

Ch-1 SQC 1 & SA 220

<u>SQC 1 - Quality Control for Firms That Perform Audits & Reviews of Historical Financial Info & Other Assurance & Related Services Engagements</u>	<u>SA 220 - Quality Control For Audit of FS</u>
Applies to All types of Engagements	Applies to Audit engagements ONLY
Applies to entire FIRM	Applies to particular audit engagement
Objective: Firms should establish Quality Control System (QCS) for reasonable assurance that - <ul style="list-style-type: none"> Firm complies with Professional, Regulatory & Legal (PRL) requirements Reports issued are appropriate in circumstances 	
Elements of System of Quality Control - <ul style="list-style-type: none"> Leadership responsibilities for quality within firm Ethical requirements Acceptance and continuance of client relationships and specific engagements Human resources Engagement performance Monitoring 	Responsibilities of EP in relation to following - <ul style="list-style-type: none"> Leadership responsibilities for quality on audits. Relevant ethical requirements Acceptance and continuance of client relationships and audit engagements Assignment of engagement teams Engagement performance Monitoring
1. Leadership responsibilities for quality within firm - Firm's QCS should override its business strategy. It should be ensured that (considerations to uphold quality of firm) - <ul style="list-style-type: none"> Firm assigns mgt responsibilities so that commercial considerations do not override quality of work performed Firm's policies for its personnel demonstrates firm's overriding commitment to quality Before accepting engagement, firm should have vital info about client to decide about integrity of Client, competence & compliance with ethical requirements Firm devotes sufficient resources for development of QCS policies 	1. Leadership responsibilities for quality on audits - Leadership responsibility of EP is to take responsibility for overall quality on each audit engagement. Actions of EP shall emphasise - <ul style="list-style-type: none"> Fact that quality is essential in performing audit engagements Importance to audit quality of - <ul style="list-style-type: none"> Performing work that complies with PRL requirements Complying with firm's QCS policies & procedures Engagement team's ability to raise concerns without fear of reprisals (punishment) Issuing auditor's reports that are appropriate in circumstances &
2. Ethical requirements - "Independence" is basic requirement. Policies & procedures should enable firm to - <ul style="list-style-type: none"> Communicate its independence requirements to its personnel Identify & evaluate circumstances & relationships that create threats to independence Take appropriate action to eliminate those threats or reduce them to acceptable level by applying safeguards, or if appropriate, withdraw from engagement Independence breaches are promptly notified to firm for appropriate action 	
At least Annually , firm should obtain written confirmation of compliance with its policies & procedures on independence from all firm personnel	

Notes - Familiarity threat - Using **same** personnel over **prolonged period**.

- **Safeguards** - **rotating** personnel or **EQCR**
- **Listed entities** - **EP** should be **rotated** in **at-least 7 years** (except in case of **sole practitioner**)

3. **Acceptance & Continuance of Client Relationships & Specific Engagements** - Before accepting engagement, firm should acquire **vital info about client** about -

- **Integrity** of Client
- **Competence** (including capabilities, time & resources) to perform engagement
- Compliance with **ethical requirements**
- **Significant matters** arisen during current or previous audit engagement

If **issues** are **identified** & firm decides to accept relationship - **Document** how issues were **resolved**

Matters to be considered with regard to integrity of client -

- **Reasons for proposed appointment** of firm & non-reappointment of previous firm
- **Nature** of client's **operations**
- **Identity & business reputation** of client's principal owners, key mgt, & TCWG
- Info regarding **attitude of client's principal owners**, key mgt & TCWG
- Indications of **inappropriate limitation in scope** of work
- Whether client is aggressively concerned with maintaining firm's **fees as low as possible**
- Indications that client might be involved in **money laundering or other criminal activities**

Matters to be considered with regard to capabilities, competence, time & resources -

- Firm personnel have **knowledge** of relevant **industry**
- Firm personnel have **experience** of **PRL requirements**, or ability to gain necessary **skills & knowledge**
- Firm would be able to **complete** engagement **within reporting deadline**
- Firm has **sufficient personnel** with necessary capabilities & competence
- **Experts** are available, if needed
- Individuals meeting criteria & eligibility requirements to perform **EQCR are available**

Matters to consider when info causing to decline engagement has been received -

- **PRL responsibilities**, including whether firm should report to person who made appointment or, to **regulatory authorities**
- **Possibility of withdrawing** from engagement & client relationship
- **Policies on withdrawal** from engagement & client relationship address issues that include -
 - **Discussing** with client's **mgt** & TCWG regarding appropriate **action** that **firm** might take
 - If firm determines that it is **appropriate to withdraw**, **discussing** with client's mgt & TCWG withdrawal from engagement & client relationship, & **reasons** for withdrawal
 - Considering **PRL requirement** for firm to **remain** in place, or to **report** withdrawal with **reasons** to regulatory authorities
 - Documenting **significant issues**, conclusions & basis for conclusions

4. **Human resources** - Policies & procedures for Human Resources require that -

- EP has appropriate **capabilities, competence, authority & time** to perform role
- Responsibilities of EP are **clearly defined & communicated** to that partner
- Identity & role of EP are **communicated to client's** mgt & TCWG

5. **Engagement Performance** - Consultation takes place in **difficult or contentious** (controversial) matters with individuals **within or outside firm**.

