Practical Implementation & Documentation under Standards on Engagement and Quality Standards

THRISSUR (SIRC)
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Coverage

260

265

Agreeing the terms of engagement

Audit documentation

Communication with those charged with the governance

Communicating deficiencies in internal control to those charged with the governance and management

Theme

Backdrop of SA

FAQ's and Case Study

Key points and observations from regulatory bodies

Key takeaways

SA 210 Agreeing The Terms of Audit Engagement

Outline and pre-conditions of SA 210

Auditor shall accept an audit only when the procedure to be performed has been agreed, through:

Audit procedure to ensure that preconditions for an audit are present

confirming if there is a common understanding between auditor and management or TCWG

Acceptable Financial reporting framework

Obtain agreement of management that it acknowledges and understand its responsibility:

Financial Statements prepared within Financial Reporting Framework

Internal Control exist to ensure that there are no material misstatement in financial statements

Provide auditor with unrestricted access to employees to obtain required audit evidence and access to all relevant and additional information

FAQs

Scenario	Response	Reference
Whether EL is required for interim audit of FS	Separate EL is required for quarterly / interim audit	-
Is there any need for annual EL or period based EL will suffice	Period based EL may suffice unless there is any change in scope or regulation or management	Para 13, A29 of SA 210
Who can sign the EL from client side	Management or TCWG	FAQ 14
Compliance with SAs is required for appointment as tax auditor	Yes	GN on tax audit para 9.24

FAQs (contd.)

Scenario	Response	Reference
Is there any time limit for documenting the terms of EL	No. EL should be documented before the start of audit	-
Are formats / templates provided by the Institute	Yes, scenarios of applicability of CFS and IFC is provided.	ICAI publication
Is it mandatory to sign / acknowledge the EL from the management	Yes	FAQ 15 on SA 210
In case of Joint Audit, is it required to issue separate EL with each auditor	The joint auditors can obtain common EL	Para 11 of SA 299

Key points and observations from QRB

Observation	QRB Report Reference	SA 210 – para reference
The engagement letter was wrongly dated prior to the appointment at the AGM	FY 22-23	-
Not drawing the engagement letter in line with the requirement of section 144 of the Companies Act 2013 [structure and contents of EL]	FY 22-23	Para 10, A22
Not making a reference of the involvement of joint auditor in the engagement letter	FY 20-21	Para A23
Audit engagement letter did not include auditor's responsibility for consolidated financial statements and IFCOFR.	FY 19-20	-

Case study – NFRA observation

Facts of the case

The EP was charged with Response non-compliance with SA 210 in understanding the As objective and scope of the audit.

appointment letter contains all the detail required as per the SA 210 therefore, we had issued the acceptance letter and there is no violation of SA 210 & SA 200.

Conclusion

Appointment letter didn't details contain of objective, responsibility of auditors & Mgt. and applicable FRF (i.e., para 9,10 & 11 of SA 210). It resulted in accepting an illegal invalid and appointment.

Key takeaways

Make use of standard Templates issued by ICAI

Guide audit team that this is first step before commencing audit

Maintain tracker sheet for the recurring and periodical EL

Repository of signed EL to be retained

SA-230 Audit Documentation

"Audit file should be capable of speaking for itself without the need for any other aids to interpretation"

Extract from NFRA Report

Scope & Objective of SA 230

SCOPE

Auditor's responsibility to prepare audit documentation for an audit of financial statements. The specific documentation requirements of other SAs do not limit the application of this SA. Laws or regulations may establish additional documentation requirements.

