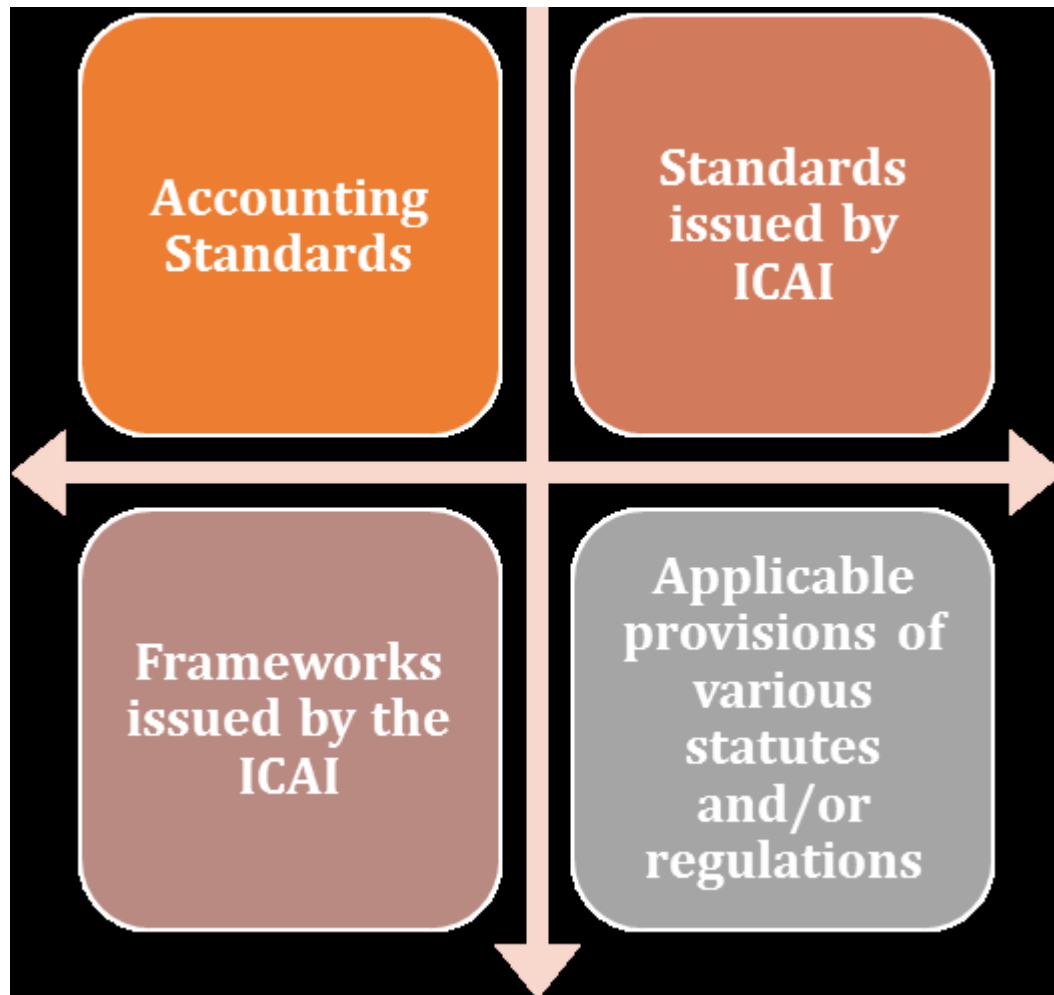


COMPLIANCE WITH TECHNICAL, PROFESSIONAL AND ETHICAL STANDARDS

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One Day Training Programme for Peer Reviewers

- Objective:
- To ensure that in carrying out the assurance service assignments, the members of the Institute comply with Technical, Professional and Ethical Standards including other regulatory requirements thereto, and
- To ensure that such a member has in place proper systems including documentation thereof, to amply demonstrate the quality of assurance services.



Framework

- The Framework is concerned with general purpose financial statements (hereafter referred to as 'financial statements'). Such financial statements are prepared and presented at least annually and are directed toward the common information needs of a wide range of users.
- Some of these users may require, and have the power to obtain, information in addition to that contained in the financial statements.
- Many users, however, have to rely on the financial statements as their major source of financial information and such financial statements should, therefore, be prepared and presented with their needs in view.
- Special purpose financial reports, for example, prospectuses and computations prepared for taxation purposes, are outside the scope of this Framework. Nevertheless, the Framework may be applied in the preparation of such special purpose reports where their requirements permit

- Framework introduces us to the most basic and important elements needed to understand any financial statements. If we see any annual report published by a Company, we can see multiple sections available and multiple information relating to Company Such as Directors report, Industry outlook, management discussion and analysis , standalone and Consolidated Financial statements etc..

