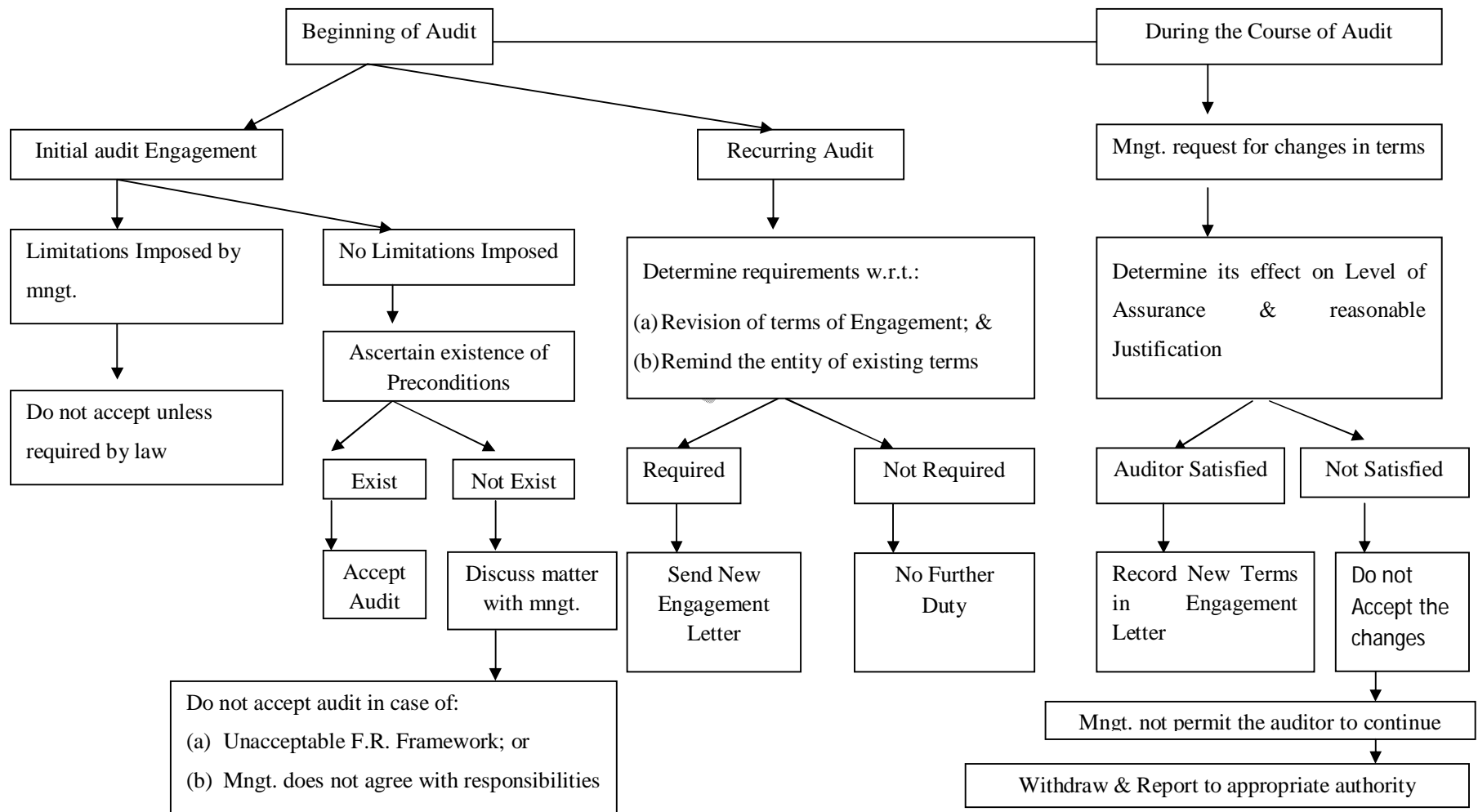


SQC – 1 “Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements”

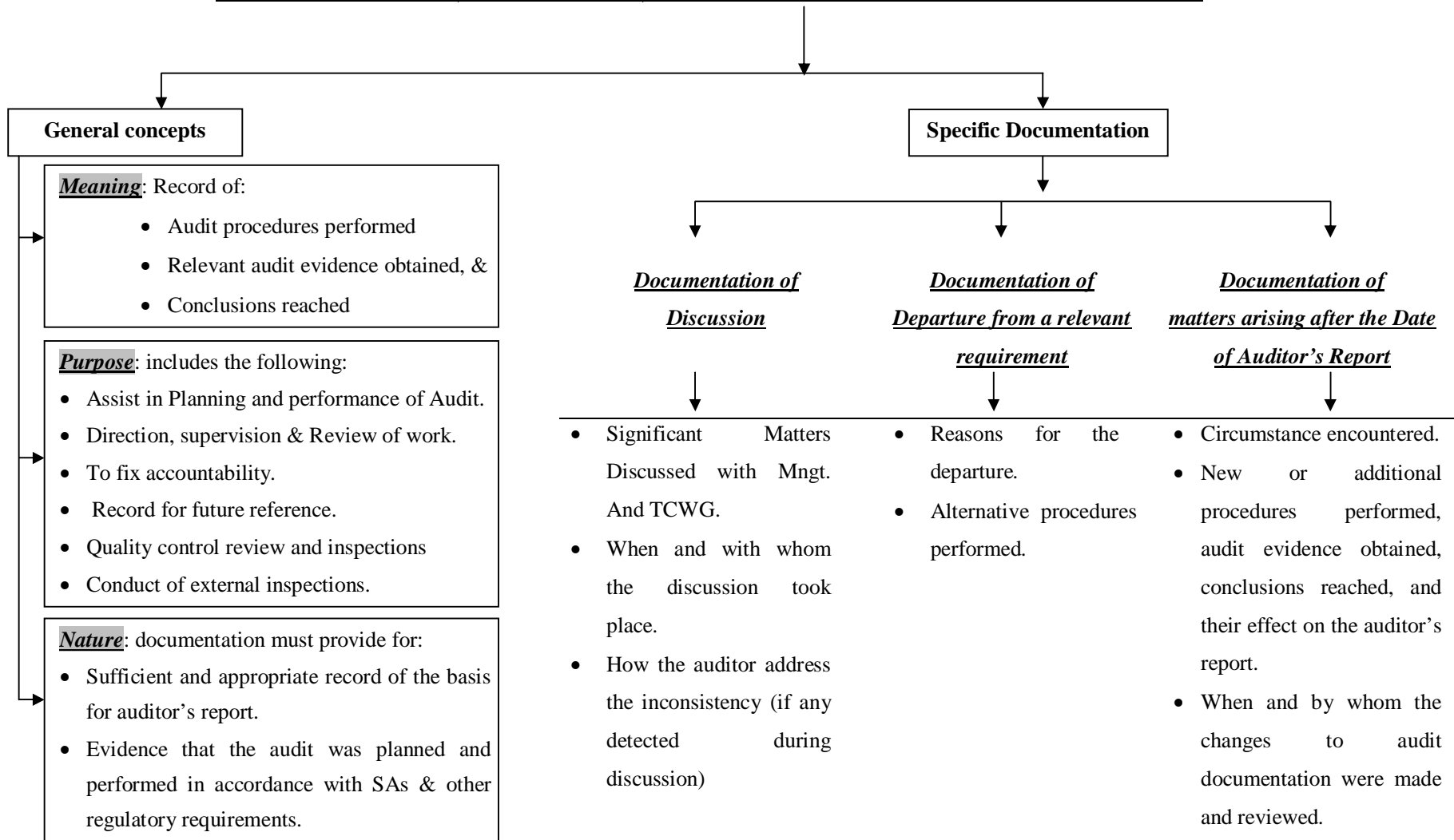
All firms to have system of quality control that provides reasonable assurance that: (a) Firm & personnel comply with professional standards, regulatory & legal requirements, and (b) Reports issued by firm or partners are appropriate in the circumstances.

<u>Leadership Responsibilities for Q. C.</u>	<u>Ethical requirements</u>	<u>Independence</u>	<u>Client Acceptance/Continuance</u>	<u>Human Resources</u>	<u>Engagement Performance</u>	<u>Monitoring</u>
(a) Promote internal culture w.r.t.: <ul style="list-style-type: none"> essential of quality in engagements. Compliance with professional standards, regulatory/legal requirements. Issue of reports appropriate in circumstances. (b) Require CEO/managing partner to assume ultimate responsibility for QC. (c) Recognise & reward high quality work.	Establish policies & procedures to reasonable assure that Firm & personnel comply with relevant ethical requirements of <ul style="list-style-type: none"> Integrity. Objectivity. Professional competence & due care. Confidentiality. Professional behaviour. 	Policies & procedures should enable: <ul style="list-style-type: none"> Communication of independence requirements to personnel & others. Identification of circumstances threatening independence. Take appropriate action for elimination of threats / withdrawal from engagement. Resolution of breaches of independence. <u>Maintenance of independence of personnel</u> <ul style="list-style-type: none"> Engagement partners to provide firm with relevant information about client. Prompt notification of threats to independence. Accumulation & communication of relevant information to appropriate personnel. <u>Other Points:</u> <ul style="list-style-type: none"> Firm should obtain Annual written confirmation as to compliance with independence requirements. Create policies to reduce Familiarity threat: e.g. rotation of engagement partner atleast every seven years in case of audit of listed entities. 	Establish policies/procedures to reasonable assure that clients are accepted/continued only where: <ul style="list-style-type: none"> Client integrity has been considered. Firm is competent to perform engagement w.r.t. capability, time & resources. firm can comply with ethical requirements. If any issue raised, document how it resolved. Establish Policies w.r.t. withdrawal from engagement and communication requirements, if circumstances warrant.	Establish policies/procedures to reasonable assure that: <ul style="list-style-type: none"> Firm has sufficient personnel with capabilities, competence & commitment to ethical principles; & Responsibility of engagement partner clearly defined & communicated to him/ her. 	Establish policies/procedures to reasonable assure w.r.t.: <ul style="list-style-type: none"> Compliance with professional standards. Compliance with laws/ regulations. Engagement partner issues reports appropriate in the circumstances. <u>Important aspects of engagement performance:</u> <ul style="list-style-type: none"> Supervision. Review. Consultation. Differences of opinion. Engagement Q. C. review. Engagement documentation. 	Establish Policies & procedures to reasonable assure that QC policies/procedures are: <ul style="list-style-type: none"> Relevant. Adequate. Operating effectively. Complied with in practice. It also includes on going consideration & evaluation of QC system, periodic inspection of completed Assignments.

