



Nagpur Branch of WIRC of ICAI

Standards on Auditing SQC 1, SA 600 Series, SA 700 Series

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Nagpur

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Introduction

- **Standard on Quality Control**
- **Standards on Auditing**
- **Standards on Review Engagements**
- **Standards on Assurance Engagements**
- **Standards on Related Services**

What to READ



Link for Standards on Auditing – [AASB of ICAI](#)

https://www.icaai.org/new_post.html?post_id=450

Link for [AASB of ICAI](#) Publications

<https://www.icaai.org/post/icaai-publications-auditing-assurance-standards-board>

Link for CAQ of ICAI utilities

<https://forms.gle/Ds5qyHKPC1kUPI3KA>

**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

**Standards on
Auditing SAs
(100-999)**

**Standards on
Review
Engagements
SREs
(2000-2699)**

**Standards on
Assurance
Engagement
SAEs
(3000-3699)**

**Standards on
Related Services
SRSs
(4000-4699)**

SQC 1

Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*

The purpose of this Standard on Quality Control (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**.

Additional standards and guidance on the **responsibilities of firm personnel** regarding quality control procedures for specific types of engagements are set out in other pronouncements of the Auditing and Assurance Standards Board (AASB) issued under the authority of the Council.

SQC 1

SA 220, "*Quality Control for an Audit of Financial Statements*", establishes standards and provides guidance on quality control procedures for audits of historical financial information

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.

This SQC applies to all firms. The nature of the policies and procedures developed by individual firms to comply with this SQC will depend on various factors such as the **size** and **operating characteristics** of the firm, and whether it is part of a **network**.

SQC 1

Document QC policies & procedures.

Communicate to all firm personnel:

- Description of QC policies.
- Objectives to be achieved therefrom.
- All responsible for quality.
- All expected to comply.

Obtain feedback on QC system from personnel

SQC 1

The firm's system of quality control should include policies and procedures addressing each of the following elements:

- (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.

The quality control policies and procedures should be documented and communicated to the firm's personnel.

SQC 1 - Leadership Responsibilities for QC

- Communication, e.g.:
 - Training seminars/ Meetings.
 - Formal/ informal dialogues.
 - Mission statements/ Newsletters.
- Incorporated in:
 - Firm's internal documentation/training material.
 - Appraisal documents of personnel.
- Leaders to recognise quality precedes business objectives:
 - Assign management responsibilities appropriately.
 - HR policies to demonstrate firm's QC commitment.
 - Sufficient resources for development, documentation & support of QC policies & procedures.
- Person delegated the QC responsibility by CEO/ Managing partner to have sufficient appropriate experience & ability, & necessary authority to assume responsibility.

SQC 1 - Leadership Responsibilities for QC

- Firm to design policies/ procedures.
- To promote internal culture:
 - Quality is essential in engagements.
 - Work to comply with professional standards, regulatory/ legal requirements.
 - Issue reports appropriate in circumstances.
- Require CEO/ managing partner to assume ultimate responsibility for QC.
- Recognise & reward high quality work.

SQC 1 - Ethical Requirements

- Establish policies & procedures → reasonable assurance.
- Firm & personnel comply with relevant ethical requirements.
- Fundamental ethical principles:
 - Integrity.
 - Objectivity.
 - Professional competence & due care.
 - Confidentiality.
 - Professional behaviour.
- Fundamental principles enforced by:
 - Leadership of the firm.
 - Education & training.
 - Monitoring.
 - Process for dealing with non-compliance.
- Ethical requirements enshrine **INDEPENDENCE**.

SQC 1 - Independence

- Establish policies & procedures → reasonable assurance that:
 - Maintenance of independence by relevant personnel.
 - Firm notified of breaches of independence requirements.
- Policies & procedures should enable:
 - Communication of independence requirements to personnel & others.
 - Identification & evaluation of circumstances/ relationships threatening independence.
 - Take appropriate action for elimination/ reduction of threats/ withdrawal from engagement.
 - Resolution of breaches of independence.

Fundamental Principles

Integrity –

Straightforward and honest approach, Fair dealing and truthfulness, Do not associate with communication or information containing false or misleading information, Steps to disassociate with above information once known

Objectivity –

Not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others. Not to undertake a professional activity if it unduly influences the accountant's professional judgment.

Fundamental Principles

Professional Competence and due care –

Attain and maintain professional knowledge and skill, Act diligently and in accordance with applicable technical and professional standards, Ensure appropriate training and supervision of subordinates

Confidentiality –

Maintain confidentiality of information acquired as a result of professional and employment relationships, Disclose information when required by law or authorised by the client, Consider relevant factors while deciding disclosure of confidential information, Maintain confidentiality even after the end of relationship with client

Fundamental Principles

Professional Behaviour –

Avoid activities that impair the reputation of the profession, Do not make exaggerated claims for services offered, and disparaging references or unsubstantiated comparisons with others, Do not advertise any professional/other facts which are in violation of Advertisement Guidelines of ICAI

Threats to Avoid

Self Interest Threat, Self Review Threat, Advocacy Threat, Familiarity Threat, Intimidation Threat.

The Code provides a conceptual framework that professional accountants (PA) are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles

Assessment of Threats

Self-interest threat –

the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behaviour;

[e.g. Financial Interest, Loans or Guarantees, Professional Fees – leverage – in excess of 40% - group fees, Business Relationship, Potential of Employment, Contingent Fees – Success Fee, Other assignments – non assurance]

Self-review threat –

the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity

[e.g. Performed services which is subject to his review, having previous relationships]

Assessment of Threats

Advocacy threat –

the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised;

[e.g. Dealing in shares, Assignment for advocate in litigation matters]

Familiarity threat –

the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and

[e.g. Close relationship with client, Long association, Acceptance of gifts and hospitality, Rotation of Auditors – external and internal]

Assessment of Threats

Intimidation threat –

the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.

[e.g. Threat of replacement, Statutory Auditor cannot be Internal Auditor, Cannot be financial advisor, Independence applies to each partner of the firm.]

A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Identify --> Evaluate --> Address

SQC 1 - Independence

Policies / procedure should require:

Maintenance of independence of personnel

- Engagement partners to provide firm with relevant information about client.
- Prompt notification of threats to independence.
- Accumulation & communication of relevant information to appropriate personnel.

Breach of independence

- All subjected to independence to promptly notify breach of independence.
- Prompt communication of identified breaches.

Annual written confirmation as to compliance with independence requirements

SQC 1 - Client Acceptance & Continuation

- Establish policies/ procedures → reasonable assurance that clients are accepted/ continued only where:
 - Client integrity has been considered & no information that would lead to conclude that client lacks integrity:
 - Firm competent to perform engagement – capability, time & **resources.**
 - Can comply with ethical requirements.
- Document how issues were resolved.

SQC 1 - Client Acceptance & Continuation

<i>Client integrity</i>	<i>Firm capabilities</i>	<i>Ethical issues</i>
<ul style="list-style-type: none">• Identity / reputation of owners / key management / related parties.• Nature of operations.• Attitude of owners / governing body towards internal controls.• Aggressive towards maintaining firm's fee as low as possible.• Indication of inappropriate scope limitation.• Indication of inappropriate scope limitation.• Indications of money laundering.• Non continuance of previous auditors.	<ul style="list-style-type: none">• Industry knowledge among personnel.• Experience of relevant regulatory/reporting requirements.• Ability to gain necessary skills.• Availability of experts.• Availability of individuals fulfilling the criteria.• Ability to complete engagement within reporting deadline.	<ul style="list-style-type: none">• Professional/legal responsibilities applying in circumstances.• Possibility of withdrawal – from engagement and / or client relationship

SQC 1 - Human Resources

- Establish policies/ procedures → reasonable assurance:
 - Sufficient personnel with capabilities, competence & commitment to ethical principles
 - Enable firm/ partners to issue reports appropriate in circumstances.
- Issues to be addressed by HR policies:
 - Recruitment • Career development • Performance evaluation • Promotion
 - Capabilities • Compensation • Competence • Estimation of personnel needs
- Capabilities & Competence:
 - Developed through • Professional education • Continuing professional development, training • Work experience • Coaching by more experienced staff.
- Performance evaluation/ compensation/ promotion:
 - Create awareness among personnel as to firm's expectation wrt performance & ethical principles.
 - Evaluation & counseling wrt performance, progress & career development.
 - Help personnel understand performance quality & adherence to ethics are essential prerequisites for promotion.

SQC 1 - Engagement Performance

- **Establish policies/ procedures → reasonable assurance:**
 - Compliance with professional standards.
 - Compliance with laws/ regulations.
 - Engagement partner issues reports appropriate in the circumstances.
- **Aspects to be addressed by policies:**
 - Briefing engagement teams.
 - Process for complying with engagement standards.
 - Process of supervision, staff training & coaching.
 - Methods of reviewing work, judgments, form of reports.
 - Appropriate documentation of work performed & of timing & extent of review.
 - Processes to keep all policies/ procedures current.

SQC 1 - Engagement Performance

- Important aspects of engagement performance:
 - Supervision. • Review. • Consultation. • Differences of opinion.
- Engagement QC review:
 - Nature, timing & extent of EQC review.
 - Eligibility criteria for EQC reviewer.
 - Documentation of EQC review.
- Engagement documentation:
 - Assembly of final audit file.
 - Confidentiality, safe custody, accessibility of engagement documentation.
 - Documentation retention.
 - Documentation ownership.

SQC 1 - Engagement Performance

Supervision

- Tracking the process of engagement.
- Considering capabilities, competence of individuals on team.
- Addressing issues arising during the engagement.
- Identifying matters for consultation & consideration by experienced members of team.

Review

- Matters considered by reviewer:
 - Performance of work in accordance with standards & legal/ regulatory requirements.
 - Significant matters raised for further consideration.
 - Consultations undertaken & results documented & implemented.
 - Need to revise nature, timing & extent of work performed.
 - Work supports conclusions reached & appropriate documentation.
 - Sufficiency & appropriateness of evidence – supports the report.
 - Achievement of engagement objectives.

SQC 1 - Engagement Performance

Consultation

- Establish policy/ procedures → reasonable assurance:
 - Appropriate consultation takes place on difficult or contentious matters;
 - Sufficient resources are available to enable appropriate consultation to take place;
 - The nature and scope of such consultations are documented; and
 - Conclusions resulting from consultations are documented and implemented
- **Consultation procedures to require:**
 - Consultation with appropriate personnel:
 - Knowledge. • Seniority. • Experience.
 - Documentation & implementation of decisions of consultation.
- **External consultation:**
 - Other firms.
 - Professional & regulatory bodies.
 - Commercial organisations that provide relevant quality control services.

Documentation – sufficiently complete & detailed

SQC 1 - Engagement Performance

Engagement QC Review

- Essentials of these policies/ procedures:
 - Require QC review for all audits of financial statements of listed companies.
 - Nature, timing & extent of review.
 - Eligibility criteria for QC reviewer.
 - Documentation requirements.
 - Establish criteria for QC review of all other audits/ reviews of historical financial information & other assurance & related service engagements
 - Require QC for engagements covered by criteria above.
 - Require completion of engagement before QC review.
 - Provide for replacement of QC reviewer if his ability to perform objective review is impaired.

Nature, timing & extent of QC review – Discussion with EP / Review of FS and Audit Report, Working Papers, Complexity of Engagement

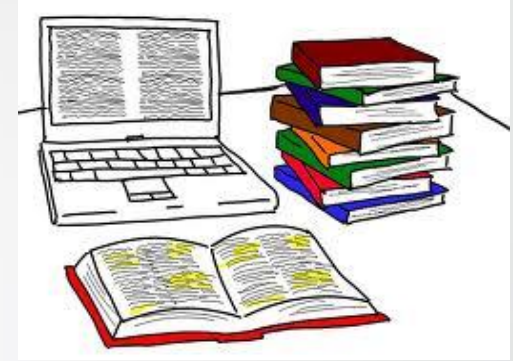
SQC 1 - Engagement Documentation

- ***Assembly of Files***

- Policies/procedures for completion of final engagement files on a timely basis after finalisation of engagement reports.
- Two or more reports on same subject, time limit for final file assembly to be applied for each report separately.
- Time limit may be prescribed by law. If not, firm to establish time limits appropriate to nature of engagement – not more than 60 days in case of audit.
- Confidentiality, safe custody, accessibility of engagement documentation.
- Policies/ procedures to maintain confidentiality, safe custody, integrity, accessibility & retrievability of documentation.
- Confidentiality subject to:
 - Specific client authority.
 - Legal/ regulatory requirement.
 - Professional requirement.
- Adequate controls needed to:
 - Enable the determination of when and by whom engagement documentation was created, changed or reviewed;
 - Protect the integrity of the information at all stages of the engagement;
 - Prevent unauthorised changes to the engagement documentation; and
 - Allow access to the engagement documentation by the engagement team and other authorized parties.

Audit & Assurance Engagement

Plan / Program



Execution



Reporting



Working Papers

Standards on Auditing 600 Series

Using work of others

SA 600 - Using the Work of Another Auditor

SA 610 - Using the Work of Internal Auditors

SA 620 - Using the Work of an Auditor's Expert

SA 600

- Genesis Para 9 of SA 200 (AAS 1).
- Establishes standards for application in situations where auditor uses the work of another auditor.
- Does not cover:
 - Joint audits.
 - Relationship with predecessor auditor.
- Consider how other auditor's work affects the audit.