- **Does Framework apply to all these reports?**
- No, Framework will be applicable only to general purpose financial statements, these will not apply to special purpose reports such as prospectus issued by a Company, Directors report etc.

What is General Purpose Financial Statements?

- These are financial statements prepared and presented to all with a general purpose and governed by GAAP giving common information required by the users of financial statements which have consistency and uniformity across the industry.
- Whereas, special purpose financial statements, cater to specific need of the preparer or requestor.

What does Financial statements include?

- Financial statements include Balance Sheet, Statement of Profit and Loss, Cash Flow Statement , Statement to Changes in Equity and Notes to Accounts.
- All the other categories, provided in annual reports are not part of Financial statements and out of the purview of framework.

What is a regulatory framework?

Regulatory frameworks are **legal mechanisms that exist on national and international levels**. They can be mandatory and coercive (national laws and regulations, contractual obligations) or voluntary (integrity pacts, codes of conduct, arms control agreements).

Compliance Framework

Compliance framework, as the name suggests, requires compliance with the provisions of the framework i.e. strict obedience of instructions is required and the ones preparing financial statements have no choice but to follow the requirements of framework. Compliance framework does not allow any room or flexibility as given under fair presentation framework.

Fair Presentation Framework

In simple words, although fair presentation framework requires compliance but it still allows for the alternatives that can achieve better presentation of financial statements resulting in more relevant and reliable financial statements even if management has to make additions or go against the requirements of framework. Whereas, in compliance framework no such leverage is given and under this framework complete compliance is required under any condition.

Example of Some variations

- Note 3 of the General Instructions for Preparation of Financial Statements states that the disclosure requirements of the Ind AS Schedule III are in addition to and not in substitution of the disclosure requirements specified in Ind AS.
- They further clarify that the disclosures specified in Ind AS shall be made in the Notes or by way of additional statement(s) unless required to be disclosed on the face of the Financial Statements
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- Examples to illustrate the above point are:
- (a) Specific disclosure is required by para 33 of *Ind AS-105 Non-current Assets Held for Sale and Discontinued Operations* which has not been incorporated in Ind AS Schedule III.
- (b) *Ind AS-107 Financial Instruments: Disclosures*, which requires disclosure of information that enable users of the Financial Statements to evaluate the significance of financial instruments for its financial position and performance.

Standards on Auditing

- SA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
- The reviewer should identify whether the Practice Unit has conducted the audit as per the Standards on Auditing.
- The reviewer should identify whether the auditor has exercised professional judgement and maintained professional skepticism throughout the planning and performance of the audit. SA 210 Agreeing the Terms of

- SA 210 Agreeing the Terms of Audit Engagements.
- The reviewer should review the engagement letter and check whether the scope and roles and responsibilities have been clearly brought out.
- The reviewer should verify whether the fees quoted in engagement letter is reasonable

- SA 220 Quality Control for an Audit of Financial Statements

- The reviewer should assess at the firm level and at the engagement level, the quality control as required by this Standard.
- The reviewer should assess the leadership responsibilities for quality on audits, whether the practice unit follows relevant ethical requirements, whether the practice unit follows acceptance and continuance of client relationships
- the reviewer should also assess whether the engagement performance is being monitored.

- SA 230 Audit documentation.
- The reviewer should review the working papers of the Practice Unit to establish compliance by the practice unit with the technical, professional and ethical standards and to evaluate the work done and the conclusions reached.

- SA 230 Contd...
- The reviewer needs to verify whether the working papers are maintained for the period as specified in SQC 1 read with SA 230.
- The reviewer should ensure that the firm has adequate policies and procedures to ensure compliance with SA 230 in respect of assembly of file.

SA 230 Contd...

- The reviewer should verify whether the permanent file contains all the relevant information and whether the same is updated regularly to reflect the changes in the information contained in the file.

SA 230 Contd...

- The reviewer is also concerned with verifying that the procedures used by the Practice Units generate sufficient appropriate evidence to support the conclusions arrived at in relation to the assurance engagement being reviewed.

- SA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- The reviewer should verify whether the auditor has inquired with the management, internal audit team and those charged with governance of any instance of actual or alleged fraud that has occurred in the past and obtain their respective views on the risk of fraud.

SA 240 Contd...

- The reviewer should verify whether the auditor has identified any unusual or unexpected relationship while performing analytical procedure and whether he has evaluated them to assess the risk of material misstatement due to fraud

- SA 240 Contd...
- The reviewer should verify whether the auditor has investigated any inconsistent responses from the management related to the inquiries

- SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements
- The reviewer should verify whether the auditor has requested management and where appropriate, those charged with governance, to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements, have been disclosed to the auditor.