SA – 210 (Revised) – “Agreeing the Terms of Engagement”



SA – 230 (Revised) – Audit Documentation



General concepts

Meaning: Record of:

- Audit procedures performed
- Relevant audit evidence obtained, &
- Conclusions reached

Purpose: includes the following:

- Assist in Planning and performance of Audit.
- Direction, supervision & Review of work.
- To fix accountability.
- Record for future reference.
- Quality control review and inspections
- Conduct of external inspections.

Nature: documentation must provide for:

- Sufficient and appropriate record of the basis for auditor's report.
- Evidence that the audit was planned and performed in accordance with SAs & other regulatory requirements.

Specific Documentation

Documentation of Discussion

- Significant Matters Discussed with Mngt. And TCWG.
- When and with whom the discussion took place.
- How the auditor address the inconsistency (if any detected during discussion)

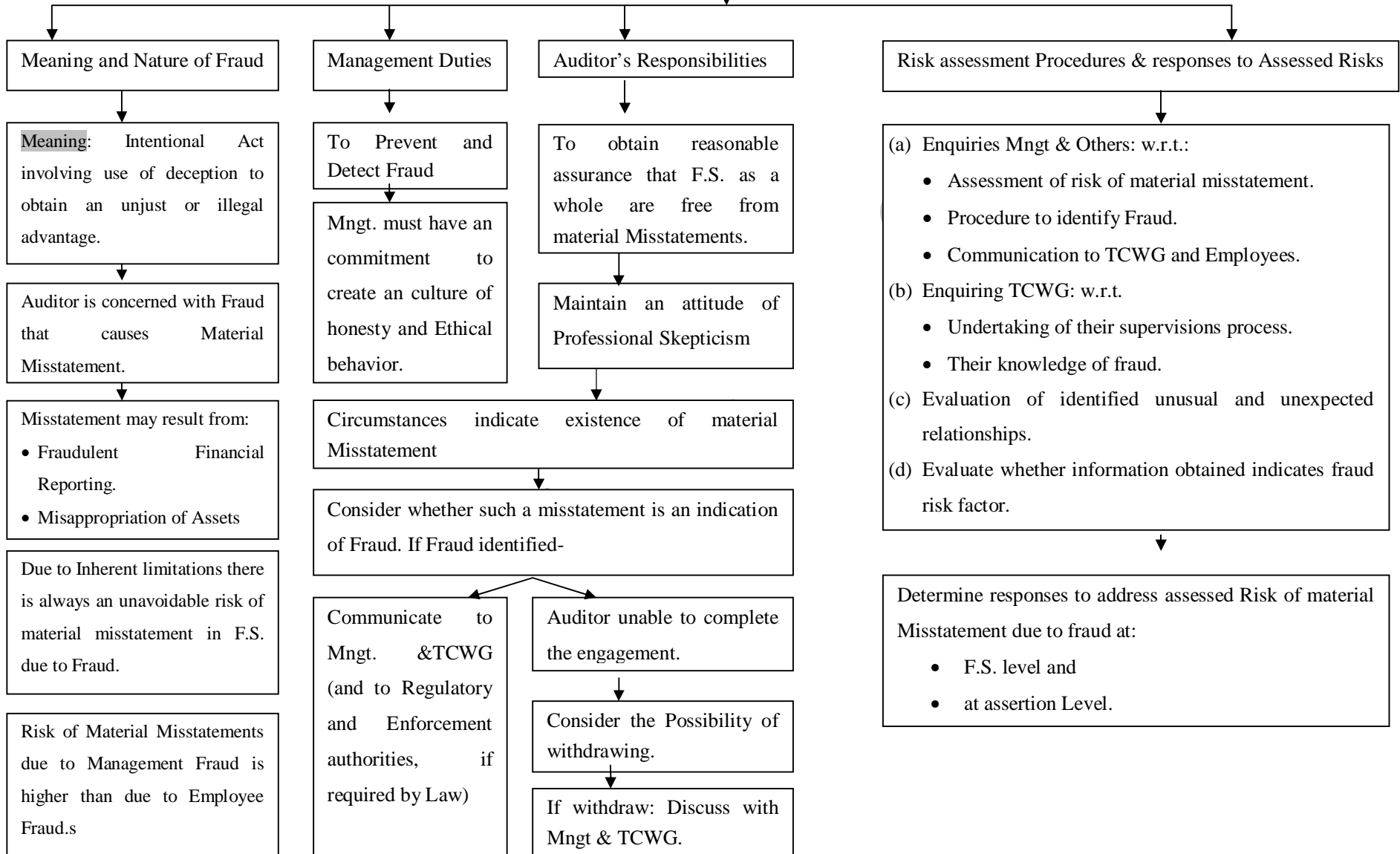
Documentation of Departure from a relevant requirement

- Reasons for the departure.
- Alternative procedures performed.

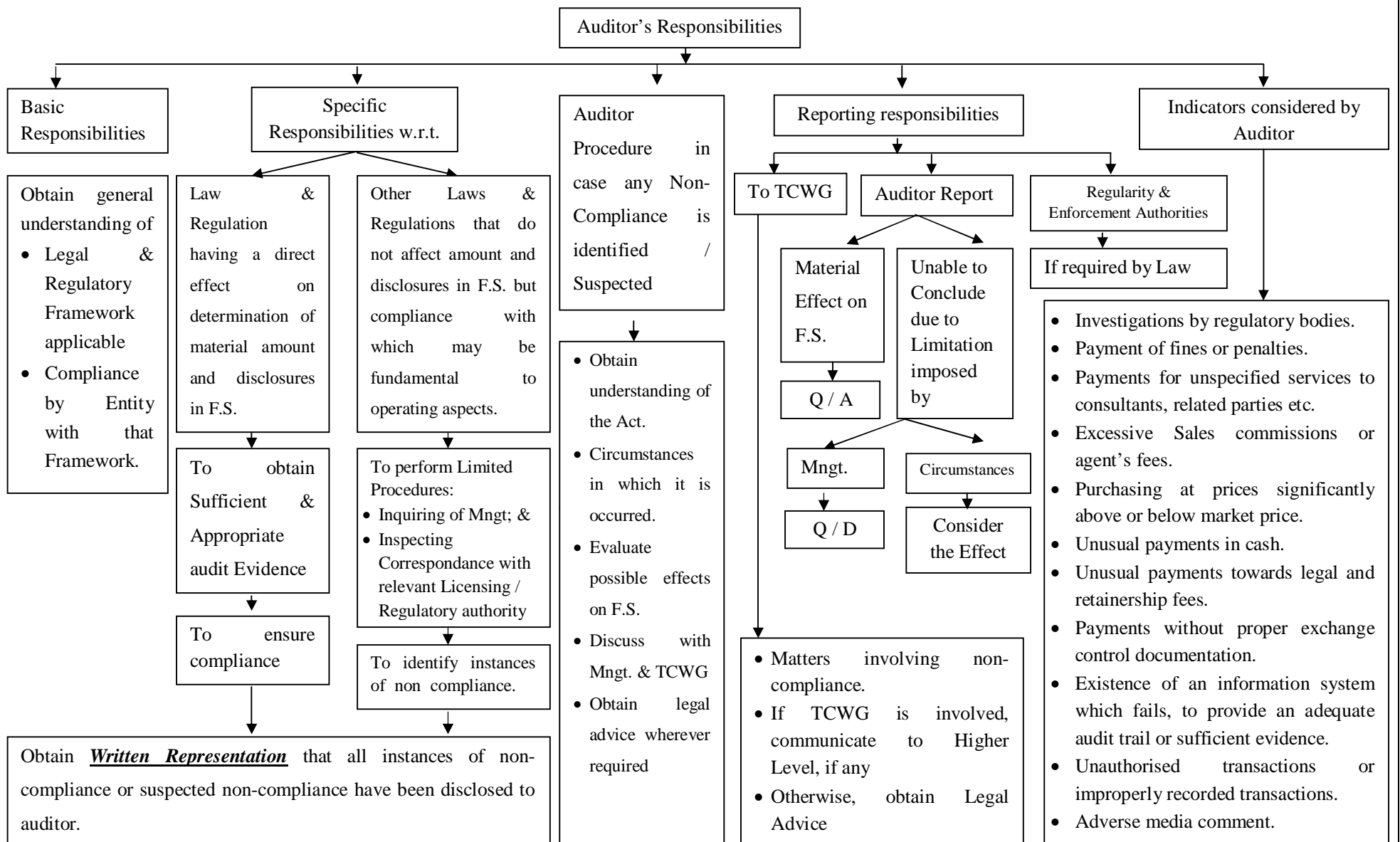
Documentation of matters arising after the Date of Auditor's Report

- Circumstance encountered.
- New or additional procedures performed, audit evidence obtained, conclusions reached, and their effect on the auditor's report.
- When and by whom the changes to audit documentation were made and reviewed.