Principal Auditor (PA) : Auditor responsible for financial information (FI) of an entity when it includes FI of one or more components audited by another auditor.

Other Auditor (OA) : Auditor, other than PA, who is responsible for reporting on FI of a component which is included in FI audited by the PA.

Component : Division, branch, subsidiary, joint venture, associated enterprise or any other entity whose FI is included in FI audited by PA.

SA 600 – PA Procedures

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

SA 600 – Documentation

- Components whose FS are audited by OA and their significance to the financial information of the entity as a whole.
- Names of the other auditors.
- Any conclusions reached that individual components are not material.
- Procedures performed regarding components.
- Conclusions reached.
- Manner of dealing with Modified Report of OA while finalising PA's Report

SA 600 – Coordination between Auditors

- Sufficient liaison/co-ordination between PA and OA.
- PA may require OA to answer a detailed questionnaire.
- OA should coordinate with PA:
 - Adhering to time-table.
 - Bringing to the attention of PA any significant finding.
 - Compliance with relevant statutory requirements.
 - Respond to detailed questionnaire.

SA 600 – Reporting Consideration

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

SA 610 – Using Work of Internal Auditors

- **Introduction**

- Scope
- Effective Date

- **Objectives**

- **Definitions**

- **Requirements**

- Determining Whether and to What extent to use the work of the Internal Auditors
- Using Specific Work of the Internal Auditors
- Documentation

- **Application and Other Explanatory Material on these aspects**

SA 610 – Scope

- Deals with external auditor's responsibility:
 - Regarding work of internal auditor.
 - When external auditor has determined in accordance with SA 315.
 - That internal audit function is likely to be relevant to audit:
 - Nature of internal audit function's responsibilities & activities are related to entity's financial reporting; AND
 - Auditor expects to use internal auditor's work to modify nature, timing & extent of audit procedures.
- Does not deal with cases where internal auditors provide direct assistance to external auditors.

SA 610 – IA & External Auditor

Relationship between Internal Audit Function & External Auditor

- Role & objectives of internal audit function determined by Mgt/ TCWG.
- Notwithstanding Degree of autonomy /objectivity, internal audit function is not independent of entity.
- External auditor has sole responsibility for audit opinion, and
 - that responsibility not reduced by use of work of internal auditors.

Activities of Internal Audit function may include one or more of following:

- Monitoring of internal control.
- Examination of financial and operating information.
- Review of operating activities.
- Review of compliance with laws and regulations.
- Risk management.
- Governance.

SA 610 – Auditor's Objectives

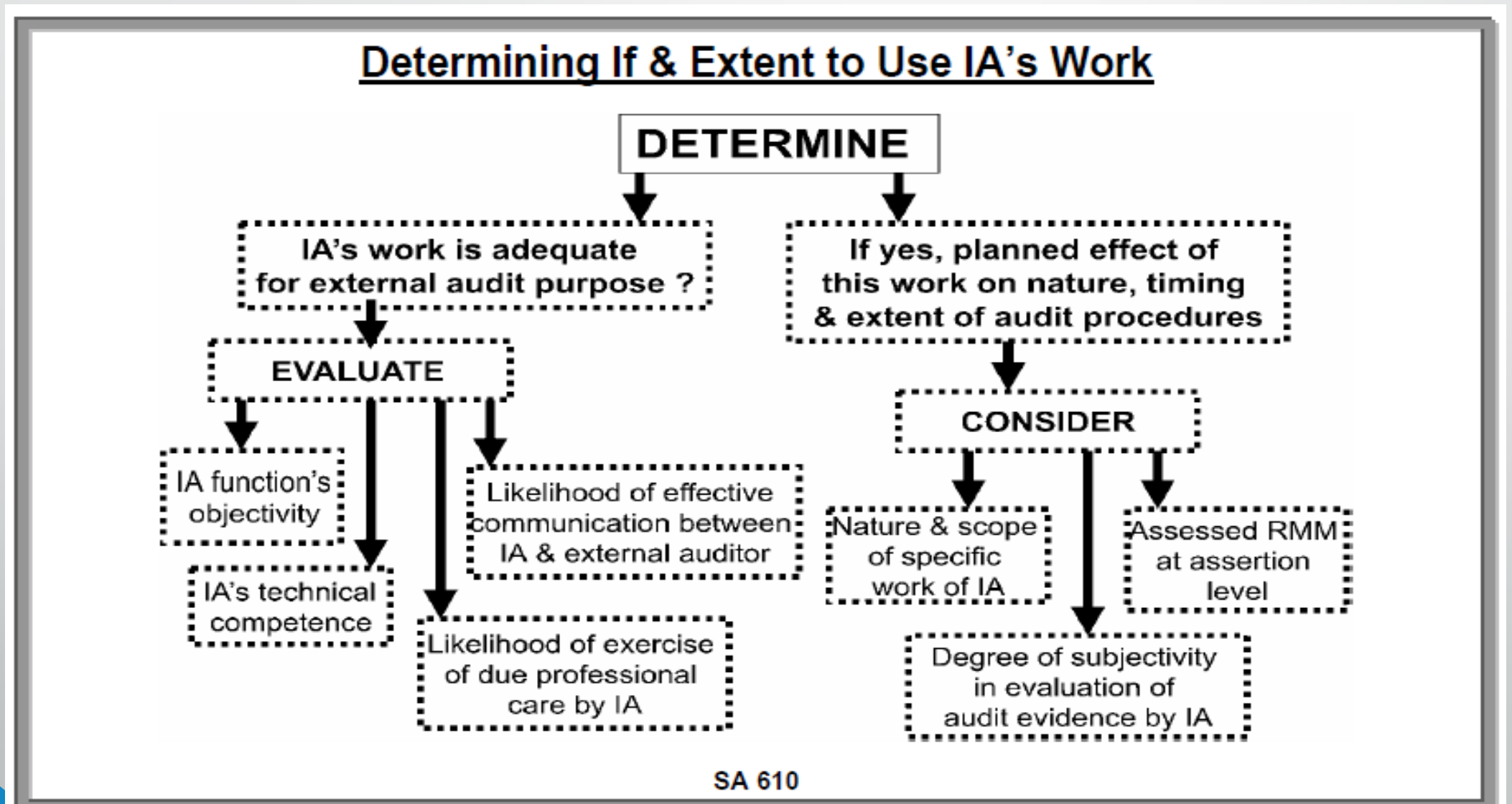
- If external auditor determines internal audit function likely to be relevant to audit, Determine:
 - Whether & to what extent to use specific work of internal auditors; and
 - If so, whether such work is adequate for external audit purpose.

Evaluate → IA Objectivity, Technical Competence, Effective Communication between IA & External Auditor, exercise of professional care by IA

- If yes, planned effect of this work on nature, timing and extent of audit procedures

Consider → Nature and scope of specific work of IA, Assessed RMM at assertion level, degree of subjectivity in evaluation of audit evidence by IA

SA 610 – Auditor's Objectives

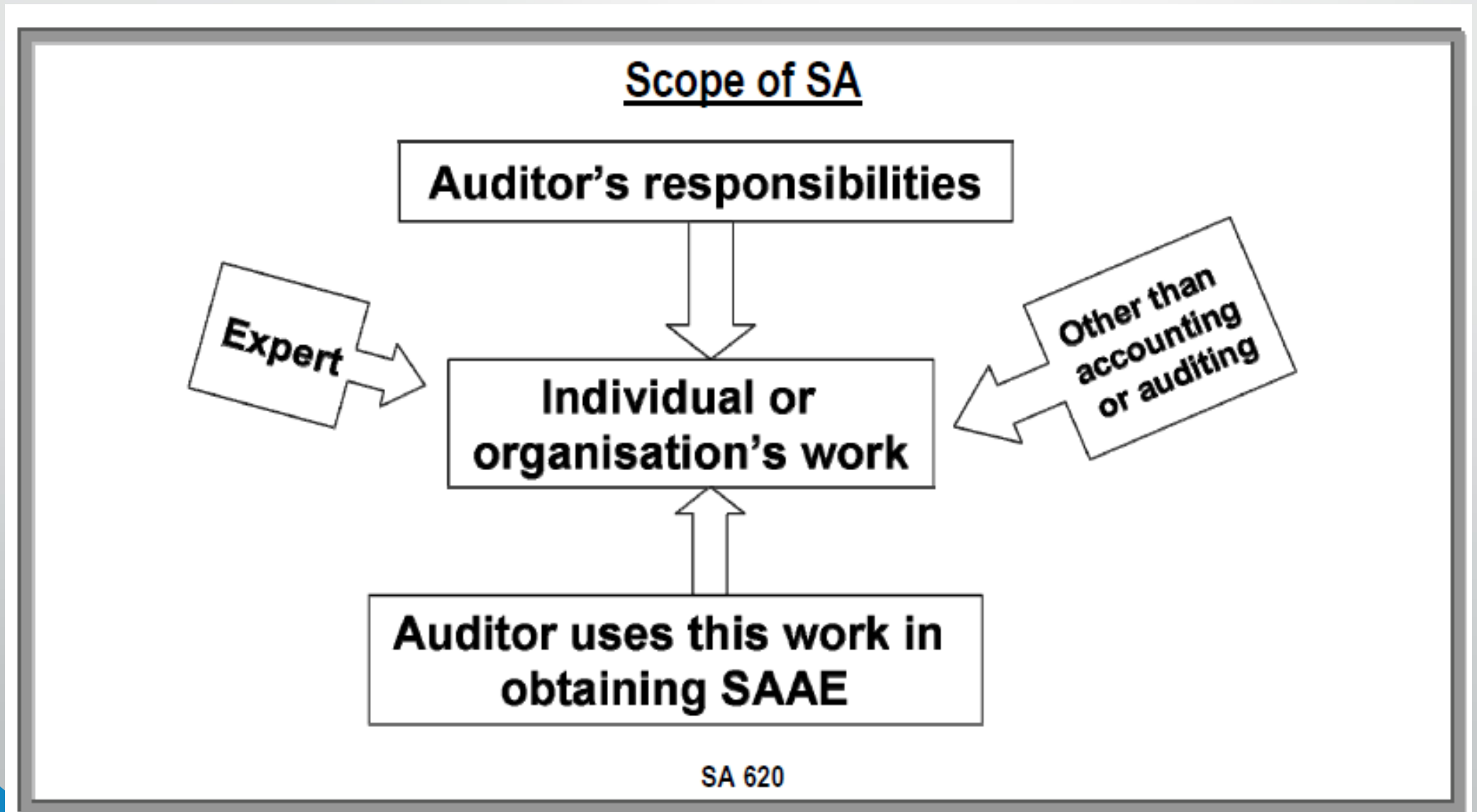


SA 610 – Using Specific work of IA

- Evaluate & perform audit procedures on the work to determine its adequacy:
 - Work was performed by IA having adequate technical training & proficiency.
 - Work was properly supervised, reviewed & documented.
 - Adequate audit evidence obtained by IA.
 - Conclusions reached are appropriate & IA reports are consistent with results of work.
 - Exceptions/ unusual matters disclosed by IA are properly resolved

Documentation – for adequacy of IA work as well as audit procedures performed on IAs work

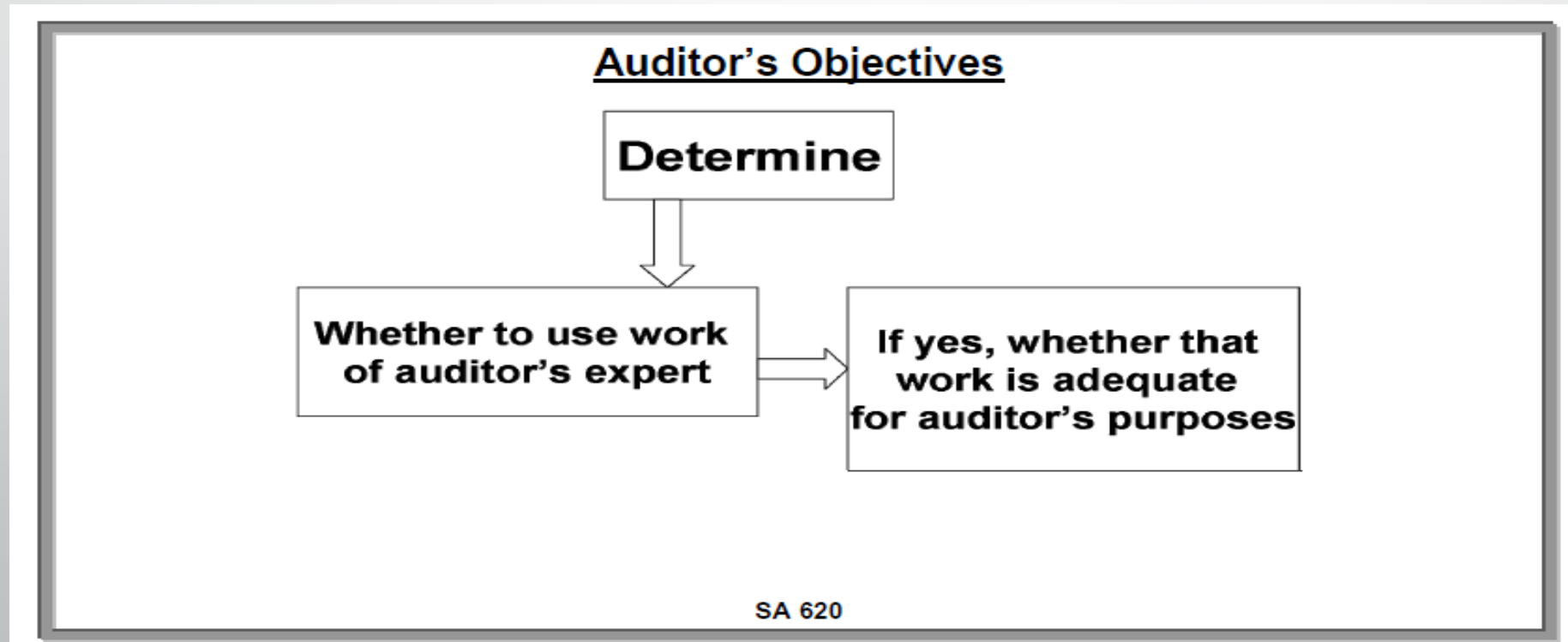
SA 620 – Using work of an Auditor's Expert



SA 620 – Using Specific work of IA

Responsibility for Audit Opinion

- Audit opinion is the sole responsibility of the auditor:
 - If requirements of this SA are followed & auditor concludes expert's work is adequate, auditor may accept that work as SAAE.



