

Standards on Quality Control and Engagement Work



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History of Auditing I

History on the Evolution of Auditing

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graph TD; A[History on the Evolution of Auditing] --- B[19th Century – English Companies Act 1862]; A --- C[The Stock Market Crash of 1929]; A --- D[Influence of New York Stock Exchange]
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19th Century – English Companies Act 1862

The Stock Market Crash of 1929

Influence of New York Stock Exchange

History of Auditing II

History on the Evolution of Auditing

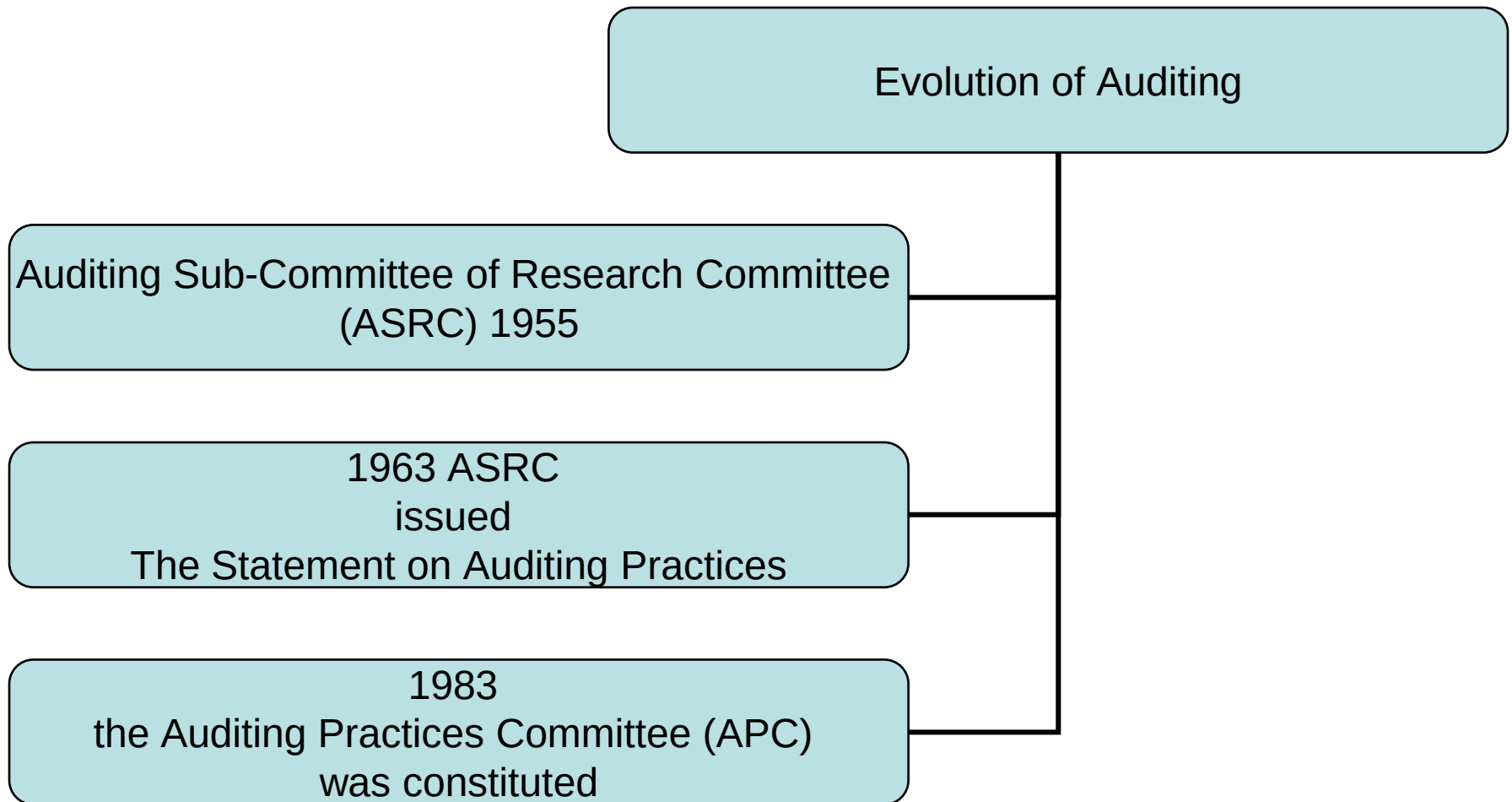
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graph TD; A[History on the Evolution of Auditing] --- B[The McKesson & Robbins scandal case of 1939]; A --- C[1950's and 1960's brought more reform]; A --- D[E.D.P- electronic data processing]
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The McKesson & Robbins scandal case of 1939

