

Chapter - 3

Terms of Audit

- Engagement & Ethics

• Ethics - A state of mind :-

Ethics = moral principle which governs a person's behaviour and/or his conducting of an action.

• P.B.A vs R.B.A :-

P.B.A



- Require compliance with spirit of ethics.
- Require Accountant to exercise professional judgement to evaluate every situation.

R.B.A.



- Strictly follow clearly estd. rules.
- leads to narrow outlook and spirit of ethics may be over-looked.
- it is like rigid.
- it may not possible to deal with every practice situation.

Fundamental principle of professional Ethics

professional competence & due care.

Accountant require to attain professional knowledge & skill

Confidentiality

Accountant require to respect the confidentiality of info. acquired.

client's - free flow of info.

should not be disclosed unless

- req. by law.
- permitted by law & autho. by ER/ client.
- professionally buty on right to disclose.

Integrity

AK should be straight forward, honest in all professional relationship.

Integrity implies truthfulness

should not knowingly assc. with mutually false info or statement.

FOREG. false certifi. is issued showing misstated info.

Professional Behaviour

comply with L&R avoid any conduct that might discredit the profession

should not engaged in any activity (knowingly) that impairs CRR, O, I of profession.

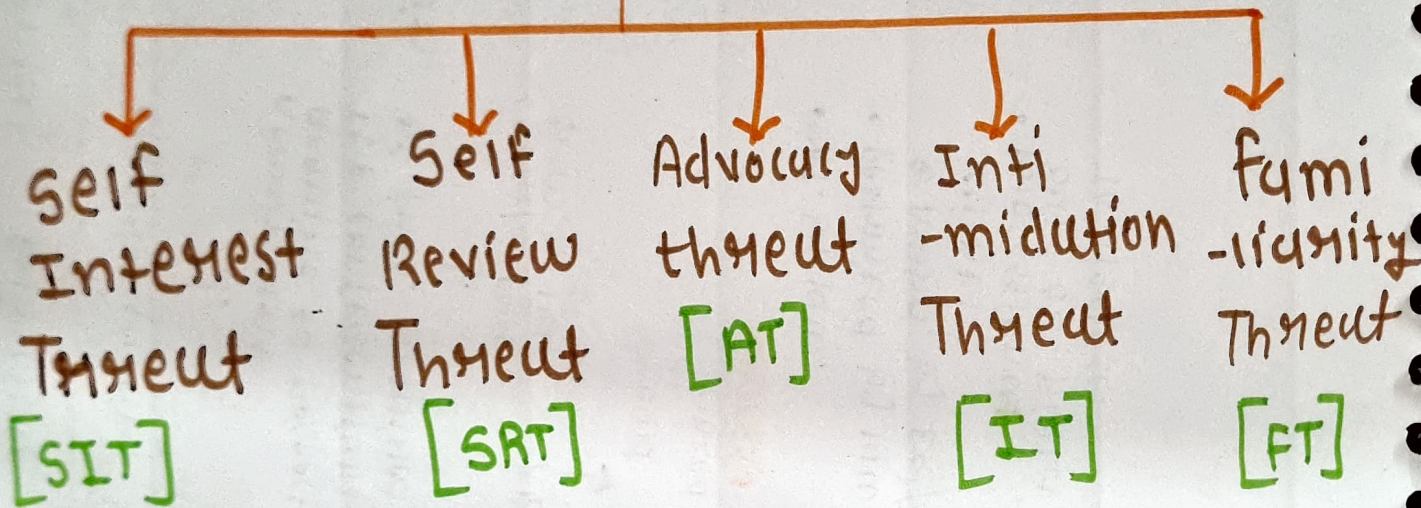
FOREG. failing to reply professional body

Objectivity

not compromise APS BC02 of

- bias
- conflict of INT.
- undue influence.