SA 620 – Using Specific work of IA

Definitions

	Auditor's Expert	Management's Expert
Status	Individual/Organisation	
Expertise	Other Than Accounting /Auditing	
Beneficiary	Auditor	Entity
Use of Work	Obtain SAAE	Prepare FS

Use professional judgment if distinction is difficult between Expert or Not and Expert.

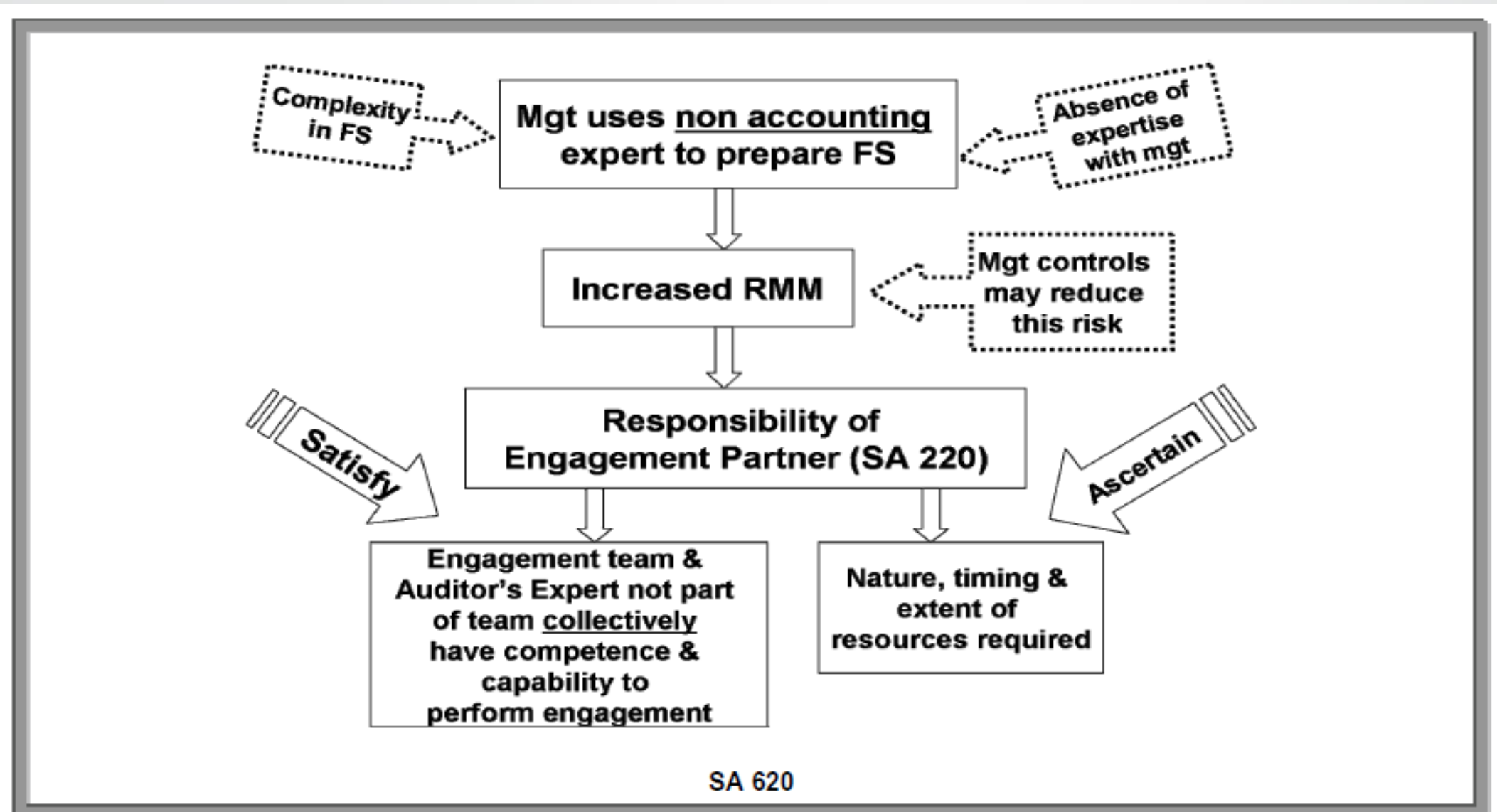
Consider: Applicable professional rules. / Education standards. / Competency requirements.

SA 620 – Using Specific work of IA

Determining the Need

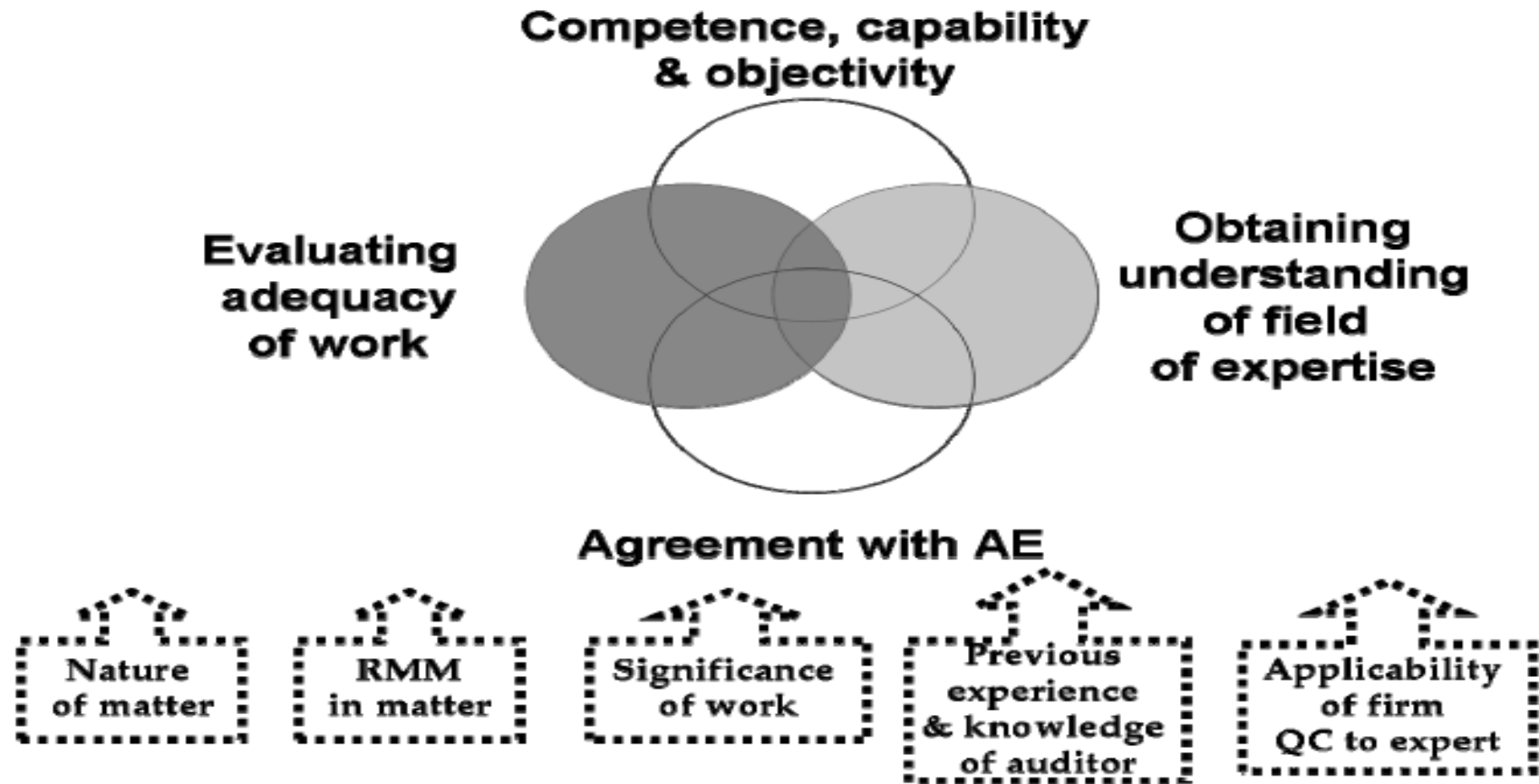
- If expertise in field other than accounting/ auditing is necessary to obtain SAAE, auditor to determine whether to use work of auditor's expert:
 - Helps in meeting requirements of SA 220 wrt Engagement Partner.
 - Determination may undergo revision with changing circumstances.

SA 620 – Using work of an Auditor's Expert



SA 620 – Using work of an Auditor's Expert

II. Nature, Timing & Extent of Audit Procedures (wrt Auditor's Expert)



SA 620

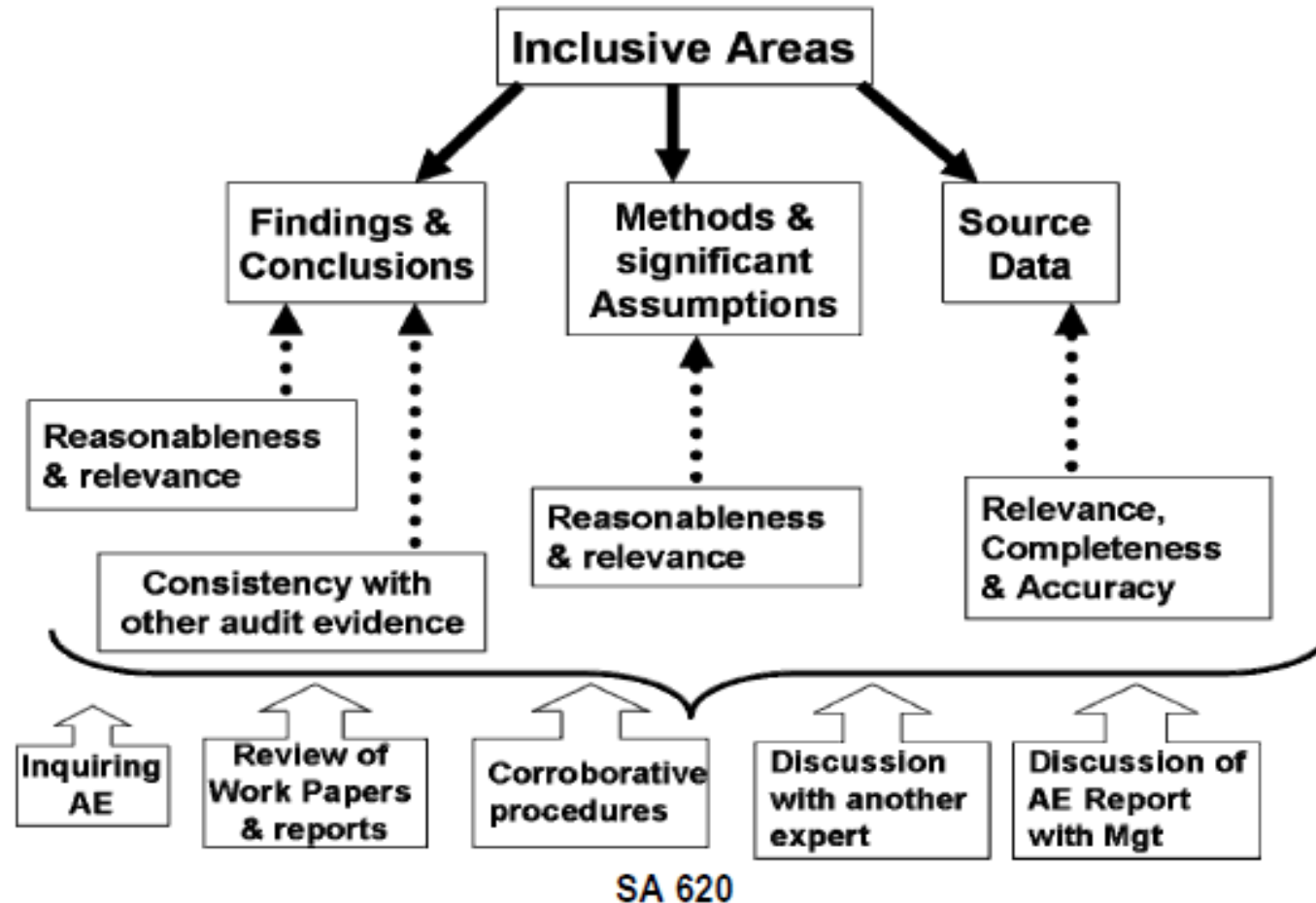
SA 620 – Using Specific work of IA

Agreement with Auditor's Expert

- Agreement on:
 - Nature, scope & objectives of AE's work (may include relevant technical standards or other professional and industry requirements).
 - Respective roles & responsibilities of auditors & AE.
 - Nature, timing & extent of communication, including form of report.
 - Need for AE to observe confidentiality requirements under ethical requirements or L & R.
- Agreement necessary even if AE is internal.
- Level of detail/ formality may vary.
- May be in writing, if appropriate.