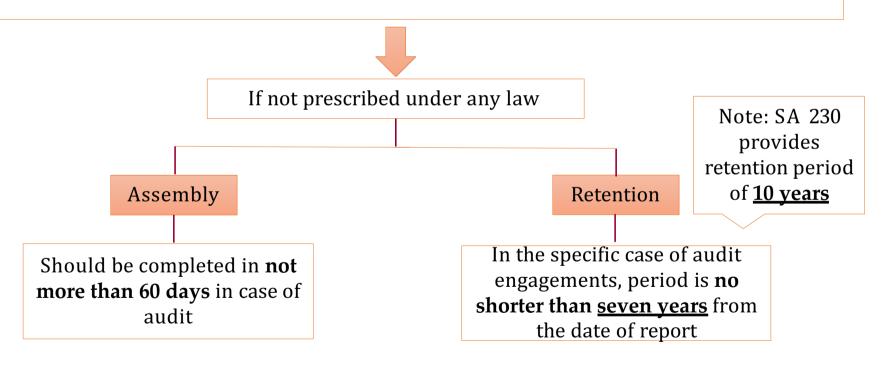
OBJECTIVE

Prepare documentation that provides:

- A sufficient and appropriate record of the basis for the auditor's report.
- Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Assembly and Retention

SQC-1 requires firm to establish policies and procedures for timely completion of assembly of audit files and retention of engagement documentation



FAQs

Scenario	Response	Reference
Sharing of audit work papers of component with Parent auditor	Yes (if requested)	Principles of SA 600
Can modifications be made to the final audit file	Incorporate the modifications in separate audit file and maintain a copy of both original and separate audit file	FAQ 35
Physical verification of inventory / title deeds carried out through video call	Need to record and retain the video call with appropriate permit	-
Whether minutes book, vouchers, fixed assets register, legal books etc. are to be obtained by auditor as audit documentation?	No. such records are to be kept and maintained by the Client. Auditor may take abstract of the same as he may find relevant as per his judgement.	FAQ 12

FAQs (contd.)

Scenario	Response	Reference
How shall oral communication be documented	Orally communicated matters should be documented in writing and the same shall be acknowledged by the client as well.	FAQ 37
Can an auditor accept a signed management representation which does not contain the stamp of the company?	No. Management representation should be given either on the letter head of the company or should at least contain company's stamp	-
How shall an auditor keep a track of documentation maintained in both electronic and physical mode	Control sheet should be maintained having reference of documents maintained physically and in electronic form	-
Is the auditor required to document all the third party confirmations received by the client	No, only confirmations having material differences need to be documented	FAQ 14

Audit Trail or Edit Log – reporting from FY 2023-24



Questions were raised on audit documentation



Questions raised in audit committee meeting

 In ACM, independent directors raised questions on reasons for decrease in salary growth in actuarial valuation



CFO could not answer on spot and hence raised to auditor

 Audit file did not document the reasons though discussed orally by audit team, hence Auditor couldn't respond



Audit documentation was not proper

 Above lapse in documentation resulted into the Board of Directors assuming that audit quality is not up to the mark

Digital records

Mismatch in date printed and date as digitally signed document

Different mode of sign for client and audit. To the extent possible it should be either both of them sign it digitally or manual

UDIN date is prior to DSC date

Proof reading of document not done before affixing DSC

Communication on unrecognized medium like WhatsApp, personal email id, etc.

Facts of the case

Communication and between client through In auditor unrecognized medium investigation, like personal email ids, etc. information

Consequences

party third client WhatsApp, may denial these and in that case, it will difficult for auditor to handle in scenario.

Conclusion

Always take documents from recognised medium.

Every critical audit that point should form part of LOR.

Confidential information

Auditor has verified confidential information / documents physically but those document has not shared with them

Obtained communication from the client that it is confidential in nature and hence unable to share. Further, auditor must apply alternate audit procedures:

- Make summary of those information
- Ask snapshot of critical points
- For critical points how those addressed

Significant size of audit data

Facts of the case

Audit team member Consequences has taken the entire dump from ERP in Consequently, the file excel and taken screen size shots of ERP sample increased pages to explain a included point

significantly and unwanted data.

Conclusion

Remove unwanted columns, unwanted rows.