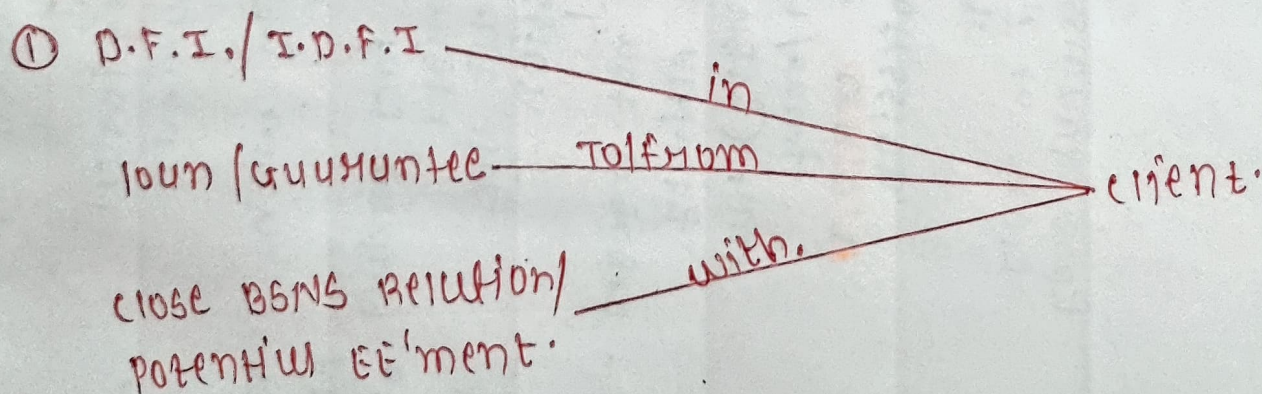
Threat to Independence.



1. SIT

Auditing Firm / Partner / Assoc. ————— Financial Interest ————— Audit client

For Eg.



- ② Audit Firm (T10 11M)
- 75% Recd from one client
↓
undue influence.
 - 25% others,
- ③ contingent fees for Audit Engagement.

2] SRT

1.] CA. X (Auditor) ——— non-audit sr. ———→ ABC Ltd.

2.] CA. X Auditor of ABC Ltd. ——— director or sr. officer ———→ ABC Ltd.

3] AT

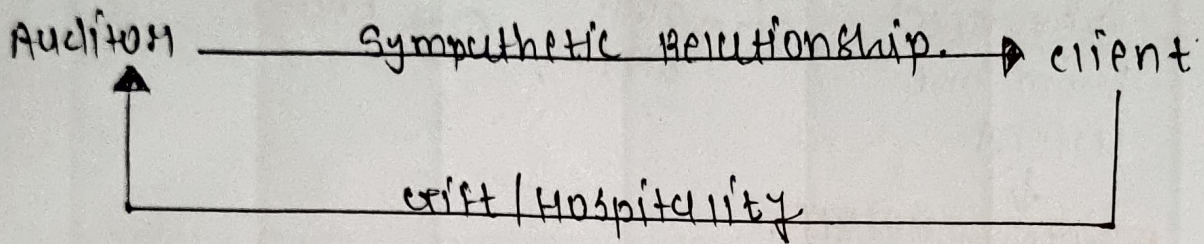
→ auditor promote / persuaded to promote client's opinion,
→ objectivity is getting compromised.

for E.g.

① CA. X (Auditor) ——— holding share ———→ ABC Ltd.

② CA. X (Advocate) ——— litigation ———→ ABC Ltd.
i.e. clients Advocate in litigation and third party disputes

4.] FT



5.] IT

→ Auditor are deterred from Acting objectively with An Adequate degree of professional skepticism.