SA 620 – Using work of an Auditor's Expert

VI. Evaluating Adequacy of AE's Work



Standards on Auditing 700 Series

Audit Conclusions and Reporting

SA 700 - Forming an Opinion and Reporting on Financial Statements*

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

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*

SA 700 Forming an Opinion and Reporting on Financial Statements

Scope

- Auditor's responsibility to form an opinion on the financial statements.
- Form & content of auditor's report issued as a result of an audit of FS.
- Modified opinion, EMP, OMP dealt with by SA 705 & 706.
- SA 700 is in the context of general purpose FS: FS under special purpose framework are dealt by SA 800 & SA 805.
- Promotes consistency in audit reports.

Auditor's Objectives

- Form an opinion on FS based on evaluation of conclusions drawn from audit evidence **AND**
- Express clearly that opinion through a written report that also describes the basis for opinion

SA 700 Forming an Opinion and Reporting on Financial Statements

General Purpose Framework

- A FRF designed to meet common financial info needs of a wide range of users

Fair Presentation Framework

- Refers to FRF that requires compliance with requirements of the framework.
- Acknowledges explicitly/ implicitly that the following may be necessary for fair presentation of FS:
 - Mgt may need to provide disclosures beyond those specifically required by FRF.
 - Mgt to depart (in extremely rare situations) from a requirement of framework.

Compliance Framework

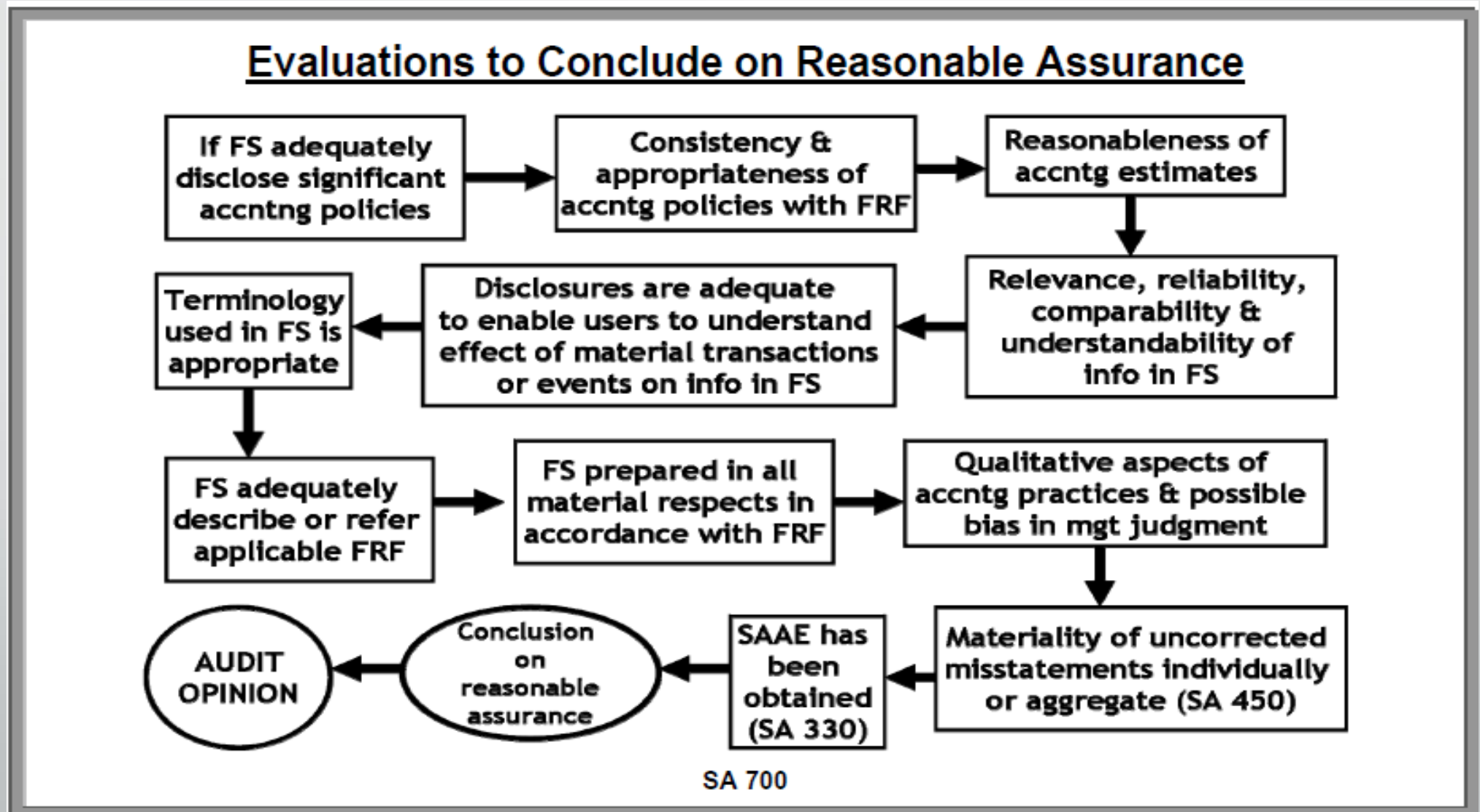
Refers to FRF that requires compliance with requirements of the framework but does not contain the acknowledgement as in Fair Presentation Framework.

SA 700 Forming an Opinion and Reporting on Financial Statements

Forming an Opinion on FS

- Whether FS are prepared in all material respects in accordance with applicable FRF.
- To form this opinion, auditor needs to conclude whether he/ she has obtained reasonable assurance that FS as a whole are free of material misstatements (fraud/ error).

SA 700 Forming an Opinion and Reporting on Financial Statements



SA 700 Forming an Opinion and Reporting on Financial Statements

FS prepared as per applicable FRF

- Qualitative aspects of accounting practices covered in SA 260:
 - Become aware of possible bias in mgts decision.
 - Conclude that cumulative effect of uncorrected misstatement & lack of neutrality is material.
- Indicators of lack of neutrality:
 - Selective correction of misstatements brought to mgt attention by auditor.
 - Mgt bias in making accounting estimates (SA 540):
 - Indicators of possible mgt bias do not constitute misstatements for evaluating reasonableness of individual accounting estimates.
 - May affect the auditor's evaluation of whether the FS as a whole are free from material misstatement.

SA 700 Forming an Opinion and Reporting on Financial Statements

Description of/ reference to FRF in FS

- Mgt/TCWG responsibility for FS in accordance with applicable FRF:
 - Description of FRF necessary for users of FS.
- Description wrt application of an FRF:
 - Appropriate only if FS comply with all in force requirements of that FRF.
 - If contains imprecise qualifying/ limiting language is not adequate description of that FRF and may mislead users of FRF.

Reference to more than one FRF

- FS to comply with each FRF:
 - Individually.
 - Simultaneously.
 - Without any need for reconciliation statements.
- FS may be prepared as per one applicable FRF and, in addition, describe in the notes to FS the extent of compliance with another FRF:
 - This description is supplementary financial information and is considered an integral part of the FS and, accordingly, covered by the auditor's opinion.

SA 700 Forming an Opinion and Reporting on Financial Statements

Form of Opinion

- **Unmodified Opinion:**

Auditor concludes FS are prepared in all material respects as per applicable FRF.

- **Modified Opinion (SA 705):**

Based on audit evidence, auditor concludes FS as a whole are not free from material misstatements.

OR

Auditor unable to obtain SAAE that FS as a whole are free from material misstatements.

SA 700 Forming an Opinion and Reporting on Financial Statements

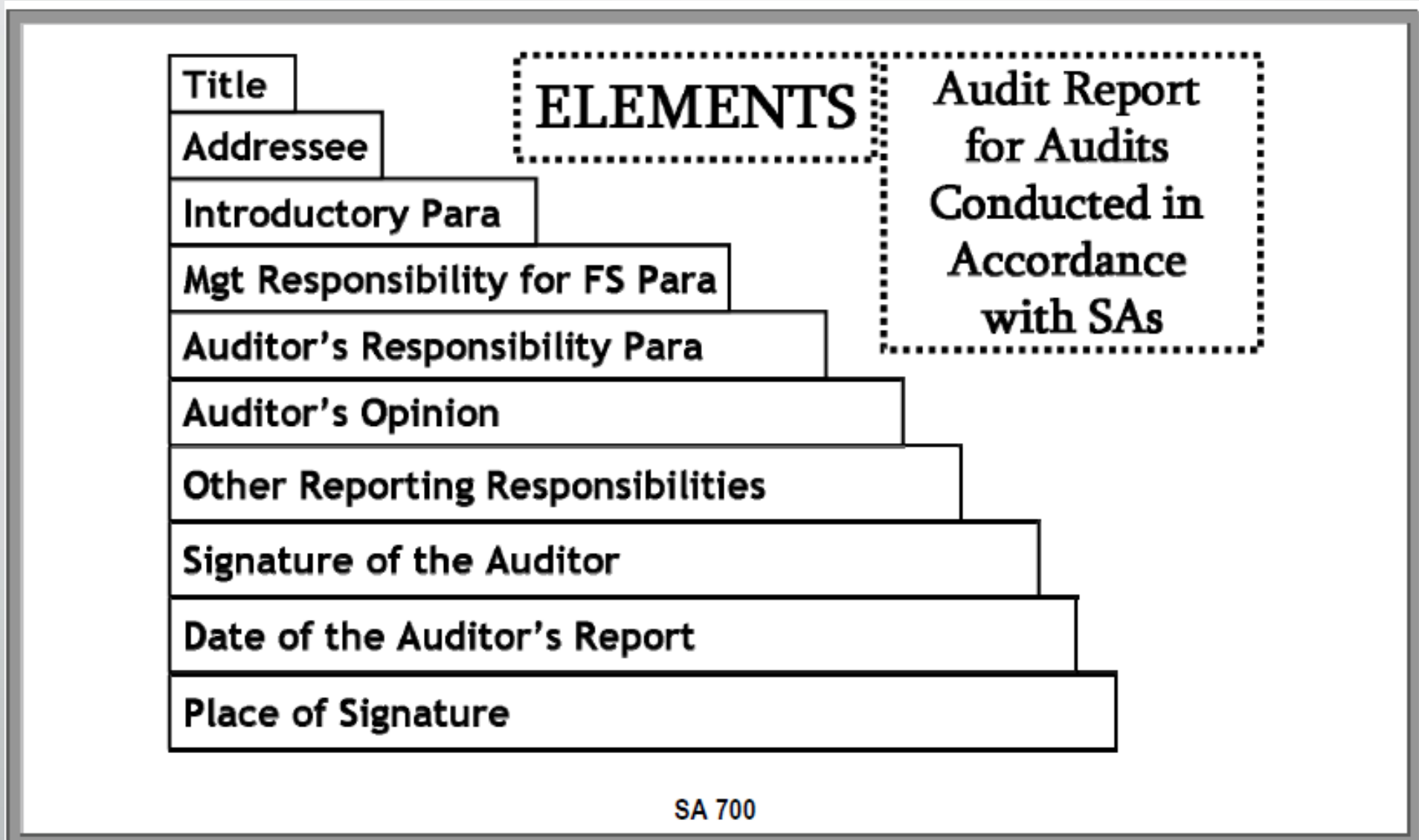
Fair Presentation FRF – FS do not achieve fair presentation:

- Discuss matter with mgt.
- Determine need to modify opinion depending upon:
 - Requirements of FRF; &
 - How matter is resolved.

Compliance FRF:

- No need to evaluate if FS achieve fair presentation.
- If in rare circumstances, auditor concludes FS are misleading, determine whether & how to communicate in audit report after:
 - Discuss with mgt.
 - How matter is resolved.
- **Auditor's Report**
- Shall be in writing.
- Written report encompasses reports issued: In hard copy format, and Using electronic medium.

SA 700 Forming an Opinion and Reporting on Financial Statements



SA 701 Key Audit Matters - Applicability

Applicable for audits of complete sets of general purpose Financial Statements. Accordingly, the FS should be:

- general purpose FS and complete set of FS.

