



Audit Quality Review

**How to conduct Audit Quality Review -
Role and Responsibility of Technical
Reviewers**

21 January, 2019

CA Ganesh Balakrishnan

Contents

Description	Slide Reference
Quality Review Board	3 - 6
National Financial Reporting Authority	7 - 9
Roles & Responsibilities of Technical Reviewer	10 – 20
Professional Judgement	21 – 24
Terms of Quality Review	25 – 28
Quality Control in a Quality Review	29 - 36
Planning the Quality Review	37 - 40
Conducting the Quality Review	41 – 50
Reporting	51 – 62
Cases where Auditor has resigned/withdrawn from engagement to perform audit of Financial Statements	63 – 70
Updates in Auditing Standards	71 – 76
Ind AS Considerations	77 – 79
QRB Review – 2017-18	80 - 108



QUALITY REVIEW BOARD

Quality Review Board

In exercise of the powers conferred by Section 28A of the Chartered Accountants Act, 1949, consequent to the Chartered Accountants (Amendment) Act, 2006, the Central Government, by notification, constituted a Quality Review Board consisting of a Chairperson and ten other members.



Functions of QRB

The Board shall perform the following functions, namely:-

- Make recommendations to the Council with regard to the quality of services provided by the members of Institute
- Review the quality of services provided by the members of the Institute including audit services and
- Guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

QRB - Manner of Review

- Quality Review under the Chartered Accountants Act, 1949 is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements.
- The Quality Review would involve inspection and assessment of the work of auditors while carrying out the audit function so that the Board is able to assess:
 - the quality of audit and reporting by the auditors and
 - the quality control framework adopted by the auditors/ audit firms in conducting audit.
- However, these procedures for review of quality of audit services of audit firms would not extend to internal audit services provided by the members of the Institute which shall be covered by the Board at a later stage. Further, these procedures would also not extend to services provided by the members of the Institute, in employment.

National Financial Reporting Authority (NFRA)

NFRA constitution & authority

Constitution:

In exercise of the powers conferred u/s 132(1) of the Companies Act, 2013, the Central Government has constituted the National Financial Reporting Authority (NFRA) with effect from October 1, 2018.

Authority:

NFRA shall:

- Make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or their auditors.
- Monitor and enforce the compliance with accounting standards and auditing standards.
- Oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters.
- Perform such other functions relating to the above as may be prescribed.

NFRA constitution & authority

- Central Government has also issued the National Financial Reporting Authority Rules, 2018.
- NFRA may refer cases with regard to overseeing the quality of service of auditors of companies or bodies corporate to the QRB or call for any report or information in respect of such auditors as it may deem appropriate.

Roles & Responsibilities of Technical Reviewer

Role of Technical Reviewer

Review compliance of the Firms with Technical Standards

**Auditing
Standards**

**Accounting
Standards**

**Ethical
Requirements**

**Reporting
Requirements**

**Standards of
Quality Control**

Gamut of Technical Standards

“Technical Standards” include:-

- Accounting Standards issued by the ICAI
- Statement on Standard Auditing Practices and Engagement Standards issued by the ICAI
- Framework for the Preparation and Presentation of Financial Statements
- Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services issued by the ICAI
- Statements issued by the ICAI
- Compliance of Guidance Notes issued by ICAI
- Notifications/Directions issued by the ICAI including those of a self-regulatory nature.
- Compliance of the provisions of the various relevant Statutes and/or Regulations which are applicable in the context of the specific engagements being reviewed.

Scope and objective of quality review:



- The TR has to examine whether the Statutory Auditor has ensured compliance with the applicable technical standards in India and other applicable professional and ethical standards.
- The TR has to examine whether the Statutory Auditor has ensured compliance with the relevant laws and regulations.
- The TR has to examine whether the Statutory Auditor / Audit firm has implemented a system of quality control with reference to the applicable quality control standards.
- The TR has to examine whether there is no material misstatement of assets and liabilities as at the reporting date.
- The TR may, within the scope of his review, go beyond the issues covered in the Questionnaire recommended by the Board.
- Scope of review includes the statutory audit of standalone financial statements as well as consolidated financial statements reported upon by the statutory auditor, if any.



Approach to the quality review:

- Make on-site visit to the Statutory Auditor / Audit firm for conducting the review and reviewing the audit working papers.
- TR shall furnish an undertaking that he would not outsource the review assignment to other person
- Follow below guidelines issued by QRB:
 - a) Provide detailed comments giving proper justification and explanation in respect of the various comments to be commented upon in the final report
 - b) Refer Industry specific guides, if any, brought out by ICAI
 - c) Refer "Technical Guide on Conducting Quality Review" available at QRB website www.qrbca.in
 - d) Segregate your observations into material and non-material
 - e) In respect of joint audit, provide details of work allocation among the joint auditors and in case any particular area of observation falls under the scope of other joint auditor, clearly provide the details of such joint auditor in the report.

Approach to the quality review continued...



- Embrace the digital world and accept documentation maintained in electronic form by the Audit firms in line with SA 230
- **Specifically include a paragraph in the review report on the adequacy of fraud reporting by the Statutory Auditors in their Independent Auditor's Report.**
- **Refer ICAI publication titled 'Indian Accounting Standards (Ind AS): Disclosures Checklist', in case Ind AS are applicable and ensure that all the disclosure requirements as per checklist specified in the publication have been made, whenever applicable, and report on the non-compliances in the final report.**
- Follow the approach set out in the Peer Review Manual issued by ICAI.



Ensure compliance of:

- Applicable technical standards in India, other applicable professional and ethical standards and relevant laws and regulations;
- Whether the Audit Firm has implemented a system of quality control with reference to the applicable quality control standards;
- Whether the Statutory Auditor has considered SA 240, “The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements” issued by The Institute of Chartered Accountants of India (ICAI); and
- Whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the Company.

On-site visit to AFUR:



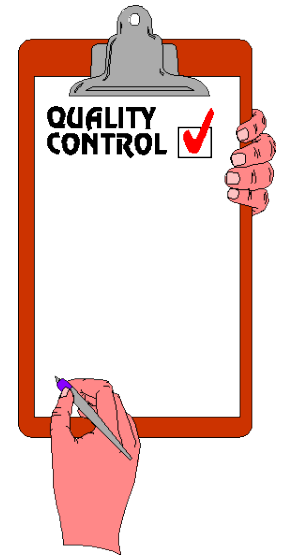
- During the on-site visit, the TR should obtain all the necessary information.
- The TR should make an on-site visit on his own.
- Make on-site visit to the AFUR for conducting the review and reviewing the audit working papers. The TR will have access to or take abstracts of the records and documents maintained by the audit firm.
- **The TR shall not make any copies / extracts of such working papers.**
- Such on-site visit shall not extend beyond 7 days. Under exceptional circumstances, it may extend up to 14 days with the prior approval of Chairperson, QRB.
- In no case should an unqualified/ semi qualified staff should be allowed to visit the AFUR.
- QR team should refrain from asking information other than that is relevant to the review.
- Follow the approach set out in the Peer Review Manual issued by the ICAI for guidance.

Objective of Technical Reviewer

The objective of the Technical Reviewer (TR) in the conduct of a quality review has to be within the overall scope of the functioning of the Quality Review Board.