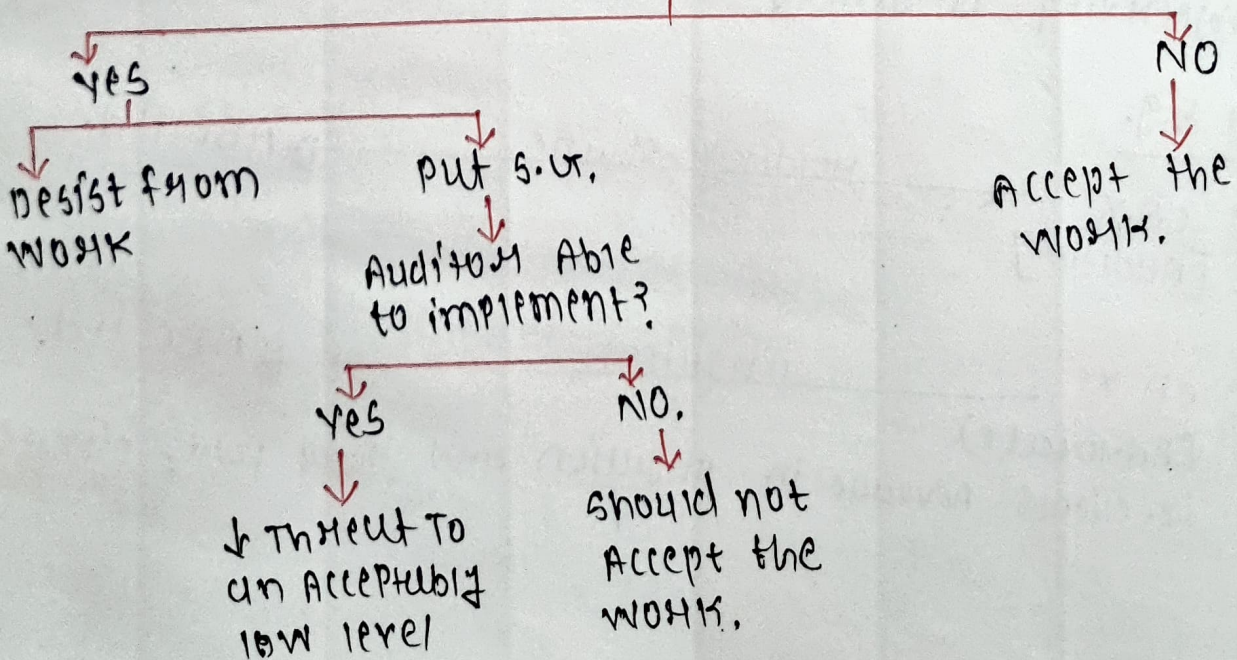
for eg.

- disproportionately reduced ~~the~~ work in response to reduced Audit fee.
- threat of litigation.

