SQC1 QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

(w.e.f.01/04/2009)

Purpose
• The purpose of this SQC is to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. • This SQC is to be read in conjunction with the Code of Ethics and other relevant pronouncements issued by ICAI
Objective
Design the quality control 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

Definition	
Engagement documentation	The record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "work papers"). It is assembled in an engagement file;
Engagement partner	• Partner or other person in the firm • Is a Member of ICAI in full time practice • Is responsible for the engagement and its performance • Is responsible for report issued. • Has appropriate authority from professional/ legal/ regulatory body
Engagement quality control (Q.C.) review	A process designed to provide an objective evaluation of the significant judgments, before the report is issued.
Engagement Q.C.reviewer	A partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate/conduct review, before the report is issued
Engagement team	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
Firm	A sole practitioner/proprietor, partnership, or any such entity of professional accountants, as may be permitted by law.
Inspection	Procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are traded under the regulations of a recognized stock exchange or other equivalent body.
Monitoring	Evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
Network firm	An entity under common control, ownership or management with the firm (nationally or internationally).
Partner	Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
Professional standards	Engagement standards, as defined in the AASB's "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," and relevant ethical requirements as contained in the Code.
Reasonable assurance	In the context of this SQC, a high, but not absolute, level of assurance.
Staff	Professionals, other than partners, including any experts which the firm employs.
Suitably qualified external person	An individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee6 (with appropriate experience) of another firm.

Requirement of SQC 1	
Elements of a System of	a) The firm's system of quality control should include policies and procedures addressing each of the following elements:

CA VINOD PARAKH – ACA, DISA,C. V.O., B.Com(H) Ph- 09266075293;E-Mail Id-classes@vpassociates.co.in

Quality Control	• Leadership responsibilities for quality within the firm. • Ethical requirements. • Acceptance and continuance of client relationships and specific engagements. • Human resources. • Engagement performance. • Monitoring. b) The quality control policies and procedures should be documented and communicated to the firm's personnel.
Leadership Responsibilities for Quality within the Firm	a) The firm should establish policies and procedures designed to promote an internal qualitative culture b) The firm's managing partners (or equivalent), to assume ultimate responsibility for the firm's system of quality control. c) Assign operational responsibility to the person who should have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.
Ethical Requirements	a) Establish policies and procedures to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements and professional ethics issued by ICAI b) The firm's policies and procedures should emphasize the fundamental principles, which are reinforced in particular by (a) The leadership of the firm, (b) Education and training, (c) Monitoring, and (d) Process for dealing with non-compliance.
Independence	a) Establish policies and procedures designed to maintain independence requirements • Communicate its independence requirements to its personnel and, • Identify and evaluate circumstances and relationships that create threats to independence, • Try to eliminate those threats or reduce them to an acceptable level, or to withdraw from the engagement. b) Such policies and procedures should require: • Engagement partners to provide the firm with relevant information about client engagements, to enable the firm to evaluate the overall impact; • Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence c) 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. d) 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. e) Set the 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
Acceptance and Continuance of Client Relationships and Specific Engagements	a) Design policies and procedures to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it: • Has considered the integrity of the client • Is competent to perform the engagement and has the capabilities, time and resources to do so; and • Can comply with the ethical requirements. b) The firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client or to continue with an existing engagement. c) Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier, then consider : • To report to the person or persons who made the appointment or, in some cases, to