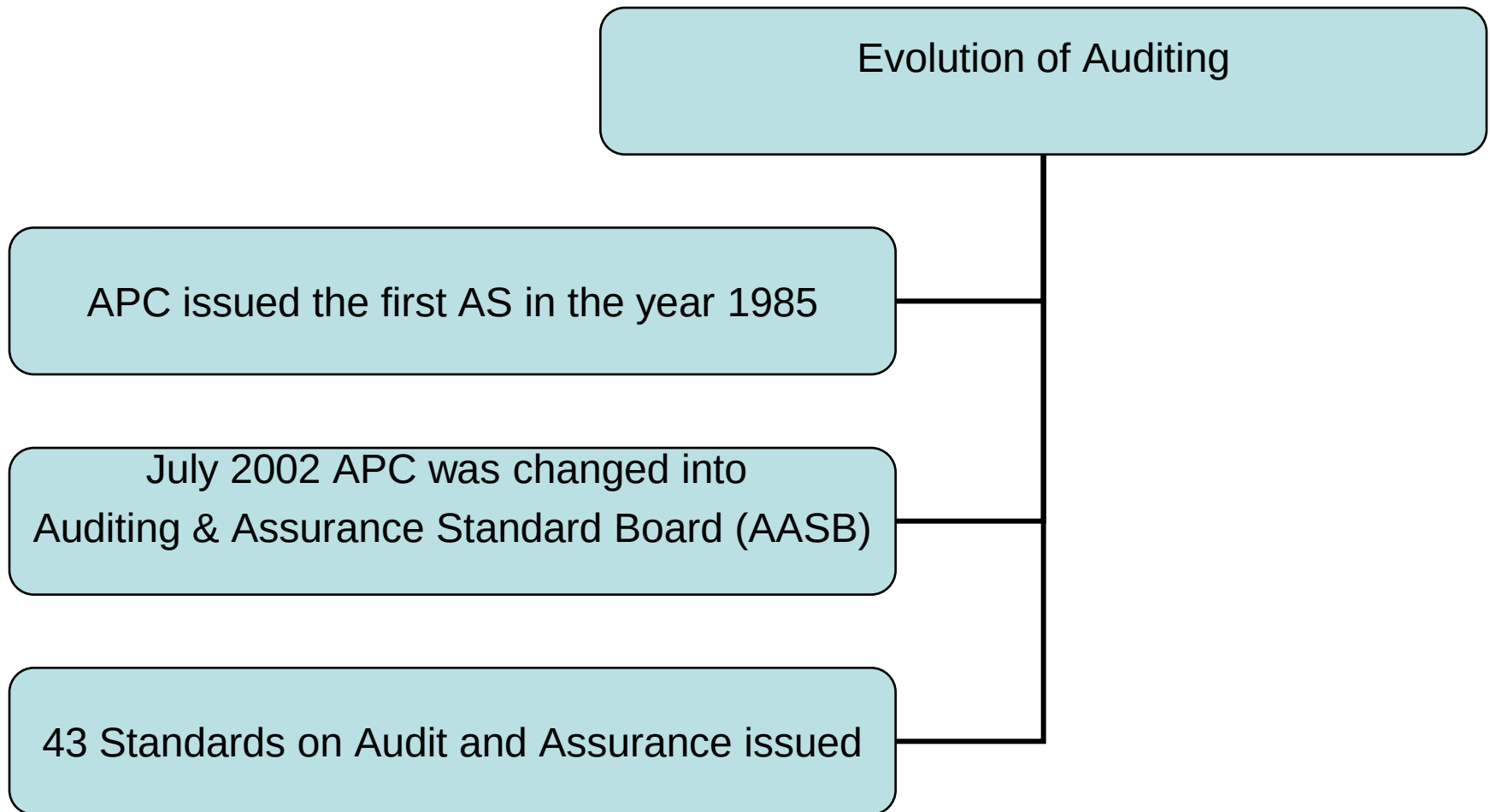
1950's and 1960's brought more reform

