

# Chapter **11** **Ethics & Terms of Engagement**



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<b>12</b>	<b>SA 220- "Quality Control for an Audit of Financial Statements"</b>





## SA 210

- Auditor's responsibilities in agreeing the terms of the audit engagement.

## SA 220

- Engagement partner's responsibilities with respect to relevant ethical requirements.

## SQC 1

- Responsibilities of the FIRM for establishing policies and procedures regarding compliance with relevant ethical requirements.







## Let's start with a Story....

### Code of Ethics for Chartered Accountants

Human civilization is built upon ethics. We cannot think of our daily lives without ethics. Think of any endeavour of human activity be it imparting of education, running a business, engaging in a profession or carrying out public administration affairs ethics have a role to play in every field. Ethics guide us and help in building trust.

Consider the case of business. Can a company which does not take care of its workforce or hear its customers achieve heights in its respective trade? A business which dishes out substandard products instead of promised ones would not be able to stay in market for too long. Or take the case of a lawyer who fails to attend legal proceedings of a client without reasonable cause putting his client's interests in jeopardy. Is his conduct ethical? Ultimately, such unprofessional behaviour would tarnish his reputation and credibility.

Sameer was trying to understand importance of ethics in profession of Chartered Accountancy. He was wondering whether a Code of Ethics exists for Chartered Accountants and if so, how exhaustive it would be. Based upon his understanding of auditing till now, he was certain that an auditor must comply with ethical requirements while conducting audit of financial statements. He knew that auditor should be a person of unimpeachable integrity. He gives opinion on financial statements of entities and to maintain sanctity and credibility of his signatures, it is necessary that an auditor should comply with ethics.

A parallel stream of thoughts was also gaining momentum in his mind. Should an auditor follow only those requirements which have been clearly laid down in the rule book? What about situations for which little has been laid down? Thinking about "independence" of auditors, he seemed pretty sure that it was not possible to codify every situation affecting independence of auditor. What approach should auditor follow so that users continue to repose faith? Is there more than one perspective of concept of "independence"? And most importantly, how should an auditor proceed in a situation where he finds his "independence" on a sticky wicket due to extraneous factors?

Performing professional work following ethics also leads to qualitative audits conforming to professional standards. Are there any pronouncements on quality control to be followed by Chartered Accountants? He was yearning to learn about these.

## 1. Meaning of Ethics

The term "*Ethics*" means moral principles which govern a person's behaviour or his conducting of an activity. It is the branch of knowledge that deals with moral principles. Ethics is something which comes from an individual intrinsically. It has to be inculcated in the habit and temperament of an individual, so that there is an overall culture of ethics; the force has to be strong enough to withstand any selfish motive or temptation. It is a state of mind to act and perform in accordance with moral principles. Ethics is the science of morals in human conduct. Such moral principles and rules of conduct impose obligations upon individuals.



## 2. Need for Professional Ethics

Topic	Detailed Explanation
<b>Trust CA</b>	Professions like law, medicine have their code of ethics. Auditing profession is no exception. Rather, in the profession of auditing, requirement of ethics is manifold. It is due to the reason that <u>society in general, governments, clients, taxing authorities, employees, investors, the business and financial community</u> in particular, <u>have reposed tremendous trust in services rendered by Chartered Accountants.</u>
<b>Confidence of Users</b>	The purpose of assurance engagements is to <b>enhance confidence of the intended users</b> . Therefore, users need to trust the person who is providing such services.
<b>Professional respect</b>	Professional ethics are based on morality. Human nature being what it is, a man, often, places his personal gain above service. Therefore, <u>persons who as individuals and as a class, are willing to place public good above their personal gain have enjoyed respect and honour.</u> But such a relationship can be maintained or enhanced only if the professional body to which they belong would interpret the concept of public interest as broadly as possible. <u>The respect and confidence enjoyed by a profession, to a great extent, is dependent on the strictness and scrupulousness with which such ethics are adhered to by self-discipline.</u>
<b>Accountancy Profession</b>	<u>A distinguishing feature of the accountancy profession is its acceptance of the responsibility to act in the public interest.</u> Professional ethics seek to protect the interests of the profession as a whole and act as a shield that enables us to command respect.
<b>Framework of professional ethics</b>	A Chartered Accountant, either in practice or in service, has to abide by ethical behaviours. They are expected to follow the fundamental principles of professional ethics while performing their duties. <u>Service users of professionals should be able to feel secure that there exists a framework of professional ethics which governs the provision of those services.</u>
<b>ICAI Code of Ethics</b>	It is in this spirit of things that the <u>Institute of Chartered Accountants of India (ICAI) requires its members to comply with the principles of ethics</u> while performing their duties. The ethics for Chartered Accountants have, therefore, <u>been codified as ethical compliance</u> has always been a philosophy of the profession. Chartered accountants, whether in practice or in service, are required to comply with the provisions of <b>Code of Ethics</b> .
<b>Disciplinary Mechanism</b>	Any deviation from the ethical responsibilities brings the <b>disciplinary mechanism</b> into action against the Chartered Accountants which may result into fines, suspension of membership, removal from membership or other disciplinary actions.





### 3. Principles based Approach Vs Rules based Approach to Ethics (Ethical or Legal)

Ethical guidance may follow Principles Based Approach or Rules Based Approach.