	regulatory authorities; and • The possibility of withdrawing from the engagement or from both the engagement and the client relationship.
Human Resources	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 to perform its engagements as per professional standards and regulatory and legal requirements; and • To issue reports that is appropriate in the circumstances.
Assignment of Engagement Teams	a) The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that: • The identity and role of the engagement partner are communicated to key members of the client's management/TCWG • The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and • The responsibilities of the engagement partner are clearly defined and communicated to that partner. b) The firm should also assign appropriate & competent staff to perform engagements as per professional standards and regulatory and legal requirements.
Engagement Performance	The firm should establish policies and procedures designed to provide it with reasonable assurance that – • Engagements are performed as per the professional standards and regulatory and legal requirements, and • The firm or the engagement partner issues reports that are appropriate in the circumstances.
Consultation	The firm should establish policies and procedures designed to provide it with reasonable assurance that: 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.
Differences of Opinion	a) 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. b) The report should not be issued until the matter is resolved.
Engagement Quality Control Review (Q.C. Review)	a) Establish policies and procedures requiring QC review that provides **an objective evaluation** of the significant judgments made by the engagement team and **the conclusions** reached in formulating the report. To ensure: • Q.C. review for all audits of FS of listed entities; • Criteria to determine whether an engagement Q.C. review should be performed; • Q.C. review for all the engagement meeting the criteria established in compliance. b) The firm's policies and procedures should require the completion of the Q.C. review before the report is issued. c) To set for following: • NTE of an Engagement Q.C. Review • Criteria for the eligibility of Q.C. reviewers • Documentation requirement for reviews
Completion of the Assembly of Final Engagement Files	To ensure that engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.
Confidentiality,	Establish policies and procedures to ensure:

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<tr><td>Safe Custody, etc. of Engagement Documentation</td><td>• Maintain the confidentiality, safe custody, integrity, accessibility and irretrievability of engagement documentation.
• Retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.
• Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients</td></tr>
<tr><td>Monitoring</td><td>a) The policies and procedures relating to the Q.C. system are relevant, adequate, operating effectively and complied with in practice.
b) It include an ongoing consideration and evaluation of the firm's system of Q.C., including a periodic inspection of a selection of completed engagements.
c) Evaluate the effect of deficiencies:
• Instances that do not indicate the insufficiency of firm's system of Q.C.
• Systemic, repetitive or other significant deficiencies that require prompt corrective action.
d) The firm should communicate to relevant engagement partners and other appropriate personnel deficiencies noted and recommendations for appropriate remedial action.
e) The firm's evaluation of each type of deficiency should result in recommendations for one or more of the following:
• Taking appropriate remedial action in relation to an individual engagement or member of personnel;
• The communication of the findings to those responsible for training and professional development;
• Changes to the quality control policies and procedures; and
• Disciplinary action against those who fail to comply repeatedly.
f) Where there is a indication about inappropriateness of report or omission of AP, the firm should determine further actions to comply with relevant professional standards and regulatory and legal requirements. It should also consider obtaining legal advice.
g) At least annually, the firm should communicate the results of the monitoring of its quality control system to engagement partners, Firm's CEO/Managing partner and other appropriate individuals within the firm. Information communicated include the following:
• A description of the monitoring procedures performed.
• The conclusions drawn from the monitoring procedures.
• Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.</td></tr>
<tr><td>Complaints and Allegations</td><td>The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
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.</td></tr>
<tr><td>Documentation</td><td>The firm should establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.</td></tr>
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SA 200 (REVISED) - OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING (w.e.f. 01/04/2010)