E.D.P- electronic data processing

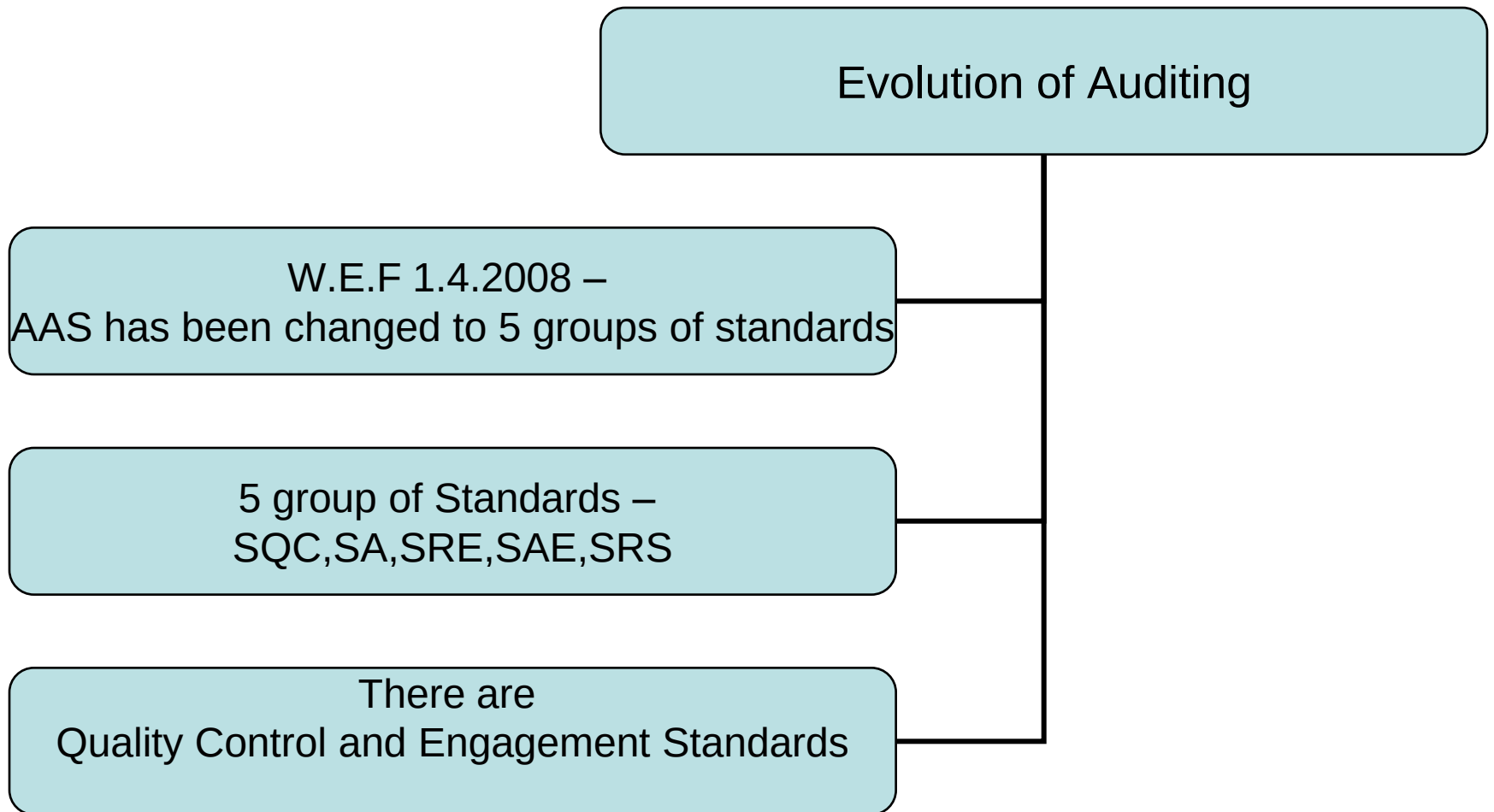
Evolution of Auditing I