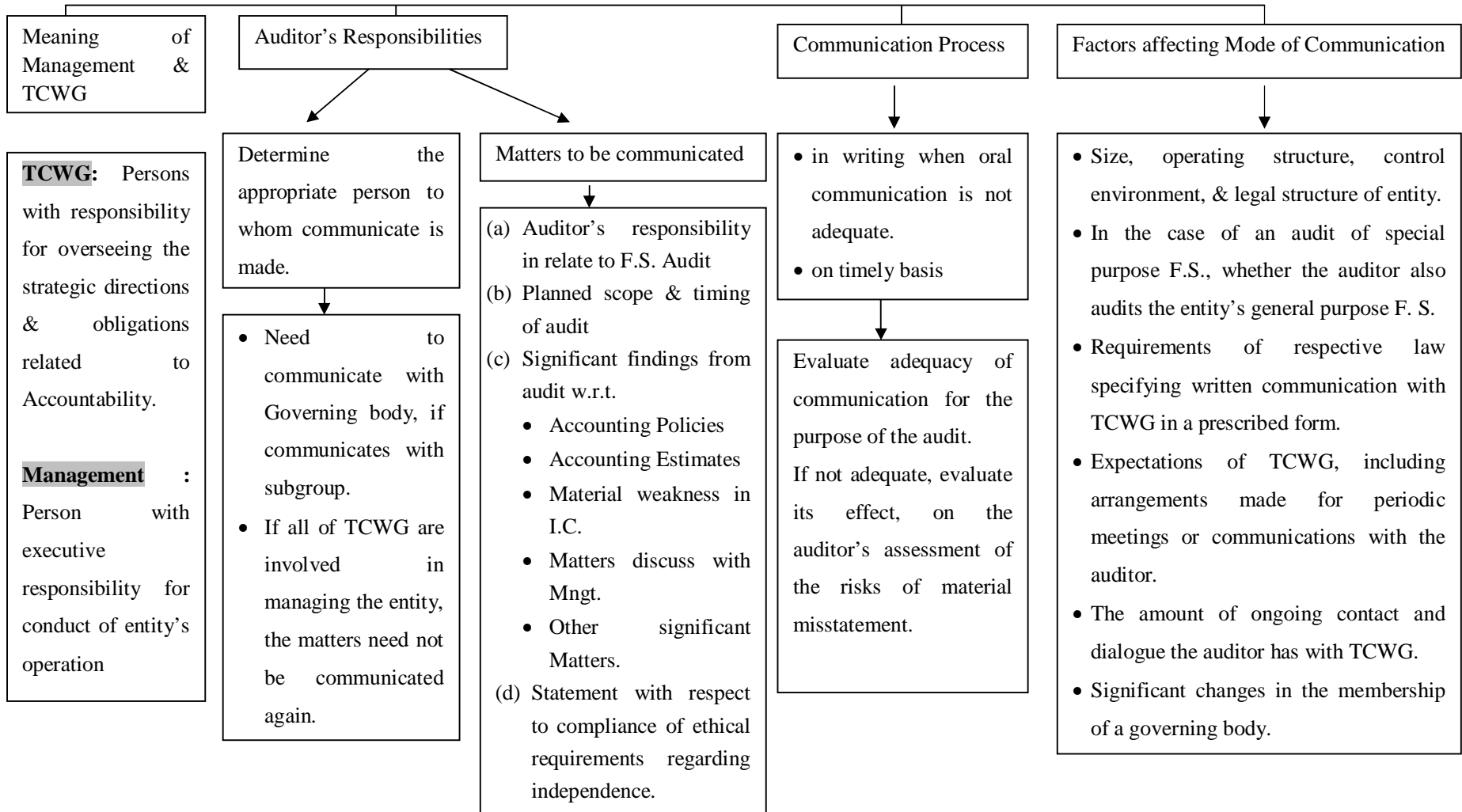
SA 240 (Revised) – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements



SA 250 (REVISED) "CONSIDERATION OF LAWS AND REGULATION IN AN AUDIT OF F.S."

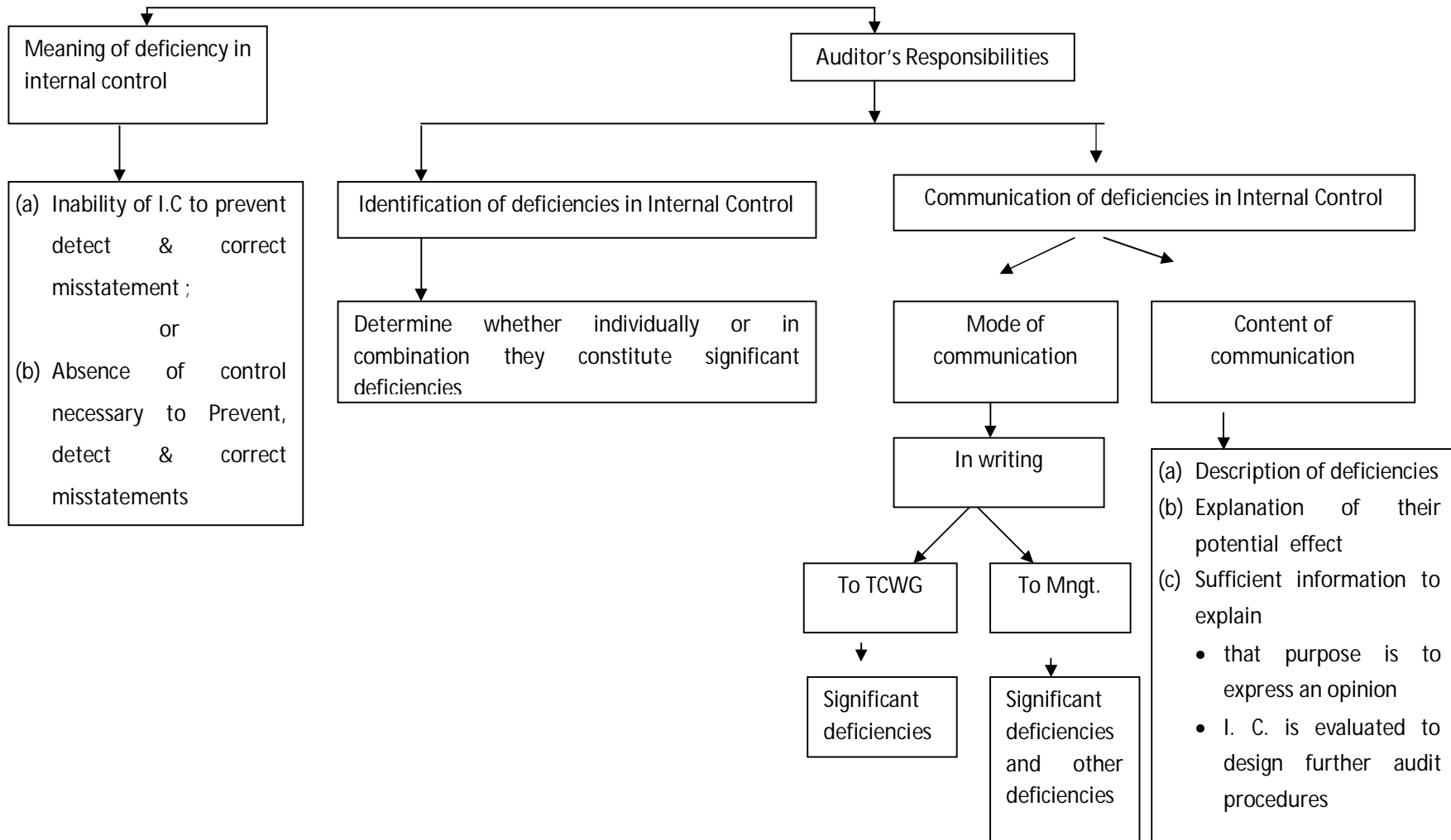


SA 260 (Revised) – “Communication with TCWG”

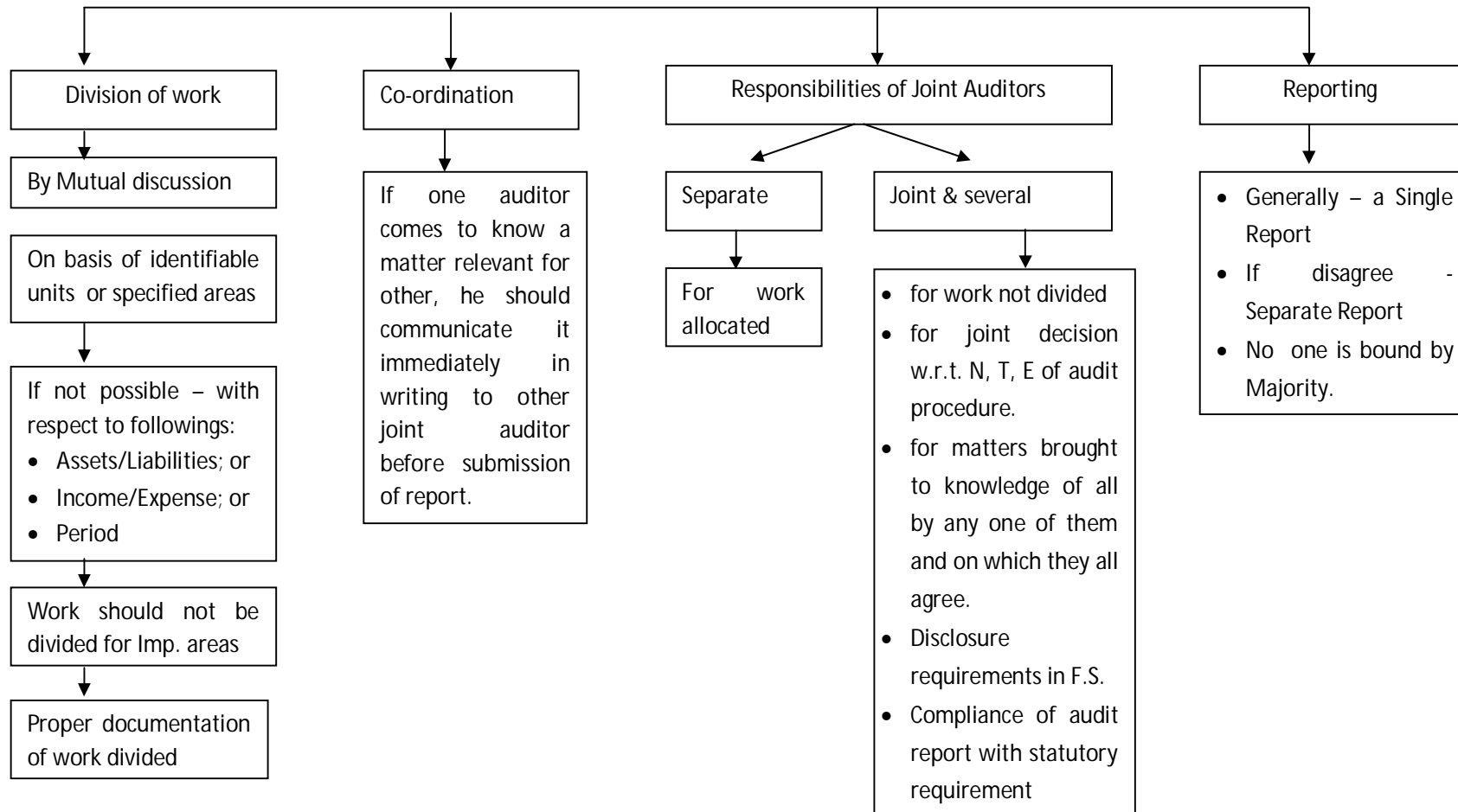


Important Question: Write short note on: Factors Governing mode of communication of auditor with TCWG. (4/5 Marks)