Principles Based Approach	Rules Based Approach
<ul style="list-style-type: none"> <li>The essence of principles-based approach to ethics is that <b>it requires compliance with spirit of ethics.</b></li> <li>It requires accountants to exercise <b>professional judgment in every situation</b> based upon their professional knowledge, skill and expertise.</li> </ul>	<ul style="list-style-type: none"> <li>However, rules-based approach to ethics <b>strictly follows clearly established rules.</b></li> <li>It may lead to a narrow outlook and <b>spirit of ethics may be overlooked while strictly adhering to rules.</b></li> <li>Further, rules-based approach is somewhat rigid as it may <b>not be possible to deal with every practical situation relying upon rules.</b></li> </ul>

Therefore, it is necessary that spirit of code is followed. **Principles Based Approach wins.**

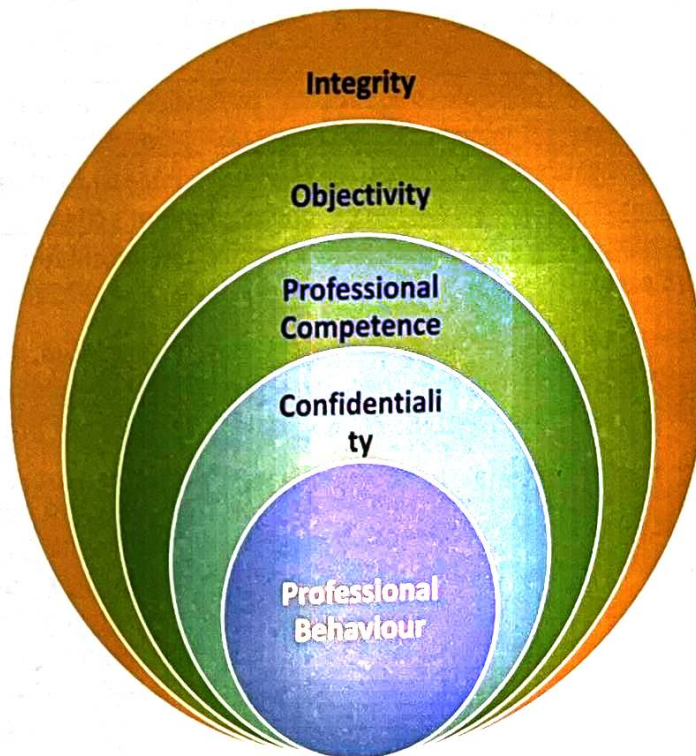
**Question**

Briefly outline how principles-based approach differs from rules-based approach to ethics.

**Answer**

See above

### 4. Fundamental Principles of Professional Ethics





Topic	Detailed Explanation
<b>Integrity</b>	<p>A professional accountant shall comply with the principle of integrity, which requires an accountant to be <u>straightforward and honest</u> in all professional and business relationships. <u>Integrity implies fair dealing and truthfulness.</u></p> <p>A professional accountant shall <u>not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information contains a materially false or misleading statement;</u> contains statements or information provided negligently or omits or obscures required information where such omission or obscurity would be misleading.</p>
<b>Objectivity</b>	<p>The principle of objectivity requires an auditor <u>not to compromise professional judgment because of bias, conflict of interest or undue influence of others.</u></p> <p>It requires that a professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.</p>
<b>Professional Competence and Due Care</b>	<p>A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant <u>to attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation;</u> and act <u>diligently</u> and in accordance with applicable technical and professional standards.</p> <p>Diligence includes responsibility to act carefully, thoroughly and on a <u>timely basis</u> in accordance with requirements of an assignment.</p>
<b>Confidentiality</b>	<p>Confidentiality principle requires a professional accountant to <u>respect the confidentiality of information acquired as a result of professional or business relationships.</u> Confidentiality serves the public interest <u>because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant</u> with the understanding that the information will not be disclosed to a third party.</p> <p>However, such confidential information may be disclosed, for example, when it is <u>required by law, when it is permitted by law and is authorised by the client or employer</u> or there is a <u>professional duty</u> or right to disclose when not prohibited by law.</p>
<b>Professional Behaviour</b>	<p>It requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might <u>discredit the profession.</u> A professional accountant shall <u>not knowingly engage in any employment, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession,</u> and as a result would be incompatible with the fundamental principles.</p>





## 5. Independence of Auditors

- (1) Professional integrity and independence are essential characteristics of all the professions but are more so in the case of accountancy profession.
- (2) Independence implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him, or to his own self-interest.
- (3) It is not possible to define "independence" precisely.

Topic	Detailed Explanation
Independence of Mind	<p><b>Independence of Mind:</b></p> <ul style="list-style-type: none"> <li>▪ It is a state of mind that permits expression of an opinion</li> <li>▪ without being affected by influences that compromise professional judgment,</li> <li>▪ allowing the CA to act with Integrity, Objectivity and Professional Skepticism.</li> </ul>
Independence in Appearance	<p><b>Independence in Appearance:</b></p> <ul style="list-style-type: none"> <li>▪ The Avoidance of facts and circumstances that are so significant</li> <li>▪ that a reasonable and informed third party would conclude that</li> <li>▪ the CA's Integrity, Objectivity or Professional Skepticism had been compromised.</li> </ul>
Both Mind & Appearance	A CA should both <u>be</u> and <u>appear to be</u> independent.
Important Dialogue for Exam.	<u>Public conscience is expected to be ahead of the law.</u> Members, therefore, are expected to interpret the requirement as regards independence much more strictly than what the law requires and <u>should not place themselves in positions</u> which would either <u>compromise or jeopardise their independence.</u>

## 6. Threats to Independence

Many different circumstances may be relevant and accordingly it is impossible to define every situation that creates threats to independence.

Following 5 types of threats to Independence of Auditors are discussed below: -

Topic	Detailed Explanation
Self-interest Threats	<p>Self-interest threats occur <u>when an auditor</u> (auditing firm, its partner or associate) <u>could benefit from a financial interest in an audit client.</u></p> <p>Examples include –</p> <ol style="list-style-type: none"> <li>(1) <u>Direct financial interest</u> or other interest in a client.</li> <li>(2) <u>Loan or guarantee</u> to or from the concerned client.</li> <li>(3) <u>Undue dependence</u> on a client's fees.</li> <li>(4) <u>Close business relationship</u> with an audit client.</li> <li>(5) <u>Potential employment</u> with the client.</li> <li>(6) <u>Contingent fees</u> for the audit engagement.</li> </ol>