Evolution of Auditing II



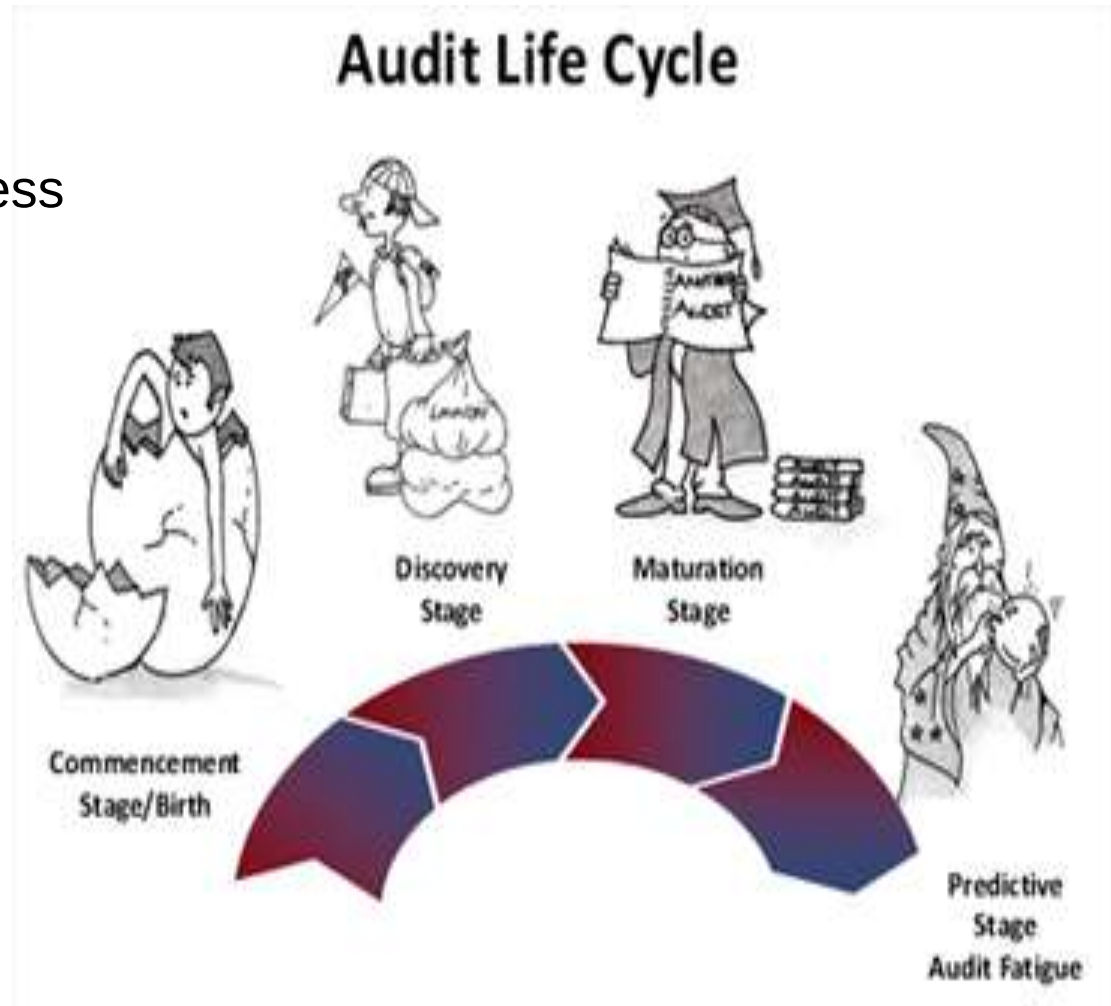
Evolution of Auditing III