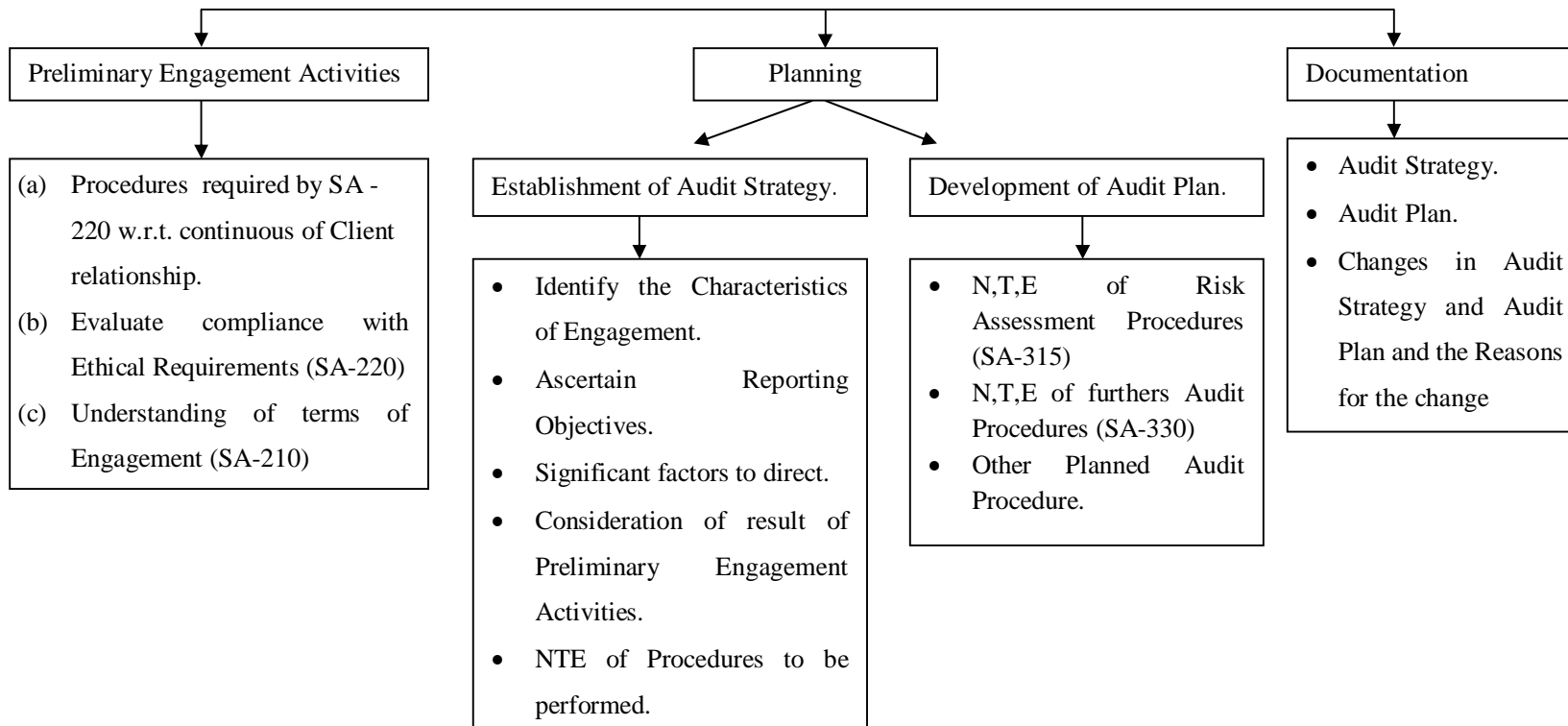
SA-265 “Communicating Deficiencies in Internal Control to TCWG & Management



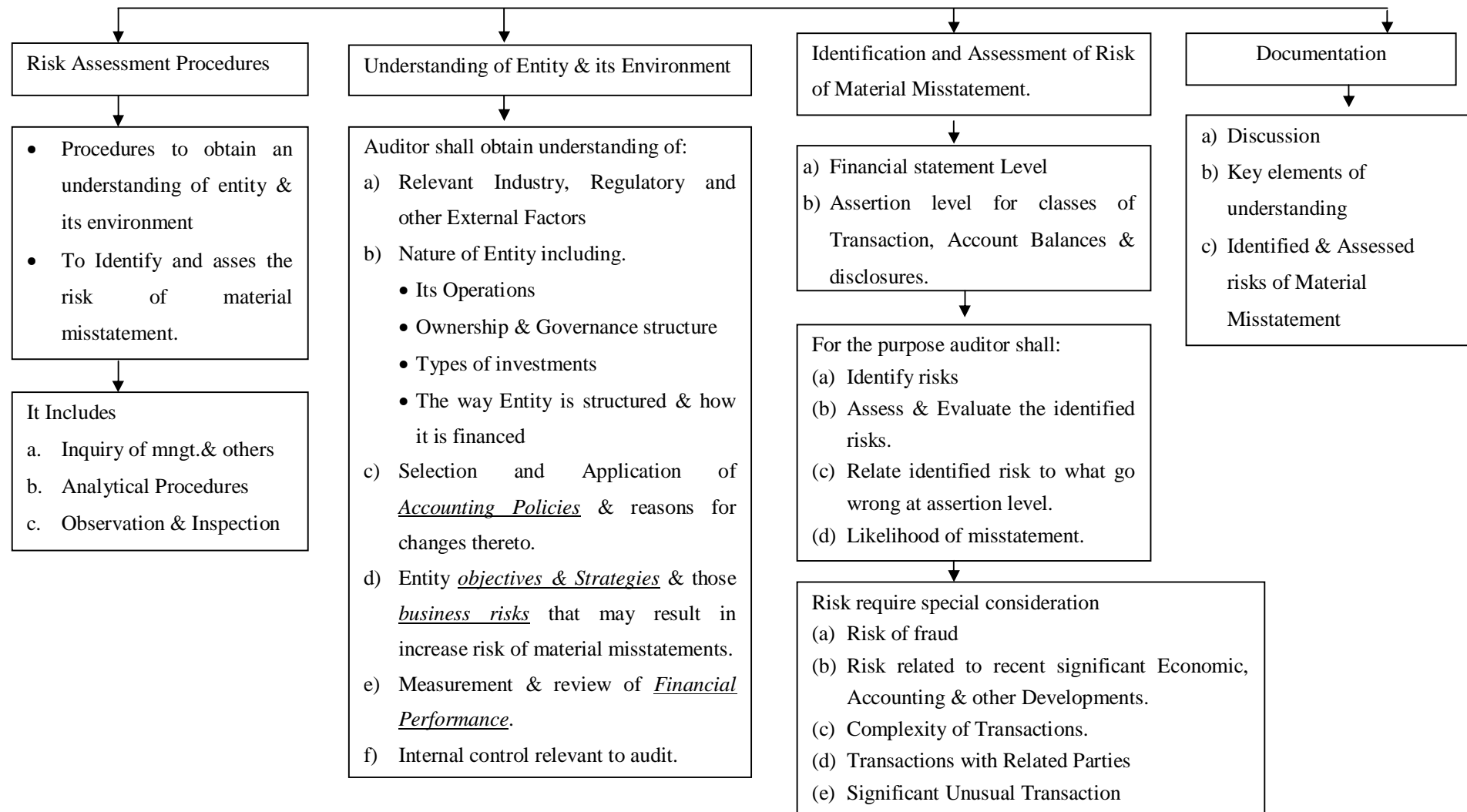
SA 299 "Responsibility of Joint Auditors"



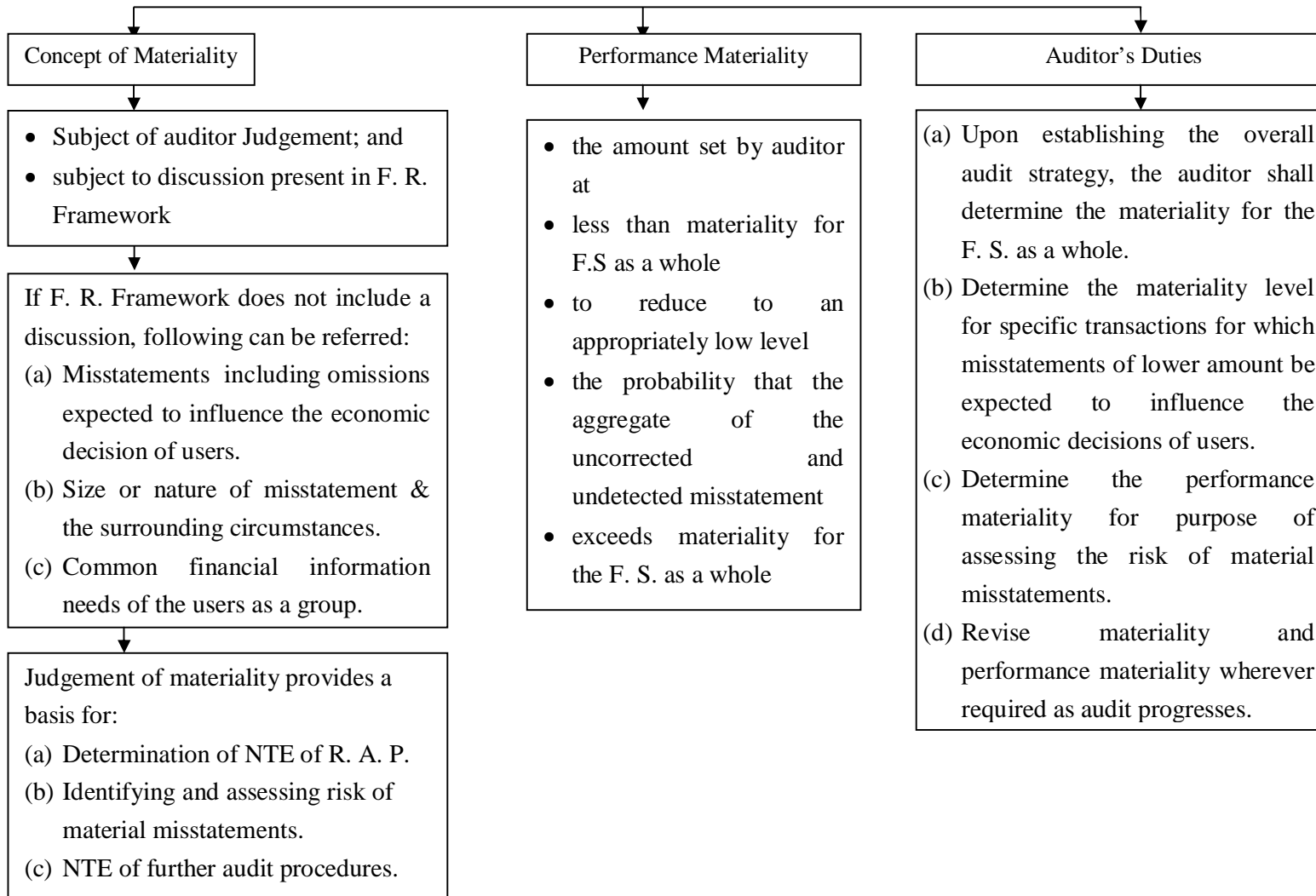
SA 300 (Revised) – Planning in an audit of Financial Statements