<table>
<tr><th colspan="2">Objective</th></tr>
<tr><td colspan="2">1) Obtain reasonable assurance whether FS as a whole are free from material misstatement whether due to fraud/ error.
2) Report on FS and communicate as required by SAs</td></tr>
<tr><th colspan="2">Scope</th></tr>
<tr><td colspan="2">1) This SA establishes the independent auditor’s overall responsibilities when conducting an audit of FS in accordance with other SAs.
2) The purpose of an audit is to enhance the degree of confidence of intended users in the FS.
3) This is achieved by the expression of an opinion by the auditor on whether the FS are prepared, in all material respects, in accordance with an applicable financial reporting framework.
4) Auditor’s opinion does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.
5) Laws and regulations may require auditors to provide opinions on other specific matters, such as the effectiveness of IC, or the consistency of a separate management report with the FS.</td></tr>
<tr><th colspan="2">Definitions</th></tr>
<tr><td>Applicable Financial Reporting Framework</td><td>Framework adopted by management/TCWG in the preparation and presentation of the FS –
• That is acceptable in view of the nature of the entity
• Objective of the FS
• Required by law or regulation.
• Financial reporting frameworks can be:-
a) Fair presentation frameworks; or
b) Compliance frameworks</td></tr>
<tr><td>Fair presentation framework</td><td>FRF that requires compliance with the requirements of the framework and:
• Acknowledges explicitly or implicitly that, to achieve fair presentation of the FS; or
• Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of FS. (In extremely rare circumstances)</td></tr>
<tr><td>Compliance framework</td><td>FRF that requires compliance with the requirements of the framework, but does not contain the acknowledgements as required in case of fair presentation framework.</td></tr>
<tr><td>Audit Evidence</td><td>Information used by the auditor
• In arriving at the conclusions
• On which the auditor’s opinion is based.
• Includes:
➢ Both info contained in the accounting records underlying the FS, and
➢ Other information.
For purposes of the SAs:
Sufficiency - measure of the quantity of AE
Appropriateness - measure of the quality of AE</td></tr>
<tr><td>Audit Risk</td><td>The risk that
• The auditor expresses an inappropriate audit opinion
• When the FS are materially misstated.
• Audit risk is a function of the risks of material misstatement and detection risk.
Audit Risk = IR*CR*DR</td></tr>
<tr><td>Risk of Material Misstatement</td><td>Risk that financial statement are misstated prior to audit
<table><tr><th>Inherent Risk</th><th>Control Risk</th></tr><tr><td>Susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either</td><td>The risk that a misstatement that could occur (material in nature), will not be prevented, or detected and corrected, on a timely basis by</td></tr></table></td></tr>
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CA VINOD PARAKH – ACA, DISA,C. V.O., B.Com(H)
Ph- 09266075293;E-Mail Id-classes@vpassociates.co.in