Topic	Detailed Explanation
<b>Self-review Threats</b>	<p>Self-review threats occur :-</p> <p>(A) when <u>during a review of any judgement or conclusion reached in a previous audit or non-audit engagement</u>, or</p> <p>(B) when a <u>member of the audit team was previously a director or senior employee of the client</u>.</p> <p>Non audit services include any professional services provided to an entity by an auditor, other than audit or review of the financial statements. These include management services, internal audit, investment advisory service etc. Instances where such threats come into play are: -</p> <ol style="list-style-type: none"> <li>(1) when an auditor having recently been a director or senior officer of the company.</li> <li>(2) when auditors perform services that are themselves subject matters of audit.</li> </ol>
<b>Advocacy Threats</b>	<p>Advocacy threats occur <u>when the auditor promotes</u>, or is perceived to promote, a <u>client's opinion to a point where people may believe that objectivity is getting compromised</u>.</p> <p><b>Example:</b></p> <ol style="list-style-type: none"> <li>(1) When an auditor deals with shares or securities of the audited company, or</li> <li>(2) When an auditor becomes the client's advocate in litigation and disputes.</li> </ol>
<b>Familiarity Threats</b>	<p>Familiarity threats are self-evident, and occur <u>when auditors form relationships with the client where they end up being too sympathetic to the client's interests</u>.</p> <p>This can occur in many ways including:</p> <ol style="list-style-type: none"> <li>(1) <u>close relative</u> of the audit team working in a senior position in the client company</li> <li>(2) <u>former partner</u> of the audit firm being a director or senior employee of the client</li> <li>(3) <u>long association</u> between specific auditors and their specific client counterparts</li> <li>(4) <u>acceptance of significant gifts or hospitality</u> from the clients.</li> </ol> <p>Provisions in Companies Act, 2013 regarding <u>rotation of auditors</u> mainly address these very familiarity threats. Such provisions prescribe that auditor is rotated after a certain number of years so that auditors <u>do not become too familiar with their clients</u>.</p>
<b>Intimidation Threats</b>	<p>Intimidation threats occur <u>when auditors are deterred from acting objectively</u> with an adequate degree of professional skepticism.</p> <p><b>Example:</b></p> <ol style="list-style-type: none"> <li>(1) Threat of replacement over disagreements, or</li> <li>(2) Pressure to disproportionately reduce work in response to reduced audit fees or</li> <li>(3) Being threatened with litigation.</li> </ol> <p>Such threats attempt to intimidate auditors to deter them from acting objectively.</p>





## 7. Safeguards to Independence

Chartered Accountants have a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to address the threats.

Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to comply with the fundamental principles to an acceptable level.

To address the issue, the following guiding principles are to be applied: -

- (1) For the public to have confidence in the quality of audit, it is essential that auditors should always be and appears to be independent of the entities that they are auditing.
- (2) Before taking on any work, an auditor must conscientiously consider whether it involves threats to his independence.
- (3) When such threats exist, the auditor should either desist from the task or eliminate the threat or at the very least, put in place safeguards which reduce the threats to an acceptable level. All such safeguards measures need to be recorded in a form that can serve as evidence of compliance with due process.
- (4) If the auditor is unable to fully implement credible and adequate safeguards, then he must not accept the work.

## 8. Professional Skepticism

Topic	Detailed Explanation
<b>Definition</b>	Professional skepticism refers to :- <ul style="list-style-type: none"> <li>▪ an <u>attitude</u> that includes a <u>questioning mind</u>,</li> <li>▪ <u>being alert</u> to conditions which may indicate possible MMS due to error or fraud,</li> <li>▪ a <u>critical assessment</u> of audit evidence.</li> </ul>
<b>Situation that require Professional skepticism</b>	<b>Professional skepticism includes being ALERT to, for example:</b> <ol style="list-style-type: none"> <li>(1) Audit evidence that <u>contradicts</u> other audit evidence obtained.</li> <li>(2) Information that brings into question the <u>reliability</u> of documents and responses to inquiries to be used as audit evidence.</li> <li>(3) Conditions that may indicate possible <u>fraud</u>.</li> <li>(4) <u>Circumstances</u> that suggest the need for audit procedures in addition to those required by the SAs.</li> </ol>
<b>Professional Skepticism reduces Audit Risk</b>	<b>Maintaining professional skepticism throughout the audit is necessary if the auditor is to reduce the risks of:</b> <ol style="list-style-type: none"> <li>(1) <u>Overlooking unusual</u> circumstances.</li> <li>(2) <u>Over-generalizing</u> when drawing conclusions from audit observations.</li> <li>(3) Using <u>inappropriate assumptions</u> in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.</li> </ol>



Topic	Detailed Explanation
<b>Critical Assessment of Audit Evidence</b>	<p>Professional skepticism is necessary to the <u>Critical Assessment of Audit Evidence as sufficient and appropriate.</u></p> <div data-bbox="389 450 1442 600" style="border: 1px solid black; background-color: #e6f2ff; padding: 5px;"> <p><b>Example</b> In the case where <u>fraud risk factors exist</u> and a <u>single document</u>, of a nature that is susceptible to fraud, <u>is the sole supporting evidence</u> for a material financial statement amount.</p> </div>
<b>Reliability of documents</b>	<ul style="list-style-type: none"> <li>▪ The auditor may accept records and documents as genuine <u>unless the auditor has reason to believe the contrary.</u></li> <li>▪ However, the auditor is required to <u>consider the reliability</u> of information to be used as audit evidence.</li> <li>▪ In cases of doubt about the reliability of information or indications of possible fraud, the SAs require that <u>the auditor investigate further and determine what modifications or additions to audit procedures are necessary</u> to resolve the matter.</li> </ul>
<b>Past experience of client's honesty</b>	<ul style="list-style-type: none"> <li>▪ The auditor <u>cannot be expected to disregard past experience</u> of the honesty and integrity of the entity's management and those charged with governance.</li> <li>▪ However, a belief that management and TCWG are honest and have integrity <u>does not relieve the auditor of the need to maintain professional skepticism.</u></li> </ul>

**Question**

How application of professional skepticism throughout audit is helpful in reducing audit risk?

**Answer**

See 2<sup>nd</sup> and 3<sup>rd</sup> box above.