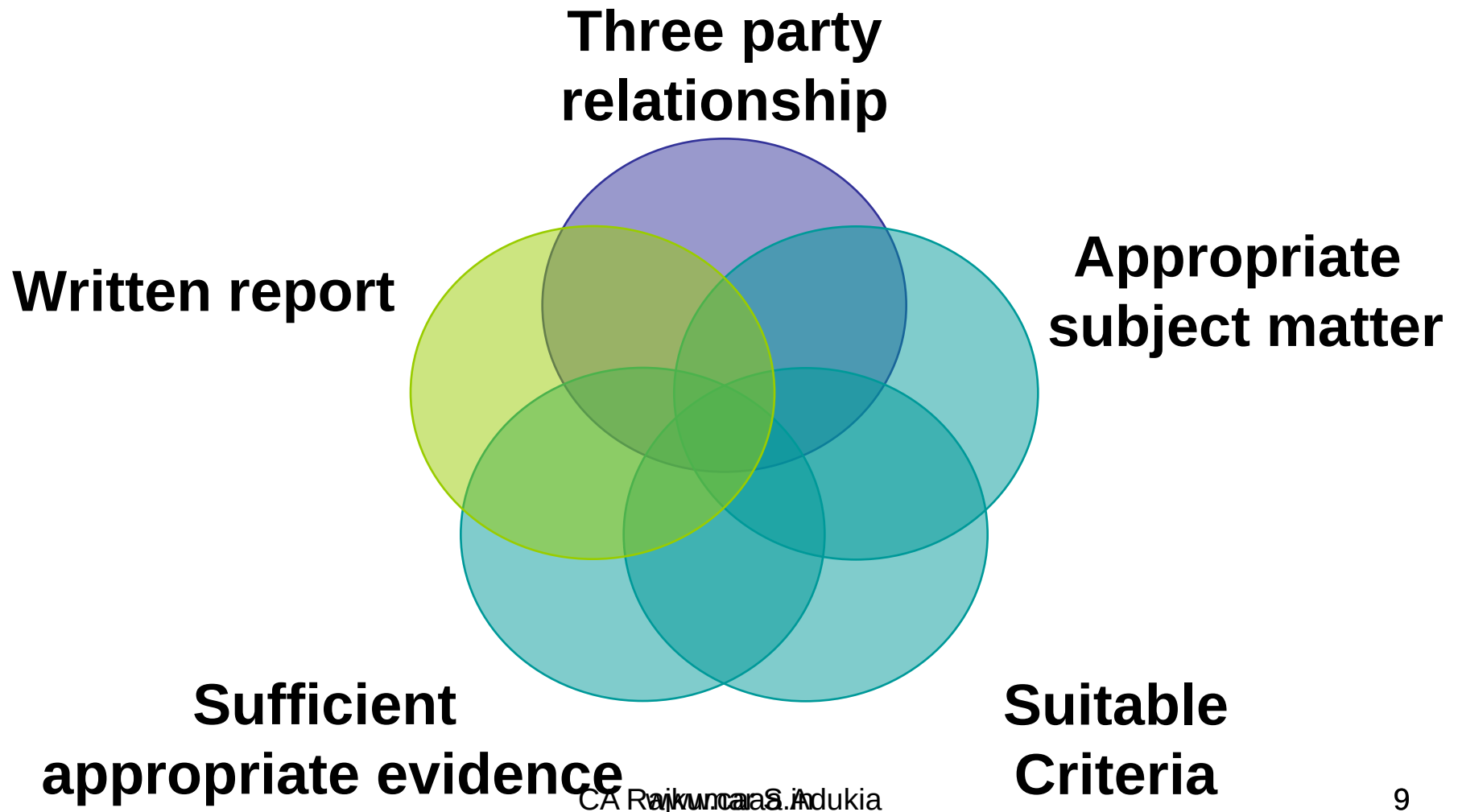
Standards on Quality Control and Engagement Work