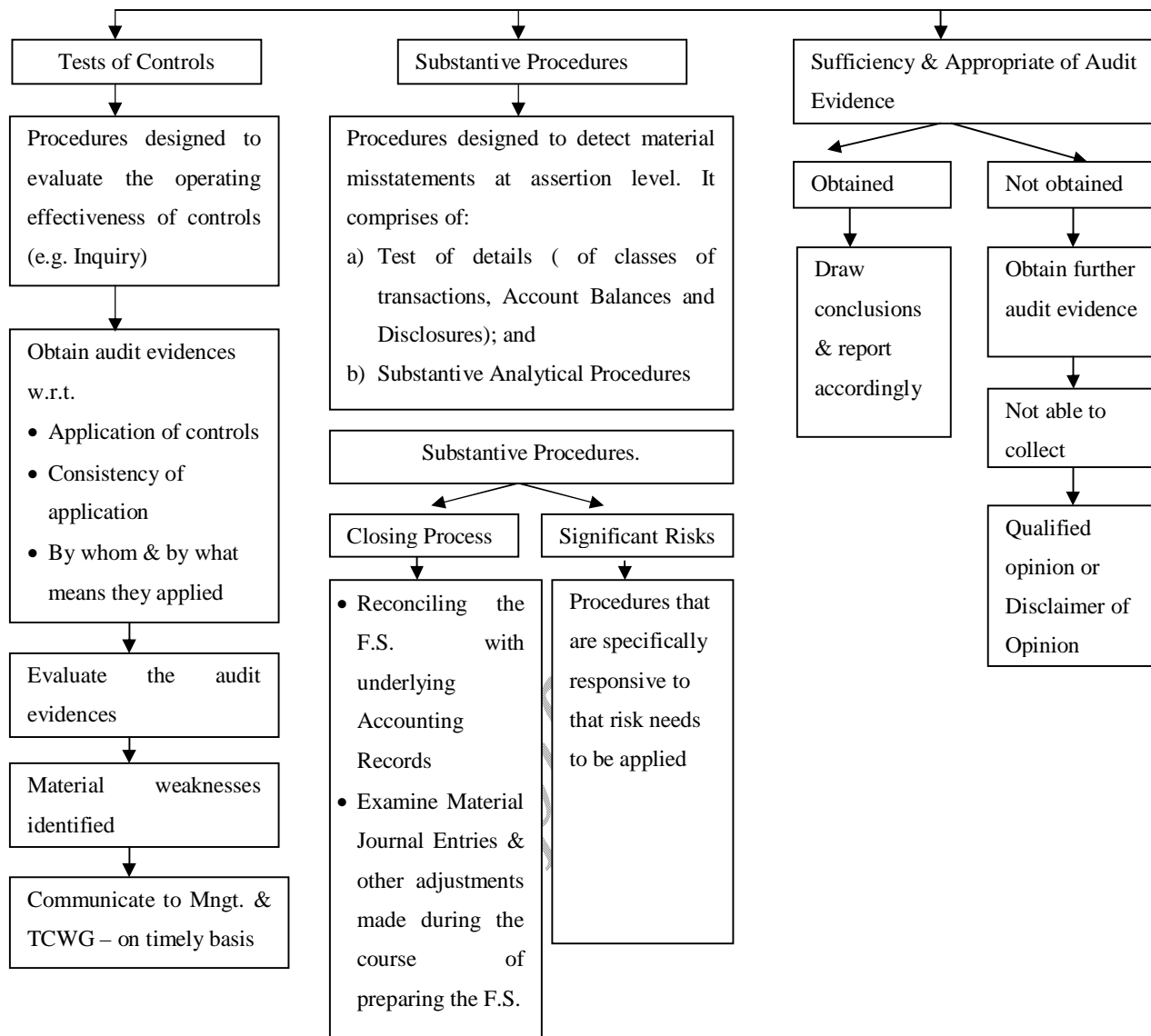
SA – 315 (Revised) – Identifying and Assessing the Risk of Material Misstatements through understanding the Entity and Its Environment.



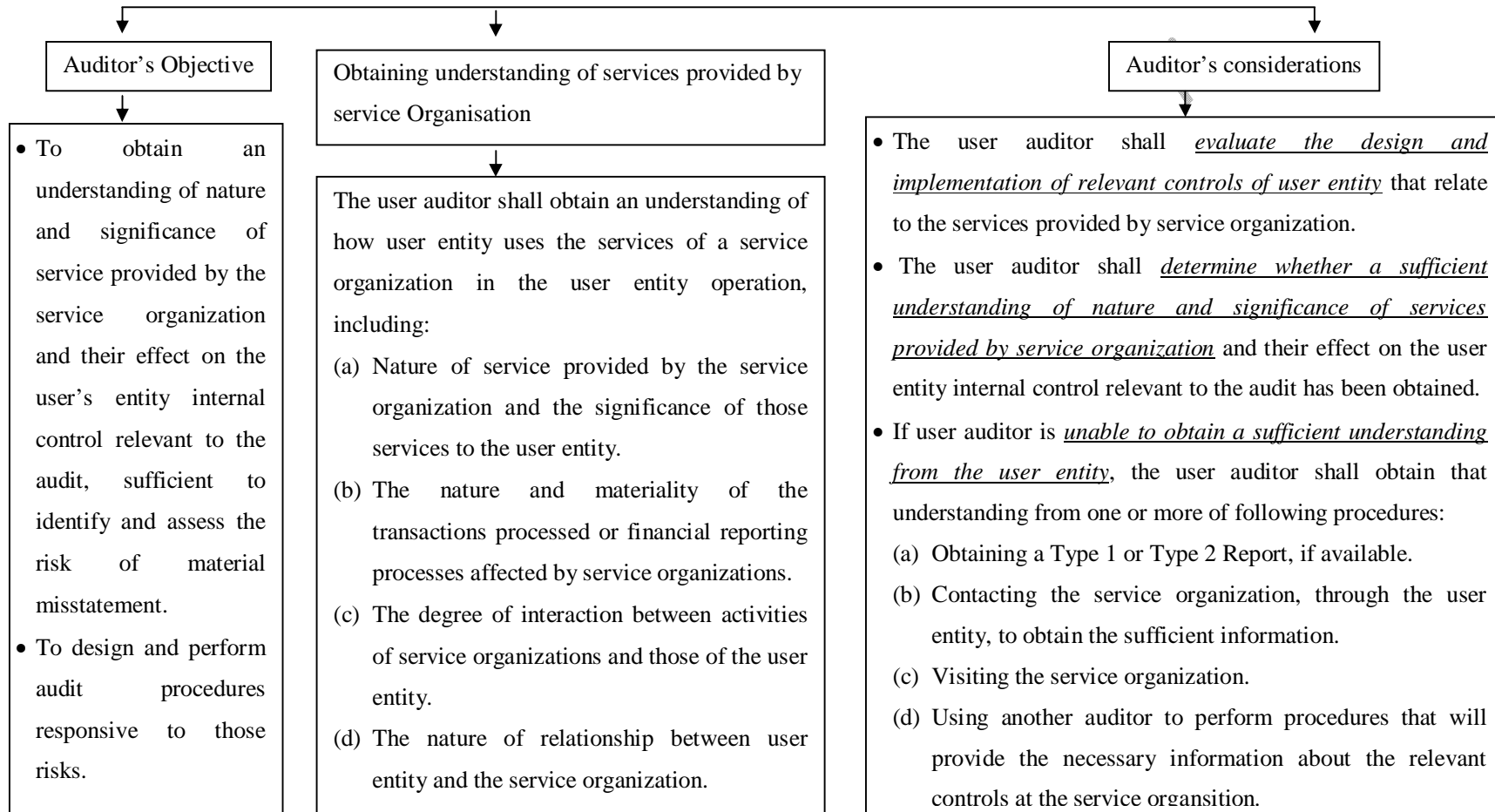
SA 320 (Revised) “Materiality in Planning and Performing an Audit”



SA – 330 “Responses to assessed Risks”



SA 402 (Revised) – Audit Considerations relating to an Entity Using a Service Organisation