• Safeguard To Independence :-

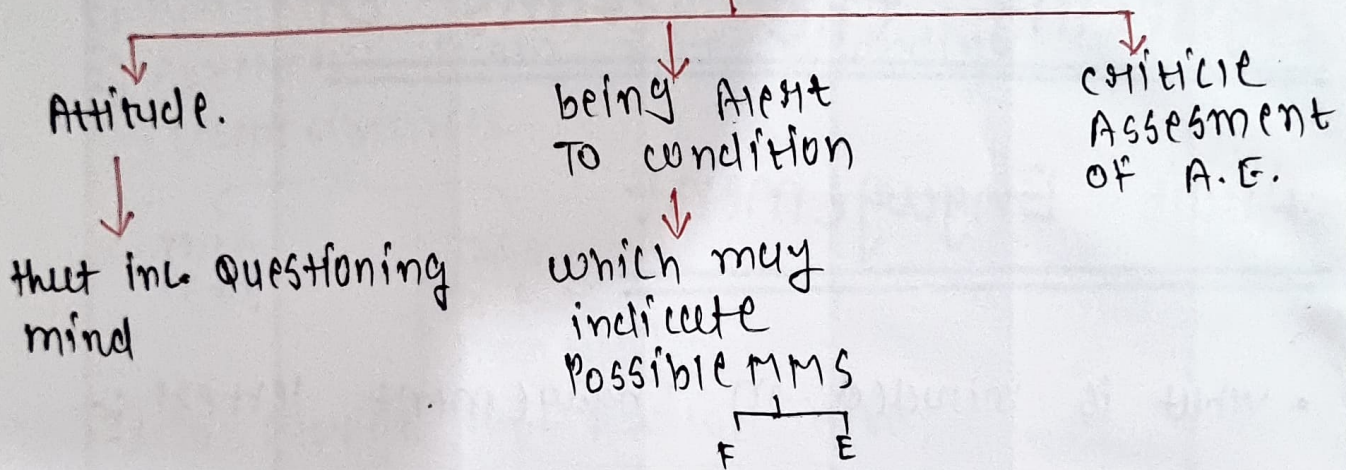
Auditor should be independent

before taking ↓ work is there any Threat



Professional Skepticism

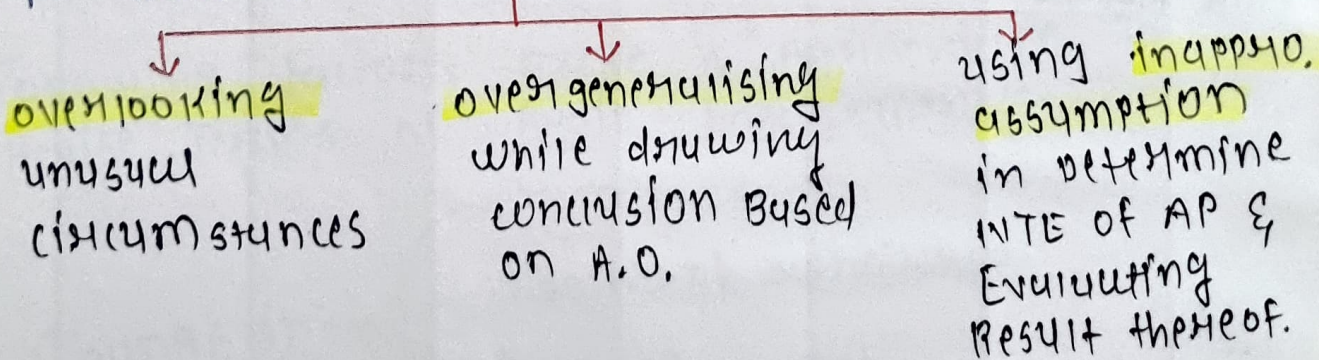
Definition: Professional Skepticism [PS] refers to,



PS include Being Alert to,

- C : A.E. that **contradict** other A.E. obtained,
- R : Info. that question the **Reliability** of docs.
- P : condition indicate **Possible fraud**,
- C : **circumstances** that suggest a F.A.P. in Addition To those required by SAs.

