Name of Technical Reviewer (TR), ICAI M. No. &TR No.:
Name & FRN of AFUR:
Quality Review (QR) of Statutory Audit of ……. (Name of Entity) for the year ended on…..

Report on Areas of Focus for Review

During the audit quality reviews, Quality Review Board assesses:

• the audit firm's quality control system; and

• the quality of individual audit file.

Quality Review Board has identified the following focus areas for the reviews. The Technical Reviewers are required to consider these during their reviews and provide their comments:-

	Area of Focus	Technical Reviewer's Comments	If adverse comment, Paragraph reference in the Appendix-I
1.	**Auditor independence** An important part of an auditor's role is to act in the interests of shareholders, investors and other stakeholders. As such, Auditors also need to effectively identify and assess any threats to their independence. They must apply appropriate safeguards to protect their independence, and report these properly to Audit Committees or Directors. As a result of our past reviews, we will continue to review independence for each audit file and extend our research into the level of non-assurance services audit firms provide to their clients. In our reviews, we will focus on audit firms that provide significant non-audit services to the reporting entities they audit.		

	We will consider:		
	• Whether those non audit services are allowed as per applicable law?		
	• Whether they have appropriately identified threats to their independence?		
	• Whether those threats were sufficiently addressed by the controls put in place, and the audit work performed?		
2.	**Audit quality control systems and supervision** The engagement partner plays an import role in achieving high-quality audits. We will focus on whether senior audit team members and engagement partners have the skills and time to support and review work throughout the audit. This includes sufficient involvement in the planning, execution and final stages of the audit. Additionally, where important parts of an audit have been performed by more junior staff, we will focus on whether those staff were supervised and reviewed in a timely manner by a sufficiently experienced manager or engagement partner. The engagement quality control review (EQCR) partner also plays an important role in audit quality. We expect the EQCR partner to be involved in the key areas of risk in the audit file, wherever required. We also expect the EQCR to be performed during the planning, execution and final audit procedures, to ensure the audit team has sufficient time to address any comments from the EQCR partner. We will review whether the EQCR partner's involvement is clearly documented on applicable audit file. We will focus on the adequacy and effectiveness of the audit firm's		

	own quality control policies and procedures by reviewing:		
	• Compliance of Requirement of SQC-1.		
	• Governance of the audit firm and its tone at the top		
	• The firm's internal and external audit quality reviews		
	• How audit quality impacts staff and engagement partner's performance?		
	• How the firm conducts root cause analysis when assessing the underlying cause of audit quality findings?		
	• The firm's plans to address findings from internal and external reviews, and how they monitor effective implementation?		
3.	**<u>Professional Scepticism</u>** We expect an appropriate level of professional scepticism to be maintained during every audit. In the audit documentation, we expect to see sufficient audit evidence demonstrating that appropriate professional scepticism has been applied by the partners, quality control reviewers, and staff. Our focus for this will be on the following areas:		
	• Whether significant judgements on accounting estimates and fair value calculations were made?		
	• Whether reliability of data provided by management or directors ensured?		
	• Whether impairment calculations were properly checked?		
	• Whether changes in accounting treatments, or use of unusual accounting treatments by the entity were looked after?		
4.	**<u>Audit evidence</u>**		

	We will review whether auditors have appropriate and sufficient audit evidence to support their opinion, with particular focus on the following areas of financial statements:		
	• Entity's going concern		
	• Revenue recognition, including the assumptions of fraud and management override		
	• Key risks identified by the audit team for audit file.		
5.	**Understanding the entity and its environment** We expect auditors to have an adequate understanding of entity's business model. This should be reflected in the auditor's risk assessment, to ensure that all key risk areas are included in the audit strategy. We will focus on:		
	• Whether the auditor has properly identified the risks?		
	• Whether the auditor has assessed the controls that are relevant to the audit, and has evaluated the design of those controls and determined whether they have been implemented?		
	• Whether the auditor has appropriately tested reliance that has been placed on controls?		
	• Whether the auditor has obtained sufficient and appropriately detailed audit evidence?		
6.	**Related party transactions** Although related party transactions may occur in the course of normal business, because the entities are not entirely independent of each other, the transactions may carry a higher risk of material misstatement		

	in respect of: • non-identification or non-disclosure • complexity of transactions and ability to appropriately account for them • fraud being conducted by the entity or the related parties • the entity's ability to continue in business as a going concern, if the entity's interest is subordinated to that of related parties, or the transactions put undue pressure on the entity's performance. The auditing standards require auditors to obtain sufficient audit evidence regarding the accuracy and completeness of disclosure of related parties and related party transactions in the financial statements. When entities state that the transactions are on an 'arm's-length' basis, it is also important that the auditors verify this or otherwise ensure relevant information about the transaction is disclosed in the financial statements. Audit firms should consider if their current procedures are sufficient to address risks associated with related party transactions. It is important that auditors apply sufficient professional scepticism when reviewing related party information, including whether all related parties and transactions have been captured. It is also important to ensure sufficient work has been done when an entity states in its financial statements that related party transactions have been conducted on an arm's length basis. The adequate disclosure of related party transactions is critical for investors to understand relationships the entity has that are not independent, and the impact these relationships have on the business. We therefore expect disclosure requirements to be complied with in all instances. Our review will focus on the auditors work in relation to:		