Accordingly, the objective of a quality review is to enable the TR to report on:

1. The quality of audit and reporting by the auditor
2. The quality control framework adopted by the auditor / audit firm in conducting audit

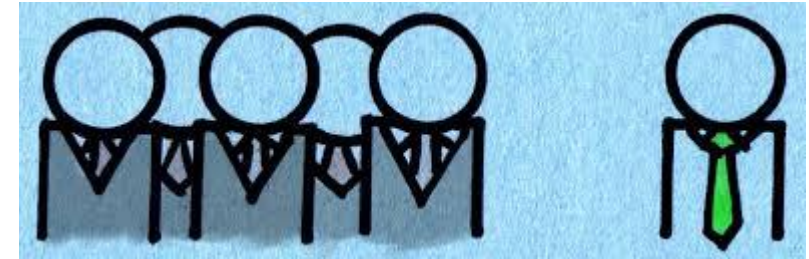


The TR and other members of the QR team should have adequate knowledge of the legal and regulatory requirements governing the Audit Firm Under Review (AFUR) as well as the auditee whose financial statements are under review. This includes knowledge of:



1. Audit processes
2. Applicable SAs and other generally accepted auditing practices
3. Relevant pronouncements issued by ICAI
4. Legal and regulatory requirements applicable to the AFUR such as the Chartered Accountants Act, 1949 and Regulations thereunder, the ICAI Code of Ethics etc.
5. Legal and regulatory requirements of the auditee like Companies Act, 2013, industry specific laws, for example the Banking Regulation Act, 1949 in case the auditee is a bank, requirements of financial reporting framework
6. Auditing and financial reporting issues relevant to the auditee's industry.

Independence Requirements



A person is eligible to be appointed as a TR only if he/she fulfils the following conditions:

1. TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have been the statutory auditor of the company/entity under review or have rendered any other services to the said company/entity during the last three financial years and/or thereafter.
2. TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have had any association with the audit firm under review, during the last three financial years and /or thereafter.
3. TR complies with all the eligibility conditions laid down for appointment as an auditor of the company/entity under review under section 141(3) of the Companies Act, 2013 so far as applicable.

Professional Judgement

An auditor would exercise professional judgement in relation to aspects that are very critical to an audit such as:

- Materiality and audit risk
- Application and interpretation of accounting standards
- Nature, timing and extent of audit procedures to be employed to meet requirements of SAs and gathering audit evidence
- Evaluating whether sufficient appropriate audit evidence has been obtained.
- Evaluating of management's judgement in applying the entity's applicable financial reporting framework
- Drawing conclusions based on the audit evidence obtained.



Areas that require exercise of professional judgement:



SAs require the auditors to exercise professional judgement throughout the planning and performance of the audit and, among other things:

- Identify and assess the risk of material misstatement, whether due to fraud or error, based on an understanding the entity and its environment, including the entity's internal control.
- Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.

Evaluation of Professional Judgement by the TR :



- The TR would need to appreciate that the exercise of professional judgement is based on facts and circumstances that are known to the auditor at the time of exercising such judgement.
- Normally exercise of professional judgement by an auditor is preceded by consultation both within the engagement team and between engagement team and others at the appropriate level within or outside the firm.
- TR should consider the following while evaluating the professional judgement
 - whether the judgement reached reflects a due consideration and application of the relevant auditing and accounting principles and
 - whether the judgement is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.
- The TR can expect to find documentation of facts and circumstances supporting the judgements reached.

Terms of Quality Review

Scope of Quality Review as per QRB:



1. Examining whether the Engagement Partner has ensured compliance with applicable technical standards in India and other applicable professional and ethical standards and requirements.
2. Examining whether the Engagement Partner has ensured compliance with relevant laws and regulations.
3. Examining whether the Audit firm has implemented a system of quality control as envisaged in line with SQC-1.

Communication between TR and AFUR:

For better understanding and coordination between the TR and AFUR, it is advisable that the TR also sends a communication to the AFUR specifying aspects such as:

- Date of commencement of the review
- Expected date of completion of review
- Documents required for review
- Identification and contact details of the TR (Lead reviewer)
- Composition of the review Team, if any.

Matters to be agreed upon by the TR and AFUR:



It is advisable for a smooth conduct of review, the TR and AFUR reach an understanding on the following matters:

- Main contact person/s in the AFUR for TR's requirements relating to the review.
- Normal lead time required for production of documents, resolution of queries etc
- Logistical arrangements, as available within the AFUR, for conduct of review.
- Any other support/coordination required by TR from AFUR and vice versa
- The frequency and timing of communications related to issues or findings noted by the TR

Quality Control in a Quality Review

The quality of a QR is directly affected by factors such as:

- Knowledge and experience of the TR
- Time devoted by the TR
- Composition of the QR team
- Understanding of the objective and scope of work
- Monitoring, direction and supervision of the QR team by the TR





Deciding on the composition of the QR team:

The eligibility conditions require that an assistant:

- should be a member of the Institute of Chartered Accountants of India;
- should not have attracted any disqualifications under the Chartered Accountants Act, 1949;
- should have no direct interface either with the AFUR or the Board;
- should have been working with the lead TR for at least one year as a member of the ICAI or is a partner in the TR's firm for at least one year;
- should not have been associated with the Statutory auditor/Audit firm under review or the company/entity under review during last three financial years and/or thereafter;



Deciding on the composition of the QR team continued...

- should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him/her or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him/her during last three financial years and/or thereafter;
- should not be a member of current QRB Board/ICAI's Central Council/Regional Council/Branch level Management Committee; and
- should not himself/herself be empaneled as a Technical Reviewer with the Quality Review Board.

Directing, Supervising and Monitoring the QR Team

Directing the QR team would involve informing the QR team members of aspects including:

- QRB, its constitution, its past work in terms of past published reports, etc;
- Need to be compliant throughout the review with the eligibility and other conditions laid down by the QRB;
- Objective of the QR to be performed;
- Responsibilities of the respective team members;
- Brief about the AFUR and the specific audit engagement selected for review;
- Probable areas of concern;
- Detailed approach to the performance of the review.



Directing, Supervising and Monitoring the QR Team continued...

Supervision of the QR team includes consideration of matters such as:

- Tracking the progress of the review engagement.
- Whether the individual team members are performing the work according to their capabilities and competence.
- Whether the individual team members are devoting sufficient time to the review engagement.
- Whether the team members have understood the instructions given by TR properly.
- Whether the review work is being carried out as planned.
- Significant matters arising during the review engagement and whether the planned approach to the review is required to be modified to address such matter/s.



Directing, Supervising and Monitoring the QR Team continued...

Monitoring includes consideration of matters such as:

- Whether the QR procedures are relevant to the QR engagement.
- Whether the QR procedures are adequate in the circumstances.
- Whether the QR procedures are implemented effectively.



Documentation



The documentation by the lead TR should include:

- Issues identified during the review engagement with respect to compliance with the eligibility and other conditions imposed by the QRB and how these were resolved.
- Significant issues identified during the supervision and direction of the QR engagement and how these were resolved.
- Significant deficiencies noted in the QR procedures and the resultant modifications made thereto.
- Discrepancy(s) noted during QR and recommendations of TR thereon to improve audit quality.

Planning the Quality Review

Need for planning:

A well planned QR helps the reviewer to :

- Devote appropriate attention to important areas of review;
- Identify and resolve problems on a timely basis;
- Facilitate direction and supervision of the team members and their work



Nature and extent of planning required varies according to:

- Size of the AFUR
- Nature and complexity of the QC
- System in AFUR and the audit engagement under review
- The experience and competence of the QR team members and
- Any changes that may occur subsequently in the circumstances of the QR



QR plan would normally include:

The nature, timing and extent of

- Planned review activities for understanding the QC system at the AFUR and the audit engagement under review.
- Procedures to be performed to evaluate the design and implementation of the QC system at the AFUR
- Procedures to be performed to evaluate whether the audit engagement has been carried out in accordance with the requirements of the applicable Standards on Auditing.

Initial planning activities relating to the QR engagement would include:

- Performing procedures regarding the acceptance of the QR engagement
- Evaluating compliance with independence requirements;
- Establishing an understanding of the terms of the QR engagement.