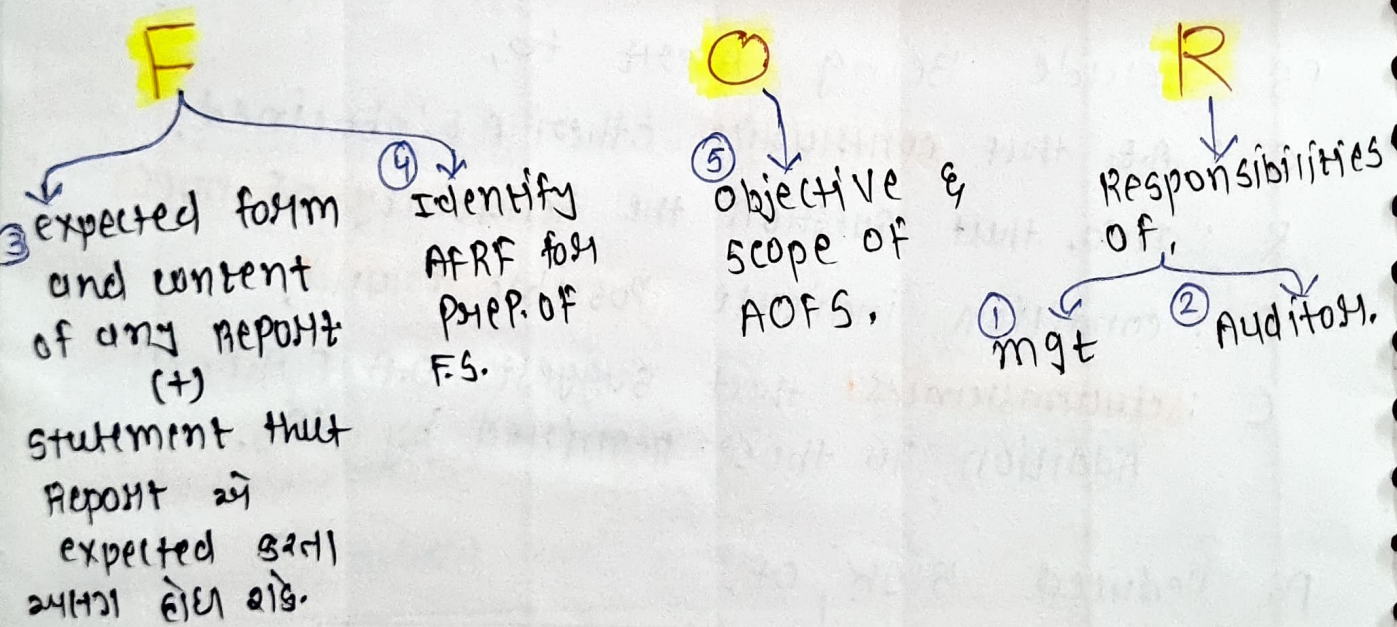
PS Reduced Risk of,



SA 210

Agreeing the Terms of Audit Engagement

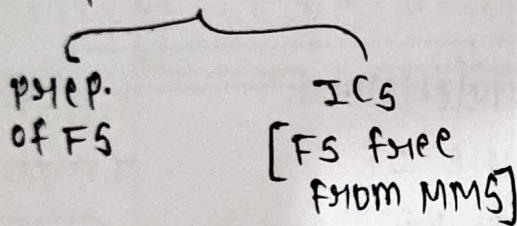
- What is included in Engagement letter :-



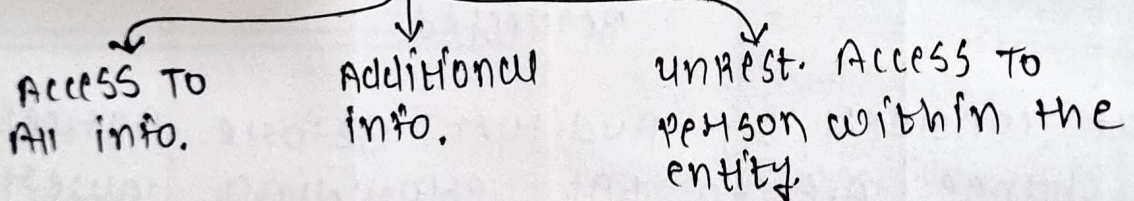
• Precondition For An Audit :-

→ In order To Establish whether precondition for an audit are present, the Auditor shall,

- 1.] determine whether FRF is acceptable
- 2.] Agreement from Mgt. regarding their responsibilities.



- 3.] To provide the Auditor with,



If Above, precondition are there?