Reduce the image sizes when you copy screen shots into a file

Peer reviewer observations

Observation

Cutoffs not documented for revenue recognition, year-end provisions

Going concern test not supported with projections

IT controls related to accounting is not documented

Response

Ledger scrutiny was carried out but not documented

Relied on management representation

Company uses tally software which doesn't have inbuild IT control

Conclusion

Audit procedure performed need to be documented

Assertion need to be tested, board has to approve projections and documented

IT controls should be documented

Key points and observations from QRB

Observation	QRB Report Reference	SA 230 – para reference
Not maintaining carry forward working papers i.e., record of matters of continuing significance for future audits	FY 22-23	Para 3
Not assembling the final audit file on a timely basis after the date of auditor's report	FY 22-23	Para 14
Not documenting discussions of significant matters with management or those charged with governance	FY 22-23	Para 10
Not preparing audit documentation that is sufficient to enable an experienced auditor to understand NTE of audit procedures, results of procedures performed, and conclusions reached	FY 22-23	Para 8

Key points and observations from QRB (contd.)

Observation	QRB Report Reference	SA 230 – para reference
There was no bifurcation in the file on the documents provided by the client and the documents generated / prepared by the firm.	FY 20-21	Para 2.14 of Implementation Guide
Not including check lists in the audit documentation for compliance of SAs	FY 19-20	Para 8, A3
Not documenting reasons for not providing interest on loan to subsidiary.	FY 19-20	-
Not maintaining documentation for audit procedures carried out for reporting on IFC	FY 19-20	-

Observation from NFRA: Missing workpapers

- Understanding the operations and IT system controls and internal controls
- Audit plan
- Determination of audit materiality
- Internal audit reports
- Procedure adopted to verify the loans sanction during the year
- Balance confirmations
- Risk Assessment of material misstatement procedure not documented

Extract from NFRA report

"The Audit Firm has failed to maintain audit documents as per the requirements of SA 230. The integrity and reliability of the Audit File is questionable due to inconsistencies arising out of such lack of documentation"

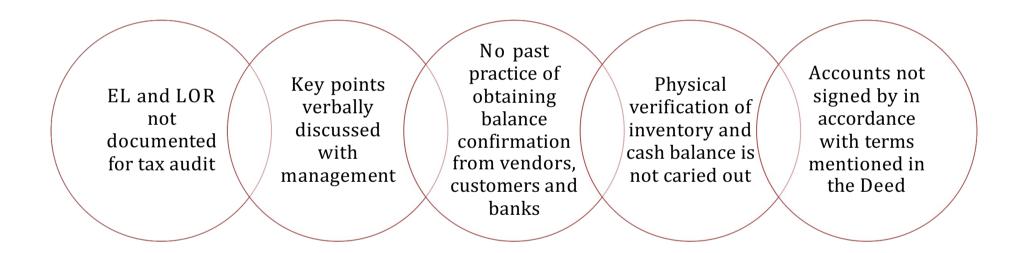
NFRA – Observation (Contd.)

- Mismatch between the team name and timetable as contained in audit program and as evidenced from other attendance register etc.,
- The signed note provided by the management has reference of high court decision whose date is subsequent to the date of management note indicating back dating of work paper

Conclusion reached:

- audit documentation completely fails to ensure even the minimum essential to meet the requirements of SQC 1 and SA 230
- fundamental aspects of integrity of Audit Files, accountability of the firm and its personnel, maintaining sufficient appropriate audit evidence for the audit planning, performance and basis for conclusions for achieving audit objectives are seriously compromised as a result.
- complete failure of the Audit Firm to monitor and control the integrity of the audit files. Consequently, the audit files maintained by the auditor are not found to meet the compliance requirements of SA 230. In not having reviewed and rectified these deficiencies, the Audit firm is guilty of serious professional misconduct

