



Overview of Standards on Auditing (SAs)

INTRODUCTION

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Standards on Quality Control, Auditing, Review, Other Assurance and Related services as issued by the Auditing and Assurance Standard Board (AASB) of ICAI.

Standards on Auditing are formulated in the context of an audit of financial statements by an independent auditor.

These Standards and Statements are issued with a view to securing compliance by professional accountants on matters which are critical for the proper discharge of their functions.

Standard on Quality Control are written to apply to firms in respect of all their services falling under the Engagement Standards issued by AASB of ICAI.

INTRODUCTION

Standards	Applicability
Standards on Auditing	Audit of historical financial information
Standards on Review Engagements	Review of historical financial information
Standards on Assurance Engagements	Other than Audit and Review engagement.
Standards on Related Services	Agreed Upon Procedures / Compilation of information /Other
Standards on Quality Control	To apply to firms in respect of all their services falling under Engagement Standards.

SOME THOUGHTS.....

- Are we really auditors now or we are still the accountants ?
- Standards on Auditing – Is it a neglected area of our professional life ?
- Are we still better and more comfortable with ASs than SAs ?
- Will we be able to face all the regulators and all the reviewers only based on our knowledge ASs without really knowing our role as expected by SAs ? Don't they expect us to think, document and report as auditors ?
- Listed, Large and MNC clients want to talk to their auditors.
- Is there any 'role playing' expected from us, being an auditor ?

STANDARDS ON AUDITING

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	Standard on Quality Control
200	Overall objectives of the Independent Auditor and the conduct of an Audit in accordance with the Standards on Auditing.
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SQC 1 – QUALITY CONTROL FOR FIRMS

Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and Related Services Engagements.

The firm should establish a system of Quality Control designed to provide it with reasonable assurance that the firm and its personnel comply with the professional standards and regulatory and legal requirements, and that the reports issued by the firm are appropriate in the circumstances.

The QC system of the firm should include policies and procedures for following elements –

- Leadership responsibilities for quality within the firm
- Ethical requirements
- Acceptance and Continuance of client relationships and specific engagements
- Human resources
- Engagement Performance
- Monitoring

This standard should be read with the requirements of the Chartered Accountants' Act 1949, Code of Ethics and other pronouncement of ICAI.

Internationally, ISQC 1 is now replaced by ISQM 1 (International Standard on Quality Management 1) which has become applicable from 15th December 2022.

SA 200 – OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH STANDARDS ON AUDITING

- It establishes the overall responsibilities of an auditor while conducting an audit of the FS in accordance with Standards on Auditing.
- It explains the various stages of an entire audit activity and gives reference to various SAs for each of the stage.
- It sets out the overall objectives of the independent auditor and gives the nature and scope of an audit which will help the auditor to meet those objectives.
- It explains the scope, authority and the structure of the SAs, the responsibilities of an auditor, including the obligation to comply with all those SAs, which are applicable in those circumstances.
- Purpose of an audit is to enhance the degree of confidence of the intended users in the financial statements.
- This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared , in all material respects, in accordance with an applicable reporting framework.

SA 200 – CONTD...

- This SA covers various aspects of performance of audit engagement which are relevant for achieving the audit objective –
- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework and to report on the findings.
- SAs will assist us to achieving this audit objective.
- This SA covers audit objectives, ethical requirements, use of professional judgements and skepticism, sufficient and appropriate audit evidence, inherent limitations of audit, use of SAs and many other areas.
- Summary of SAs issued by ICAI describes this SA 200 as the mother standard for all SAs as it provides authority for other SAs.
- Opinion forming activity is bound to be SUBJECTIVE. We need to make it as OBJECTIVE as possible.

SA 210 – AGREEING THE TERMS OF AUDIT ENGAGEMENT

- Very important Standard on Auditing, especially in the Indian context.
- Many firms have faced issues on the compliance of this SA during regulatory and other reviews.
- SA requires the auditor to agree the terms of audit engagement with the management and establishing that all the preconditions for an audit are present in the document.
- It covers the currently applicable financial reporting framework, applicable laws and regulations for the engagement, the scope and nature of work to be done, the timing, the period to be covered, confirmation on responsibilities (maintenance of records and internal controls, unrestricted access, complete information) of the management, matters relating to previous audits, matters from the client acceptance procedures, responsibilities of auditors, scope limitations or limitations of audit engagement, expectations regarding written representations, fact that audit process may be subjected to peer review, possible involvement of other experts, any matter relating reporting relationship between the Group auditors and the Component auditors, the fees and so on.
- This requirement is actually applicable for non-audit services also.

SA 230 – AUDIT DOCUMENTATION

Most IMPORTANT SA.

- ALL THE FIRMS have faced issues on the compliance of this SA during regulatory and other reviews.
- NOT DOCUMENTED IS NOT DONE.
- Its not good enough that you are good, you should be in a position to show that you are good.
- Audit documentation is the record of audit procedures performed, relevant audit evidence obtained, and the basis for the conclusions reached. This also includes when and who did it and when and who reviewed it.