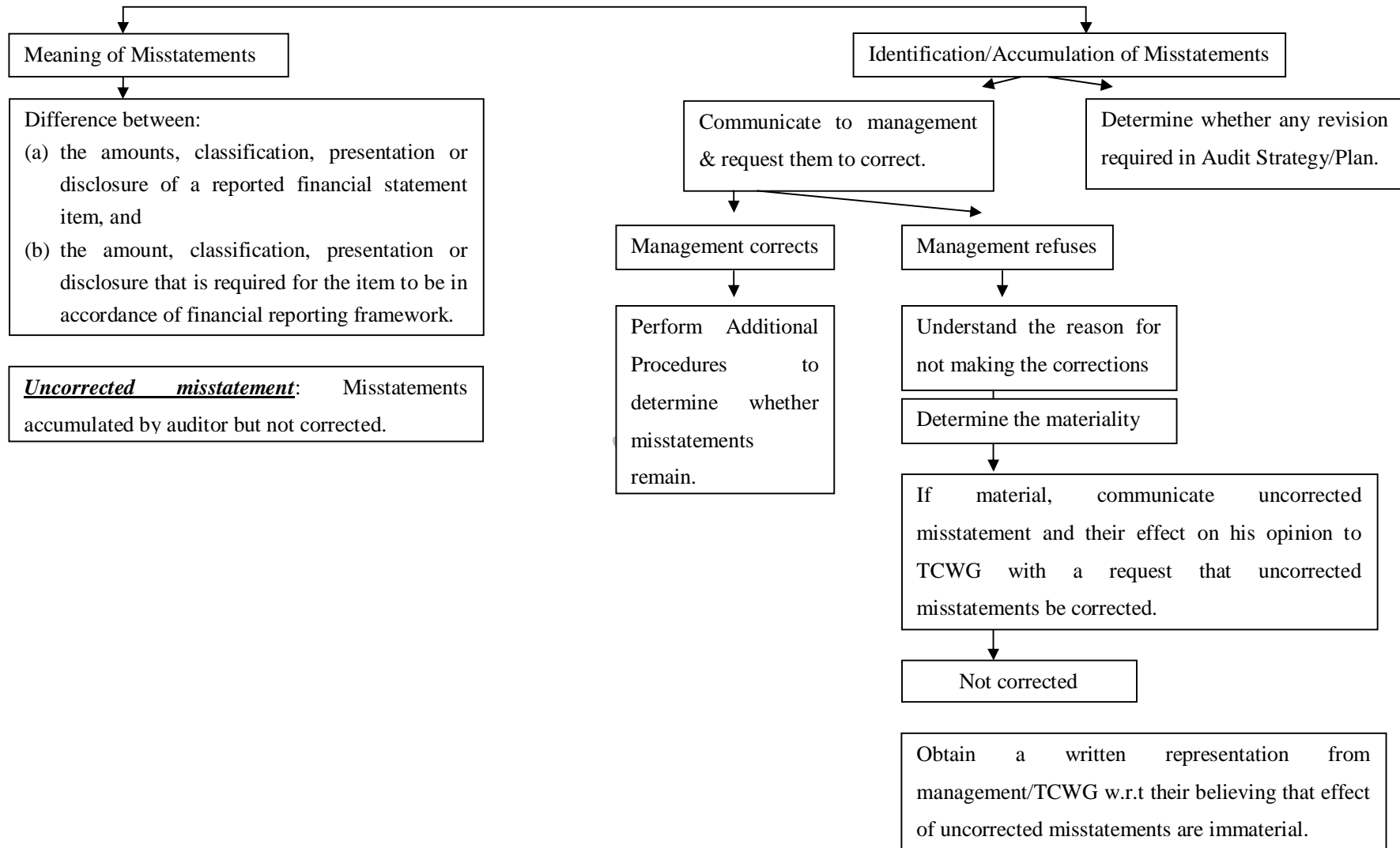
User Auditor: An auditor who audits and Reports on the financial statements of a user entity.

User Entity: An Entity that uses a service organization and whose financial statements are being audited.

Type 1 Report: Report on the description and design of internal controls at a service organization.

Type 2 Report: Report on the description, design and operating effectiveness of controls at a service organisation.

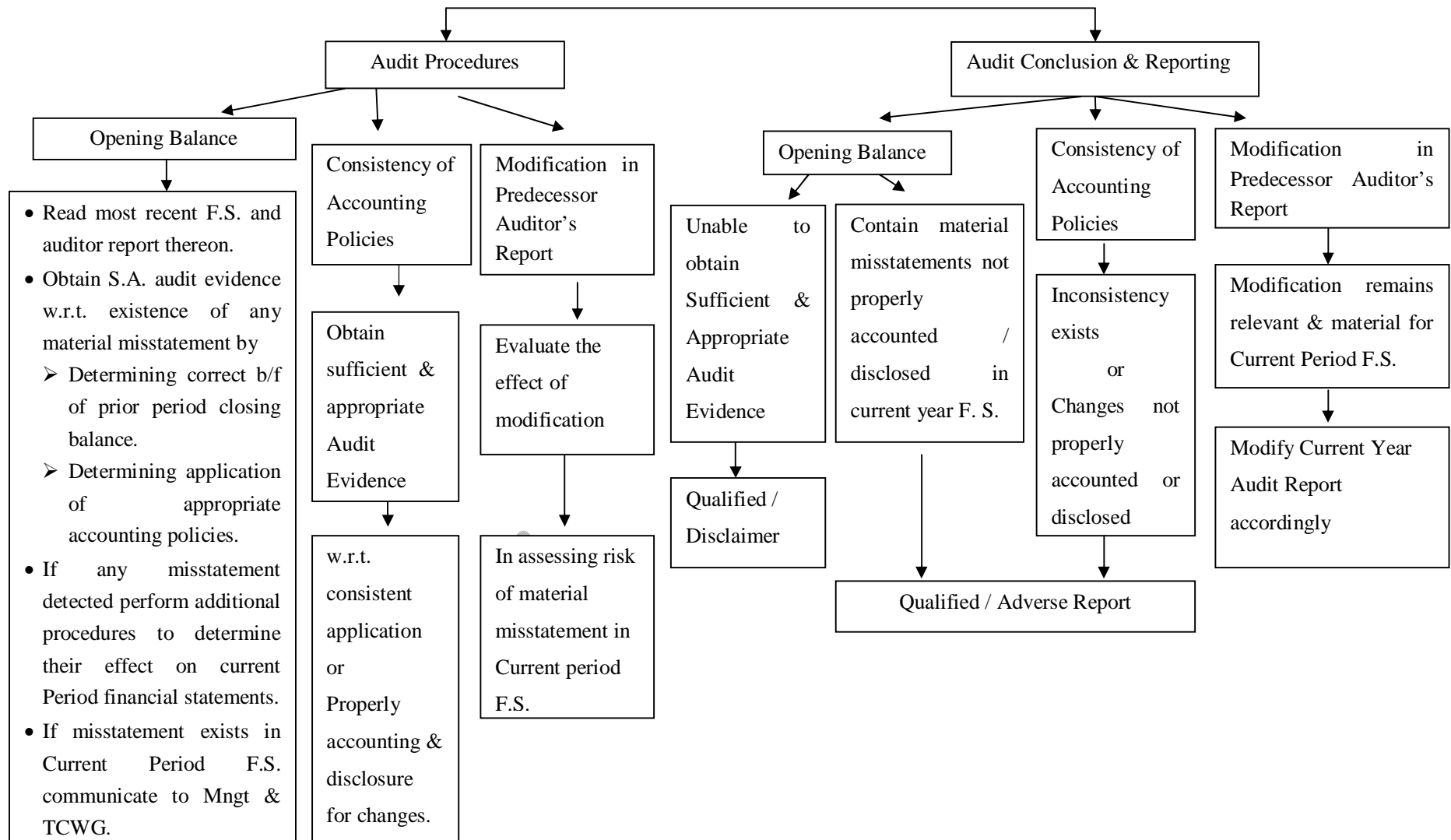
SA 450 “Evaluation of Misstatements Identified during the Audit



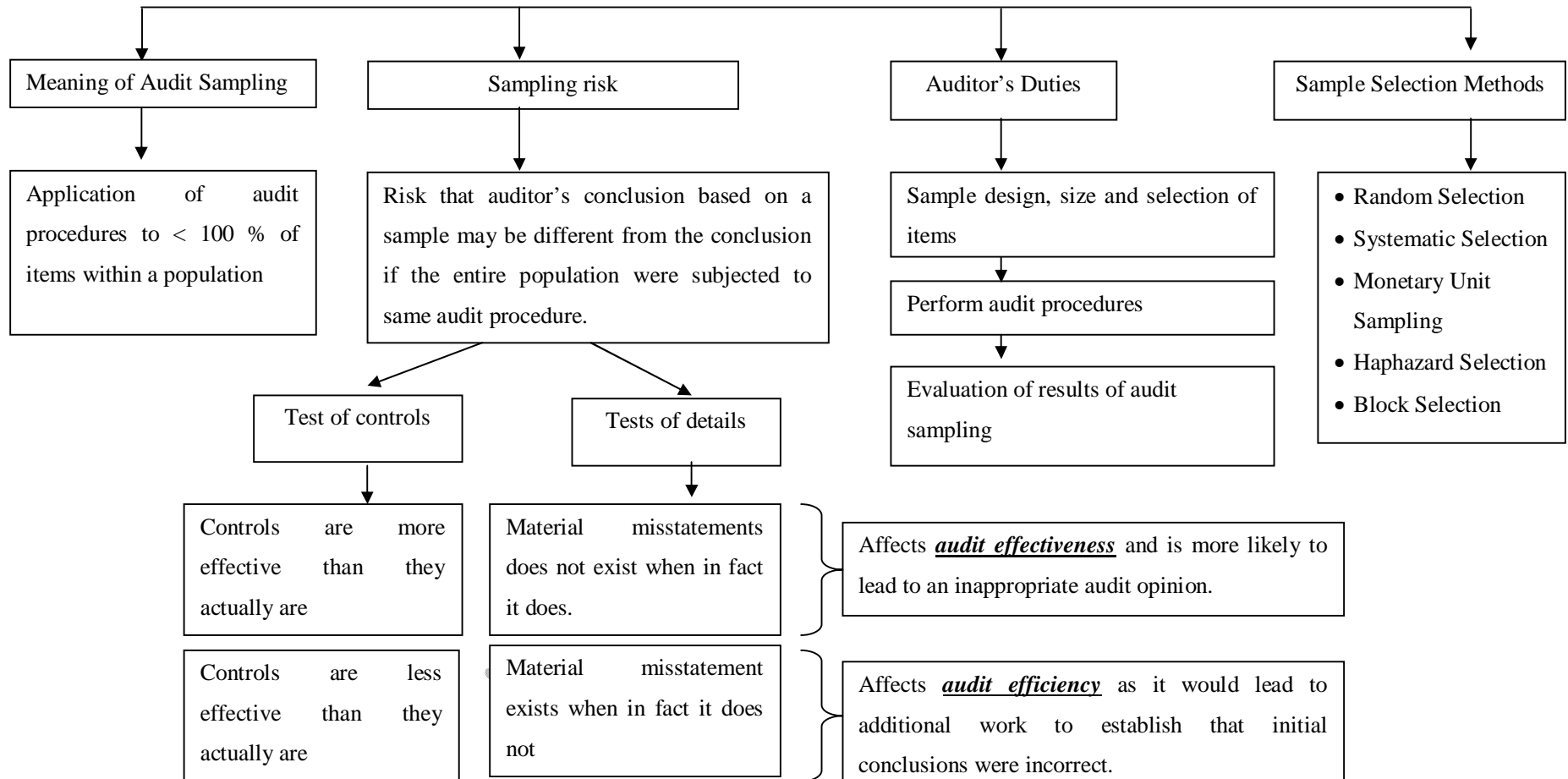
SA – 510 (Revised) “INITIAL AUDIT ENGAGEMENTS – Opening Balances”

Meaning of Initial Audit Engagement: An Engagement in which F. S. for prior period are not audited or were audited by predecessor auditor.