	• Understanding the entity's policies, processes and procedures to identify and record related party relationships and transactions.		
	• Testing the completeness of related party relationships and the procedures to search for undisclosed related parties.		
	• Assurance for mirroring of transactions - whether relationship between parent and subsidiary and all other associates/joint ventures including transactions have been disclosed. The transactions between group entities may carry a higher risk of material misstatement in view of complexity of transactions and ability to appropriately account for them.		
	• Whether you performed procedures to review the completeness and accuracy of related party transaction disclosures between group entities by reviewing corresponding reporting in their financial statements and other records existed.		
	• Testing the completeness, accuracy and disclosure of related party transactions.		
	• Whether Company has RPT policy? Is the policy in compliance with applicable laws?		
	• Assessing significant transactions that are outside the normal course of business.		
	• The auditor's requirement to test journal entries.		
	• Whether Regulation 23 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in respect of approval mechanism and disclosure of related party transactions has been complied with, if applicable?		

7.	**<u>Auditor responsibilities relating to fraud</u>** Auditors provide assurance that the financial statements, taken as a whole, are free from material misstatement caused by fraud or error. The auditing standards require auditors to perform audit procedures to assess the risk of fraud and to obtain sufficient audit evidence to mitigate the risks identified as part of their assessment. In each audit, auditors must assess the risk of fraud due to management override and the possibility of fraud in revenue recognition. It is also important for auditors to understand other laws and regulations that entities have to comply with. We expect auditors to increase their efforts to identify the risk of fraud. They should plan and carry out appropriate procedures to address identified risks. Given material misstatement due to fraud can occur throughout the period, and may involve extensive efforts to conceal how the fraud is accomplished, we expect auditors to be alert to this and not simply take a predictable 'check-the-box' approach to testing the risk of fraud. The audit standard requires auditors to perform certain procedures to address this risk, which should be clearly documented in their approach. In our reviews we will focus on:		
	• The auditor's assessment of the risk of fraud, including fraud in revenue recognition		
	• The auditor's assessment of significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual		
	• The auditor's requirement to test journal entries, in particular: – the assessment of processes in place at the entity to post and review journal entries		

	– selection of journal entries and other adjustments made at the end of a reporting period – the auditor's assessment of the need to test journal entries throughout the period		
8.	**Accounting estimates** The appropriateness of estimates and judgements is important because of their impact on financial results and the going concern of the company. To make these assessments, entities may use their own staff or a third-party expert to support its estimates and judgements. Experts that may be used include actuaries, financial analysts, valuers and engineers. Examples of areas that may be impacted by estimates and judgements include (but are not limited to): • valuations of certain assets and liabilities at fair value • investments in unlisted entities • complex accounting for revenue transactions • assessment of the going concern of the entity • impairment assessments on significant assets. In our audit file reviews, we look at the quality of the financial statement disclosure in relation to estimates and judgements. Significant changes from the prior year or large impairments may cause us to look more deeply at the work completed around estimate and judgements. Over the past few years we have noted improvements by auditors in documenting their assessment of more complex areas of estimate and judgement. But more work is needed, we will focus on the following areas:		
	• Assessing the reliability of estimates used in prior year financial		

	statements.		
	• Questioning or testing management assumptions such as growth assumptions.		
	• Evaluating key assumptions and performing sensitivity analysis to determine the impact of each assumption, and consideration that multiple assumptions can move together at the same time.		
	• Assessment of whether the financial statement disclosure is clear and concise, and includes all key information for investors to assess the impact of (sometimes small) changes in key assumptions.		
	• When auditors are relying on experts (either the firm's internal experts, or experts used by the entity) we expect to see the following: – The assessment of the completeness, accuracy and reasonableness of source data used by the expert. – The audit team's documentation of the understanding of the expert's work. This includes identifying key data and assumptions that impact the overall valuation, the instructions sent to the expert and the methods used by the expert. – Auditors sufficiently addressing the impact of the management expert's or internal expert's disclaimers regarding completeness of information or reliability of data. – The work of experts may vary significantly in scope. The auditor needs to understand the expert's scope and perform additional audit work to mitigate any areas that were not included in the expert's scope.		