Standard mandatorily applicable in case of audits of listed entities.

Also applicable for audits of unlisted entities in following situations:

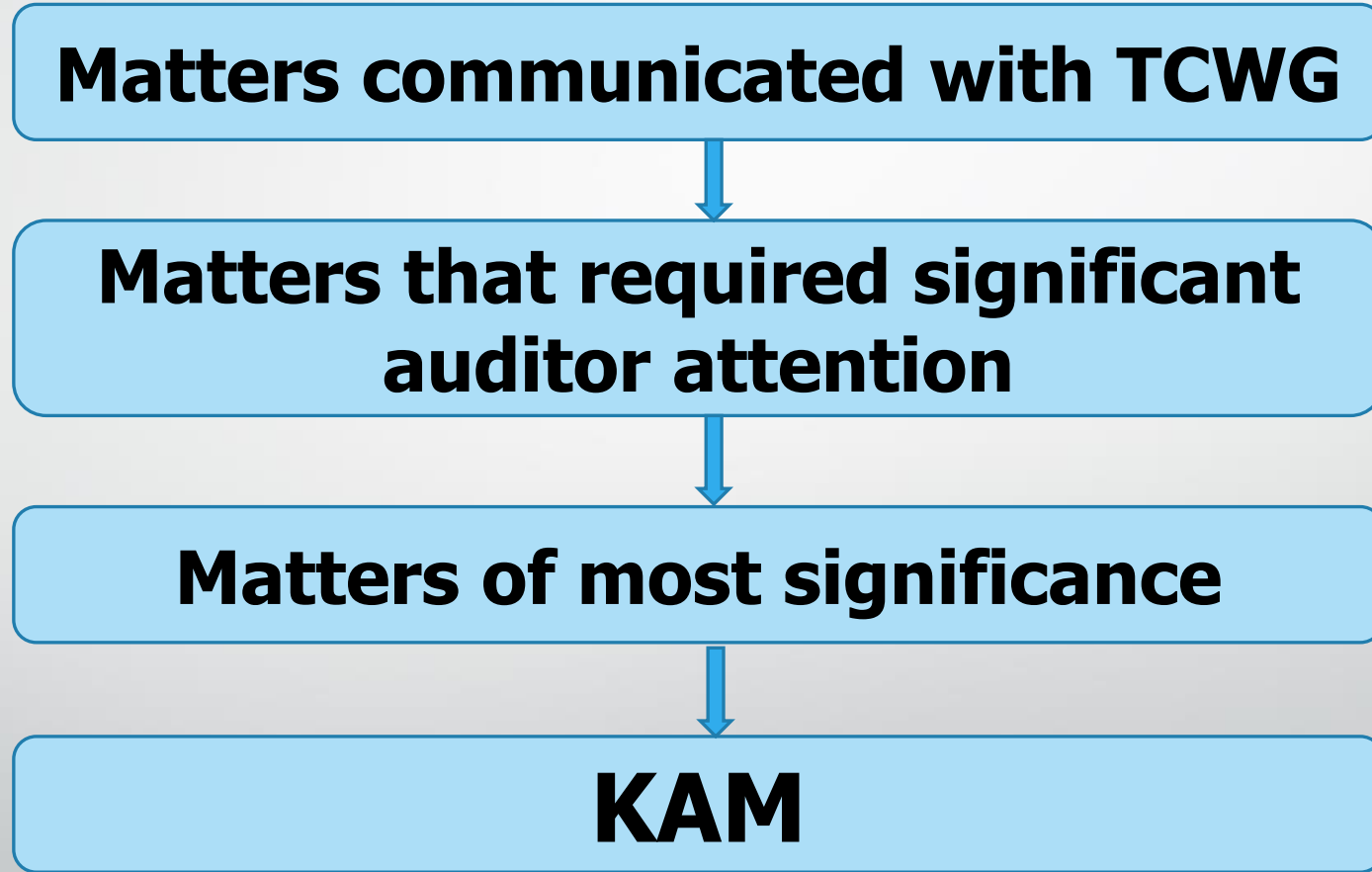
- Where auditor is required by law or regulation to communicate KAM
- Where auditor decides to communicate KAM (auditor may communicate KAM voluntarily or at the request of TCWG/Mgt.)

What are KAMs?

- Those matters that, in the auditor's Professional Judgment, were of most significance in the audit of FS of the current period.
- KAM are selected from the matters communicated with TCWG.

SA 701 Key Audit Matters

Process to Determine KAM



Step by Step Approach

Step 1

Matters communicated with Those Charged With Governance (TCWG)

Step 2

Decide which matters require 'significant auditor attention'

Matters require 'significant auditor attention'

- Areas of higher assessed risk of material misstatement (SA 315)
- Areas in financial statements which required significant management judgement including accounting estimates having high estimation uncertainty
- Effect on audit of significant events / transactions occurred during the period

Step by Step Approach

Step 3

Circumstances wherein matter determined is not communicated in Auditors' Report

- Law / regulation precludes public disclosure
- In extremely rare cases, auditor determines so as the adverse consequence is reasonably expected to outweigh public interest benefit by communication

Step 4

Communication with TCWG

Matters determined to be KAMs; or,

There are no KAMs in Auditors' Report as determined by auditor

Step by Step Approach

Step 5

Communication of KAMs in Auditors' Report:

- Auditor to describe each KAM using appropriate sub-heading
- To include reference to related disclosure
- To specify why the matter was considered as KAM and how the same was addressed in the audit

Step 6

KAMs not substitute for expressing Modified Opinion (SA 705)

Step 7

A matter giving rise to modified opinion as per SA 705 (R) or material uncertainty / event casting doubts about 'going concern' status of an entity as per SA 570 (R) are examples of KAMs and thus would have reference in KAMs (Para A.58) besides reporting of these matter(s) in accordance with applicable SAs

Step by Step Approach

Step 8

Documentation

- i. Rationale of whether a matter communicated to TCWG is a KAM (and SA does not require auditor to document why other matters communicated to TCWG were not matters that require significant auditor attention)
- ii. Rationale that there are no KAMs except for matters related with SA 705 (R) & 570 (R)
- iii. Rationale for auditor's determination of not to communicate KAM in auditor's report

How to Communicate the KAM?

- Using an appropriate sub-heading “KAM” the auditor shall describe each KAM with reference to the related disclosures and explain:
 - Why the matter was considered to be one of the most significant; and
 - How the matters was addressed in the audit

Separate Section for reporting on KAM

- To be placed immediately below “Basis for Opinion” Section.
- To include preamble language
- If Material Uncertainty Related to Going Concern Section required as per SA 570(R), then immediately below that Section.
- In this, auditor needs to describe each KAM under appropriate sub-heading so that individual KAM are differentiated.
- If there is no KAM to communicate, KAM Section is still required where the auditor needs to include a statement to that effect.

Circumstances where KAM Section required but no KAM will be communicated/described thereunder

There are 3 situations

- auditor determines there is no KAM.
- auditor determines that a KAM should not be communicated due to restrictions in Para 14 of SA 701 and no other KAM determined by him.
- The only KAM determined is a matter giving rise to modified opinion or a material uncertainty related to going concern.

Interrelationship of KAM with Other Elements of Auditor's Report

KAM vs Modified Opinion

- Auditor should not communicate a matter as KAM if that matter requires modification of auditor's opinion.
- Matters giving rise to modified opinion are by their nature KAM. However, these should be reported as per SA 705(Revised) and not under KAM.
- KAM section should not be given in case of disclaimer of opinion unless required by law or regulation.
- KAM section should be given in case of qualified opinion and adverse opinion.

Interrelationship of KAM with Other Elements of Auditor's Report

KAM vs EOM / OM Paragraph

- Concepts of EOM and OM still exist as per SA 706(Revised).
- EOM/OM paragraph cannot be used as a substitute for KAM. Paras 8 and 10 of SA 706(Revised) expressly prohibit including under EOM/OM para, a matter which is determined as KAM.

Communicating KAM not a substitute for

- Disclosures required in FS as per applicable FRF.
- Disclosures necessary to achieve fair presentation of FS.
- Requirement of expressing modified opinion in accordance with SA 705(Revised).
- Requirement of reporting about material uncertainty relating to going concern in accordance with SA 570(Revised).

Illustrative Report Formats

- No illustrative formats given in SA 701
- Reference may be made to following illustrative formats having KAM Section given in other SAs:
 - Illustrations 1 and 2 in SA 700(Revised)
 - Illustrations 1, 2 and 3 in SA 705(Revised)
 - Appendix 3 in SA 706(Revised)
 - Illustrations 1 and 2 in SA 570(Revised)
 - Illustrations given in SA 720(Revised) except illustration 3.

SA 705 Modifications to the Opinion in IAR

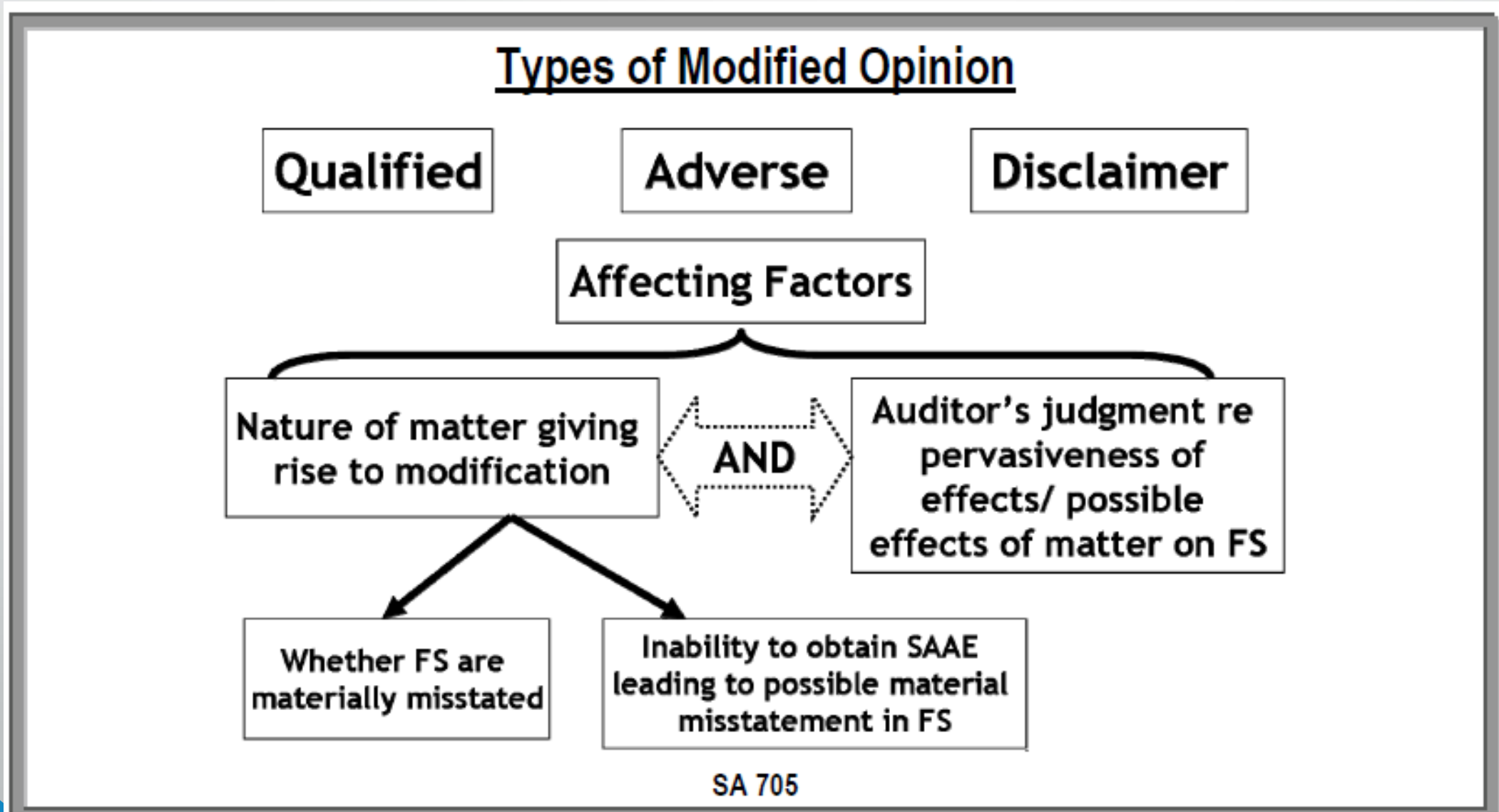
Requirements & Application

- Circumstances when modification of auditor's opinion is required
- Determining type of modification to audit opinion
- Form & content of audit report with modified opinion
- Communication with TCWG

Scope of SA

- Auditor's responsibility to,
- Issue an appropriate report in circumstances when,
- In forming an opinion as per SA 700,
- Auditor concludes a modification to auditor's opinion is necessary.