EQCR

- **Member of ICAI or suitably qualified external person** (capabilities & competence to act as EP), or **team** made up of such individuals. For audit of **listed** entity, EQCR should have **sufficient & appropriate experience & authority** to act as **EP** on audits listed entities
- Reviews **Significant judgments** in engagement. It does **not reduce responsibilities** of EP.
- **Mandatory** for audits of **listed** entities. For others, firm should form **criteria for EQCR**

Consultations with EQCR -

- He should be **objective**. He should **not Participate** in engagement or **making decisions** for team
- EP **may consult** EQCR during engagement but not compromise his objectivity & eligibility for role
- If **consultations** become **significant**, EQCR should **remain objective**.
- If this is **not possible**, **another individual** should be appointed as **EQCR** or person to be **consulted**

Matters to be considered by EQCR for audits of listed entities -

- Team's evaluation of **firm's independence** for specific engagement
- **Significant risks** identified during engagement & **responses** to those risks
- **Judgments made**, particularly for materiality & significant risks
- Significance of **corrected & uncorrected misstatements** identified during engagement
- Whether appropriate **consultation** has taken place & **conclusions** arising from those consultation
- Whether **working papers selected** for review reflect work performed for significant judgments & support conclusions reached
- **Matters to be communicated** to mgt & TCWG & other parties such as regulatory bodies.
- **Appropriateness of report** to be issued

EQCR Documentation -

- **Procedures required** by firm's policies on EQCR have been **performed**
- EQCR has been **completed before report** is issued &
- Reviewer is **not aware of any unresolved matters** that would cause reviewer to

EP responsibility wrt EQCR -

- Determine that **EQCR** has been **appointed**
- **Discuss significant matters** arising during audit
- **Not date auditor's report** until **completion** of **EQCR**

EQCR's objective evaluation of significant judgments involves -

- Discussion of **significant matters** with EP
- **Review of selected documentation** relating to significant judgments made & conclusions reached
- Review of **FS** & proposed auditor's **report**
- **Evaluation of conclusions** reached & whether proposed auditor's report is **appropriate**

Additional Matters to be considered by EQCR for audits of listed entities -

- Team's evaluation of **firm's independence** in relation to audit engagement
- Whether appropriate **consultation** has taken place on matters involving **difference of opinion** or other **difficult or contentious** matters, & **conclusions** arising from those consultations
- Whether audit **documentation selected** for review reflects work performed in relation to **significant judgments** made & supports **conclusions** reached

EP Documentation -

- **Conclusions** on compliance with **independence requirements**
- **Issues** in compliance with **ethical requirements** & how they were **resolved**
- **Conclusions** regarding **acceptance & continuance** of client relationships

believe that significant judgments made & conclusions reached were not appropriate	<ul style="list-style-type: none"> • Nature & Scope of consultations undertaken during course of audit
Difference of Opinion - <ul style="list-style-type: none"> • Diff of opinion within team, with those consulted & b/w EP & EQCR. • Report should be issued only after resolution of diff. • If recommendations of EQCR are not accepted by EP & matter is not resolved to reviewer's satisfaction, it should be resolved by following established procedures of firm like by consulting with another practitioner or firm, or professional or regulatory body 	
Engagement documentation - <ul style="list-style-type: none"> • Complete assembly of final engagement files on timely basis after reports have been finalized • Engagement files should be completed in not more than 60 days after date of auditor's report • In case of audit engagements, documentation retention period is no shorter than 7 years from date of auditor's report, or, if later, date of group auditor's report • If two or more diff reports are issued for same subject matter, time limits should be considered for each report as if it were for separate engagements • Confidentiality, safe custody, integrity, accessibility & retrievability of documentation should be maintained. 	
Ownership of Documentation - <ul style="list-style-type: none"> • Unless otherwise specified by law or regulation, documentation is property of firm. • Firm may, at its discretion, make extracts from documentation available to clients, provided such disclosure does not undermine validity of work performed, or, in case of assurance engagements, independence of firm or its personnel 	

6. Monitoring - QCS are relevant, adequate, operating effectively & complied with. Factors to be considered for monitoring QCS - <ul style="list-style-type: none"> • Deciding whether QCS of firm has been appropriately designed & effectively implemented • Examining whether new developments in PRL requirements are reflected in QCS • Conducting monitoring by assigning responsibility of monitoring process to partner or other persons with sufficient & appropriate experience & authority in firm • Dealing with complaints & allegations against firm or any employees of non-compliance with professional standards by person within or outside firm • Taking appropriate remedial actions against personnel who did not conform to QCS

Mechanisms for Review of Quality Control

Peer Review Board	Quality Review Board*	NFRA
Council of ICAI	CG + Council of ICAI	Companies Act, 2013
Enhancing Quality of Work	Risk-based Approach	Listed, Insurance & Banking
Unqualified Report - Peer Review Certificate	Quality of Work -	<ul style="list-style-type: none"> • Monitor Compliance • Oversee Quality
Qualified Report - Date for Follow on Review	<ul style="list-style-type: none"> • Review Quality • Recommend to Council • Guide members 	<ul style="list-style-type: none"> • Suggest Measures • Investigation of Auditors

* **QRB** can review quality of members only for entities **other than** those specified under **NFRA Rules** & those **referred to QRB** by NFRA

“करत-करत अभ्यास के, जड़मति होत सुजान।
रसरी आवत जात तें, सिल पर परत निसान।।”