YES

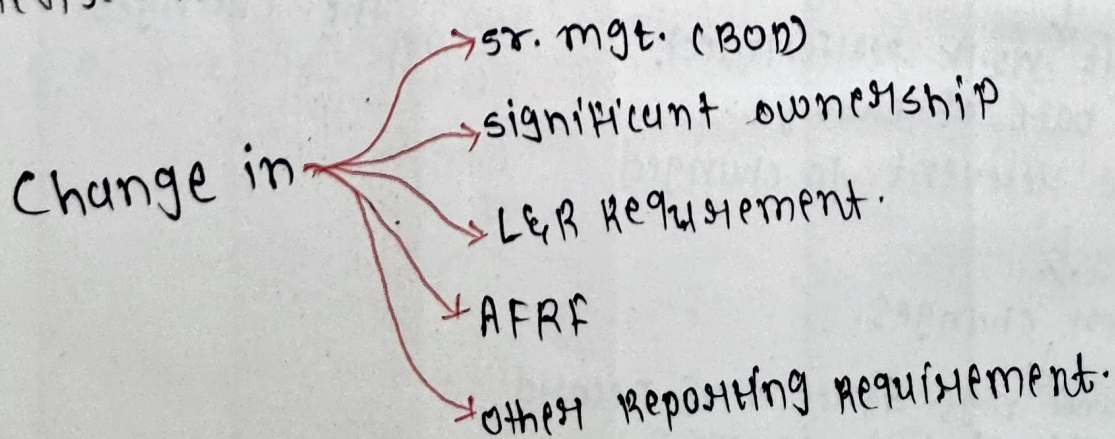
Accept the work

NO

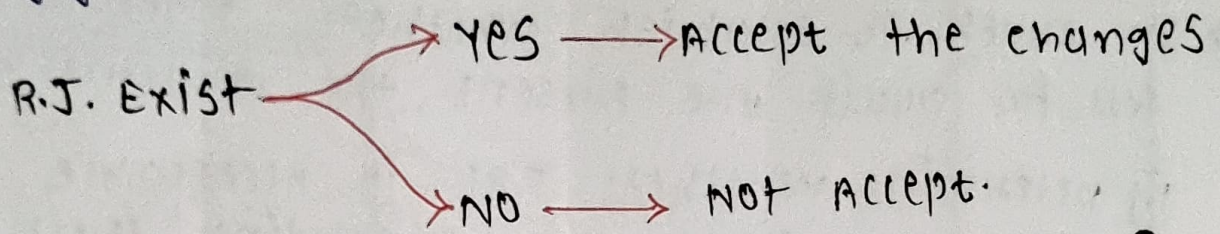
Not Accept the work

• Revising Audit :-

Following Factors make it Appropriate To Revise Terms of Audit Engagement :-



• Acceptance of a change in Terms of Audit Engagement.



When entity Request changes in Egt. letter :-

Δ in circumstances affecting Need for service.

misunderstood Nature of Audit as originally requested.

ROSAE Imposed By
Mgt Other

what consider by Auditor before Agreeing To change A.E. to Egt. providing lower level of Assurance, i.e. Audit To Review.

① prior To completing A.E.

Auditor Requested to Δ A.E.

Auditor shall determine whether there is R.J.

② Auditor conclude that there is R.J.

④ If Not then do not Accept the changes.

the Audit work performed, To the date of change may be relevant to changed Egt.

③ Attest changes.

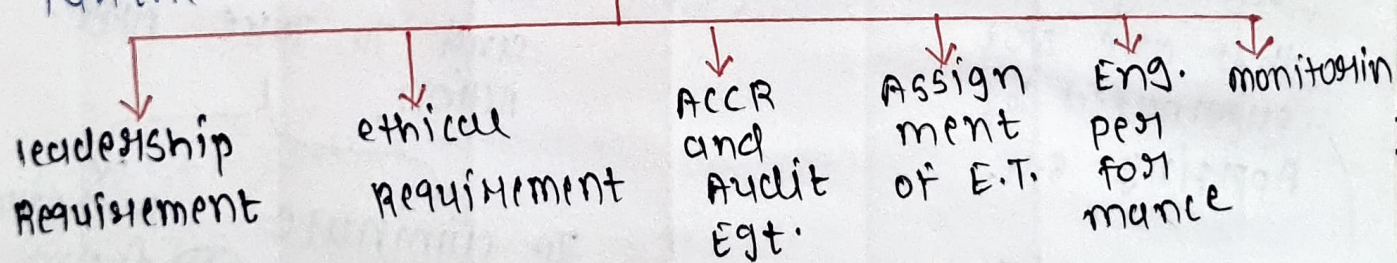
Auditor and mgt. agree on & Record New Terms of Egt. in an E.L.

SA 220

Quality Control for An

Audit of F.S.

- SA 220 deals with Responsibility of Eng. Partner in Relation To :-



1.] leadership Requirement :-

E.P. → is Responsible → for overall Quality of Audit Egt.

Importance of Audit Quality.

Work is performed AS per **PLR**

Report issue is appropriate

compliance with firm's quality control **policies & procedure.**

E.T. **Raise concern** without fear of Retrial.

2.] Relevant ethical Requirement:-

E.P. Responsibilities in Relation To Ethical Requirement

Identify T.T.O.I that are not eliminated by Applying S.C.