- SA 260 Communication with Those Charged with Governance
 - The reviewer should verify whether significant findings from the audit have been communicated to those charged with governance.
 - The reviewer should verify whether the form, timing and expected general content of communications have been communicated to those charged with governance

- SA 265 Communicating Deficiencies in Internal Control to those Charged with Governance and Management

- The reviewer should verify whether significant deficiencies in internal control identified during the audit have been communicated in writing to those charged with governance on a timely basis

- SA 300 Planning an Audit of Financial Statements
 - The reviewer should verify whether the auditor has established an overall audit strategy that sets the scope, timing and direction of the audit, and guides the development of the audit plan.
 - The reviewer should verify whether the auditor has planned the nature, timing and extent of direction and supervision of engagement team members and the review of their work

SA 300 Contd...

- The reviewer needs to verify whether the auditor has documented
 - (a) overall audit strategy
 - (b) audit plans
 - (c) significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

- SA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment.
- The reviewer needs to verify whether the auditor has obtained an understanding of
 - a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.
 - b) The nature of the entity, including its operations, ownership & governance structures, types of investments that the entity is making, the way that the entity is structured and how it is financed.
 - c) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.
 - d) The measurement and review of the entity's financial performance

SA 320 Materiality in Planning and Performing an Audit.

- The reviewer shall verify whether the auditor has determined Materiality and Performance Materiality when planning an audit.
- The reviewer shall verify whether the auditor has documented the following
 - a) Materiality for the financial statements as a whole
 - b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures
 - c) Performance materiality
 - d) Any revision of (a)-(c) as the audit progressed.

Performance materiality

Performance materiality is **an amount less than materiality for the financial statements as a whole** (i.e., planning materiality) to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

- SA 330 The Auditor's Responses to Assessed Risks.

- The reviewer shall verify whether the auditor has designed and performed further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

SA 330 Contd...

- The reviewer shall verify whether the auditor has designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls.
- The reviewer shall verify whether the auditor has documented the following

SA 330 Contd...

- a) overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed;
- b) linkage of those procedures with the assessed risks at the assertion level;
- c) results of the audit procedures, including the conclusions where these are not otherwise clear

- SA 450 Evaluation of Misstatements Identified During the Audit

The reviewer shall review whether the auditor has accumulated misstatements identified during the audit, other than those that are clearly trivial.

- The reviewer shall verify whether the auditor has documented the following
 - a) The amount below which misstatements would be regarded as clearly trivial
 - b) All misstatements accumulated during the audit and whether they have been corrected
 - c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion.

SA 500 Audit Evidence

- The reviewer should review whether the auditor has obtained sufficient and appropriate audit evidence while performing his audit.
- The reviewer should verify the samples selected by the auditor for testing the sufficiency and appropriateness of the audit evidence.

- SA 501 Audit Evidence—
Specific Considerations for
Selected Items
- The reviewer should verify whether the auditor has obtained sufficient and appropriate audit evidence regarding the following :
 - (a) Existence and condition of inventory;
 - (b) Completeness of litigation and claims involving the entity; and
 - (c) Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

- SA 505 External Confirmations
 - The reviewer should verify whether external confirmations are sought as an audit evidence.
 - The reviewer should identify whether the auditor has obtained further audit evidence to resolve the doubts about the reliability of the response to a confirmation request.
 - The reviewer should identify whether the auditor has performed alternative audit procedures to obtain relevant and reliable audit evidence in case of nonresponse to such confirmation request.

- SA 510 Initial Audit Engagements – Opening Balances

- The reviewer should verify whether last year's audited financials and audit report are obtained by the auditor for verification of opening balances.
- The reviewer should verify whether the materiality of the opening balances relative to the financial statements for the current period have been identified by the auditor

SA 520 Analytical Procedures.

- The reviewer should identify whether the auditor has determined the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions

SA 520 Contd...

- The reviewer should identify whether the auditor has evaluated the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of the source, comparability, and nature and relevance of information available, and controls over preparation.
- The reviewer should identify whether the auditor has developed an expectation of recorded amounts or ratios and evaluated whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated.

SA 520 Contd...

The reviewer should verify whether the amount of any difference of recorded amounts from expected values that is acceptable has been determined by the auditor

SA 530 Audit Sampling

- The reviewer should verify whether the auditor has considered the purpose of the audit procedure and the characteristics of the population when designing an audit sample.
- The reviewer should identify whether the sample size selected by the auditor is sufficient to reduce sampling risk to an acceptably low level.
- The reviewer should verify whether the auditor has selected items for the sample in such a way that each sampling unit in the population has a chance of selection.