## 9. Agreeing Terms of Audit Engagements (SA 210)

**SA 210** deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present.

Topic	Detailed Explanation
Objective of Auditor	<p>The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:</p> <p>(A) Establishing whether the <u>preconditions for an audit are present</u> and</p> <p>(B) Confirming that there is a <u>common understanding between the auditor and management</u> and, where appropriate, those charged with governance of the terms of the audit engagement.</p> <p>The Audit engagement letter is sent by the <b>AUDITOR</b> to his <b>CLIENT</b>.</p>

### Preconditions for an audit

Topic	Detailed Explanation
Definition	<p>As per SA 210 "Agreeing the Terms of Audit Engagements", preconditions for an audit may be defined as :-</p> <p>(1) the use by management of an acceptable <u>Financial Reporting Framework</u> in the preparation of the FS and</p> <p>(2) <u>the agreement of management and TCWG to the premise (basis) on which an audit is conducted.</u></p>
Preconditions for an Audit	<p>In order to establish whether the preconditions for an audit are present, the auditor shall:</p> <p>(A) Determine whether the financial reporting framework is acceptable and</p> <p>(B) Obtain the agreement of management that it acknowledges and understands its responsibility:</p> <p>(1) <b>Financial Reporting Framework:</b> For the preparation of FS as per the applicable FRF;</p> <p>(2) <b>Internal Control:</b> For such Internal Control as management considers necessary to enable the preparation of FS that are free from MMS, due to fraud or error; and</p> <p>(3) <b>Co-operation:</b> To provide the auditor with:</p> <p>(a) <u>Access to all information</u> that is relevant to the preparation of the FS such as records, documentation and other matters;</p> <p>(b) <u>Additional information</u> that the auditor may request from management for the purpose of the audit; and</p> <p>(c) <u>Unrestricted access</u> to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.</p>



## Agreement on audit engagement terms

Topic	Detailed Explanation
<b>Written Letter of Engagement</b>	<p>Except in the cases where it is required under law to get accounts audited (for example in case of companies), <b><u>audit is a matter of contract between auditor and client.</u></b></p> <p>It is, therefore, important, both for the auditor and client, that each party should be <u>clear about the nature of the engagement.</u> It must be reduced to <u>writing</u> and should exactly <u>specify the scope of the work.</u></p> <div data-bbox="395 674 1457 862" style="border: 1px solid black; background-color: #e6f2ff; padding: 5px;"> <p style="text-align: center;"><b>Law prescribes the terms of Engagement in detail</b></p> <p>If <b><u>law or regulation prescribes in sufficient detail</u></b> the terms of the audit engagement, the <b>auditor need NOT record them in a written agreement,</b> except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.</p> </div> <div data-bbox="395 898 1457 976" style="border: 1px solid black; background-color: #e6ffe6; padding: 5px;"> <p>The agreed terms of the audit engagement shall be recorded in an audit engagement <b><u>letter or other suitable form of written agreement.</u></b></p> </div>
<b>Letter of Engagement contents</b>	<p>The audit engagement letter is sent by the auditor to his client. <u>It is in the interest of both the auditor and the client to issue an engagement letter so that the possibility of misunderstanding is reduced to a great extent.</u> Such a letter includes:-</p> <ol style="list-style-type: none"> <li>(a) The <u>objective</u> and <u>scope</u> of the audit of the financial statements</li> <li>(b) The <u>responsibilities</u> of the auditor</li> <li>(c) The <u>responsibilities</u> of management</li> <li>(d) Identification of the applicable <u>financial reporting framework</u> for the preparation of the financial statements and</li> <li>(e) Reference to the <u>expected form and content of any reports</u> to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.</li> </ol>





## Example of An Engagement Letter

**PJ Shrimali & Co.  
Chartered Accountants**

24, MG Road,  
Mumbai  
10th August XXXX

**To the Board of Directors of Pristine Products Limited**

### **The objective and scope of the audit**

You have requested that we audit the financial statements of Pristine Products Limited, which comprise the Balance Sheet as at March 31st, 20XX, the Statement of Profit & Loss, Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing (SAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **The responsibilities of the auditor**

We will conduct our audit in accordance with Standards on Auditing (SAs) issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we



conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, 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.

### **The responsibilities of management**

Our audit will be conducted on the basis that management and, where appropriate, those charged with governance acknowledge and understand that they have responsibility:

- (a) For the preparation of financial statements that give a true and fair view in accordance with the financial reporting Standards. This includes:
  - The responsibility for the preparation of financial statements on a going concern basis.
  - The responsibility for selection and consistent application of appropriate accounting policies, including implementation of applicable accounting standards along with proper explanation relating to any material departures from those accounting standards.
  - The responsibility for making judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the entity at the end of the financial year and of the profit or loss of the entity for that period.
- (b) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and
- (c) To provide us with:
  - (i) Access, at all times, to all information, including the books, accounts, vouchers and other records and documentation, of the company, whether kept at the head office of the company or elsewhere, of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters,
  - (ii) Additional information that we may request from management for the purpose of the audit and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. This includes our entitlement to require from the officers of the company such information and explanations as we may think necessary for the performance of our duties as auditor. As part of our audit process, we will request from management and, where appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

### **Fees**

Our fees bill for XXXXXX (plus applicable taxes) and out of pocket expenses will be raised after completion of audit work.





**Reporting**

We will report to the members of Pristine Products Limited as a body, whether in our opinion, the financial statements give the information required by the Companies Act, 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at March 31, 20XX, and its profit/loss, and its cash flows for the year ended on that date. The form and content of our report may need to be amended in the light of our audit findings.