OR Reduced To low level

⑥

Report it to other people within the firm and To Take Appr. Action.

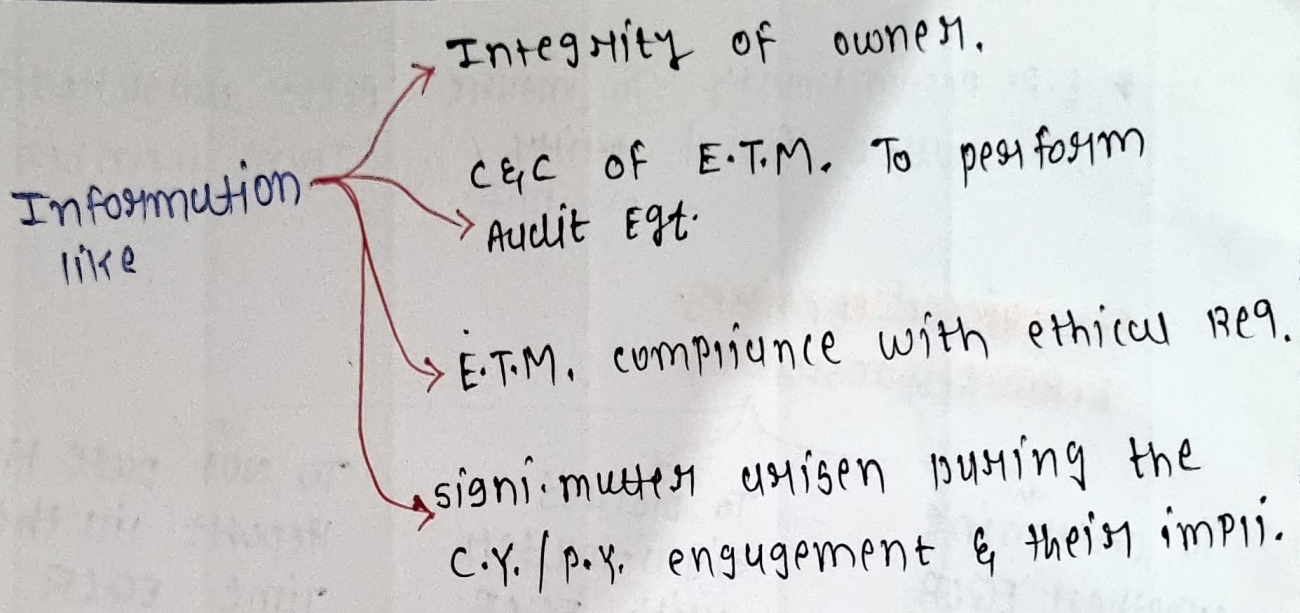
To eliminate Threat by Applying S.C.

⑦ withdraw from Audit if permitted by L&R.

3.] ACCR and Audit Egt.

it is the Responsibility of E.P. →

To obtain **information** before Accepting the Audit Egt. with new client OR before deciding To continue with client Relationship. *



4.] Assignment of E.T.M. :-

E.P. Responsibility → To ensure that E.T.M. is and Auditor's Expert [Not a part of E.T.M.] is capable and competent to perform Audit as per SAs and legal Req.

5.] Egt. performance :-

Responsibility of E.P.

To direct & supervise E.T.M. & ensure that Audit is performed as per SAs and legal Req.

Regarding Appt. Ness of Audit Report

To Review Audit docs. before issuing Audit Report.

→ E.P. responsibility To ensure Appt. consultation on matter found guilty by Team members difficult.

For listed Entities

E.P. responsibility

To determine whether EQCR is appointed.

To discuss significant matters with EQCR

To not date the report till the time EQCR

5.] Monitoring :-

E.P. should document the following matters pertaining to A.E.

Issue identified with respect to compliance with Relevant Ethical Requirement.

⑤
How they were resolved.

conclusion on

compliance with independence requirement

⑤
Relevant discussion with HMM that support these conclusion.

ACCR and Audit Egt.

Chapter 14

Audit Documentation

[2A 580]