Auditing/Assurance Cycle

- Pre engagement activity
- Understanding the business & its risk
- Audit/Assurance plan
- Substantive work
- Report



Elements of Assurance Engagement



**Chartered Accountants Act, 1949,
Code of Ethics and other relevant
pronouncements of the ICAI**

Standards on Quality Control (SQC)

*Services covered by the pronouncements of the Auditing
and Assurance Standards Board under the authority of the
Council of ICAI*

Assurance Services

Related Services

**Framework for Assurance
Engagements**

*Audits and reviews
of historical
financial
information*

*Assurance Engagements
other than audits or
reviews of historical
financial information*

**Standards on
Auditing
(SAs)**

100 - 999

**Standards on
Review
Engagements
(SREs)**

2000 - 2699

**Standards on
Assurance
Engagements (SAEs)**

3000 - 3699

**Standards on
Related Services
(SRSs)**

4000 - 4699

***“There are 44 Standards
on
Engagement (Audit and Assurance)work
including those related to quality control,
assurance engagement and related
services issues by ICAI”***

List of Standards On Quality Control And Other Engagement Work

1. Standards on Quality Control **(SQC)**

- SQC 1, “Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements”
- Announcement on Amendment to SQC 1 - Retention Period for Engagement Documentation (Working Papers)

List of Engagement Standards

Standards on Auditing

- There are 7 categories of SAs
 - 100-199 Introductory Matters
 - 200-299 General Principles and Responsibilities
 - 300-499 Risk Assessment and Response to Assessed Risks
 - 500-599 Audit Evidence
 - 600-699 Using Work of Others
 - 700-799 Audit Conclusions and Reporting
 - 800-899 Specialized Areas

2. Standards on Auditing

- **100-199 Introductory Matters**
- **200-299 General Principles and Responsibilities**
 - SA 200 issued under the Clarity Project, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”
 - SA 210 under the Clarity Project, “Agreeing the Terms of Audit Engagements”
 - SA 220 issued under the Clarity Project , “Quality Control for an Audit of Financial Statements”

2. Standards on Auditing

- SA 230 under the Clarity Project, “Audit Documentation”
- SA 240 under the Clarity Project, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”
- SA 250 under the Clarity Project, “Consideration of Laws and Regulations in an Audit of Financial Statements”
- SA 260 under the Clarity Project, “Communication with Those Charged with Governance”
- SA 265 issued under the Clarity Project, “Communicating Deficiencies in Internal Control to Those Charged With Governance and Management”
- SA 299 (AAS 12), “Responsibility of Joint Auditors”

2. Standards on Auditing

- **300-499 Risk Assessment and Response to Assessed Risks**
 - SA 300 - “Planning an Audit of Financial Statements”
 - SA 315 - “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment”
 - SA 320 - “Materiality in Planning and Performing an Audit”
 - SA 330 - “The Auditor’s Responses to Assessed Risks”
 - SA 402 - “Audit Considerations Relating to an Entity Using a Service Organisation”
 - SA 450 - “Evaluation of Misstatements Identified During the Audit”

2. Standards on Auditing

- **500-599 Audit Evidence**
 - SA 500 - “Audit Evidence”
 - SA 501 - “Audit Evidence—Specific Considerations for Selected Items”
 - SA 505 - “External Confirmations”
 - SA 510 under the Clarity Project, “Initial Audit Engagements – Opening Balances”
 - SA 520 issued under the Clarity Project, “Analytical Procedures”
 - SA 530 - “Audit Sampling”