**Acknowledgement**

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

For PJ Shrimali & Co.  
Chartered Accountants  
Firm's Registration Number

(Signature)  
(Name of the Member)  
(Designation)

**Auditor should NOT accept the Audit engagement in these 2 situations**

Topic	Detailed Explanation
(1) Preconditions for an audit are not present	<p>If the preconditions for an audit are not present, <u>the auditor shall discuss the matter with management</u>. Unless required by law or regulation to do so, the auditor shall <b>NOT accept the proposed audit engagement</b>:</p> <p>(a) If the auditor has determined that the <u>Financial Reporting Framework</u> to be applied in the preparation of the financial statements <u>is unacceptable</u> or</p> <p>(b) <u>If the agreement of management is not obtained</u> on matters relating to understanding of responsibility of management on preparation of financial statements, internal controls for preparation of financial statements, providing access to all information to auditor and unrestricted access to persons within the entity.</p>
(2) Limitation on Scope Prior to Engagement Acceptance	<p>If Management or TCWG <u>impose a limitation on the scope of the auditor's work</u> in the terms of a <u>proposed audit engagement</u> such that the auditor believes the limitation will result in the auditor <b>disclaiming an opinion</b> on the financial statements, the auditor shall <b>NOT accept such a limited engagement</b> as an audit engagement, unless required by law or regulation to do so.</p>



## Request from Entity to change the Terms of Audit Engagement after Audit commences

The auditor considers the justification given for the request, particularly the implications of a restriction on the scope of the audit engagement.

A request from the entity for the auditor to change the terms of the audit engagement may result from :-

<b>Reasonable</b>	<ul style="list-style-type: none"> <li>(1) a change in circumstances affecting the <u>need for the service</u>,</li> <li>(2) a <u>misunderstanding</u> as to the nature of an audit as originally requested or</li> </ul>
<b>Unreasonable</b>	<ul style="list-style-type: none"> <li>(3) a <u>restriction on the scope of the audit engagement</u>, whether imposed by management or caused by other circumstances.</li> </ul> <div style="border: 1px solid black; background-color: #d9ead3; padding: 5px; margin-top: 10px;"> <p>An example might be where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified opinion or a disclaimer of opinion.</p> </div>

The auditor shall **NOT** agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so.

## What should auditor consider before agreeing to change the audit engagement to the engagement providing lower level of assurance?

Topic	Detailed Explanation
<b>Step 1</b>	The auditor shall determine whether there is <u>reasonable justification</u> for doing so.
<b>Step 2</b>	The auditor may also need to assess any <u>legal or contractual implications</u> of the change.
<b>Step 3</b>	If the auditor concludes that there is reasonable justification to change the audit engagement to a review or a related service, <u>the audit work performed to the date of change may be relevant to the changed engagement</u> . However, the work required to be performed and the report to be issued would be those appropriate to the revised engagement.
<b>Step 4</b>	If the terms of the audit engagement are changed, the auditor and management shall agree on and <u>record the new terms of the engagement in an engagement letter or other suitable form of written agreement</u> .
<b>Step 5</b>	In order to avoid confusing the reader, the <u>report on the related service would not include reference to:</u> <ul style="list-style-type: none"> <li>(a) The original audit engagement or</li> <li>(b) Any procedures that may have been performed in the original audit engagement, except where the audit engagement is changed to an engagement to undertake Agreed-Upon Procedures (SRS 4400) in which case reference to the procedures performed is a normal part of the report.</li> </ul>





## Recourse available to auditor in situation of non-agreement to a change in terms of engagement and lack of permission from management to continue original audit engagement

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:

- (a) **Withdraw** from the audit engagement where possible under applicable law or regulation and
- (b) Determine whether there is any **obligation, either contractual or otherwise, to report** the circumstances to other parties, such as those charged with governance, owners or regulators.

## Terms of Engagement in Recurring Audits

Recurring audit is an audit which is performed by an auditor over years. The auditor shall assess:-

- (A) whether circumstances require the terms of the audit engagement to be revised and
- (B) whether there is a need to remind the entity of the existing terms of the audit engagement.

The auditor may decide not to send a new audit engagement letter or other written agreement each period. However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- (1) Any indication that the entity misunderstands the objective audit.
- (2) Any revised or special terms of the audit engagement.
- (3) A recent change of senior management.
- (4) A significant change in ownership.
- (5) A significant change in nature or size of the entity's business.
- (6) A change in legal or regulatory requirements.
- (7) A change in the financial reporting framework adopted in the preparation of the financial statements.
- (8) A change in other reporting requirements.

### Question

A Chartered accountant is conducting audit of a client for last two years. Before proceeding to start audit for next year, he notices that there is substantial change in management. Besides, client has ventured into areas of business activity which were not present at time of accepting initial audit engagement. Discuss responsibility of auditor in this regard in context of SA 210.

### Answer

See Above



## 10. Audit Quality



**Implement Quality Control (QC) in FIRM / ENGAGEMENT to obtain reasonable assurance that :-**

**1) Firm / Engagement complies with Professional Standards and Legal requirements**

**2) Report issued is appropriate**

No.	SQC 1	SA 220
(1)	It applies to <u>entire firm</u> and fixes the responsibility of firm to be assumed by <u>CEO or managing partners</u> .	It applies to a <u>particular audit engagement</u> and <u>engagement partner</u> takes responsibility of the same.
(2)	It is applicable to <u>audits, reviews</u> of historical financial Information, and other <u>assurance</u> and <u>related services</u> engagements.	It is applicable to <u>audit engagements</u> only.
(3)	It relates to setting up of a <u>quality control system</u> consisting of <u>policies and procedures</u> for firm as a whole.	It deals with <u>responsibilities of engagement teams to implement quality control procedures</u> that are applicable to audit engagements.
(4)	It pertains to establishing a system of quality control designed to provide firm with a reasonable assurance that a <u>firm and its personnel comply with professional standards and regulatory and legal requirements</u> so that reports issued by firm or engagement partners are appropriate in circumstances.	It is premised on the basis that firm is subject to SQC 1. Therefore, <u>SQC 1 is a sine qua non for applicability of SA 220</u> . It is within overall context of a firm's system of quality control, engagement teams implement quality control procedures applicable to audit engagements.





## 11. SQC 1 – Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

**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
- the reports issued by the firm or engagement partners are appropriate in the circumstances.

### Few Important Definitions

Term	Definition
<b>Engagement Partner</b>	The partner or other person in the firm who is a member of the ICAI and is in full time practice and is responsible for: <ol style="list-style-type: none"> <li>(a) the engagement and its performance, and</li> <li>(b) the report that is issued on behalf of the firm, and</li> <li>(c) who, where required, has the appropriate authority from a professional, legal or regulatory body.</li> </ol>
<b>Engagement Quality Control Review</b>	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
<b>Engagement Team</b>	All personnel performing an engagement including any EXPERTS contracted by the firm in connection with that engagement.