In establishing the overall QR strategy, the TR needs to consider the following:



- Characteristics of the QR engagement that would determine the scope of the review, viz., evaluation of design and implementation of systems and evaluation of compliances;
- Reporting objectives of the QR to plan the timing of the review and the nature of the communication required with the AFUR;
- Factors that, in the TR's judgment, are significant in directing the QR team's efforts;
- Results of preliminary engagement activities and, where applicable, knowledge gained on other QR engagements, if any, performed by the engagement partner for the entity is relevant; and
- Ascertain the nature, timing and extent of resources necessary to perform the QR engagement.

Conducting the Quality Review

Timelines:

The process of Quality Review should be completed **within 45 days** from the date of communication to the Statutory Audit Firm by the Board. Sequence of events during the review process are:

- Upon receipt of Letter of Engagement from the QRB, TR has to convey within 7 days his/her acceptance of Letter of Engagement by sending necessary declarations in prescribed formats.
- Upon receipt of acceptance from TR, QRB shall intimate the Audit Firm about the proposed Quality Review and also send a copy of this intimation letter to the TR. This letter / email shall also contain contact details of each other for further communication.
- TR shall start the review process by establishing contact with the Audit Firm and sending the specified Quality Review Program Questionnaire to the Audit firm for filling-up and call for additional information from the Audit Firm, if required. TR shall also fix-up the date for starting on-site review.
- TR & his team shall start their off-site review by making proper planning for the review.
- TR & his team shall carry out the Quality Review by visiting the office of the Audit Firm by fixing the date as per mutual consent.

Timelines continued...

- Upon completion of the on-site review, Technical Reviewer shall send the preliminary report to Audit firm under review marking a copy of preliminary report to QRB as well.
- Audit firm under review to submit reply on the preliminary report to the Technical Reviewer within reasonable time. TR to immediately send the reply of the Audit firm to QRB.
- TR to submit final report to QRB duly signed (hard copy and soft copy) and dated within 45 days from the date of intimation of the assignment to the Audit firm. In addition, TR shall also send a copy of the final report to the Audit firm under review, requesting the Audit firm to send their submissions thereon to the QRB within 7 days of receipt of the final report with a copy to Technical Reviewer.
- Upon receipt of the reply of the Audit Firm on the Final Report, TR shall submit to QRB (in MS Word format via email at reviews@qrbca.in) within next 7 days a summary of his findings in the specified format incorporating therein reply of the Audit firm on the final report and his final comments.

Obtaining an understanding of the Audit Engagement:

Prior to commencement of on-site review the TR shall:

- Read the financial statements and all other financial and non-financial information accompanying the financial statements of the entity in respect of which review has been initiated.
- Obtain knowledge of the industry and the environment, including the applicable laws and regulations, in which the entity operated during the period to which the audit engagement relates.

Obtaining an understanding of the AFUR:

Prior to commencement of the review TR shall obtain an understanding of the following aspects:

- Size of the practice
- Legal form (sole proprietorship / partnership / LLP)
- Service verticals within the AFUR
- Geographical spread of AFUR
- Governance structure
- Policies and procedures implemented to ensure compliance with the requirements of SQC 1
- The audit methodology being used by the AFUR



Documentation requirements:

The TR should ensure documentation of the following:

- The nature, timing and extent of the quality review procedures performed
- The results of the review procedures performed and the evidence obtained
- Significant matters arising during the review, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
- Reference to the source of the quality control policy
- If procedures were implemented, then a walk through, if any performed
- In respect of the concerned audit engagement, a reference to relevant audit working papers
- Matters examined and conclusions reached duly supported with the basis of conclusion.

Documenting a finding:



The TR should ensure documented finding has the following characteristics:

- All relevant facts and background information necessary to understand the finding or the issue being raised by the TR are present
- Requirements of the Standards on Auditing or the Accounting Standards or other relevant laws / regulations that have not been complied with
- Factors mitigating the effect of the finding, if any
- Explanations / responses provided by the engagement partner / AFUR
- Conclusions reached by the TR

Broad checklist for Quality Reviewers:

- Whether the company has prepared and presented the financial statements in the format relevant to it?
- Examine the accounting policies of the enterprise.
 - a) Are all the accounting policies in accordance with the requirements of the applicable accounting standards and Guidance Notes, issued by the ICAI.
 - b) Whether all significant accounting policies that should have been disclosed are disclosed.
 - c) Whether the auditor has appropriately dealt with in his report the deviations from accounting standards.
- Verify whether the disclosures required by the law/regulations, requirements prescribed by the regulations and those required by the accounting standards have been made.

Broad checklist for Quality Reviewers continued...

- Where the audit report is qualified:
 - a) Whether the qualifications have been made in a clear and unambiguous manner;
 - b) Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same;
 - c) Whether the auditor has considered the overall effect of the qualifications on the true and fair view presented by the financial statements.
- Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.
- Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/accounting entry? If yes, comment on how it has been dealt with in the financial statements.

Broad checklist for Quality Reviewers continued...

- Does the auditor/audit firm has a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
- Does auditor monitor compliance with policies and procedures relating to independence?
- Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries?
- Does auditor/audit firm has established procedures for record retention, including security aspects?
- Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?
- Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards including accounting standards?

Reporting

Reporting requirements



- The TR shall submit a preliminary report to the AFUR
- Preliminary report is submitted before submitting the final report to the QRB
- It is suggested that any observation indicating non-compliance with the technical standards should be included in the preliminary report for seeking comments of AFUR
- Based on the responses received from AFUR, TR may decide to issue an interim report or final report to the QRB

Key Aspects considered in the QRB Report

- whether the policies and procedures that constitute the reviewed firm's system of quality control for its attestation services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical standards.
- whether personnel of the reviewed firm complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards.
- whether independence of audit firm/ auditors is maintained in conducting audit.
- whether the firm has instituted adequate mechanism for training of staff.
- whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.

Key Aspects considered in the QRB Report

- whether the skill and competence of assistants are considered before assignment of attestation engagement.
- whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants.
- whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- whether the audit firm maintains the working papers and the audit file as per the standards laid down by the ICAI.
- whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statement.
- whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.

Qualified Report

A TR may qualify the report due to one or more of the following:

- Non-compliance with technical standards
- Non-compliance with relevant laws and regulations
- Quality control system design deficiency
- Non-compliance with quality control policies and procedures
- Non-existence of adequate training programmes for staff

Specific guidelines are issued by QRB for qualifying quality review report, which assists TR in deciding whether a qualified review report should be issued.



Guidelines for qualifying review report



TR shall consider and document the following matters in deciding on the type of report to be issued:

- Whether the policies and procedures that constitute the reviewed firm's system of quality control for its attestation services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical standards.
- Whether personnel of the reviewed firm complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards.
- Whether independence of audit firm/ auditors is maintained in conducting audit.
- Whether the firm has instituted adequate mechanism for training of staff.
- Whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.
- Whether the skill and competence of assistants are considered before assignment of attestation engagement.

Guidelines for qualifying review report continued...



- Whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service in-charge and necessary guidance is provided to assistants.
- Whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- Whether the audit firm maintains the permanent file and the current file as per the standards laid down by the ICAI.
- Whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statement.
- Whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.

Basic Elements of a TR's report

1. Elements relating to audit quality
 - a) Scope of review and period of review along with limitations to scope, if any
 - b) Instances of lack of compliance with technical standards and other professional and ethical standards
 - c) Instances of lack of compliance with relevant laws and regulations
2. Elements relating to quality control framework adopted by the audit firm in conducting audit
 - a) An indication of whether the firm has implemented a system of quality control
 - b) A statement that the system of quality control is the responsibility of the reviewed firm
 - c) A view whether the firm's system of quality control has been designed to meet the quality standards of attestation services and whether it was complied with.
 - d) In case of modification, reasons for such modification
 - e) Reference to the preliminary report
 - f) An attachment describing planning and performing of the review.