SA 705 Modifications to the Opinion in IAR



SA 705 Modifications to the Opinion in IAR

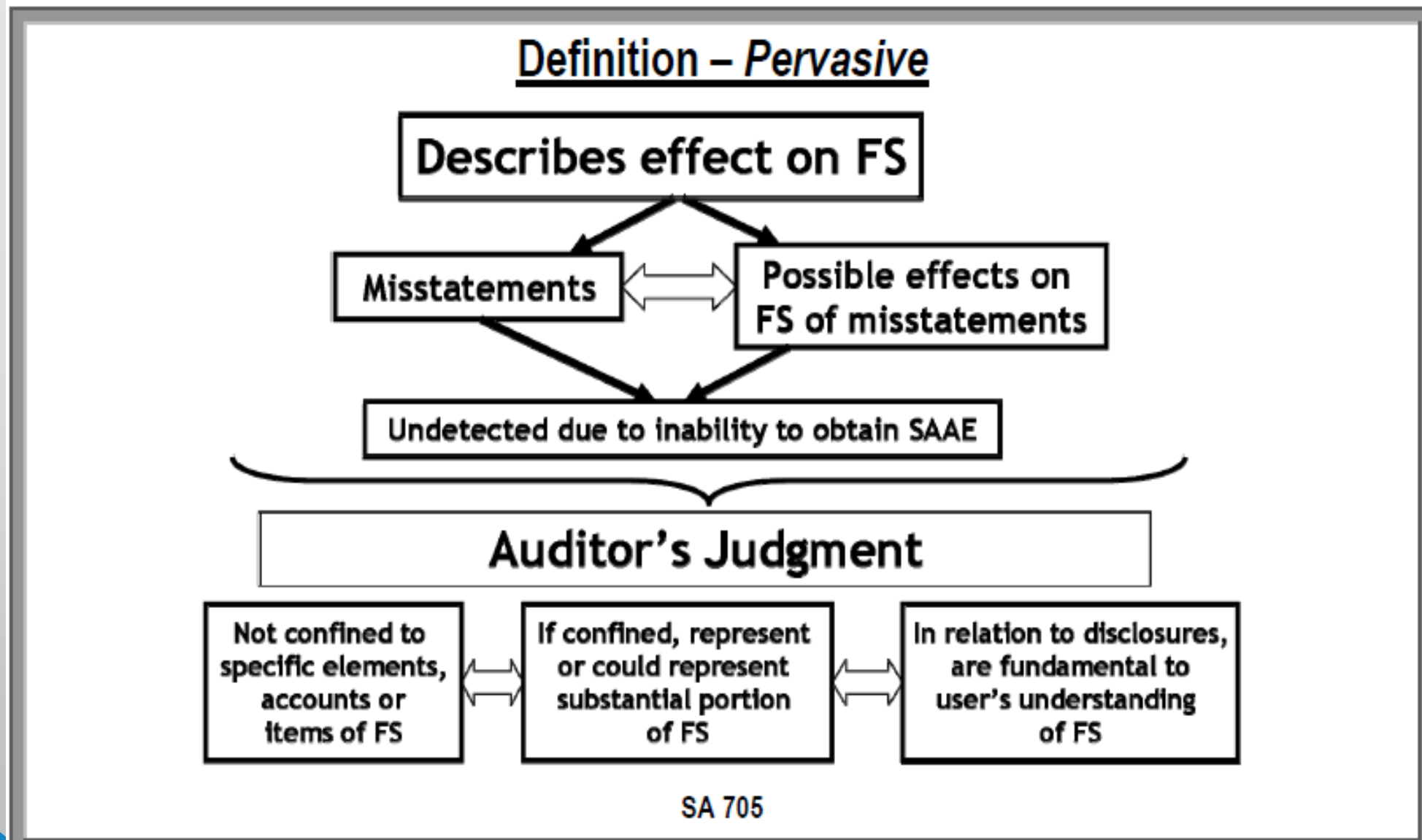
Auditor's Objective

- Express clearly an appropriately modified opinion on FS that is necessary when auditor:
- CONCLUDES (based on audit evidence obtained) that FS are as a whole not free from material misstatements.

OR

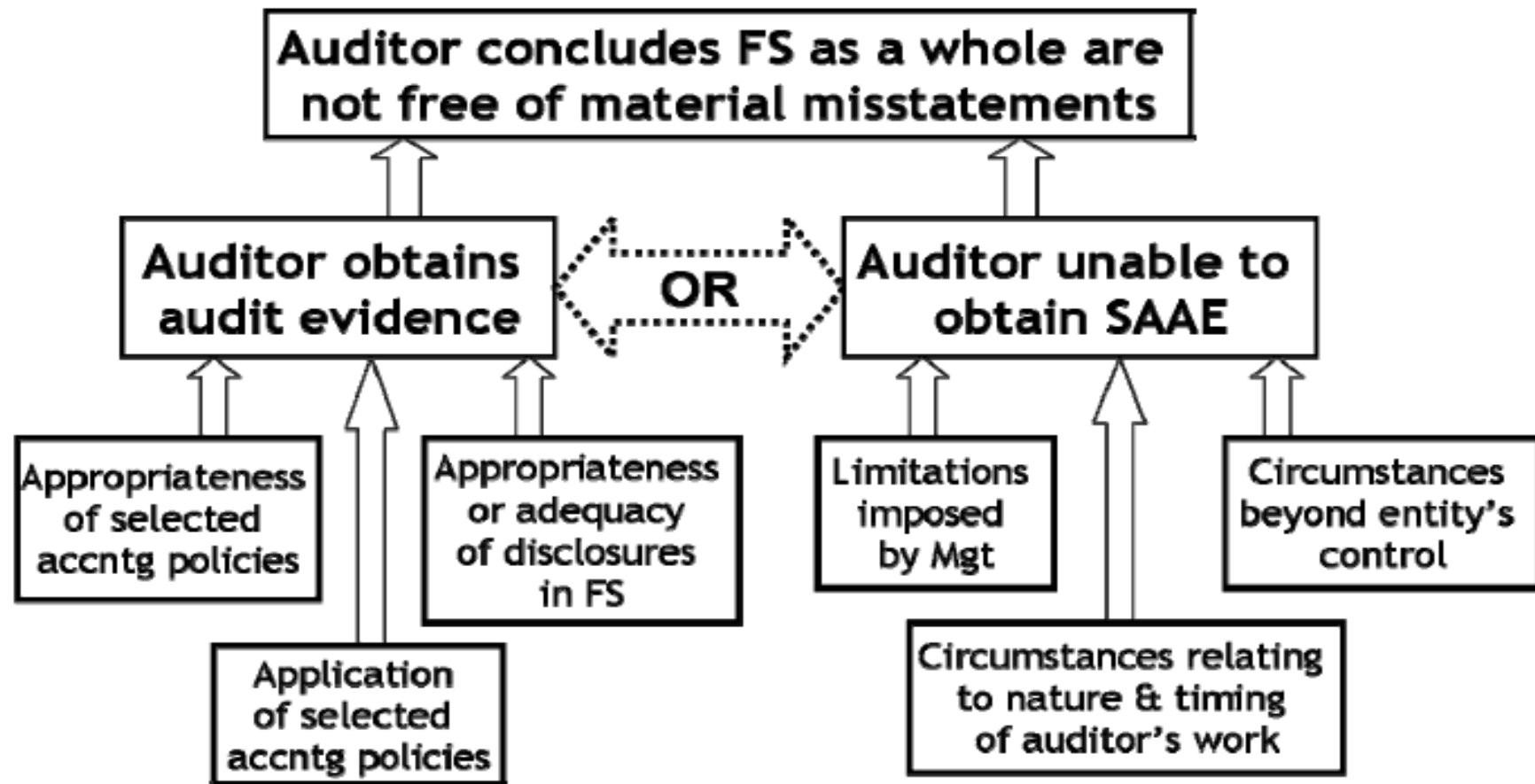
- UNABLE to obtain SAAE to conclude that FS as a whole are free of material misstatements

SA 705 Modifications to the Opinion in IAR



SA 705 Modifications to the Opinion in IAR

Circumstances When Modification to Audit Opinion is Required



SA 705

SA 705 Modifications to the Opinion in IAR

Misstatement- Difference between the amount, classification, presentation, or disclosure of a reported FS item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with applicable FRF (**SA 450**) . Accordingly, a material misstatement of the financial statements may arise in relation to:

- The appropriateness/ application of the selected accounting policies; or
- The appropriateness or adequacy of disclosures in the financial statements.

Inability to obtain SAAE:

- Inability to perform specific procedure is not inability to obtain SAAE if by performing alternate procedures SAAE is obtained.
- Limitations imposed by mgt may have other implications such as on fraud risk assessment & engagement continuance.

Limitations Imposed by Mgt ---- examples:

- Mgt prevents the auditor from:
 - Observing the counting of the physical inventory; or
 - Requesting external confirmation of specific account balances.

SA 705 Modifications to the Opinion in IAR

Circumstances relating to nature or timing of auditor's work --- examples:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain SAAE about the latter's financial information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

Circumstances beyond entity's control ---- examples,

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities

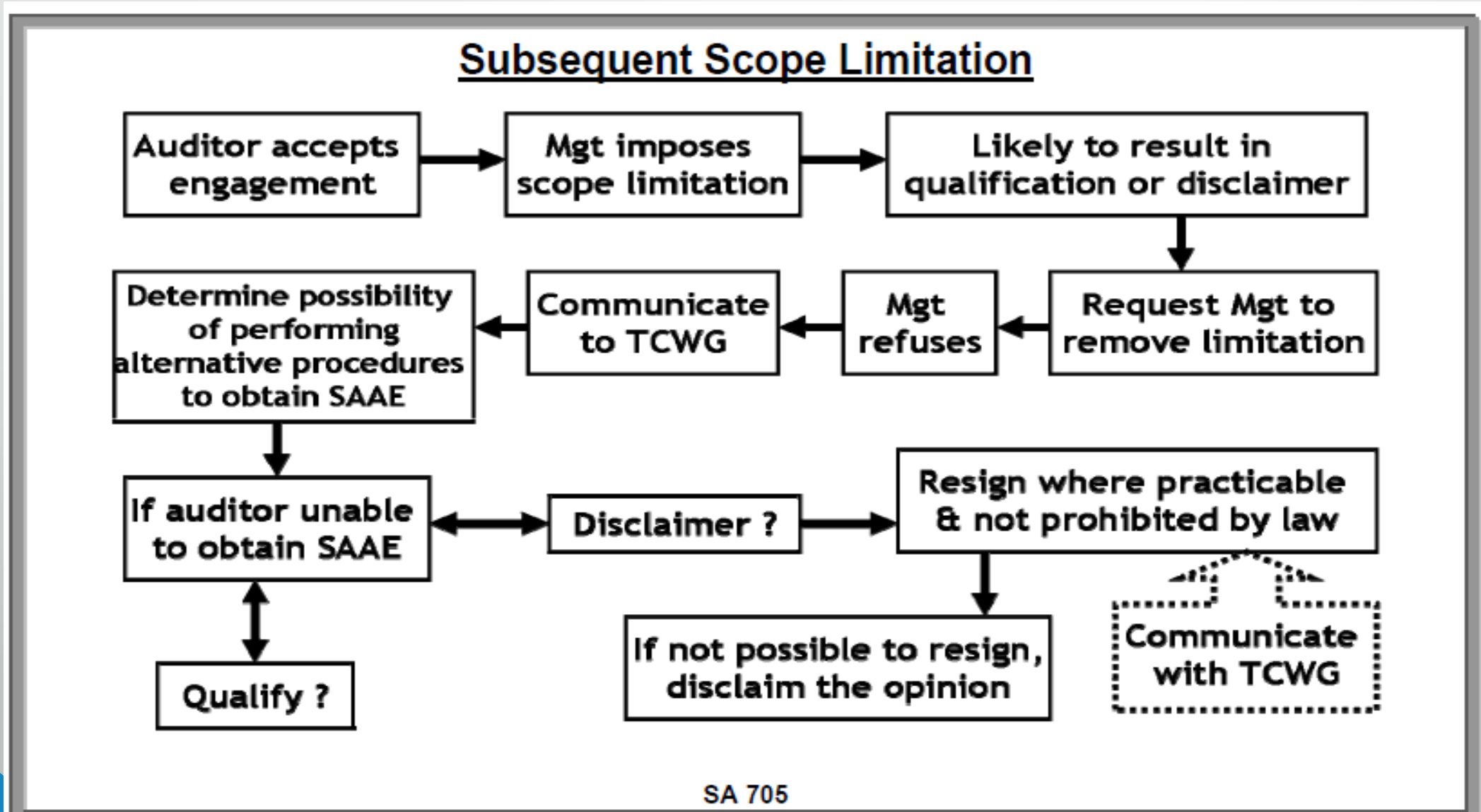
SA 705 Modifications to the Opinion in IAR

Determining the Type of Modification to Auditor's Opinion

Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the FS	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
<i>FS are materially misstated</i>	Qualified opinion	Adverse opinion
<i>Inability to obtain SAAE</i>	Qualified opinion	Disclaimer of opinion

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

SA 705 Modifications to the Opinion in IAR



SA 705 Modifications to the Opinion in IAR

Auditor unable to obtain SAAE:

- **QUALIFY.** if the auditor concludes that the possible effects on FS of undetected misstatements, if any, could be material but not pervasive
- **DISCLAIMER.** if the auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation.
- Before resigning, auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

Adverse/ Disclaimer – Other Considerations

- Audit report not to include unmodified opinion wrt same FRF on a single FS or one or more specific elements, accounts or items of FS: Otherwise audit opinion is contradicted on FS as a whole.