### Elements of System of Quality Control

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) Client Acceptance and continuance of specific engagements.
- (d) Human resources.
- (e) Engagement performance.
- (f) Monitoring.

#### **Communication of quality control policies to firm's employees**

Quality control policies and procedures should be **documented** and **communicated** to the firm's personnel. By communicating, the firm recognizes the importance of obtaining **feedback** on its quality control system from its personnel. (See Question on MNP & Co.)





Topic	Detailed Explanation
<b>Leadership responsibilities for quality within the firm</b>	<p>Firms must establish policies and procedures designed <b>to promote an internal culture</b> based on the recognition <b>that quality is essential</b> in performing engagements. Such policies and procedures should require the <b>firm's chief executive officer or the firm's managing partners to assume ultimate responsibility</b> for the firm's system of quality control.</p> <p><b>Major steps by Leader to ensure QC</b>            The example set by firm's leadership encourages an inner culture that recognizes high quality audit work.            Further, <u>persons assigned operational responsibilities</u> for the firm's quality control system by the firm's chief executive officer or managing partners <u>should have sufficient and appropriate experience, ability and the necessary authority</u> to assume that responsibility.</p>
<b>Ethical requirements</b>	<p><u>The firm should establish policies and procedures</u> designed to provide it with reasonable assurance <u>that the firm and its personnel comply with relevant ethical requirements</u> contained in the Code of ethics by ICAI.</p> <p>The Code establishes the fundamental principles of professional ethics which include :-</p> <ul style="list-style-type: none"> <li>▪ Integrity,</li> <li>▪ Objectivity,</li> <li>▪ Professional Competence and due care,</li> <li>▪ Confidentiality and</li> <li>▪ Professional Behaviour.</li> </ul>



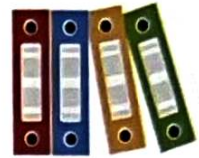


Topic	Detailed Explanation
	<p><b><u>Independence Protocol</u></b>  <u>Observance of "Independence" in all engagements is the founding requirement.</u> The firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and (including experts contracted by the firm and network firm personnel) maintain independence where required by the Code. Such policies and procedures should enable the firm to: -</p> <ul style="list-style-type: none"> <li>(a) <u>Communicate its independence</u> requirements to its personnel.</li> <li>(b) Identify and evaluate <u>circumstances and relationships that create threats to independence</u>, and to take appropriate <u>action to eliminate those threats or reduce them to an acceptable level</u> by applying safeguards, or, if considered appropriate, to <u>withdraw from the engagement</u>.</li> </ul> <p><b><u>Prompt Reporting to Firm about breach of Independence</u></b>            There should exist a mechanism in the firm by which :-</p> <ul style="list-style-type: none"> <li>▪ engagement partners provide the firm with relevant information about client engagements and</li> <li>▪ personnel of firm promptly notify firm of circumstances and relationships that create a threat to independence.</li> </ul> <p><i>All breaches of independence should be promptly notified to firm for appropriate action.</i></p> <p><b><u>Annual Independence Confirmation</u></b>            At least annually, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.</p> <p><b>Question</b>            How does SQC 1 ensure that independence in engagements is not breached by an audit firm?  <b>Answer</b>            See above.</p>
<p><b>Acceptance and Continuance of Client Relationships and Specific Engagements</b></p>	<p>A firm before accepting an engagement should <b>acquire VITAL information about the client</b>. Such an information should help firm to decide about: -</p> <ul style="list-style-type: none"> <li>▪ <b>Integrity</b> of Client, promoters and key managerial personnel.</li> <li>▪ <b>Competence</b> (including capabilities, time and resources) to perform engagement.</li> <li>▪ Compliance with <b>Ethical requirements</b>.</li> </ul> <p>Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, <b>it should document how the issues were resolved</b>.</p>



Topic	Detailed Explanation
	<p><b><u>Integrity of the Client</u></b> With regard to the integrity of a client, matters that the firm considers include, for example:</p> <ul style="list-style-type: none"> <li>▪ The identity and <u>business reputation of the client's principal owners</u>, key management, related parties and those charged with its governance.</li> <li>▪ The nature of the client's operations, including its <u>business practices</u>.</li> <li>▪ Information concerning the <u>attitude</u> of the client's principal owners, key management and those charged with its governance <u>towards such matters as aggressive interpretation of accounting standards</u> and the internal control environment.</li> <li>▪ Whether the <u>client is aggressively concerned with maintaining the firm's fees as low</u> as possible.</li> <li>▪ Indications of an inappropriate <u>limitation in the scope of work</u>.</li> <li>▪ Indications that the client might be involved in <u>money laundering or other criminal activities</u>.</li> <li>▪ The <u>reasons for the proposed appointment</u> of the firm and non-reappointment of the previous firm.</li> </ul> <p><b><u>Conflict of Interest</u></b> If there is any <u>conflict of interest</u> between the firm and client, it should be properly <u>resolved before accepting the engagement</u>.</p> <p><b><u>Information that would have caused it to decline an engagement</u></b> Where the firm obtains information that would have caused it to decline an engagement if that information had been obtainable earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:</p> <ol style="list-style-type: none"> <li>(a) The <u>professional and legal responsibilities that apply to the circumstances</u>, including whether there is a requirement for the <u>firm to report to the person or persons who made the appointment</u> or, in some cases, to <u>regulatory authorities</u>; and</li> <li>(b) The possibility of <u>withdrawing from the engagement</u> or from both the engagement and the client relationship.</li> </ol>
<b>Human resources</b>	<p>The firm should establish policies and procedures designed to provide it with reasonable assurance that it has <u>sufficient personnel with the capabilities, competence, and commitment to ethical principles</u>.</p> <p>Such <b><u>Policies and Procedures</u></b> should address relevant HR issues including :-</p> <ul style="list-style-type: none"> <li>▪ Recruitment,</li> <li>▪ Compensation,</li> <li>▪ Training,</li> <li>▪ Career Development,</li> <li>▪ Performance Evaluation etc.</li> </ul>





