Observations related to SA 710, Comparative Information – Corresponding Figures and Comparative Financial Statements

Observation 1

Other Current Liabilities included Excise duty & Service Tax Payable Rs. 374 Lacs as at 31.12.2012 and Rs.116 Lakhs as at 31.12.2011. It was observed that last year outstanding was after netting off Advance Payments of Rs.150 Lakhs whereas Current Year Figure was without netting of Advance Tax.

As per SA 710, if the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>What are the procedures to be followed if material misstatement exists in the prior period financial statements?</p>	<p>As per SA 710, the auditor should determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor should evaluate whether:</p> <p>(a) The comparative information agrees with the amounts and other disclosures presented in the prior period; and</p> <p>(b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately</p>	<p>Para 11 of SA 710:</p> <p>If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:</p> <p>(a) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material;</p>

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	<p>presented and disclosed.</p> <p>If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor should perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor had audited the prior period's financial statements, the auditor should also follow the relevant requirements of SA 560.</p> <p>When the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification.</p> <p>When the auditor's opinion on the prior period, as previously expressed, was modified, the unresolved matter that gave rise to the modification may not be relevant to the current period figures. Nevertheless, a qualified opinion, a disclaimer of opinion, or an adverse opinion (as applicable) may be required on the current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current and corresponding figures.</p> <p>When the prior period financial</p>	<p>or</p> <p>(b) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures. (Ref: Para. A3-A5)</p> <p>Para 12 of SA 710:</p> <p>If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein. (Ref: Para. A6)</p> <p>Para 13 of SA 710:</p> <p>If 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, the auditor shall state in an Other Matter paragraph in the auditor's report:</p> <p>(a) That the financial statements of the prior period were audited by the predecessor auditor;</p>
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	<p>statements that are misstated have not been amended and an auditor's report thereon has not been issued in accordance with the requirements of SA 560, "Subsequent Events", but the corresponding figures have been properly dealt with as required under the applicable financial reporting framework and the appropriate disclosures have been made in the current period financial statements, the auditor's report may include an Emphasis of Matter paragraph describing the circumstances and referring to, where relevant, disclosures that fully describe the matter that can be found in the financial statements</p> <p>Where prior period financial statements were not audited, the auditor should request the management to disclose this fact on the face of the current period financial statements with respect to the corresponding figures.</p> <p>As required by SA 580, the auditor should request written representations for all periods referred to in the auditor's opinion. The auditor should also obtain a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.</p>
	<p>(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and</p> <p>(c) The date of that report. (Ref: Para. A7)</p> <p>Para 14 of SA 710:</p> <p>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. (Ref: Para. A7a, A8)</p> <p>Para 18 of SA 710</p> <p>If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period. (Ref: Para. A12)</p>

Chapter 21

Observations related to SA 720(Revised), The Auditor's Responsibilities Relating to Other Information

Observation 1

Non-compliance of SA 720 (Revised) for not including in the auditor's report, a separate section with a heading "Other Information" when, at the date of the auditor's report, for an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information.

What is the issue?	AASB Suggested Guidance	Technical Literature
<p>Why is it mandatory to include in the Auditor's Report on Financial Statements of an unlisted corporate entity, a separate section with a heading "Other Information" when, at the date of the auditor's report, the auditor has obtained some or all of the other information?</p>	<p>SA 720(Revised) requires auditors to include a separate section on Other Information in auditor's report in case of listed entities and unlisted corporate entities.</p>	<p>Para 21 of SA 720(Revised):</p> <p>The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:</p> <ul style="list-style-type: none"> (a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or (b) For an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information. (Ref: Para.A52) <p>Para 22 of SA 720(Revised):</p> <p>When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include:(Ref: Para.A53)</p> <ul style="list-style-type: none"> (a) A statement that management is responsible for the other information. (b) An identification of: <ul style="list-style-type: none"> (i) Other information, if any, obtained by the auditor prior

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		<p>to the date of the auditor's report; and</p> <p>(ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report.</p> <p>(c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon.</p> <p>(d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this SA; and</p> <p>(e) When other information has been obtained prior to the date of the auditor's report, either:</p> <p>(i) A statement that the auditor has nothing to report; or</p> <p>(ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.</p>
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