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<tr><td></td><td><table><tr><td>individually or when aggregated with other misstatements, before consideration of any related controls</td><td>the entity's IC</td></tr></table></td></tr>
<tr><td>Detection Risk</td><td>The risk that:
Procedures will not detect a misstatement that exists; and
That could be material, either individually or when aggregated with other misstatements.</td></tr>
<tr><td>Financial Statements</td><td>A structured representation of historical financial information, Including related notes,
Intended to communicate an entity's economic results at a point in time (B/S) or
The changes therein for a period of time (P&L and cash flow statements)
As per the applicable F.R.F.</td></tr>
<tr><td>Premise, on which an audit is conducted</td><td>That management and, where appropriate, TCWG have the following responsibilities:
1) For the preparation and presentation of the FS as per applicable F.R.F
2) To provide the auditor with:
All information that are relevant to the preparation and presentation of FS;
Any additional information that the auditor may request
Unrestricted access to those within the entity</td></tr>
<tr><td>Professional Skepticism</td><td>An attitude that includes:
A questioning mind, being alert to conditions which may indicate
Possible misstatement due to error or fraud, and
A critical assessment of AE.</td></tr>
<tr><td colspan="2">Requirement of SA 200</td></tr>
<tr><td>Ethical Requirements Relating to an Audit of Financial Statements</td><td>1) The auditor shall comply with relevant ethical requirements relating to FS including those pertaining to independence,.
2) Fundamental principles of ethics include ;
(a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behaviour.
3) Independence comprises: of mind and appearance.</td></tr>
<tr><td>Professional Skepticism</td><td>1) Plan and Perform an audit in recognition with the condition indicating possible misstatement
2) It includes being alert to, for example:
AE that contradicts other AE obtained.
Information that brings into question the reliability of documents
Conditions indicating possible fraud.
Circumstances that suggest the need for AP in addition to those required by the SAs
3) Moreover, it requires critical assessment of AEs gathered by questioning, response to inquiries and other information obtained from management and TCWG
4) By maintaining Professional Skepticism, overall risk can be reduced.</td></tr>
<tr><td>Professional Judgment</td><td>Exercise professional judgment in planning and performing an audit.
It is necessary regarding decisions about :-
Materiality and audit risk.
The nature, timing, and extent (NTE) of AP
Sufficiency & appropriateness of AE has been obtained
The evaluation of management's judgments in applying the entity's applicable
The drawing of conclusions based on the AE obtained</td></tr>
<tr><td>Audit Evidence and Audit Risk</td><td>To obtain reasonable assurance, the auditor shall obtain SAAE to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.
However due to inherent limitations of audit, audit risk can't be reduced to zero.</td></tr>
<tr><td colspan="2">Conduct of an Audit in Accordance with SAs</td></tr>
<tr><td>Complying with SAs</td><td>1) The auditor shall comply with all SAs relevant to the audit. An SA is relevant to the audit when the SA is in effect and the circumstances addressed by the SA exist</td></tr>
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Relevant to the Audit	2) Have an <u>understanding of</u> the entire text of an SA 3) <u>Do not represent compliance</u> with SAs in the auditor's report unless the auditor has complied with SA200(R) and all other SAs relevant to the audit
Objectives Stated in Individual SAs	• Determine whether any AP in addition to those required by the SAs are necessary in pursuance of the objectives stated in the SAs • Evaluate whether SAAE has been obtained
Complying with Relevant Requirements	The auditor shall comply with each requirement of an SA unless • Entire SA is not relevant; or • Requirement is not relevant because it is conditional and the condition does not exist • In exceptional circumstances auditor may depart from a relevant requirement in an SA. In such circumstances, the auditor shall perform alternative AP to achieve the aim of that requirement.
Failure to Achieve an Objective	1) If an objective in a relevant SA cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor to modify the auditor's opinion or withdraw from the engagement. 2) Failure to achieve an objective represents a significant matter requiring documentation as per SA-230
Additional Points	
Reasonable Assurance	It requires the auditor to obtain reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error. The auditor has obtained SAAE to reduce audit risk to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit.
Auditor's Duties under SAs	SAs require that the auditor exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit and, among other things: • Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, IC. • <u>Obtain SAAE</u> about whether material misstatements exist, by assessing the appropriate responses to the assessed risks. • <u>Form an opinion</u> on the FS based on conclusions drawn from the AE obtained.
Form of Opinion	• It depend upon the applicable F.R.F and any laws or regulations • The auditor may have certain reporting responsibilities to users, management, TCWG or parties outside the entity. These may be established by the SAs or by applicable laws or regulations
Inherent Limitations of Audit	1) The auditor can't reduce audit risk to zero and can't obtain absolute assurance that the FS are free from material misstatement due to fraud or error. 2) This is because there are inherent limitations of an audit, due to which the auditor the auditor obtain the persuasive evidence rather than conclusive. 3) The inherent limitations of an audit arise from: • The nature of financial reporting; • The nature of AP; and • The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.
Nature of Financial Reporting	• Preparation of FS involves judgment by management • Many financial statement items involve subjective decisions or assessments or a degree of uncertainty • To ascertain ACE, which are reasonable in the context of the applicable F.R.F.
Nature of AP	• There are practical and legal limitations on the auditor's ability to obtain AE. • Management may not provide, intentionally or unintentionally, the complete information • Fraud may involve sophisticated and carefully organised schemes designed to conceal it. In such a case, auditor may not detect them.
Limitations w.r.t time &	There is an expectation by users of FS that the auditor will form an opinion on the FS within a reasonable period of time and at a reasonable cost. Therefore it is necessary for auditor to:

cost	• Plan the audit so that it will be performed in an effective manner; • Direct audit effort to risky areas • Use testing and other means of examining populations for misstatements.

SA 210 (REVISED) AGREEING THE TERMS OF AUDIT ENGAGEMENTS (w.e.f. 01/04/2010)