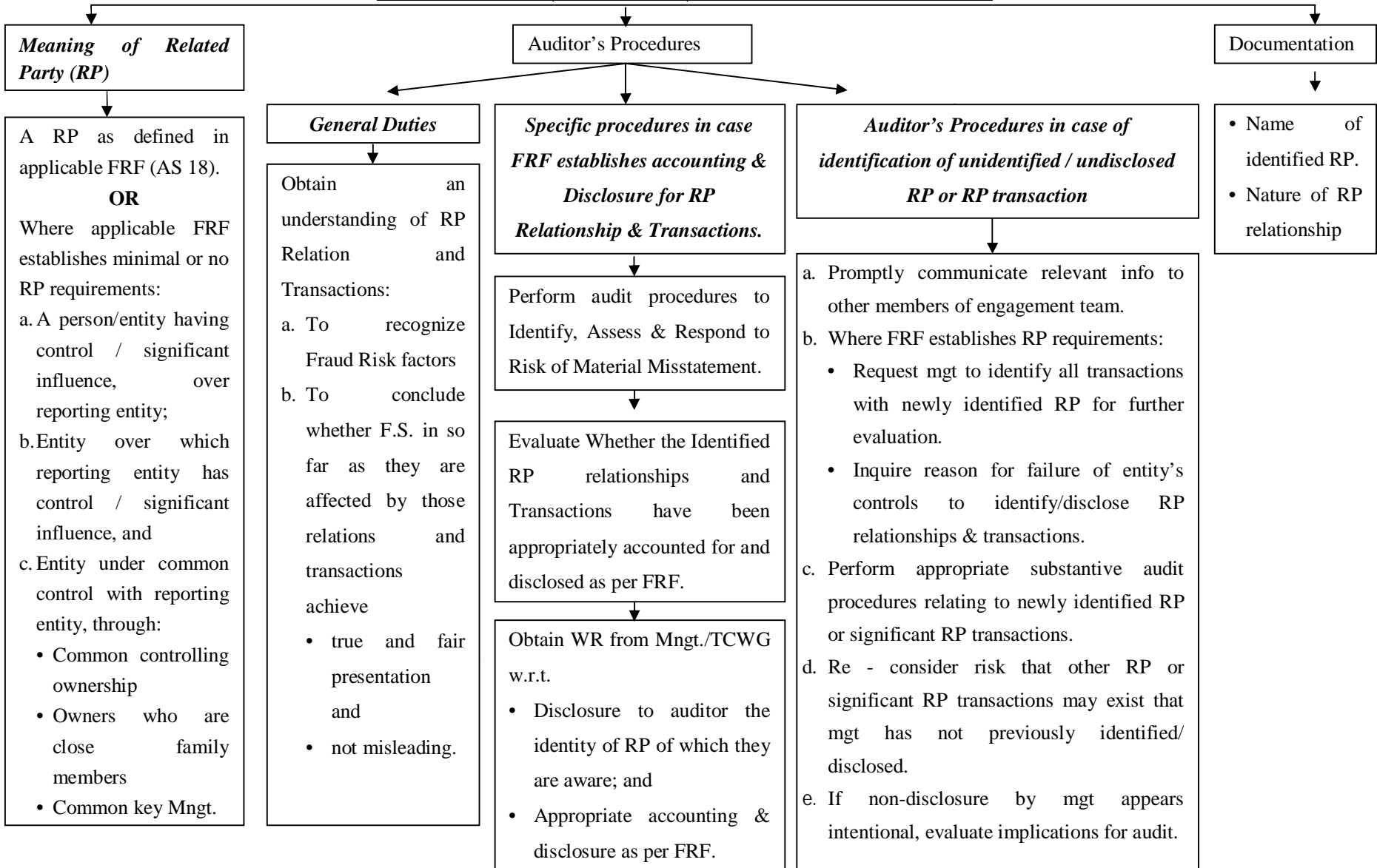
Meaning of Opening balance – A/c balance that exist at beginning of period & also includes disclosures exists at beginning of period.



SA – 530 (Revised) “AUDIT SAMPLING”



SA – 550 (Revised) “Related Parties”



Meaning of Related Party (RP)

A RP as defined in applicable FRF (AS 18).
OR
 Where applicable FRF establishes minimal or no RP requirements:
 a. A person/entity having control / significant influence, over reporting entity;
 b. Entity over which reporting entity has control / significant influence, and
 c. Entity under common control with reporting entity, through:
 • Common controlling ownership
 • Owners who are close family members
 • Common key Mngt.

Auditor's Procedures

General Duties

Obtain an understanding of RP Relation and Transactions:
 a. To recognize Fraud Risk factors
 b. To conclude whether F.S. in so far as they are affected by those relations and transactions achieve
 • true and fair presentation and
 • not misleading.

Specific procedures in case FRF establishes accounting & Disclosure for RP Relationship & Transactions.

Perform audit procedures to Identify, Assess & Respond to Risk of Material Misstatement.
 Evaluate Whether the Identified RP relationships and Transactions have been appropriately accounted for and disclosed as per FRF.
 Obtain WR from Mngt./TCWG w.r.t.
 • Disclosure to auditor the identity of RP of which they are aware; and
 • Appropriate accounting & disclosure as per FRF.

Auditor's Procedures in case of identification of unidentified / undisclosed RP or RP transaction

- a. Promptly communicate relevant info to other members of engagement team.
- b. Where FRF establishes RP requirements:
 - Request mgt to identify all transactions with newly identified RP for further evaluation.
 - Inquire reason for failure of entity's controls to identify/disclose RP relationships & transactions.
- c. Perform appropriate substantive audit procedures relating to newly identified RP or significant RP transactions.
- d. Re - consider risk that other RP or significant RP transactions may exist that mgt has not previously identified/disclosed.
- e. If non-disclosure by mgt appears intentional, evaluate implications for audit.

Documentation

- Name of identified RP.
- Nature of RP relationship

Risk assessment Procedures and Responses to assessed Risk w.r.t Related party

RAP & Related Activities (as per SA 315 & SA 240)

Responses to Assessed Risks

Understanding the Entity's RP relationship and Transactions

- a. SA 315 & SA 240(R) require Engagement Team discussion.
- b. Auditor to inquire management regarding:
 - Identity of entity's RP, changes from prior period.
 - Nature of relationships between entity and RP.
 - Type & purpose of transactions with RP during the period.
- c. Perform appropriate RAPs to obtain understanding whether managements has established controls to:
 - Identify, account for & disclose RP relationships & transactions.
 - Authorise & approve significant transactions/arrangements with RP.
 - Authorise & approve significant transactions/arrangements outside normal course of business.

Maintaining Alertness for RP Information when Reviewing Records/Documents

- a. Auditor to remain alert when inspecting records / documents:
 - Wrt arrangements / information indicating existence of RP relationships or transactions.
 - Not previously identified or disclosed to auditor.
- b. If auditor identifies significant transactions outside entity's normal course of business:
 - Inquire of management about:
 - Nature of these transactions, and
 - Whether RP could be involved.