Basic Elements of a TR's report continued...

3. TR's signatures

4. Date

5. Place

Other matters related to TR's report:

- Quality Review Report has to be issued on the TR's letterhead and signed by TR.
- The report should be addressed to the QRB
- Complete facts and figures must be given in the report to make it more effective
- Final Report must be in the specified latest format (as given by QRB office to TR in pursuance to Engagement Letter).
- All the issues included in various Appendices such as Appendix II/ III/ VI must be clubbed together and reported with full details in Appendix-I

Report of the Quality Review Group (QRG)



The report of the QRG should express the following:

- Particulars of the Audit Firm under review
- A detailed description of the non-compliances if any, with the matters stated in the Terms of Reference of the Board.
- A detailed description of the evidences that support the non-compliances
- QRG's recommendations about the actions that are required to be taken in a particular case.

Submissions to the Board



The following needs to be sent to the Board along with the Final Review Report:

- Final Report on TR's letterhead, duly signed and dated in specified format along with all the Appendices. If the preliminary report contained any areas of deficiencies and the TR is satisfied with the response of the Audit firm and has dropped such issues from the final report, also enclose a statement justifying the reasons for such satisfaction in respect of each of such matters stated in the preliminary report. If the TR is not satisfied with the response of the Audit firm, all such areas of deficiencies must be included in the final report.
- Copy of Annual Report of the Company concerned for that year.
- Copy of the preliminary report issued to the Audit firm along with the response of the Audit firm thereon.

Submissions to the Board continued...



- Your final report along with all the Annexures and documents to be sent to QRB in hard as well as soft copy (email at reviews@qrbca.in)
- A certificate from the Audit firm duly certifying the details of your visit to the Audit firm. Such Certificate should be on the letterhead of the Audit firm and duly signed, dated and stamped by the Authorised Partner of the Firm and should be in specified format only.

**Cases where Auditor has
resigned/withdrawn from engagement
to perform audit of Financial Statements
(applicable only to listed entities)**

Implementation Guide on Resignation/ Withdrawal from an Engagement to Perform Audit of Financial Statements:



- **Compliance with Standards on Auditing (SAs) in relation to withdrawal has always been an existing requirement.**
- The Implementation Guide issued by ICAI on 30th November 2018 is only a compilation of all such requirements on withdrawal from an engagement as set out in various SAs.
- Implementation Guide is applicable to all listed entities
- In case of audits of banks, insurance companies and other corporate entities, the guidance given in this Implementation Guide be also followed, as applicable

Considerations before resignation:

- Determine whether the circumstances leading to withdrawal or resignation are those as referred to in the implementation guide
- Comply with the requirements of the applicable SAs.
- Communicate the circumstances, consideration thereof and the conclusions reached - with the appropriate level of management
- In cases where audit work has been substantially completed, consider the possibility of completing the audit to the extent possible and providing a disclaimer opinion.
- In case an auditor has signed all the quarters (either limited review or audit) of a financial year, except the last quarter, then the auditor has to finalize the audit report for the said financial year before resignation.
- Consider taking legal advice to evaluate any other legal responsibilities associated with the resignation/withdrawal from the engagement



Considerations before resignation continued...



- To the extent information is not provided to the auditor or the management imposes a scope limitation, the auditor should provide an appropriate disclaimer in the audit report.
- In case where the incoming auditor has requested, whether the audit firm provided detailed reasons for resignation, a copy of the resignation letter as submitted with the RoC?

Considerations before resignation continued...



Grounds for resignation can be one of the following:

1. Reasons as mentioned in Code of Ethics for resignation: Ethical conflict remains unresolved even after exhausting all relevant possibilities. Reasons as mentioned in Code of Ethics for resignation are as below:
 - a) While applying conceptual framework, the firm encountered situation in which threats cannot be eliminated or reduced to an acceptable level, either because the threat is too significant or because appropriate safeguards are not available or cannot be applied
 - b) Ethical conflict remains unresolved even after exhausting all relevant possibilities
2. Reasons as mentioned in SQC 1: The firm obtains information after commencement of work which would have caused it to decline the engagement after considering the professional and legal responsibilities that apply
3. Any other reason as provided by Standards on Auditing

Communication to appropriate level of management



- In case of resignation/withdrawal from the engagement, same has to be communicated to appropriate level of management and where applicable to those charged with governance the circumstances, consideration thereof and the conclusions reached by the auditor.
- Where response is received from the management the effect of such response, if any, on the conclusion reached should be evaluated.
- Where response is not received from management, the same has to be stated in Form ADT-3
- Also file Form ADT-3 giving the reason for resignation

Resignation Letter:



Following should be included in the resignation letter:

- If the resignation results from an inability to obtain sufficient appropriate audit evidence, the reasons for that inability
- The possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive
- If the matter is related to a material misstatement of the financial statements that relates to specific amounts in the financial statements, include a description and quantification of the financial effects of the misstatement, unless impracticable

Resignation Letter continued...



- If the withdrawal or resignation results from inability of the auditor/the firm to complete the engagement due to bonafide reasons: The fact that circumstances leading to withdrawal or resignation from the engagement shall be communicated to an appropriate level of the management, and where appropriate, to those charged with governance.
- The response from the management or those charged with governance on the written communication made by the auditor. If response is not received, state the fact.
- Prior to resignation, the last audit / limited review report issued by the auditor.

Updates in Auditing Standards

SA 230 Audit Documentation - FAQs and Implementation Guide notified on 3 December, 2018



Confirmations of account balances:

- SAs do not prescribe that the confirmation of all account balances are required to be obtained.
- It is the auditor's judgment to rely on the running account balances, statements, transactions with the parties and behaviour of the account
- In the cases when the auditor has reason to believe that the account balances with the respective parties are material and may have material differences, he should ask for the confirmations of the balances from the respective parties/entities to reduce the risk of material misstatement at low level.
- As required by SA 330 and SA 505, the auditor should obtain more persuasive audit evidence to respond to the auditor's assessment of higher risk. When there is higher risk involved the auditor should reduce the risk by obtaining the external confirmation.

SA 230 Audit Documentation - FAQs and Implementation Guide notified on 3 December, 2018 continued....



Documentation for communication with management

- The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature and when and with whom the discussions took place.
- Documentation may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor.
- Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.
- The auditor should specifically deal with key audit matters documentation as specified in SA 701 and other audit conclusion and reporting standards.

SA 230 Audit Documentation - FAQs and Implementation Guide notified on 3 December, 2018 continued....

New procedures performed or new conclusions drawn after the Auditor's Report date:

The auditor is required to document:

- The circumstances encountered;
- The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
- When and by whom the resulting changes to audit documentation were made and reviewed.