2. Standards on Auditing

- SA 540 - “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”
- SA 550 - “Related Parties”
- SA 560 - “Subsequent Events”
- SA 570 - “Going Concern”
- SA 580 - “Written Representations”

2. Standards on Auditing

- **600-699 Using Work of Others**
 - SA 600 (AAS 10) - “Using the Work of Another Auditor”
 - SA 610 - “Using The Work of Internal Auditors”
 - SA 620 - “Using the Work of an Auditor’s Expert”

2. Standards on Auditing

- **700-799 Audit Conclusions and Reporting**
 - SA 700 - “Forming an Opinion and Reporting on Financial Statements
 - SA 705 - “Modifications to the Opinion in the Independent Auditor’s Report”
 - SA 706 - “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report“
 - SA 710 - “Comparative Information—Corresponding Figures and Comparative Financial Statements”
 - SA 720 - “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements”

2. Standards on Auditing

- **800-899 Specialized Areas**
 - SA 800 - “Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks”
 - SA 805 – “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”
 - SA 810 - “Engagements to Report on Summary Financial Statements”

3. 2000-2699 Standards on Review Engagements (SREs) - 2

- SRE 2400 , “Engagements to Review Financial Statements
- SRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”

4. Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

- 3000-3699 Standards on Assurance Engagements (SAEs)
- 3000-3399 Applicable to All Assurance Engagements
- 3400-3699 Subject Specific Standards
- SAE 3400 (AAS 35), “The Examination of Prospective Financial Information”
- SAE 3402, “Assurance Reports on Controls At a Service Organisation”

5. Related Services

4000-4699 Standards on Related Services (SRSs)

- SRS 4400 (AAS 32), “Engagements to Perform Agreed-upon Procedures Regarding Financial Information”
- SRS 4410 (AAS 31), “Engagements to Compile Financial Information”

6. Standards on Internal Auditing

There are 17 Standards on Internal Audit (SIA)

1. SIA 1, Planning an Internal Audit
2. SIA 2, Basic Principles Governing Internal Audit
3. SIA 3, Documentation
4. SIA 4, Reporting
5. SIA 5, Sampling
6. SIA 6, Analytical Procedures

List of Standards on Internal Auditing

7. SIA 7, Quality Assurance in Internal Audit
8. SIA 8, Terms of Internal Audit Engagement
9. SIA 9, Communication with Management
10. SIA 10, Internal Audit Evidence
11. SIA 11, Consideration of Fraud in an Internal Audit
12. SIA 12, Internal Control Evaluation
13. SIA 13, Enterprise Risk Management

List of Standards on Internal Auditing

- 14. SIA 14, Internal Audit in an Information Technology Environment
- 15. SIA 15, Knowledge of the Entity and its Environment
- 16. SIA 16, Using the Work of an Expert
- 17. SIA 17, Consideration of Laws and Regulations in an Internal Audit

Guidance Notes

- There are 34 GNs issued by ICAI on Auditing Aspects including 4 Industry Specific GNs

Practical Examples

- BIFR Case
- Economic offence
- CPI
- CLB – SFIO

Need for Application of Standards on Auditing

- Second Schedule to the Chartered Accountants Act, 1949 lays down lists activities amounting to professional misconduct
- A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he
 - (5) fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity;

Need for Application of Standards on Auditing

- (6) fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;
- (7) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

Need for Application of Standards on Auditing

- (8) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
- (9) fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances;

Quality Review Board

- A review where a process or group of processes are checked against an agreed set of quality criteria.
- A major activity of quality control is the quality review –
- It is a check on every process of a project.
- There are two main types of quality review (QR) – They are **Validation and verification**:

Quality Review Board

- Validation:
 - Does the process do what it should do?
 - Are we building the right process?
- Verification:
 - Does the process work properly?
 - Are we building the process right?