Scope	
1) This SA deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, TCWG. 2) It includes establishing that certain preconditions for an audit, responsibility for which rests with management and TCWG, are present.	
Auditor's Objective	
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: 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 TCWG of the terms of the audit engagement.	
Definitions	
Preconditions for an audit	The use by management of an acceptable F.R.F. in the preparation of the FS and the agreement of management and TCWG to the premise on which an audit is conducted
Management	For the purposes of this SA, references to "management" should be read hereafter as "management and, where appropriate, those charged with governance (TCWG)
Requirement of SA 210	
Preconditions for an Audit	<u>**Reporting Framework**</u> Determine whether the FRF to be applied in the preparation of the FS is **acceptable** with reference to the following: a) The nature of the entity (for e.g., whether it is a business enterprise, or a not for profit organization); b) The purpose of the FS (for e.g., whether they are prepared to meet the common financial information needs of a wide range of users or for specific users); c) The nature of the FS (for e.g., whether the FS are a complete set of FS or a single financial statement); and d) Whether law or regulation prescribes the applicable FRF.
	<u>**Management Responsibility**</u> ➢ Obtain agreement of management that it acknowledges & understands its **responsibility**: ⇒ For the preparation of the FS as per applicable FRF. ⇒ For such IC which are necessary to prepare FS free from material misstatement ⇒ To provide the auditor with: • Access to all the relevant information • Additional information which the auditor may request and • Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain AE.
Limitation on Scope Prior to Audit Engagement Acceptance	If management or TCWG impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the FS, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.
Other Factors Affecting Audit Engagement Acceptance	• If the <u>preconditions for</u> an <u>audit</u> are <u>not present</u>, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall <u>not accept</u> the proposed audit engagement: • If the auditor has determined that F.R.F. to be applied in the preparation of the FS is

	unacceptable; or • If the management's representation on its responsibility has not been obtained.
Agreement on Audit Engagement Terms	The auditor shall agree the terms of the audit engagement with management or TCWG, as appropriate.
Engagement letter	The principles relating to engagement letter are as under:- a) The objective and scope of the audit of the FS; b) Auditor responsibilities; c) Management Responsibilities; d) Identification of the applicable F.R.F. ; e) Expected form and content of reports and a statement that there may be circumstances in which a report may differ from its expected form and content f) The form of any other communication of results of the audit engagement. g) The fact that because of the inherent limitations of an audit and IC, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SAs. h) Arrangements regarding the planning and performance of the audit, including the composition of the audit team. i) The expectation that management will provide written representations. j) The agreement of management to make available to the auditor draft FS and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timetable. k) The agreement of management to inform the auditor of facts that may affect the FS, of which management may become aware during the period from the date of the auditor's report to the date the FS are issued. l) The basis on which fees are computed and any billing arrangements. m) A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein. n) The fact that the audit process may be subjected to a peer review under the Chartered Accountants Act, 1949. o) Arrangements concerning the involvement of other auditors and experts in some aspects of the audit. p) Arrangements concerning the involvement of internal auditors and other staff of the entity. q) Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit. r) Any restriction of the auditor's liability when such possibility exists. s) A reference to any further agreements between the auditor and the entity. t) Any obligations to provide audit working papers to other parties.
Recurring Audits	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.
Acceptance of a Change in the Terms of the Audit Engagement (ToAE)	a) The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so. b) If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so. c) If the ToAE are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement. d) If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:

	• Withdraw from the audit engagement where possible under applicable law or regulation; Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as TCWG, owners or regulators.
Additional Considerations in Engagement Acceptance	
Financial Reporting Standards Supplemented by Law or Regulation	If financial reporting standards established by an authorised or recognised standards setting organization are supplemented by law or regulation, the auditor shall determine whether there are any conflicts between the financial reporting standards and the additional requirements. If such conflicts exist, the auditor shall discuss with management the nature of the additional requirements and shall agree whether: a) The additional requirements can be met through additional disclosures in the FS; or b) The description of the applicable F.R.F in the FS can be amended accordingly. If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the auditor's report.
Auditor's Report Prescribed by Law or Regulation	a) In some cases, the law or regulation applicable to the entity prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of SAs. In these circumstances, the auditor shall evaluate: • Whether users might misunderstand the assurance obtained from the audit of the FS and, if so, • Whether additional explanation in the auditor's report can mitigate possible misunderstanding. b) If the auditor concludes that additional explanation in the auditor's report can't mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation doesn't comply with SAs. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with SAs

SA 220 (REVISED) QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS (w.e.f.01/04/2010)

Scope

1) This SA deals with the auditor's responsibilities of the auditor regarding quality control procedures for an audit of FS.
2) It also addresses, where applicable, the responsibilities of the EQC reviewer.
3) This SA is to be read in conjunction with relevant ethical requirements.