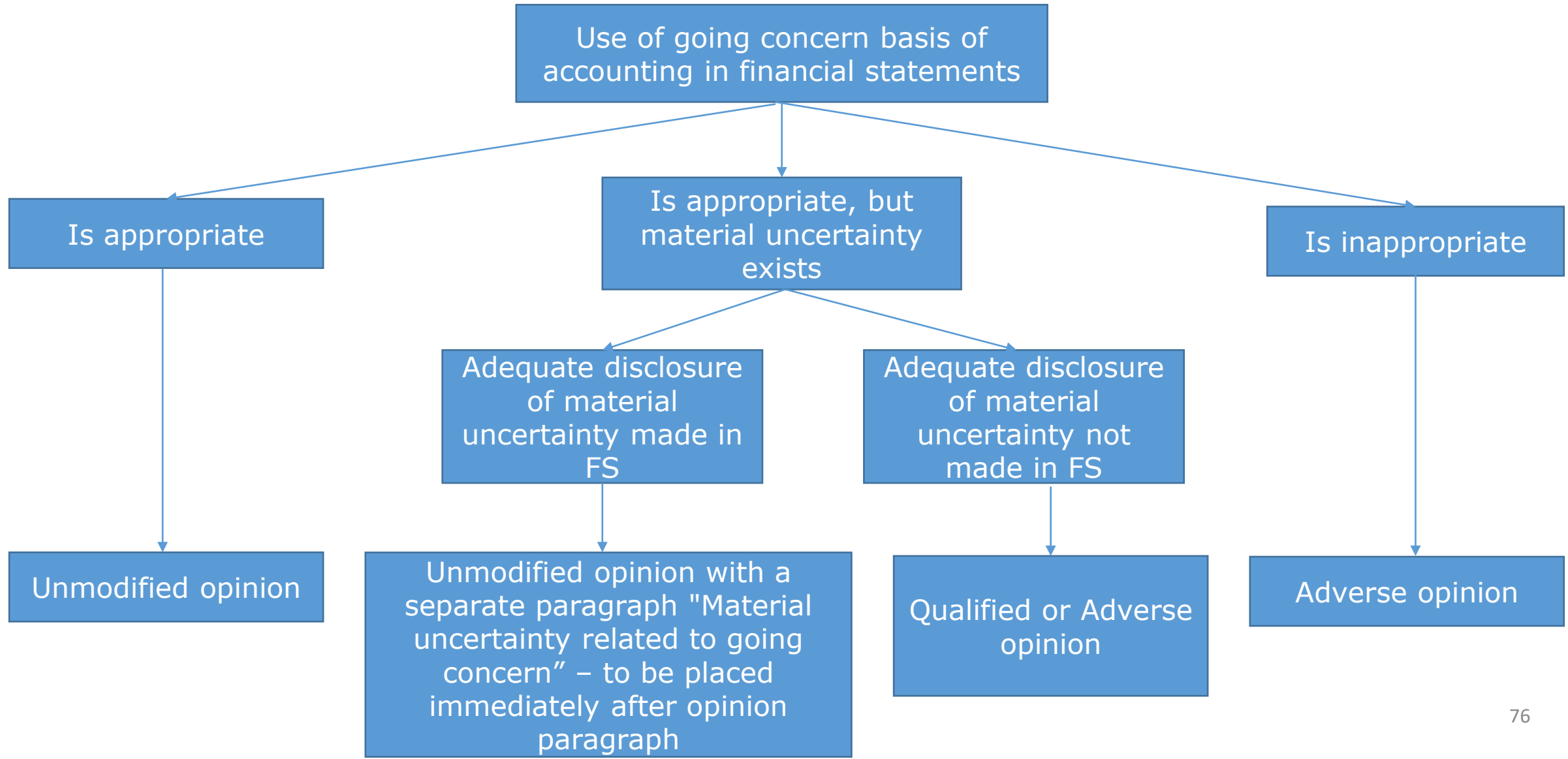
SA 230 Audit Documentation - FAQs and Implementation Guide notified on 3 December, 2018 continued....

Other matters

- The auditor shall document how the auditor addressed the inconsistency. The requirement to document how the auditor addressed inconsistencies in information does not imply that the auditor needs to retain documentation that is incorrect or superseded.
- Other than in exceptional circumstances, the SAs call for compliance with each requirement that is relevant in the circumstances of the audit. The auditor should document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure, if, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA.
- An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

SA 570(R) Going Concern

The main implications / reporting requirements of SA 570 (Revised) for Auditor's Report are:



Ind AS Considerations

Ind AS Considerations



Consider the following while reviewing:

- Has the audit firm identified that the entity falls in which of the following four phases notified by MCA for convergence to Ind AS from AS
- TR should refer ICAI publication 'Indian Accounting Standards (Ind AS): Disclosures Checklist'
- Ensure that all the disclosure requirements as per checklist specified in the publication have been made, whenever applicable, and report on the non-compliances in the final report.

Common Pitfalls (not exhaustive)

- In case the entity a first time adopter in terms of Ind As 101 in the current period, has the audit firm verified and evaluated the adoption of Ind AS in terms of Ind AS 101. Disclosure requirements for reconciliation also needs to be verified.
- Has the audit firm considered compliance with Ind AS 1 to evaluate whether the general purpose financial statements have been prepared and presented in accordance with Ind AS
- Whether the disclosure format as prescribed by Companies Act, 2013 has been followed

Ind AS Considerations.. continued...



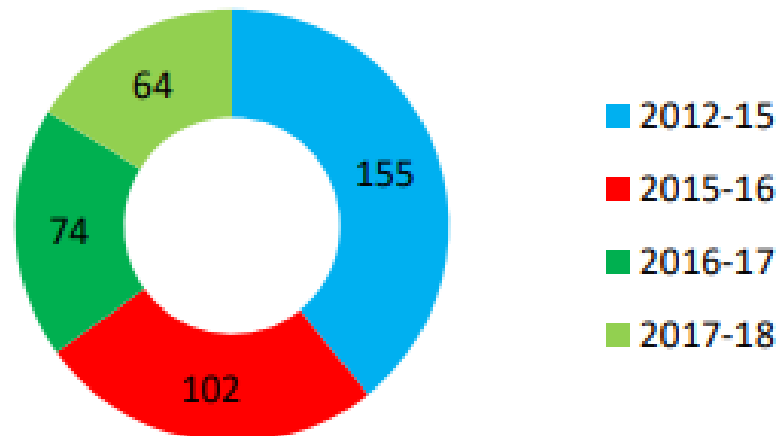
Common Pitfalls (not exhaustive)...

- Has the audit firm evaluated whether the entity have financial assets and / or financial liabilities that are within the scope of Ind AS 32, Ind AS 107 and Ind AS 109
- Whether the audit firm has verified compliance with Ind AS 110, in case the reporting entity 'control' one or more entities during or at the end of the reporting period
- Has the audit firm considered compliance with Ind AS 111 in case the entity participates in a contractual arrangement with one or more parties to undertake an economic activity, which is subject to joint control
- Whether the audit firm has verified compliance with Ind AS 113 when the entity has any assets or liabilities for which another Ind AS requires or permits fair value measurements or disclosures about fair value measurements
- If the entity deals in real estate as seller or developer and Ind AS is applicable to the entity, has the audit firm considered Guidance note on Accounting for Real Estate Transactions