SA deals with the responsibility of the auditor to prepare audit documentation for an audit of financial statements. Such audit documentation provides –

- Evidence for the auditor’s basis for his conclusion on achieving overall audit objective.
- Evidence that the audit was actually planned and performed as per the requirements of SAs.
- Timing of obtaining the audit evidence and documenting it is extremely important.
- Lockdown of an audit file within the timeframe is a hot topic for all the regulatory reviews.
- **Please differentiate between client information, schedules, financials, documents and the audit documentation.**

SA 260 – COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

- Very Important Standard on Auditing, especially in the Indian context.
- Our profession needs to move away from taking entire responsibility for all the things done by all others. (clients)
- Our profession needs to develop the objectivity (and the detachment) of a doctor handling a patient.
- Most of the clients (including Board members, top management) plead ignorance when any situation arises. (risks, misstatements, frauds, difference in interpretation of statute, legal and tax positions taken, IT infrastructure, related matters, issues where management judgements are exercised, regulatory updates, deadlines and so on)
- Effective two-way communication is important. It's a significant tool to develop UTE, the temperament of the management, the risk appetite and future outlook.
- SA deals with the auditor's responsibility (not a right /a choice/an option) to communicate with those charged with governance in an audit of FS. Effective two-way communication is important.
- It gives guidance on to whom to communicate, matters to be communicated and the manner of communication.
- To cover the scope, the applicable framework, use of materiality, independence, observations etc.

SA 265 – COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH THE GOVERNANCE AND MANAGEMENT

- Our profession needs to move away from taking entire responsibility for all the things done by all others. (clients)
- SA deals with the auditor's responsibility (not a right /a choice/an option) to communicate with those charged with governance and the management, the deficiencies in the internal control that the auditor has identified in an audit of FS. (this is not additional work than given in SA 315 – Identifying and assessing the RMM through UTE and its environment and in SA 330 – The Auditor's responses to assessed risks)
- Any deficiency in the internal control is not only risk to the client but also risk to the auditor while performing his duties. (Management Letters play very important role in communicating these matters)

SA 505 – EXTERNAL CONFIRMATIONS

- Third party, external, documented and directly obtained audit evidence is more reliable than an internal audit evidence. (source of information and its nature is relevant)
- This is not as simple as it appears to be. There are various external agencies which are involved in this activity.
- Please differentiate between an investigation and an audit. Client managements can be extremely sensitive to this activity if not handled through proper channel and with lot of professionalism.
- We are bound by the CONFIDENTIALITY clause regarding client related information (including UPSI) and we need to be careful while going to anyone outside the client organization.
- Ensure all the information, records, mode of communication, addresses etc is reliable and validated by the Senior management. Careful while ‘outsourcing’ this activity.
- SA deals with auditor’s use of external confirmation procedures to obtain audit evidence in accordance with SA 330 (The Auditor’s Responses to Assessed Risks) and SA 500 (Audit Evidence)
- It also deals with using these procedures, management’s refusal to allow these, results obtained, evaluation (and interpretation) of the evidence obtained.

SA 580 – WRITTEN REPRESENTATIONS

- VIMP.
- This is not as simple as it appears to be. You need excellent soft and technical skills and man management skills to get this done.
- Always Remember – Financial Statements are the responsibility of the management of the Company (SA 700 – Forming an opinion and Reporting on FS)
- The most commonly used terms in any audit report – ‘As informed to us’, “Based on the information and explanations given to us’, “We have been given to understand’ and so on.
- SA deals with the auditor’s responsibility to obtain written representations from the management and where appropriate, those charged with governance. It should be signed by someone from the top management and/or TCWG member/s.
- It is to confirm from the management / TCWG, that they have fulfilled their responsibilities and have provided complete and all the information to the auditors.
- Though written representations are audit evidence, those can not be considered as complete, sufficient, appropriate and the only audit evidence for forming the opinion.

SA 610 – USING THE WORK OF INTERNAL AUDITORS

- We need to use this SA for better and more utilization of our collective professional capability and resources.
- Most underutilized SA.
- We need to help each other by improving the quality, the depth, the intensity of interaction between the internal auditors and external auditor. There should be formal time slots for these interactions in the overall audit plan.
- It's the responsibility of the external auditors to insist for the qualitative internal audit activity and give adequate attention and time to the internal audit observations.
- SA deals with external auditor's responsibilities relating using the work of internal auditors.
- This also includes using IA work in obtaining audit evidence and using IA to provide direct assistance under the direction, supervision and review of the external auditor. (be careful with ethical compliance, independence, engagement letter, documentation etc while doing this.)

SA 720 – THE AUDITORS RESPONSIBILITIES RELATING TO OTHER INFORMATION

- SA deals with the auditors responsibilities relating to other information, included in the annual report.
- It is regardless of whether that other information is obtained by the auditor prior to, or after, the date of the audit report.
- We need to deal with other professions including Company Secretaries for effectively performing this activity.
- Timing of this activity is always challenging.