Topic	Detailed Explanation				
	<p>There should be emphasis on the continuing professional development of firm's personnel.</p>				
<p><b>Engagement Performance</b></p>	<p><b>5 steps to ensure Consistency in quality of engagement performance</b>            Consistency in quality of engagement performance is achieved through :-</p> <ol style="list-style-type: none"> <li>(1) <u>briefing of engagement teams</u> of their objectives,</li> <li>(2) processes for complying with <u>engagement standards</u>,</li> <li>(3) processes of engagement <u>supervision and training</u>,</li> <li>(4) methods of <u>reviewing</u> performance of work,</li> <li>(5) appropriate <u>documentation</u> of work performed.</li> </ol> <p><b>Consultation in difficult or contentious (controversial) matters</b>            Consultation should take place in difficult or contentious (controversial) matters pertaining to an engagement.</p> <p><b>Consultation:</b> Consultation includes <u>discussion</u>, at the appropriate professional level, <u>with individuals within or outside the firm</u> who have <u>specialized expertise</u>, to resolve a difficult or contentious matter.</p> <p><b>External Consultation</b>            A firm needing to consult externally, for example, a firm without appropriate internal resources, may take <u>advantage of advisory services provided by other firms or professional and regulatory bodies</u>.</p> <p><b>Engagement Quality Control Review (EQCR)</b></p> <p><b>Definition</b>            A process designed to provide an objective evaluation, <u>before the report is issued</u>, of the significant <u>JUDGMENTS</u> the engagement team made and the <u>CONCLUSIONS</u> they reached in formulating the report.</p> <p><b>Extent of EQCR review</b>            The extent of the review depends on :-</p> <ul style="list-style-type: none"> <li>▪ the complexity of the engagement and</li> <li>▪ the risk that the report might not be appropriate in the circumstances.</li> </ul> <p>The review does not reduce the responsibilities of the engagement partner.</p> <p><b>Applicability of EQCR</b></p> <table border="1" data-bbox="411 1769 1468 2004"> <tr> <td data-bbox="411 1769 694 1904"><b>Listed Entities</b></td> <td data-bbox="694 1769 1468 1904">Engagement quality control review is <u>mandatory for all audits</u> of financial statements of listed entities. (See Question on GVN &amp; Associates)</td> </tr> <tr> <td data-bbox="411 1904 694 2004"><b>Other Engagements</b></td> <td data-bbox="694 1904 1468 2004">Firm should <u>devise criteria to determine cases</u> requiring performance of engagement quality control review.</td> </tr> </table>	<b>Listed Entities</b>	Engagement quality control review is <u>mandatory for all audits</u> of financial statements of listed entities. (See Question on GVN & Associates)	<b>Other Engagements</b>	Firm should <u>devise criteria to determine cases</u> requiring performance of engagement quality control review.
<b>Listed Entities</b>	Engagement quality control review is <u>mandatory for all audits</u> of financial statements of listed entities. (See Question on GVN & Associates)				
<b>Other Engagements</b>	Firm should <u>devise criteria to determine cases</u> requiring performance of engagement quality control review.				



Topic	Detailed Explanation
	<p>There might be difference of opinion :-</p> <ul style="list-style-type: none"><li>▪ within engagement team,</li><li>▪ with those consulted and</li><li>▪ between engagement partner and EQC reviewer.</li></ul> <p>The report should <b><u>only be issued after resolution</u></b> of such differences.</p> <p><b><u>EQC reviewer's recommendations are not accepted by Engagement Partner</u></b> In case, recommendations of engagement quality control reviewer are not accepted by engagement partner and matter is not resolved to reviewer's satisfaction, <u>the matter should be resolved by following established procedures of firm like by consulting with another practitioner or firm, or a professional or regulatory body.</u></p> <p><b><u>Assembly of Final Engagement Files in 60 Days</u></b> Engagement files should be completed in <b><u>not more than 60 days AFTER date of auditor's report in case of audit engagements</u></b> and in other cases within the limits appropriate to engagements.</p> <p>Policies and procedures should be designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.</p> <p><b><u>Documentation is the Property of the Firm – Sharing Extract with Client</u></b> (A) Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. (B) The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided :-</p> <ul style="list-style-type: none"><li>▪ such disclosure does not undermine <u>the validity of the work</u> performed, or,</li><li>▪ such disclosure does not undermine <u>the independence of the firm</u> or its personnel.</li></ul> <p><b><u>Retention of Engagement Documentation</u></b> Engagement documentation has to be retained for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.</p> <p>In the specific case of audit engagements, the retention period ordinarily is no shorter than –</p> <ul style="list-style-type: none"><li>▪ 7 years from the date of the auditor's report, or</li><li>▪ 7 years from the date of the group auditor's report, whichever is <b><u>LATER</u></b>.</li></ul>





Topic	Detailed Explanation
Monitoring	The firm should ensure that policies and procedures relating to the system of quality control are <b>relevant, adequate, operating effectively and complied with in practice</b> . Such policies and procedures should include an :- (1) <u>ongoing evaluation</u> of the firm's quality control system, and (2) <u>periodic inspection</u> of a selection of completed engagements.

## 12. SA 220 – Quality Control for an Audit of FS

**Implement Quality Control (QC) in AUDIT engagement to obtain reasonable assurance that :-**

**1) Audit complies with Professional Standards and Legal requirements**

**2) Audit Report issued is appropriate**

Topic	Detailed Explanation
SQC-1 forms the basis of SA-220	<b>Applying quality control system of firm to a particular audit engagement</b> (1) <u>Engagement Partner</u> of a team is responsible for quality control procedures of a <u>particular audit engagement</u> in accordance with SA-220. (2) SA-220 is premised on the basis that the <u>firm is subject to SQC 1</u> . (3) Based upon quality control system of firm, quality control policies pertaining to audit engagements are <u>decided by engagement teams</u> .  <div style="border: 1px solid black; background-color: #e6f2ff; padding: 5px;"><b>Reliance:</b> Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.</div>
Responsibilities of Engagement Partner	<b>SA-220 is modelled on lines of SQC 1.</b> It describes responsibilities of engagement partner in relation to following matters: - (a) Leadership responsibilities for quality on audits. (b) Ethical requirements. (c) Client Acceptance and continuance of audit engagements. (d) Human resources (Assignment of engagement teams). (e) Engagement performance. (f) Monitoring.