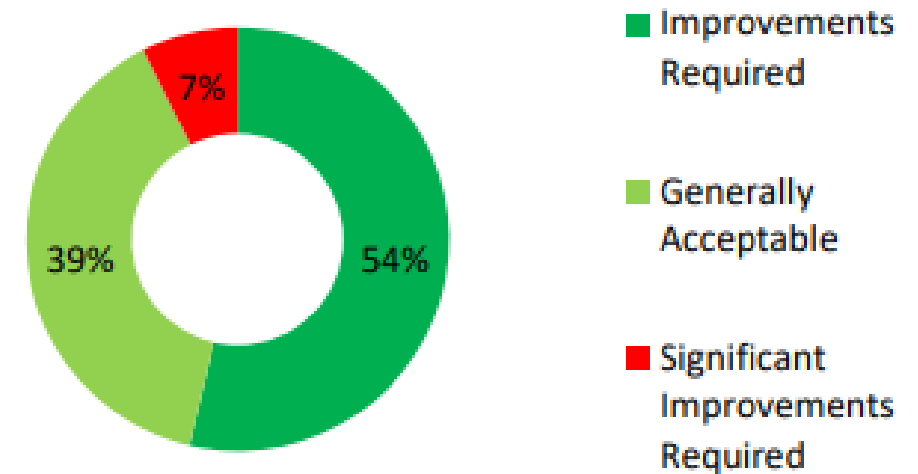
QRB Review – 2017-18

Overall Trend of Audit Engagements reviewed

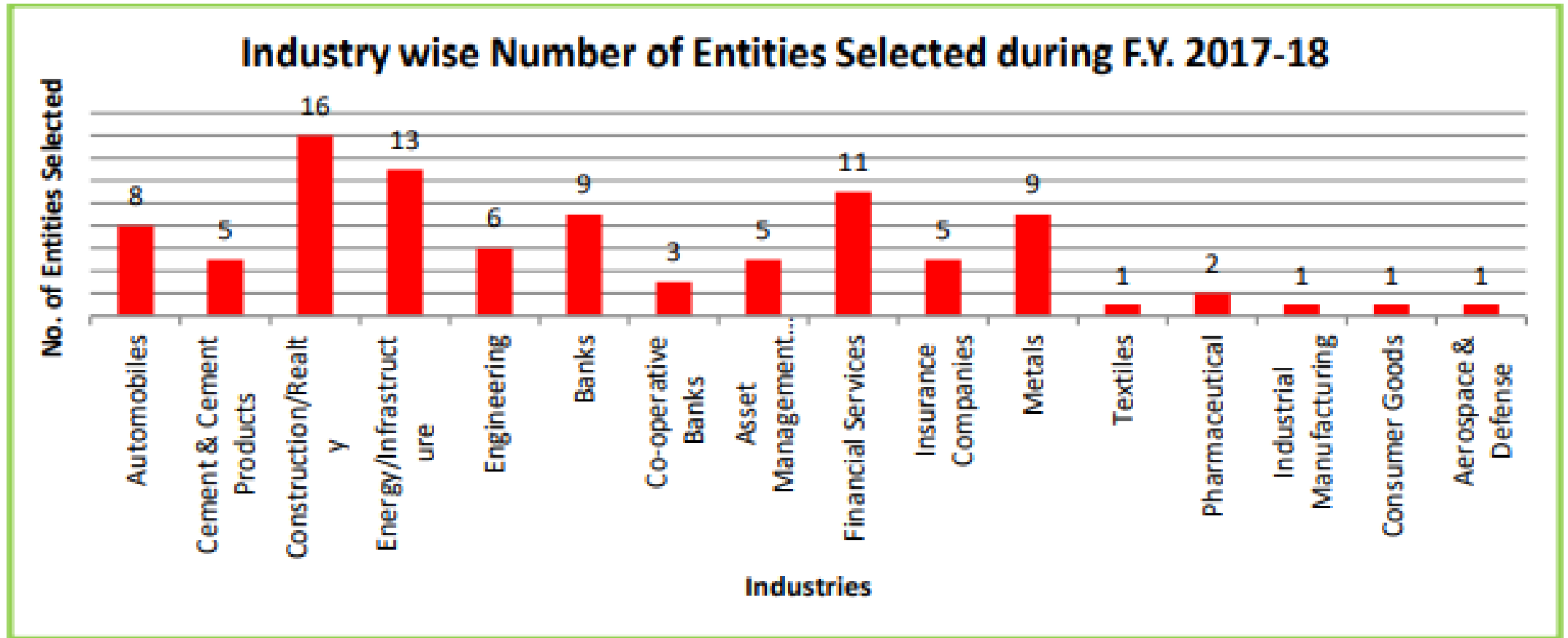
Number of Audit Engagements Reviewed



Findings of Audit Engagements Reviewed (2012-18)

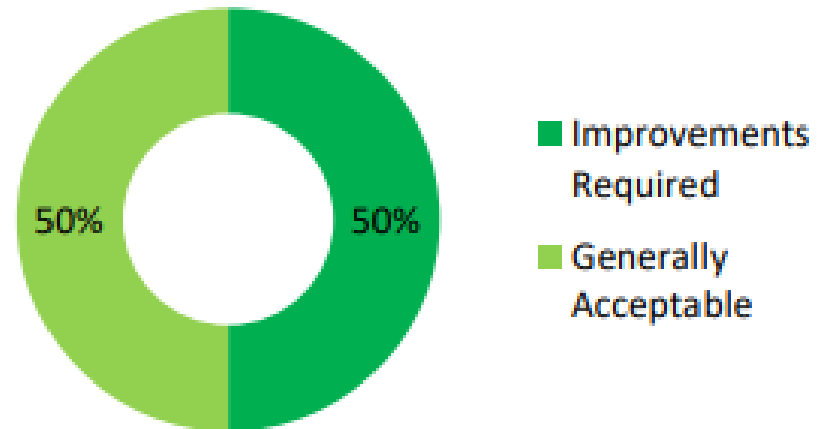


Overall Trend of Audit Engagements reviewed



Key findings

Audit Quality Reviews covered in the Report



Audit firms reviewed

47

Audit files reviewed

64

Entities Covered

53

(Including 41 listed
and 12 other Public
Interest Entities)

Focus Areas

SQC – 1:



- Whether audit firm establishes and implements policies and procedures on all the elements of system of quality control;
- Whether the engagement quality control reviewer reviews at an appropriate time for the planning of an audit, significant audit judgments, and expressions of audit opinion;
- Whether the audit firm assigns as the person responsible for the monitoring of the system of quality control a person with appropriate experience for the role, and vests the assigned person with sufficient and appropriate authority;
- Whether the audit firm obtains, at least annually, a confirmation letter concerning compliance with policies and procedures for the maintenance of independence from all persons required to maintain independence;
- Whether the audit firm performs the independence confirmation procedures set forth in its internal rules before acceptance and continuance of audit engagements, and when issuing the auditor's report, appropriately confirms that there was no change in the status of independence;

Key findings

SQC – 1:



- failure to establish and implement policies relating to the element of Standards on Quality Control;
- failure to establish and implement policy on engagement quality control review and human resources;
- failure to reduce the familiarity threat to an acceptable level;
- failure to establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation;
- failure to mention date in declaration of independence obtained from partners.

Key findings



SA 210 – Agreeing the Terms of Audit Engagement

Findings in this area included:-

- failure to agree on the terms of the audit engagement with appropriate management or those charged with governance;
- failure to mention management responsibility regarding preparation of financial statements in accordance with the applicable financial reporting framework.

Focus Areas



SA 230 – Audit Documentation

- Whether professional staff prepare audit documentation in such a way to sufficiently describe the status of compliance with the standards on auditing, the timing and scope of implementation of audit procedures, the grounds for judgments, the conclusions reached, and other information;
- Whether more experienced members of the audit team appropriately review the audit documentation prepared by less experienced members;
- Whether the engagement partner reviews the audit documentation and has discussions with the engagement team to confirm that sufficient appropriate audit evidence has been obtained to support the conclusions reached and audit opinion.

Key findings



SA 230 – Audit Documentation

- failure to prepare audit documentation for audit procedure performed and audit evidence obtained as required by SA 200, 240, 250, 260, 320, 330, 500, 530, 610, 720 and SQC-1;
- failure to prepare sufficient appropriate audit evidence for audit procedure performed for reporting under CARO, 2015;
- failure to prepare adequate documentation for work performed, indicates that the firm has not carried out appropriate audit procedures.

Focus Areas



SA 300, 315, 320 and 330:

- Whether the engagement team performs appropriate identification and assessment of the risks of material misstatement in the financial statements as a whole and at the assertion level when it develops an audit plan, considering the audited company and its environment, business risks and internal control of the audited company, instead of merely completing templates provided by the Audit firm;
- Whether the engagement team makes appropriate judgment, when it identifies significant risks and whether the team understands internal control relevant to significant risks;
- Whether the engagement team develops an overall response required by the SA-330 in accordance with the assessed risks of material misstatement in the financial statements as a whole, and plans the nature, timing, and extent of procedures in response to the audit risks, taking into account the materiality, in accordance with the assessed risks of material misstatement at the assertion level;
- Whether the engagement team makes appropriate responses, when a misstatement is identified as the audit progresses, such as judging whether it is necessary to revise the overall audit strategy and detailed audit plans, and evaluating the impact of the uncorrected misstatement.