	Auditing estimates and judgements may include auditing complex valuations. Challenging the entity in these areas requires highly skilled staff. We expect audit teams to set appropriate thresholds within which these judgements can move. It is important that auditors require the entity to provide sufficient disclosure in the financial statements about the impact of the changes in the assumptions supporting these valuations. The engagement partner should be involved in planning and executing these procedures. In complex areas that are outside the expertise of the auditor, we expect the audit firm to engage its own expert to assess the relevance and reasonableness of the key assumptions and methods used. If insufficient information is available, the auditor should assess the impact of this on the audit opinion.		
9.	**<u>Auditor's use of experts</u>** Where financial reports are complex, or include matters requiring specialist knowledge such as valuations of certain assets and liabilities, entities may use the advice of external or internal experts. We expect auditors who rely on the work of these experts to:		
	• Check their competence and objectivity.		
	• Evaluate the quality of the experts' work, their independence, their key assumptions, and the valuation methods used.		
	• Whether the auditor considered engaging their own external expert (if the audit firm doesn't have in-house expertise) to challenge the work of the entity's expert.		
10.	**<u>Execution of audit procedures</u>**		

	In our reviews, we will look at certain large account balances and transactions, which may not necessarily be identified as key risk areas by the audit team. We will focus on the planning and execution of the audit procedures for these areas.		
11.	An auditor's key role is to form an opinion on whether the financial statements of an entity are free from material misstatements. As they cannot test all transactions to form an opinion, auditors instead use two important concepts to determine the level of transactions they should test: materiality and audit sampling. Setting incorrect levels of materiality and insufficient sampling of transactions could result in auditors not identifying material errors or misstatements in financial statements. **A. <u>Materiality</u>** The concept of materiality is defined in both accounting and auditing standards. Misstatements, including omissions, are material if they, individually or in the aggregate, could reasonably be expected to influence economic decisions of users taken based on financial statements.		
	• In the planning stage of an audit, auditors determine the appropriate basis, percentage, and material benchmark to scope the audit approach.		
	• During the audit, they will, if necessary, revise the materiality of financial statements based on information they receive.		
	• The auditor is also required to take other qualitative matters into account when assessing whether or not financial		

	statements are materially misstated – for example, whether an entity provided the level of disclosures required by the accounting standards.		
	B. <u>Audit sampling</u> As it is not always possible or efficient for an auditor to test all transactions, they can test a sample of transactions to obtain a reasonable level of assurance over an entire population. There are several factors that impact sample size and how it is selected. Often an auditor will use different techniques for different types of assets, liabilities or items in a profit and loss account. They can apply their professional judgement in different ways to select a sample size. As judgement is involved, they should document their considerations and the purpose of the audit procedure, the characteristics of the population from which the sample will be drawn, and other relevant decisions made to select a sample size that is sufficient to reduce sampling risk to an acceptably low level. If unusual benchmarks are used, the audit documentation should explain why the chosen benchmark was used and how it better responds to the needs of the users in comparison to other more common benchmarks. Although the firm's methodology will include templates for calculating materiality, the auditor should still document the judgements made in selecting the appropriate benchmark, and the allowable range within the benchmark. Auditors should also continue to focus on the way audit teams perform audit sampling, especially:		
	• The appropriateness of tests and whether they address the risks identified for that class of transaction.		

	• Where errors are identified, whether conclusions drawn for the overall population are appropriate.		
	• Ensuring the audit team has obtained sufficient comfort in relation to the untested population.		
	The auditor should make a robust assessment on the impact of errors and other areas of non-compliance with the technical standards. We will continue to review auditor compliance with materiality and sample size requirements on audit file. In instances of non-compliance, we will assess if the root-cause analysis and remediation plans are sufficient to address our concerns in these areas.		
12.	**<u>Root cause analysis</u>** In QRB's annual Audit Quality Review Reports, we set out our observations and expectations of audit quality control systems. We focused on the development and implementation of root cause analysis processes. Root cause analysis is intended to improve audit quality by identifying the underlying causes of internal and external review findings. When performed well, root cause analysis provides audit firms with opportunities to develop bespoke responses and prevent recurrence of negative outcomes across all the audits the firm performs. We expect that the root cause analysis of internal and external review findings should include a broad range of considerations to determine the actual root causes, and not jump to a solution-driven outcome. We expect audit firms to have good processes in place to test the effectiveness of remedial actions, including the assessment of training activities. When an effective review indicates that findings were not		

	addressed or not consistently addressed, we expect an audit firm to repeat the root cause analysis.		