Topic	Detailed Explanation
<b>Leadership responsibilities for quality on audits</b>	<p>Leadership responsibility of an <b>engagement partner</b> is to take responsibility for the overall quality on each audit engagement. The actions of the EP and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasizes:</p> <p>(a) <b>The importance to audit quality of:</b> -</p> <ul style="list-style-type: none"> <li>(i) Performing work that complies with <b>professional standards</b> and regulatory and legal requirements.</li> <li>(ii) Complying with the firm's <b>quality control policies</b> and procedures as applicable.</li> <li>(iii) Issuing <b>auditor's reports that are appropriate</b> in the circumstances.</li> <li>(iv) The engagement team's <b>ability to raise concerns without fear of reprisals (retaliation)</b>.</li> </ul> <p>(b) The fact that <b>quality is essential</b> in performing audit engagements.</p> <div style="border: 1px solid black; background-color: #d4edda; padding: 5px; margin-top: 10px;"> <p><b>Question</b> An engagement partner takes overall responsibility for maintaining audit quality in an audit engagement in accordance with SA 220. What are his objectives in taking and emphasizing such responsibility?</p> <p><b>Answer</b> See Above.</p> </div>
<b>Relevant ethical requirements</b>	<p>The responsibilities of an engagement partner in relation to ethical requirements in an audit engagement are as under: -</p> <p>(A) Identifying a <b>threat to independence</b> regarding the audit engagement <b>that safeguards may not be able to eliminate</b> or reduce to an acceptable level.</p> <p>(B) <b>Reporting by engagement partner to the relevant persons</b> within the firm to determine appropriate action, which may include :-</p> <ul style="list-style-type: none"> <li>▪ eliminating the activity or interest that creates the threat, or</li> <li>▪ withdrawing from the audit engagement, where withdrawal is legally permitted.</li> </ul>
<b>Acceptance and Continuance of Client Relationships and audit Engagements</b>	<p>A firm before accepting an engagement should <b>acquire VITAL information about the client</b>. Information like –</p> <ul style="list-style-type: none"> <li>▪ integrity of principal owners,</li> <li>▪ competence of engagement team and consideration of necessary capabilities including time and resources,</li> <li>▪ compliance with relevant ethical requirements and</li> <li>▪ significant matters arisen during current or previous audit engagement and their implications,</li> </ul> <p>assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate.</p>





Topic	Detailed Explanation
<b>Assignment of engagement teams</b>	It should be ensured by <u>Engagement Partner</u> that the <u>Engagement Team</u> and any <u>Auditor's Experts</u> who are not part of the engagement team, collectively have the appropriate <b>Competence and Capabilities</b> to perform the engagement in accordance with professional standards and regulatory and legal requirements.
<b>Engagement Performance</b>	<p>Engagement partner has the responsibility for direction, supervision and performance of audit engagement in accordance with <b>professional standards</b> and regulatory and legal requirements. He is responsible for <b>auditor's report being appropriate</b> in circumstances.</p> <div data-bbox="443 685 1471 887"><p><b>Review</b></p><p>Further, review of audit documentation <u>before issue of audit report</u> is his responsibility. It has to be ensured that <u>sufficient appropriate audit evidence has been obtained to support the conclusions</u> reached and for issuance of auditor's report.</p></div> <div data-bbox="443 925 1471 1084"><p><b>Consultation</b></p><p>Engagement partner is also responsible for ensuring undertaking appropriate consultation on <u>difficult or contentious matters</u> by engagement team not only within the team but also with others at appropriate level within or outside the firm.</p></div> <div data-bbox="443 1122 1471 1442"><p><b>EP's Responsibility for EQCR</b></p><p>For audits of financial statements of <b>LISTED</b> entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:</p><ol style="list-style-type: none"><li>Determine that an <u>EQC control reviewer</u> has been appointed.</li><li><u>Discuss significant matters</u> arising during the audit engagement, <u>including those identified during the EQCR</u>, with the engagement quality control reviewer.</li><li>Not date the auditor's report until the completion of the EQCR.</li></ol></div> <div data-bbox="443 1480 1471 1765"><p><b>Differences of Opinion</b></p><p>If differences of opinion arise</p><ul style="list-style-type: none"><li>within the engagement team,</li><li>with those consulted or,</li><li>where applicable, between the EP and the EQC Reviewer,</li></ul><p>the <b>engagement team shall follow the firm's policies</b> and procedures for dealing <b>with and resolving differences of opinion.</b></p></div>
<b>Monitoring</b>	<p><b>Purpose of Monitoring</b></p> <p>An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are <b>relevant, adequate, and operating effectively.</b></p>



Topic	Detailed Explanation
	<p><b>Procedure for Monitoring</b></p> <p>The engagement partner shall consider -</p> <ul style="list-style-type: none"> <li>▪ the results of the firm's monitoring process as evidenced in the <u>latest information circulated by the firm</u> and, if applicable, other network firms and</li> <li>▪ whether <u>deficiencies</u> noted in that information <u>may affect the audit engagement</u>.</li> </ul>
<p><b>EP's Documentation</b></p>	<p>The <u>engagement partner should document</u> following matters pertaining to an audit engagement: -</p> <ol style="list-style-type: none"> <li>(a) <u>Issues</u> identified with respect to compliance with relevant <u>ethical requirements</u> and <u>how they were resolved</u>.</li> <li>(b) <u>Conclusions on compliance with independence</u> requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.</li> <li>(c) Conclusions reached regarding the <u>acceptance and continuance</u> of client relationships and audit engagements.</li> <li>(d) The nature and scope of, and conclusions resulting from, <u>consultations</u> undertaken during the course of the audit engagement.</li> </ol>