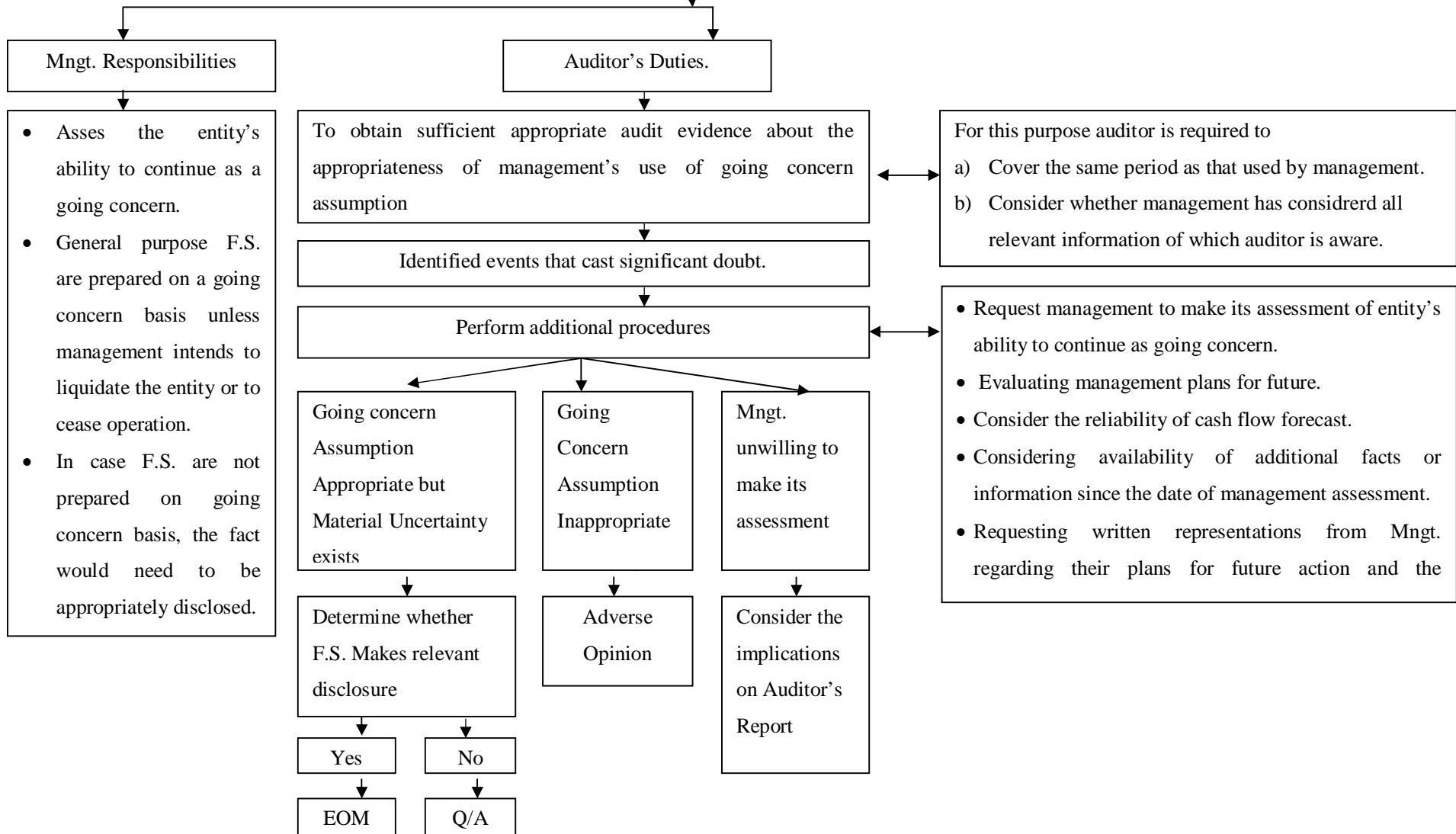
Identifying Fraud risk factors

- Domination of mgmt by a single person or small group of persons without compensating controls is a fraud risk factor.
- Indicators of dominant influence:**
- RP has vetoed significant business decisions taken by mgmt or TCWG.
 - Significant transactions are referred to RP for final approval.
 - No/ little debate among mgmt or TCWG regarding business proposal initiated by RP.
 - Transactions involving the RP are rarely independently reviewed / approved.

Design and Perform further audit procedures to obtain SAAE about assessed Risk of material Misstatements

- Identification of unidentified / undisclosed RP or RP transaction.
 - Identified significant RP Transactions outside Entity's Normal course of Business.
 - Assertions that RP Transactions were conducted on terms equivalent to those prevailing in an arm Length Transaction.
- Arm Length Transaction:**
- Transaction conducted on such terms & conditions;
 - As between a willing buyer and willing seller;
 - Who are unrelated; and
 - Acting independently and pursuing their own best interests.

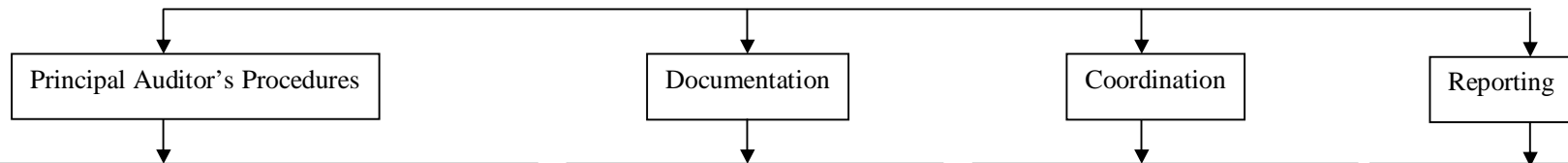
SA – 570 (Revised) “Going Concern”



SA – 600 “Using the Work of Another Auditor”

Applicability: In situation where an auditor (principal auditor - PA), reporting on the financial information of an entity, uses the work of another auditor (other auditor - OA) w.r.t. to the financial information of one/more components (Division, Branch subsidiary, J. V. etc.), included in the financial information of the entity.

Non applicability: (a) Joint auditors (b) Auditor’s relationship with a predecessor auditor.



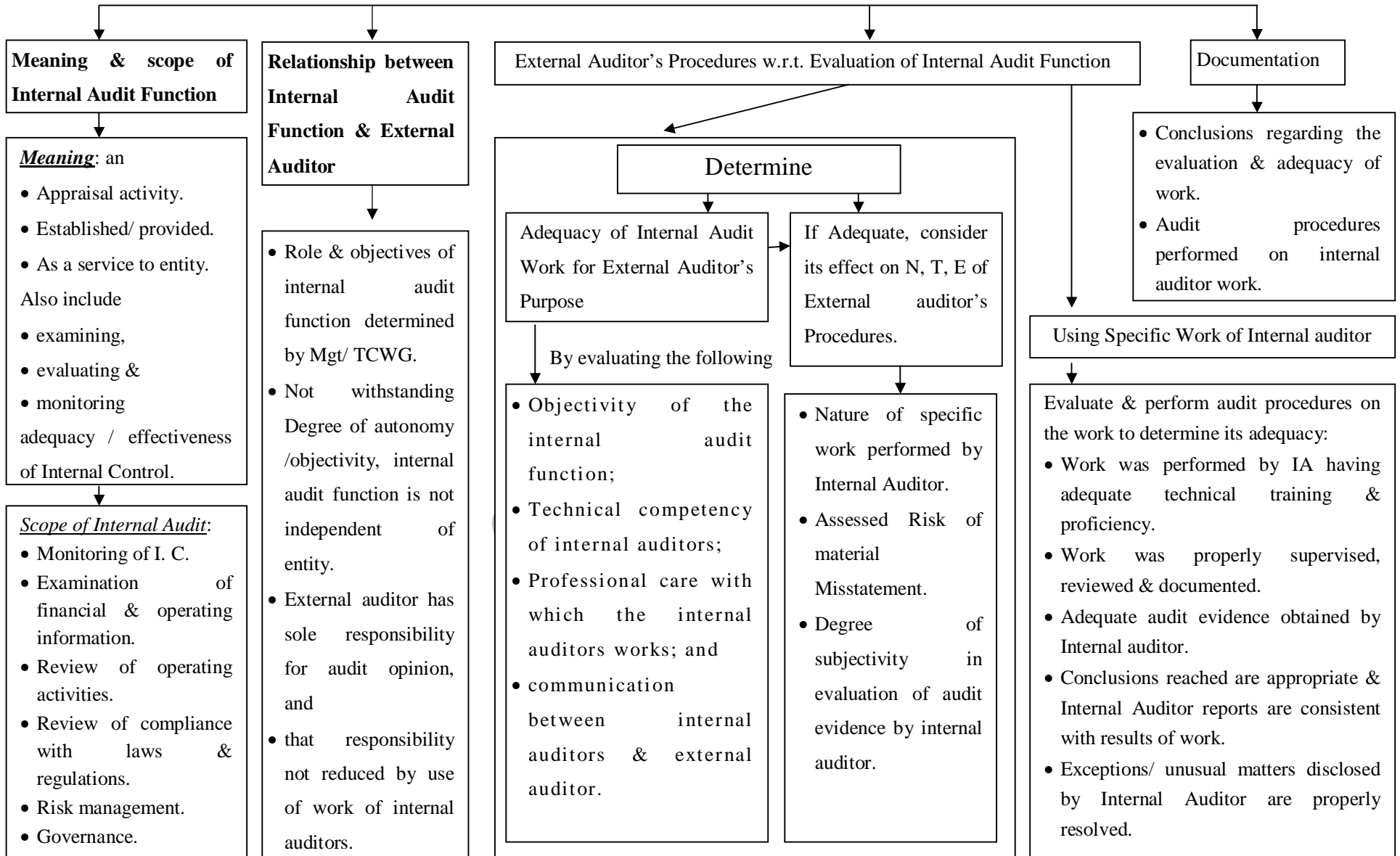
- Principal Auditor's Procedures**
1. Consider the professional competence of Other Auditor, if Other Auditor is not a member of ICAI.
 2. Visit component and examine books of account, if essential.
 3. Obtain sufficient appropriate evidence, that work of Other Auditor is adequate for Principal Auditor's purposes.
 4. Discuss audit procedures applied by Other Auditor.
 5. Review a written summary of Other Auditor's procedures and findings through questionnaires/checklist.
 6. Consider significant findings of Other Auditor:
 - Discuss audit findings with OA and Mgt. of component.
 - Perform supplemental tests if necessary.
 7. In case Other Auditor is not a professionally qualified auditor - for instance, where a component is situated in foreign country:
 - Procedures mentioned above assume added importance.

- Documentation**
1. Components whose FS are audited by Other Auditor and their significance to the financial information of the entity as a whole.
 2. Names of the other auditors.
 3. Any conclusions reached that individual components are not material.
 4. Procedures performed regarding components.
 5. Conclusions reached.
 6. Manner of dealing with Modified Report of Other Auditor while finalising Principal Auditor's Report.

- Coordination**
1. Sufficient liaison/co-ordination between Principal and Other auditor.
 2. Principal auditor may require Other Auditor to answer a detailed questionnaire.
 3. Other Auditor should coordinate with Principal Auditor:
 - Adhering to time-table.
 - Bringing to the attention of PA any significant finding.
 - Compliance with relevant statutory requirements.
 - Respond to detailed questionnaire.

- Reporting**
1. Express a qualified / disclaimer of opinion because of scope limitation:
 - If Principal Auditor concludes that he cannot use the work of Other Auditor;
 - PA unable to perform sufficient additional procedures regarding FI of the component audited by OA.
 2. Report should state clearly division of responsibility between PA and OA.

SA 610 (Revised) "Using the Work of Internal Auditors"



SA 720 (Revised) - THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Purpose: Auditor is not required to express an opinion on other information in documents containing audited F.S. (Ex. Annual Report), however, auditor reads the other information because credibility of F.S. may be undermined by Material inconsistencies between the audited financial statements and other information.

Auditor's Procedures:

Make appropriate arrangements with Management & TCWG to obtain the other information prior to the date of auditor report & Read the information so obtained. If Information is not available prior to date of auditors report, read the other information as soon as practicable.