SA 705 Modifications to the Opinion in IAR

Material misstatement in FS relating to	Description in BMP in Audit Report
Specific amounts in FS (including quantitative disclosures)	Description & quantification of financial effects of misstatements unless impracticable. If impracticable, state so.
Narrative disclosures	Explanation of how disclosures are misstated
Non-disclosure of info required to be Disclosed	<ul style="list-style-type: none"> • Discuss with TCWG . • Nature of omitted info. • Include omitted disclosures if: → <ul style="list-style-type: none"> - Not prohibited by L&R; - Is practicable to do so; and - SAAE has been obtained re omitted info.
Modification results from inability to obtain SAAE	Reasons for inability.
Adverse/ disclaimer opinion	Reasons for any other matters which auditor is aware that would have required modified opinion & its effects.

SA 706 EOM/OM Paragraphs

- Additional communication in audit report (AR).
- When auditor considers necessary.
- To draw users' attention to:
 - Matter/s presented or disclosed in FS that are of such importance that they are fundamental to users' understanding of FS.

OR

- Matter/s other than those presented/ disclosed in FS that are relevant to users' understanding of audit/ auditor's responsibilities/AR.

SA 706 EOM/OM Paragraphs

Emphasis of Matter Paragraph (EMP):

- Para included in AR.
- Refers to a matter appropriately presented/ disclosed in FS that.
- In the auditor's judgment is of such importance that.
- It is fundamental to users' understanding of FS.

Other Matter Paragraph (OMP):

- Para included in AR.
- Refers to matter other than those presented/ disclosed in FS.
- In auditor's judgment.
- Is relevant to users' understanding of audit, auditor's responsibilities or auditor's report.

SA 706 EOM/OM Paragraphs

EMP in Audit Report

- **Matters fundamental to understanding of FS:**
 - Auditor should have obtained SAAE that matter is not materially misstated in FS.
 - EMP to refer only to info presented/ disclosed in FS.
- **Widespread use of EMP reduces effectiveness of auditor's communication of such matters:**
 - More info in EMP than FS may imply matter not adequately presented or disclosed in FS.
 - Thus, EMP limited to matter presented/ disclosed in FS.

Examples of EMP circumstances:

- An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position

SA 706 EOM/OM Paragraphs

EMP not a substitute for

- Need for expression of qualified opinion or an adverse opinion, or disclaiming an opinion, or
- Disclosures to be made by mgt in FS as required by applicable FRF.

EMP – Some More Considerations

- Placement - immediately after Opinion para.
- Use heading “EMP” or other appropriate heading.
- EMP to contain clear ref to:
- Matter being emphasised.
- Where relevant, disclosure that fully describe the matter can be found in FS.
- Indicate that audit opinion is not modified in respect of matter emphasised.

SA 706 EOM/OM Paragraphs

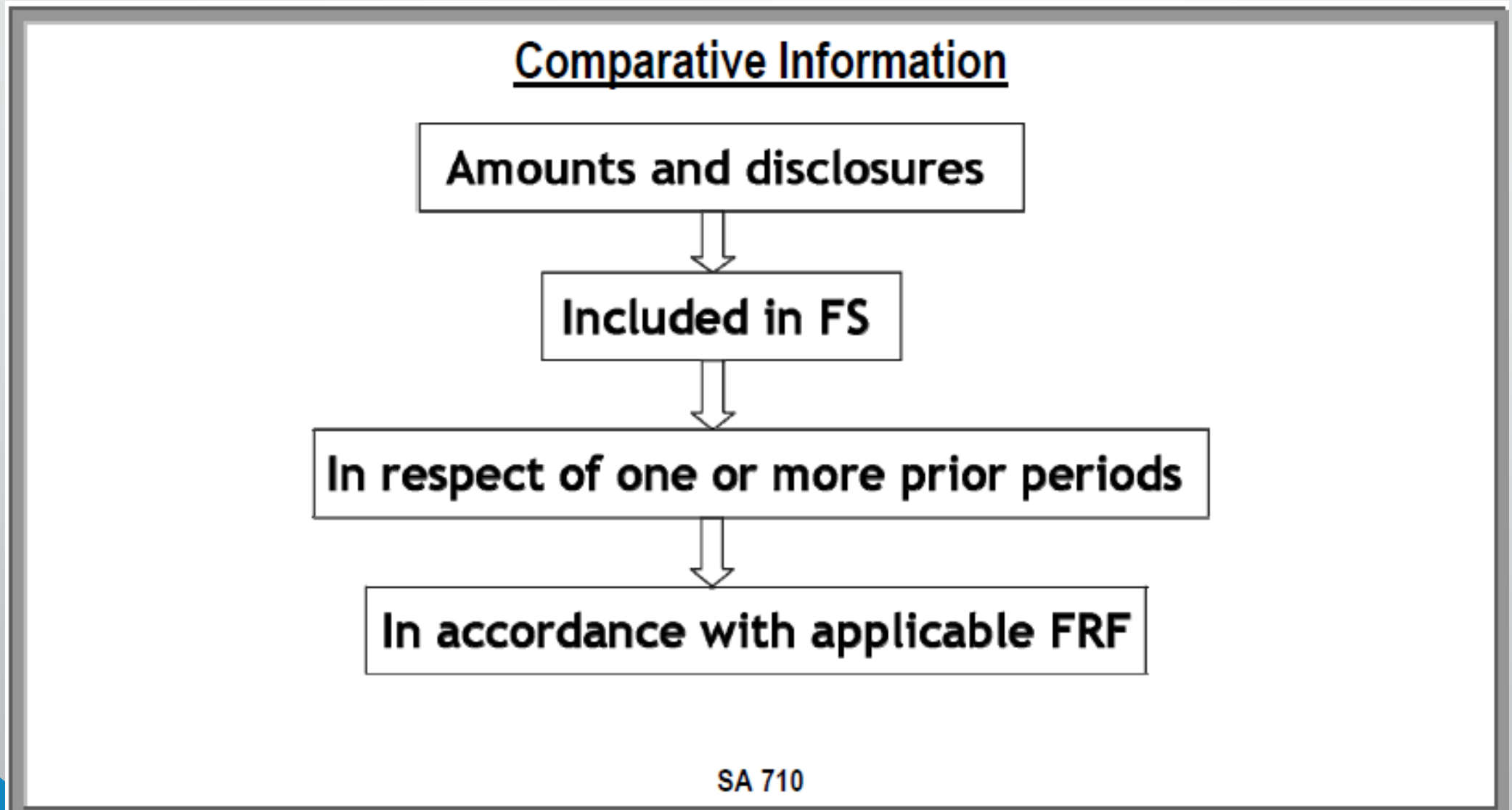
OMP in Audit Report

- Include if not prohibited by L&R.
- Use heading "Other Matter"/ other appropriate heading.
- Placement:
 - immediately after Opinion para & EMP; or
 - elsewhere if OMP is relevant to Other Reporting Responsibilities section.

OMP – Other Considerations

- Clearly reflect that such other matter is not required to be presented and disclosed in FS.
- Not to include:
 - Info prohibited from inclusion by L&R, other standards, e.g., ethics relating to confidentiality of information.
 - Info required to be provided by mgt.
- Placement:
 - Depends upon nature of info to be communicated.

SA 710 Comparative Information



SA 710 Comparative Information

Scope

- Auditor's responsibilities relating to comparative info in audit of FS.
- When prior period FS are audited by another auditor/ unaudited: Also apply SA 510 to audit of opening balances.
- Nature of Comparative Info:
 - Depends upon applicable FRF.
 - Two approaches: • Corresponding figures. • Comparative FS.
 - Approach often specified by L&R: • May also be specified by terms of engagement.