Peer Review

- It is the evaluation of creative work or performance by other people in the same field
- Required in order to maintain or enhance the quality of the work or performance in that field.
- Peer review utilizes the **independence**, and in some cases the **anonymity**, of the reviewers

Peer Review

- This discourages *cronyism* (i.e., favoritism shown to relatives and friends) and obtain an unbiased evaluation.
- Peer review helps maintain and enhance quality
- By detecting weaknesses and errors in specific works and performance and
- Indirectly by providing a basis for making decisions about rewards and punishments.

Financial Reporting Review Board (FRRB)

- The FRRB would review the general purpose financial statements of certain enterprises and auditor's report
- It aims at determining to the extent possible:
 - Compliance with the generally accepted accounting principles in the preparation and presentation of financial statements;

Financial Reporting Review Board (FRRB)

- Compliance with the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise; and
- Compliance with the reporting obligations of the auditor.

IAASB

1. More than 100 countries have either adopted International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC) or declared their intent to do so in the future.
2. The final set of clarified standards comprises 36 International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC) 1

IFAC Code of Ethics for Professional Accountants



International Standard on Quality Control (ISQC 1)



International Framework for Assurance Engagements



Audits and reviews of historical financial information



Other assurance engagements



ISA 100+
International
Standards on
Auditing



ISA 2000+
International
Standards on
Review
Engagements



**ISAE 3000
International
Standard on
Assurance
Engagements**



Sustainability

Int. Control

Corp. Gov.

Etc, etc, etc

Framework for Assurance Engagements

1. Three party relationship
2. Appropriate subject matter
3. Suitable criteria
 - Benchmark
 - Not just individual judgment
 - Report quality, not level of performance
4. Sufficient appropriate evidence
5. Written assurance report
 - Reasonable assurance
 - Limited assurance

ISAE 3000

Assurance Engagements

Other than Audits or Reviews of

Historical Financial Information

ISAE 3000

- This assurance (or attestation) standard issued by the IFAC relates to performing Assurance engagements other than the audit or review of historical financial information.

ISAE 3000

Requirements for, e.g.:

- Ethics – the Code
- Quality control
- Engagement acceptance
- Planning
- Suitability of criteria
- Professional skepticism
- Risk and materiality

ISAE 3000

- Obtaining evidence
 - Using experts
- Documentation
- Reporting

Professional Opportunities in Audit and Assurance Work

- This can be divided into Professional Opportunities in
 - Internal Audit/Assurance Work
 - Statutory and Other Audit/Assurance Work

Opportunities in Internal Audit

1. Internal Controls Auditing
2. Internal Audit Functions/Requirements Under Various Laws
3. Enterprise Risk Management – The ERM Role
4. Audit of Compliance of Standards on Internal Audit
5. Monitoring XBRL Implementation and Reporting Results
6. Audit of IFRS Convergence
7. Forensic Audit

Opportunities in Internal Audit

8. Fraud Detection
9. Internal Audit and Corporate Governance
10. Internal Audit Of Management Functions
11. Stock Audit/Credit Audit
12. Internal Audit of Compliance with Commercial Laws
13. Due Diligence
14. Social Audit

Opportunities in Internal Audit

- 15. Environmental Audit
- 16. Corporate Social Responsibility (CSR) Audit
- 17. ISO 9000 Audit
- 18. Cyber Audit
- 19. Industry Specific Internal Audit Programs
- 20. Assurance Services
- 21. Internal Audit of Tendering Process
- 22. Audit of Sustainability Initiatives and Integrated Reports

Professional Opportunities in Statutory and Other Audit/Assurance Work

1. Audit under Income Tax Act 1961
2. Audit of Co-operative Societies
3. Audit of Multi State Cooperative Societies
4. Audit of NBFC
5. Audit of Mutual Funds
6. Audit of Insurance Companies
7. Audit of Banks
 1. Accounting System in Banks
 2. Branch Audit
 3. Head Office Audit
 4. Long Form Audit – Branch Level
 5. Long Form Audit – HO Level
8. Audit of Companies

About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*
- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labor Laws and IPR.*
- *Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.*
- *He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.*

About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*
- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*
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Thank You