- SA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
 - The reviewer should verify whether the auditor has made inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.
 - The reviewer should identify whether the auditor has obtained an understanding of how the management makes accounting estimates, and an understanding of the data on which they are based.
 - The reviewer should verify whether the auditor has reviewed the outcome of accounting estimates included in the prior period financial statements, or, where applicable, their subsequent estimation for the
 - purpose of the current period.

- SA 550 Related Parties
 - The reviewer should verify whether the auditor has made inquiries of management regarding
 - a) The identity of the entity's related parties, including changes from the prior period.
 - b) The nature of the relationships between the entity and these related parties
 - c) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions. The reviewer should verify whether the auditor has identified and reviewed the related party transactions to ensure that those are in accordance with the applicable financial reporting framework.

SA 560 Subsequent Events

- The reviewer should verify whether the auditor has obtained an understanding of any procedure the management has established to ensure that subsequent events are identified.
- The reviewer should verify whether the auditor has inquired the management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

SA 560 Contd...

- The reviewer needs to verify whether the minutes of meetings which have been held after the date of the financial statements have been obtained by the auditor and whether the auditor has inquired about matters discussed at any such meeting for which minutes are not yet available.
- The reviewer needs to verify whether entity's latest subsequent interim financial statements have been obtained by the auditor.

SA 570 Going Concern

- The reviewer should identify whether the auditor is alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- The reviewer should identify whether the auditor has evaluated management's assessment of the entity's ability to continue as a going concern.

- SA 580 Written representations
- The reviewer should verify whether the auditor has obtained written representations from the management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor

- SA 610 Using the Work of Internal Auditors
 - The reviewer should verify if the external auditor has determined whether the work of the internal auditors is likely to be adequate for purposes of the audit and the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures.
 - The reviewer needs to identify whether the external auditor has evaluated
 - a) objectivity of the internal audit function
 - b) technical competence of the internal auditors

- SA 700 Forming an Opinion and Reporting on Financial Statements
- The reviewer should verify whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework.
- The reviewer shall review whether all the contents of the report are included in the Auditor's report.
- The reviewer shall verify whether key audit matters are communicated in the auditor's report in accordance with SA 701 in case of audits of complete sets of general-purpose financial statements of listed entities

- SA 705 Modifications to the Opinion in the Independent Auditor's Report
- The reviewer shall verify whether the auditor has modified the opinion in the auditor's report if
 - a) he concludes that based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - b) he is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement

- SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- The reviewer shall check whether the auditor has communicated with those charged with governance regarding the expectation to include Emphasis of matter paragraph and the wording of this paragraph

- SA 710 Comparative Information— Corresponding Figures and Comparative Financial Statements

- The reviewer shall review if the auditor has evaluated whether the comparative information agrees with the amounts and other disclosures presented in the prior period.
- The reviewer shall review if the auditor has evaluated whether the accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed

- SA 720 The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements

- The reviewer shall review if the auditor has made appropriate arrangements with management or those charged with governance to obtain other information prior to the date of the auditor's report.
- The reviewer shall identify whether the auditor has determined any material inconsistency in relation to such other information and check whether the audited financial statements or the other information needs to be revised.

- SA 800 Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
- The reviewer shall identify whether the auditor has obtained an understanding of the following
 - a) The purpose for which the financial statements are prepared;
 - b) The intended users; and
 - c) The steps taken by the management to determine that the applicable financial reporting framework is acceptable in the circumstances.

- SA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
- The reviewer shall review whether the auditor has complied with all the SAs relevant to the audit.

- SA 810 Engagements to Report on Summary Financial Statements

- The reviewer shall review whether before accepting an engagement to report on summary financial statements, the auditor has
 - a) determined whether the applied criteria are Acceptable
 - b) obtained agreement of management that it acknowledges and understands its responsibilities
 - c) agreed with management the form of opinion to be expressed on the summary financial statements.

SA 810 Contd...

- The reviewer shall review if the auditor has evaluated whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
- The reviewer shall review whether the summary financial statements obtained by the auditor adequately disclose the applied criteria.

Check List for Accounting Standards

The reviewer has to prepare a detailed list of All Accounting Standards so as to ensure that the standard is properly followed and disclosure requirements have been complied with.

Check List for Ind AS

The reviewer has to prepare a detailed list of All Ind AS so as to ensure that the standard is properly followed and disclosure requirements have been complied with.

What is SQC 1?

- The purpose of SQC 1 Standard on Quality Control is **to offer guidance with respect to the responsibilities of a firm for the system of quality control for its audits and reviews and various other assurance and related services engagements.**



Thank you very much

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