SA 710 Comparative Information

Audit Reporting Differences

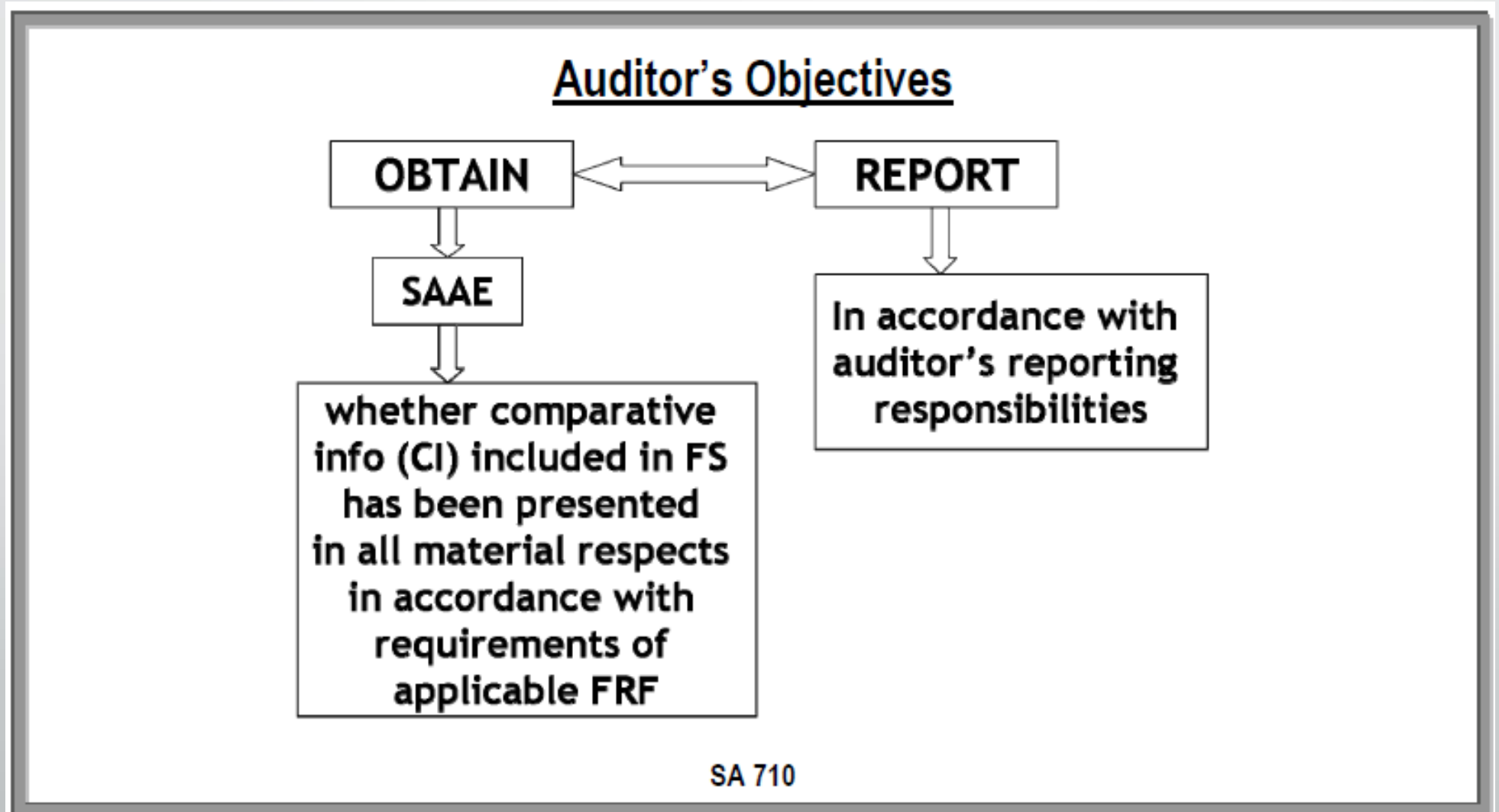
- Corresponding Figures

Auditors Opinion on FS relates to current period only

- Comparative FS

Auditors Opinion refers to each period for which FS are prepared

SA 710 Comparative Information

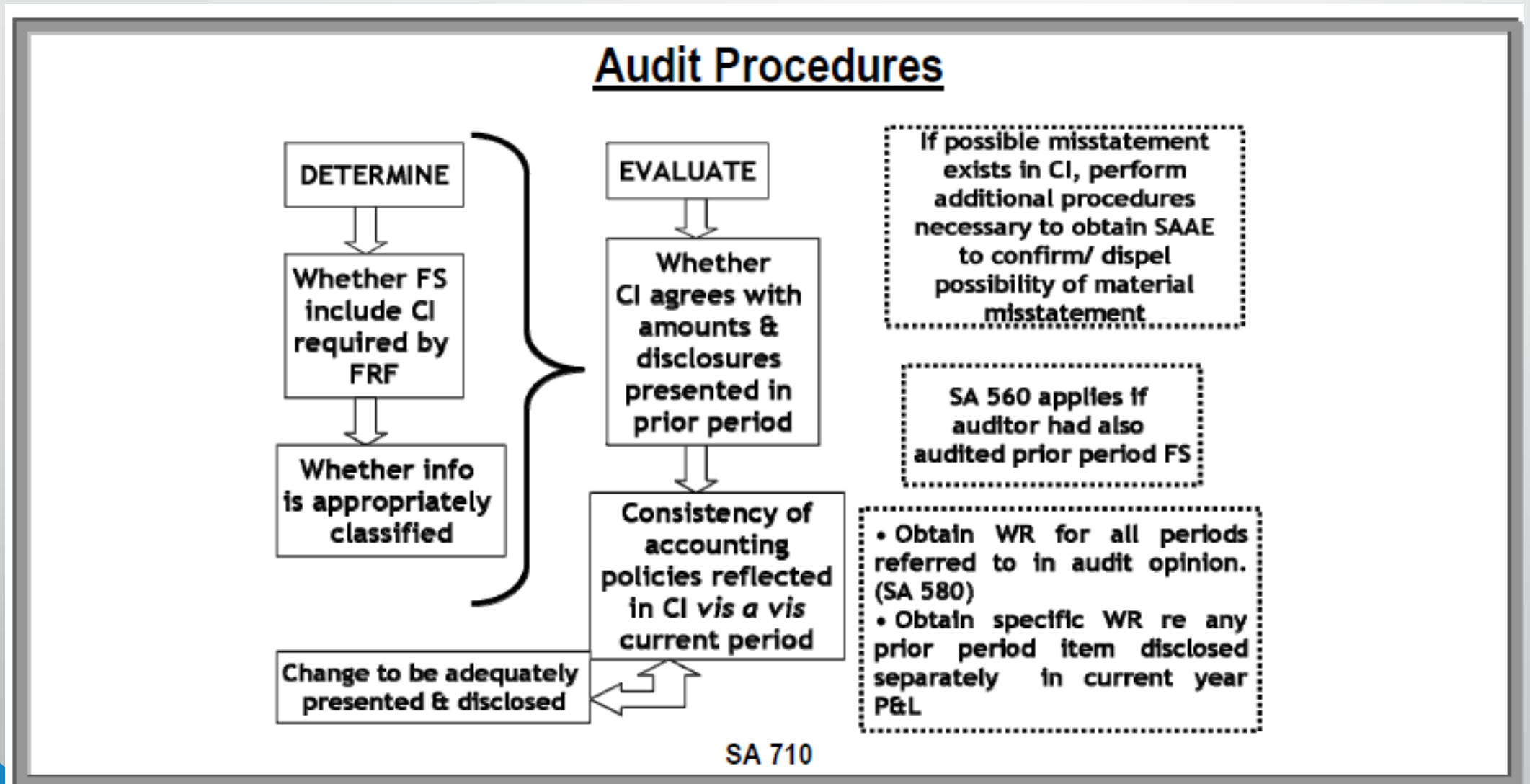


SA 710 Comparative Information

Definitions

	Corresponding Figures	Comparative FS
Amounts & disclosures for prior periods	Integral part of current period FS	If audited, are referred to in audit opinion
Intention/ objective	To be read only in relation to amounts & disclosures relating to current period	Included for comparison with current period FS.
Level of info/ detail	Dictated primarily by relevance to current period figures	Comparable with current period FS

SA 710 Comparative Information



SA 710 Comparative Information

Audit Reporting – Corresponding Figures

Audit opinion not to refer to corresponding figures, EXCEPT:

- Auditor's report in prior period FS was modified and the subject matter is still unresolved: • Modify current audit report also.
- Auditor obtains audit evidence re existence of material misstatement in prior period FS on which unmodified opinion was issued: • Express qualified/ adverse opinion on current FS wrt Corresponding figures if misstatement has not been dealt as required by applicable FRF.

Prior Period FS Audited by Another Auditor

If L&R permits reference to predecessor auditor's report on corresponding figures, current audit report to include Other Matter para:

- FS of prior period were audited by another auditor.
- Type of opinion expressed by predecessor auditor (reasons for modification, if any).
- Date of that report.

SA 710 Comparative Information

Prior Period FS not Audited

Include in Other Matter para:

- FS of prior period were unaudited.

BUT, this does not relieve the auditor from need to obtain SAAE that opening balances do not contain misstatements that can potentially affect current FS.

Audit Reporting – *Comparative FS*

Audit opinion to refer to each period for which FS are presented and on which opinion is expressed.

If opinion on prior period FS expressed in current period differs from opinion expressed in the relevant prior period, give substantive reason for difference in Other Matter para. (SA 706)

SA 720 The Auditors Responsibilities in relation to Other Information in Documents containing Audited Financial Statements

Scope

Deals with auditor's responsibility wrt **other information (OI)** in documents containing:

- audited financial statements; and auditor's opinion thereon.

Unless any specific requirement in an engagement:

- Auditor's opinion does not cover OI.
- Auditor has no specific responsibility to determine whether OI is properly stated.

BUT, read the **OI** since:

- inconsistencies vis-a-vis audited FS undermines the credibility of the audited FS.

SA 720 The Auditors Responsibilities in relation to Other Information in Documents containing Audited Financial Statements

Document containing FS - Annual Reports (or similar documents)

Auditor's Objective

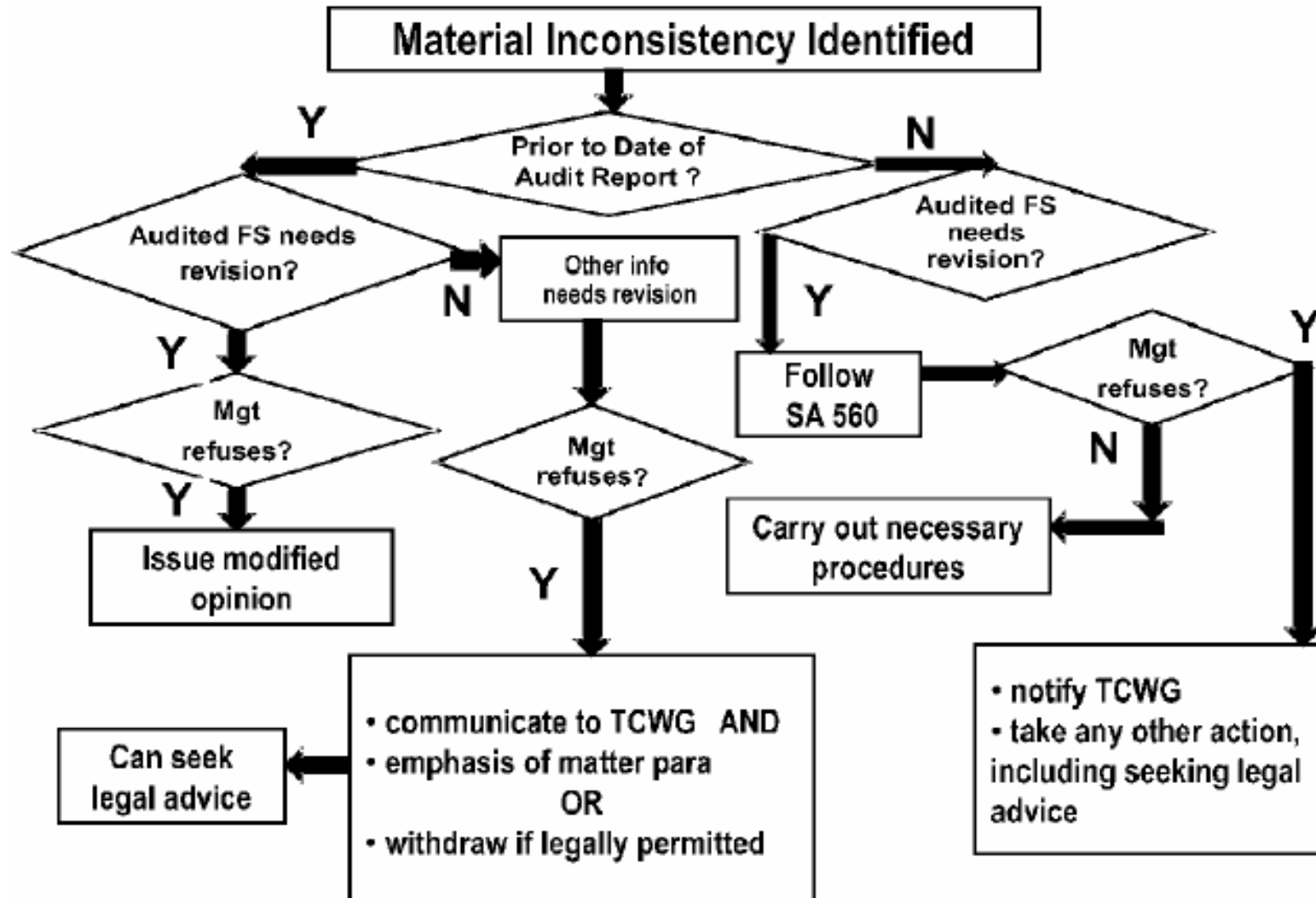
- Respond appropriately:
- where such other information could undermine credibility of audited FS and Audit Report.
- **Reading Other Information**

Read OI to identify material inconsistencies *vis-a-vis* audited FS.

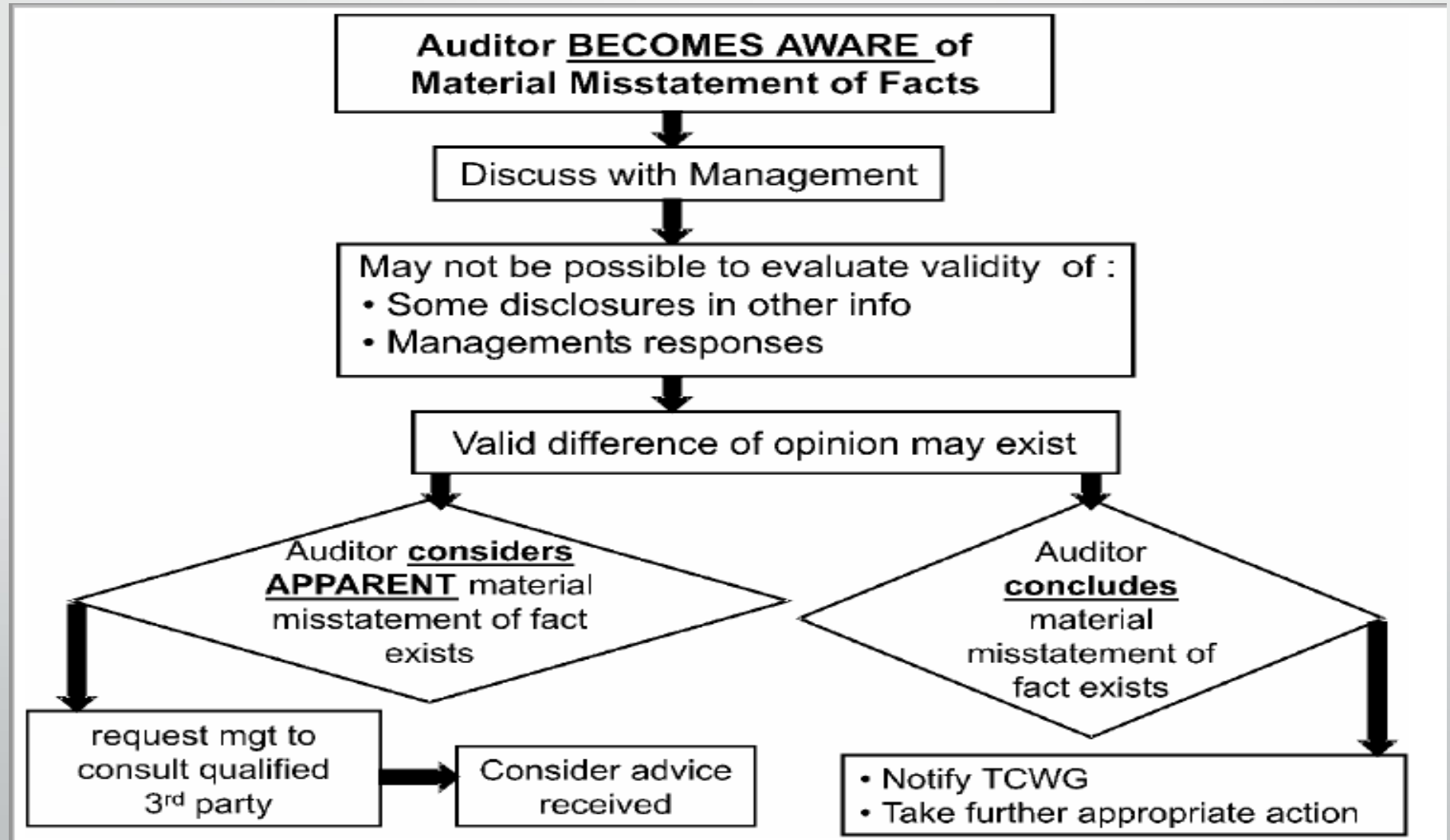
Make appropriate arrangements with mgt/TCWG to get OI **before** date of Audit Report:

- Helps timely resolution of possible material inconsistency/ misstatement of facts.
- Agreement with management as to time of availability of OI.
- If not possible before, then get OI, as soon as practicable.

SA 720 The Auditors Responsibilities in relation to Other Information in Documents containing Audited Financial Statements



SA 720 The Auditors Responsibilities in relation to Other Information in Documents containing Audited Financial Statements



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Sample Checklist on SA*

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