Auditor's Objective

To implement QC procedures

- At the engagement level
- That Provide Reasonable assurance :
  1) Audit complies with professional standards and regulatory and legal requirements; and
  2) Auditor's report issued is appropriate in the circumstances

Definitions

Engagement partner	• Partner or other person in the firm • Is a Member of ICAI in full time practice • Is responsible for the engagement and its performance • Is responsible for report issued. • Or has appropriate authority from professional/ legal/ regulatory body
EQC Review	Process: • To provide objective evaluation. • Before report is issued. • For significant judgments & conclusions of engagement team. • In formulating report
EQC Reviewer	• Partner/ other person in firm/ suitably qualified external person/ team. • With sufficient & appropriate experience & authority. • To objectively evaluate significant judgments/ conclusions of engagement team. • Before report is issued. • "QC team" to be led by CA, who is a member of ICAI.
Engagement team	• All personnel performing an engagement, • Including outside experts contracted that engagement
Firm	A sole practitioner/proprietor, partnership, or any such entity of professional accountants, as may be permitted by law
Inspection	In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are traded under the regulations of a recognized stock exchange or other equivalent body.
Monitoring	A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively.
Network firm	A firm or entity that belongs to a network
Network	A larger structure: 1) That is aimed at cooperation, and 2) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources
Suitably qualified external person	an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee3 (with appropriate experience) of another firm

Requirement of SA 220

Leadership	The EP shall take responsibility for the overall quality on each audit engagement to which that

Responsibilities	partner is assigned
Relevant Ethical Requirements	➢ EP shall remain alert, for evidence of non-compliance by • Inquiry • Observation ➢ Actual/ indications of non-compliance, EP should: • Consult others in the firm. • Determine appropriate action.
Independence	The EP shall form a conclusion on compliance with independence requirements. In doing so, the EP shall: a) Obtain relevant information to identify and evaluate circumstances and relationships that create threats to independence; b) Evaluate information on identified breaches, of the firm's independence policies and procedures c) Take appropriate action to eliminate such threats or reduce them to an acceptable level or to withdraw from an audit engagement.
Acceptance and Continuance of Client Relationships and Audit Engagements	1) The EP shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate. 2) If the EP obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the EP shall communicate that information promptly to the firm, so that the firm and the EP can take the necessary action
Assignment of Engagement Teams	EP to be satisfied that the ET & Auditor experts not part of ET have competence and capabilities to: • Perform the audit engagement in accordance with professional standards and regulatory and legal requirements; and • Enable an auditor's report that is appropriate in the circumstances.
Engagement Performance	
Direction, Supervision and Performance	The EP shall take responsibility for: • The direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements; • The auditor's report being appropriate in the circumstances.
Reviews	1) The EP shall take responsibility for reviews; and 2) And by a review of the audit documentation and discussion with the engagement team, be satisfied that SAAE has been obtained to support the conclusions reached before the audit report is issued.
Consultation	The EP shall: • Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters; • Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, • Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and • Determine that conclusions resulting from such consultations have been implemented.
EQC Review	
Concept of Review	For any audit engagements or audit of FS, EQC review is required, the EP shall: a) Determine that an EQC reviewer has been appointed; b) Discuss significant matters with the EQC reviewer; c) Not date the auditor's report until the completion of the EQC review.
Duties of QC Reviewer	EQC reviewer shall evaluate the following : a) Discussion of significant matters with EP; b) Review of the FS and the proposed auditor's report; c) Review of selected audit documentation relating to the significant judgments and the

	conclusions of ET d) Conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.
Special Matters – Listed Entities	For audits of FS of listed entities, the EQC reviewer, on performing an EQC review, shall also consider the following: 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 matters, and the conclusions arising from those consultations; and c) Whether audit documentation selected for review reflects the work performed wrt significant judgments made and supports the conclusions reached.
Differences of Opinion	
Engagement team shall follow the <u>firm's policies and procedures</u> for dealing with and resolving differences of opinion that arise, - (a) within the ET (b) with those consulted or, (c) between EP & EQC reviewer	
Monitoring	
a) 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. b) The EP shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement.	
Documentation	
The auditor shall document:	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.
Quality control reviewer shall document	a) The procedures required by the firm's policies on EQCreview have been performed; b) The EQCreview 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.