Key findings



SA 300, 315, 320 and 330:

- failure to document nature, timing and extent of test of control procedure to address the risk arising from control environment and not considering material related party transactions as high risk item.
- failure to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels.
- failure to document nature, timing and extent of audit procedure performed for treating certain litigation and claims as non contingent.
- failure to make proper plan for overall audit strategy and nature, timing and extent of audit procedure.

Focus Areas



Audit evidence (SA-500, 505, 510, 520, 530, 540, 550, 570, 580):

- Whether the engagement team has designed and performed audit procedures to obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base the auditor's opinion;
- Whether the engagement team obtains appropriate audit evidence responsive to the assessed risks of material misstatement at the assertion level, rather than only focusing on the quantitative sufficiency of audit evidence;
- Whether engagement team maintains control over external confirmation request when using external confirmation procedures, and if not, whether engagement team perform alternative audit procedures;
- Whether engagement team obtains written representation from management;
- Whether the engagement team performs appropriate audit procedures in individual situations as tests of controls and substantive procedures.

Key findings



Audit evidence (SA-500, 505, 510, 520, 530, 540, 550, 570, 580):

- failure to attend physical inventory counting and not performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results;
- failure to prepare audit documentation for analytical procedures, audit sampling, identification of risk of material misstatement in audit strategy and identifying related party transaction;
- failure to obtain sufficient amount of external confirmations and in the manner required and absence of alternative audit procedure in case of not using external confirmation.
- failure to obtain written representations from management;
- failure to obtain appropriate audit evidence for reporting requirement under Section 143(3)(g) of Companies Act, 2013 regarding disqualification of director.

Focus Areas



SA 700, 705, 706, 720:

- Whether engagement team forms opinion after obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error;
- Whether audit report is issued in applicable format and includes all the relevant paragraphs as required by standard on auditing.

Key findings

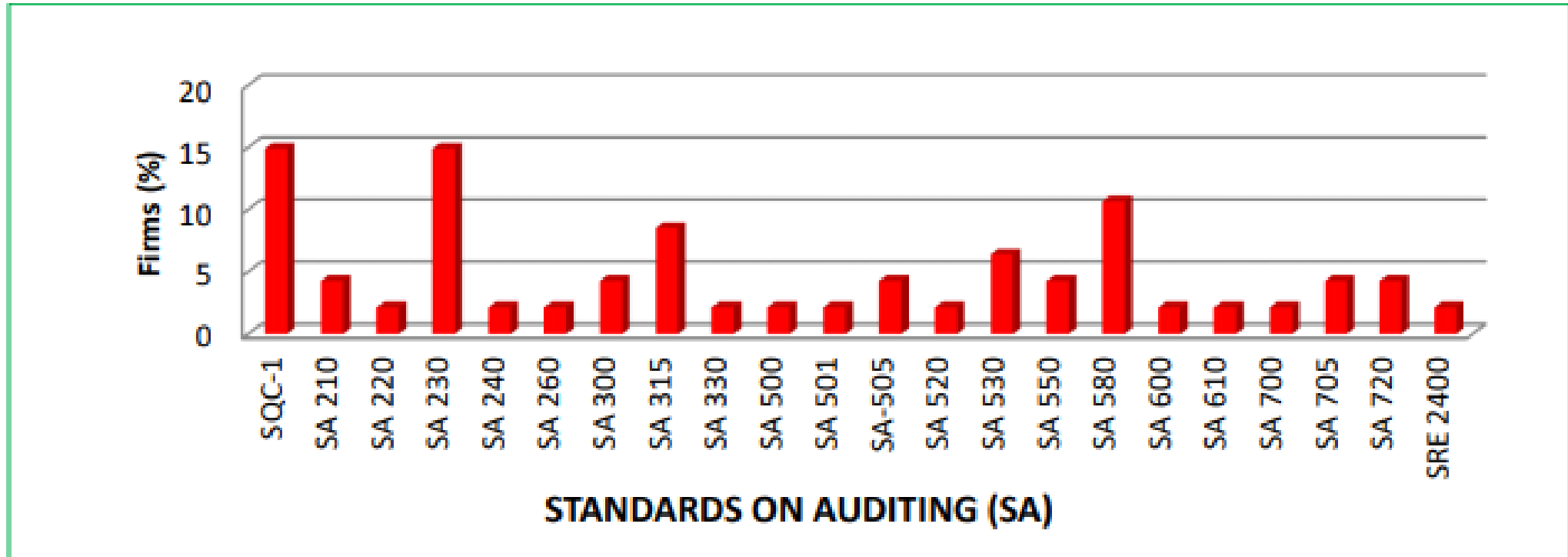
SA 700, 705, 706, 720:

- failure to prepare audit report in specified format;
- failure to include 'Basis for Qualified Opinion' Paragraph in the Independent Auditor's report that provides a description of the matter giving rise to the modification;
- inconsistency in other Information as defined in SA 720 and financial statement.



Key findings in Auditing Standards - Snapshot

% of Audit Firms having observations on Standards on Auditing (SA)¹



1. The graph represents the % of Audit firms having observations under various Standards on Auditing (SAs) for reviews completed during F.Y. 2017-18 (pertaining to the financial statements for the years ended on 31 March, 2014 and 31 March, 2015).

Number of firms having observations on SAs in reviews during FY 2017-18

Standards on Auditing	Number of Observations	Number of Firms involved	% of Firms to Total Firms (Total Firms =47)
SQC-1 Quality Control for Firms that Perform Audits and Reviews of Historical financial Information, and Other Assurance and Related Services Engagements	11	7	15
SA 210 Agreeing the Terms of Audit Engagements	3	2	4
SA 220 Quality Control for an Audit of Financial Statements	1	1	2
SA 230 Audit Documentation	8	7	15
SA 240 Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	1	1	2
SA 260 Communication with those Charged with Governance	1	1	2
SA 300 Planning an Audit of Financial Statements	2	2	4
SA 315 Identifying and assessing the risks of material misstatement through understanding the Entity and its environment	4	4	9
SA 330 Auditor's responses to assessed risks	1	1	2
SA 500 Audit Evidence	1	1	2
SA 501 Audit Evidence- Specific considerations for Selected Items	1	1	2

Number of firms having observations on SAs in reviews during FY 2017-18

Standards on Auditing	Number of Observations	Number of Firms involved	% of Firms to Total Firms (Total Firms =47)
SA 505 External Confirmations	2	2	4
SA 520 Analytical Procedures	1	1	2
SA 530 Audit Sampling	3	3	6
SA 550 Related Parties	2	2	4
SA 580 Written Representations	5	5	11
SA 600 Using the Work of Another Auditor	1	1	2
SA 610 Using the Work of Internal Auditors	1	1	2
SA 700 Forming an Opinion and reporting on Financial Statements	1	1	2
SA 705 Modification to the opinion in the Independent Auditor's Report	2	2	4
SA 720 The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements	2	2	4
SRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of Entity	1	1	2

Key findings in Accounting Standards

Disclosure of Accounting Policies (AS-1)

Findings in this area included:

- failure to disclose all the significant accounting policies adopted in the preparation and presentation of financial statements.



Key findings in Accounting Standards



Cash Flow Statements (AS-3)

Findings in this area included:

- failure to report separately major classes of gross cash receipts and gross cash payments arising from investing activity;
- classifying fixed deposits having maturity of more than three months as Cash and Cash Equivalents;
- failure to report the effect of changes in exchange rates on cash and cash equivalents held in a foreign currency as a separate part of the reconciliation of the changes in cash and cash equivalents during the period;
- failure to disclose method of preparing Cash Flow Statement;
- failure to disclose dividend distribution tax as cash flow from financing activity.