Audit of SME & Non-Corporate Entities



Key takeaways

Training personnel on the Audit Documentation standard

Policy of doing audit & documentation simultaneously

Follow ups of documentation matter during internal reviews

Using a standard format to ensure proper documentation

Using checklist for each area covered in audit engagement

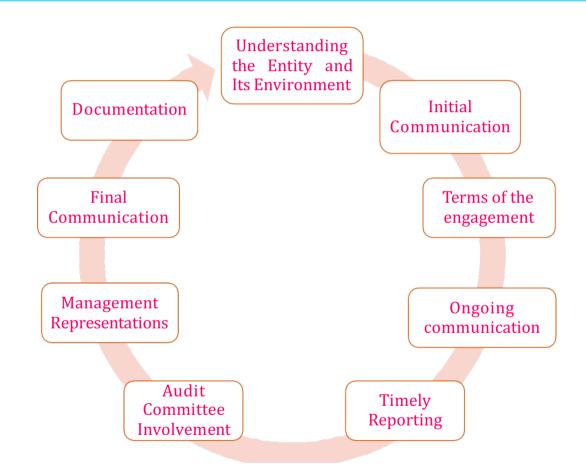
Repository of scan and digitally signed financial sets

SA -260 Communication with Those Charged with Governance

Synopsis of SA 260



Practical Implementation on SA 260



Matters to be communicated to TCWG

Auditor's independence and overall scope (allocation of work in case of joint audit)

Principal areas of significant risk and our approach to deal with the same

Responsibility towards prevention and detection of fraud test

Appropriate level of materiality – overall, performance and trivial

Exceptional / unusual transactions encountered during audit

Disagreement with management arise during audit

Case study 1

Facts of the case

• CA has heen appointed as an auditor of JIN Limited, multinational a company dealing in spare parts. During audit, CA faced issues in obtaining the audit information from the which management resulted in delay in closing the audit of financial statement.

Response

• CA was informed that such delay is due to system issues in generating the information from ERP.

Conclusion

- CA reported the matter to TCWG about significant delay in receiving the information which resulted into delayed audit closuring.
- Alternate audit procedures were applied for concluding the audit areas.

Case study 2

Fact

Auditor raised the point on changes in accounting estimates (like provision for sales discounts based on scheme) and significant variance between the estimate and actual amount. This matter was raised repeatedly with the management and TCWG.

How addressed

This was considered as 'Key Audit Matter' to be reported in the audit report as per SA 701 and communicated to management. The audit procedures were accordingly scheduled.

NFRA observation

Facts of the case

EP failed to communicate Response TCWG with its responsibilities, scope and timing of audit and of internal deficiencies control. documentation for the same was maintained.

EP responded that he had maintained the EL which confirms the acceptance of audit. EP admitted that there no was documentation matters material discussed with TCWG via meetings and discussions

Conclusion

Since oral communication with **TCWG** needs to be documented, EP has failed to exercise due diligence and was grossly negligent in identifying and communicating with TCWG which resulting to non-compliance of SA 260 and 265

Key points and observations from QRB

Observation	QRB Report Reference	SA 260 - reference
Not documenting the appropriate person who needs to be communicated (TCWG)	FY 22-23	Para 11
Oral communication with the TCWG is not documented	FY 22-23	Para 23

Key takeaways

Communication by auditor does not relieve management of its responsibility

Significant matters to be communicated timely basis

If it's importantit should be communicated to TCWG



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

Deficiencies in Internal Control

Deficiency in Internal Control

When internal control is *unable* to prevent, detect any misstatement [e.g. cyber security risk]

When internal control are *missing* to prevent or detect misstatement [e.g. risk of double booking of revenue]

Case study on SA 265

Fact

During audit, the auditor identifies a deficiency in the internal control related to revenue recognition. The controls over recognizing revenue from sales transactions are inadequate, leading to a higher risk of misstatements in the financial statements.

How addressed

over Document the deficiency in the working sales papers

- Communicate with management
- Co-ordinate with TCWG
- Prepare written communication that includes recommendations for improving the controls related to revenue recognition

Key points and observations from QRB

Observation	QRB Report Reference
Non-compliance of SA 265 in respect of not	FY 18-19
communicating significant deficiencies in internal	
control identified during the audit to TCWG	

Key takeaways

Identification of potential risk to financial reporting

Improvement in existing controls / forming new controls

Observations by Quality Review Board [QRB]