Key findings in Accounting Standards

Depreciation Accounting (AS-6)

Findings in this area included:

- failure to depreciate asset over the balance lease period;
- failure to disclose depreciation rates or the useful lives of the assets on being different from the
- rates specified in Schedule II of Companies Act, 2013.



Key findings in Accounting Standards



Revenue Recognition (AS-9)

Findings in this area included:

- failure to disclose the excise duty related to the difference between the closing stock and opening stock in the Statement of Profit & Loss;
- failure to recognize certain other income on accrual basis;
- failure to disclose accounting policy on dividend income from investment in shares;
- failure to disclose revenue from sales transactions on the face of statement of profit and loss.

Accounting for Investments (AS-13)

Findings in this area included:

- failure to recognize decline, other than temporary, in the value of long term investments;
- failure to show interest and dividend from long term and current investments separately;
- failure to show profit and loss on disposal of long term and current investments separately.

Key findings in Accounting Standards

Employee Benefits (AS-15)

Findings in this area included:

- failure to disclose requirements as specified in Para 120(n) and (o) of AS 15;
- failure to disclose information about defined benefit plans.

Borrowing Costs (AS-16)

Findings in this area included:

- failure to disclose amount of borrowing cost capitalised during the year;
- failure to capitalize borrowing cost as part of cost of qualifying assets.

Earnings Per Share (AS-20)

Findings in this area included:

- failure to present basic and diluted earnings per share on the face of the statement of profit or loss.



Key findings in Accounting Standards



Accounting for Taxes on Income (AS-22)

Findings in this area included:

- recognition of deferred tax assets despite the fact that there was no record of virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized;
- failure to review the carrying amount of deferred tax assets at each balance sheet date in terms of para 26 of AS 22;
- failure to take deferred tax effect in respect of depreciation charged to retained earnings.

Impairment of Assets (AS-28)

Findings in this area included:

- failure to disclose carrying amount of fixed assets at the beginning and at the end of the period;
- failure to disclose impairment information for reportable segment as per Para 120 of AS 28.

Other Key Areas



Related Party Disclosures (AS-18)

Following are the common pitfalls in AS-18:

- Loan borrowed from a related party not being disclosed as related party transaction in the financial statements but appropriately reported in the CARO Report.
- Parties with whom relationship existed for part of the year not being disclosed as related party during the year but transactions with them disclosed as related party transactions.
- Year end balances not tallying with the figures disclosed as break-up to the year end balances (Closing balance = Opening balance + current year transactions).

Other Key Areas



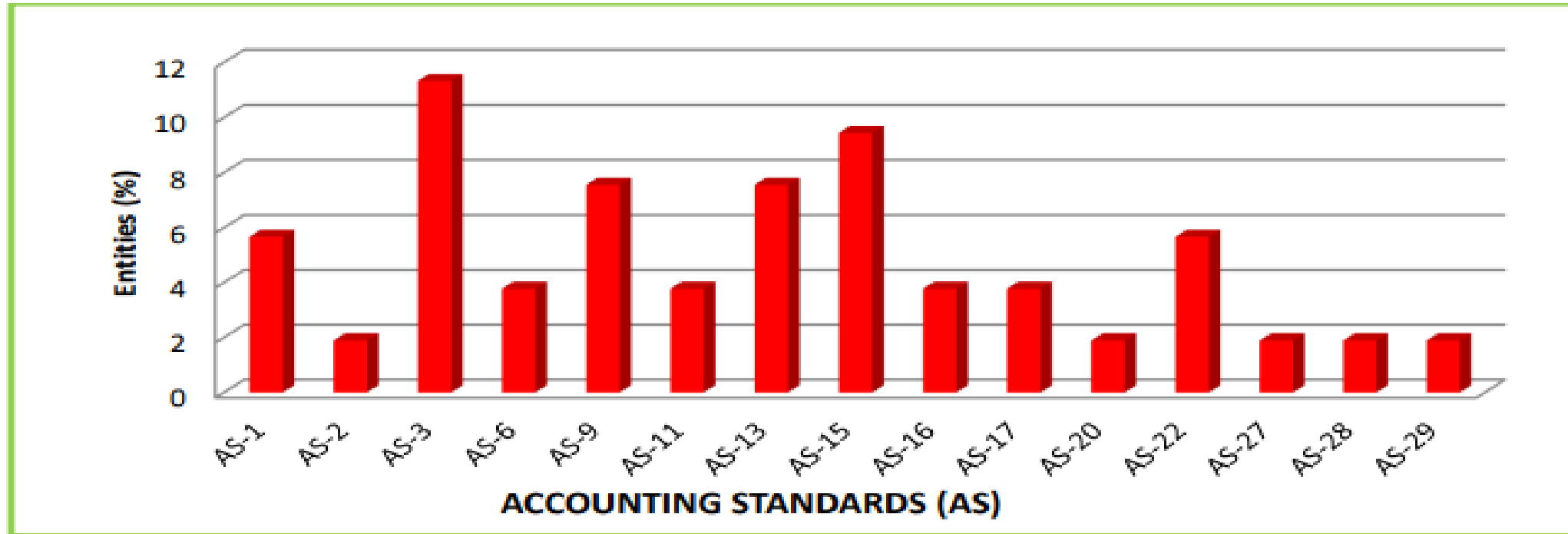
Provisions, Contingent Liabilities and Contingent Assets (AS-29)

Following are the common pitfalls in AS-29:

- Non disclosure of contingent liabilities for disputed tax liabilities and other claims by vendors / contractors.
- Non disclosure of contingent liabilities for arrears of dividend on cumulative preference shares.
- In respect of movement of provision for liabilities, non disclosure of nature of obligation, timing of outflow, uncertainties relating to any outflow and the possibility of any reimbursement.
- In respect of contingent liabilities, non disclosure of indication of uncertainties relating to any outflow and the possibility of any reimbursement.

Observations in Accounting Standards - Snapshot

% of Entities having observations on Accounting Standards (AS)²



2. The graph represents the % of Entities having observations under various Accounting Standards (ASs) for reviews completed during F.Y. 2017-18 (pertaining to the financial statements for the years ended on 31 March, 2014 and 31 March, 2015).

Number of Entities having observations on Accounting Standards (AS) in reviews conducted during FY 2017-18:

Accounting Standards	Number of Observations	Number of Entities	% of Entities to Total Entities (Total Entities =53)
AS - 1 Disclosure of Accounting Policies	3	3	6
AS -2 Valuation of Inventories	1	1	2
AS -3 Cash Flow Statements	6	6	11
AS-6 Depreciation Accounting	2	2	4
AS - 9 Revenue Recognition	6	4	8
AS - 11 Effects of Changes in Foreign Exchange Rates	2	2	4
AS- 13 Accounting for Investments	5	4	8
AS - 15 Employee Benefits	5	5	9
AS-16 Borrowing Costs	2	2	4
AS-17 Segment Reporting	2	2	4
AS - 20 Earnings Per Share	1	1	2
AS - 22 Accounting for Taxes on Income	3	3	6
AS-27 Financial Reporting of Interests in Joint Ventures	1	1	2
AS - 28 Impairment of Assets	2	1	2
AS - 29 Provisions, Contingent Liabilities and Contingent Assets	1	1	2

Key findings in Other Laws and Regulations



Other laws and regulations

Findings in this area included:

- failure to disclose and report appropriately under various clauses of CARO, 2016;
- failure to disclose requirements of RBI Circulars;
- failure to disclose the requirements of Schedule III of Banking Regulation Act, 1949;
- failure to disclose the requirement of Schedule II of the Companies Act, 2013.
- Cases of deficiencies in regard to the compliance with Schedule III/ revised Schedule VI have been noted, relating to the disclosure and classification by the companies in their financial statements.

THANK YOU