



# Quality Audit as per Auditing Standards – Key Aspects

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## Key Aspects

- ▶ General considerations
- ▶ Planning
- ▶ Risk Assessment and Responses to assessed Risks
- ▶ Use of technology
- ▶ Audit Evidence
- ▶ Audit documentation
- ▶ Compliance with Accounting standards/Regulations
- ▶ Audit conclusion and Reporting
- ▶ Use of Judgement
- ▶ Quality control
- ▶ New developments and Future scenario

## General Considerations

- ▶ Why Standards
- ▶ The mandatory nature of standards – it is now law.
- ▶ External Regulations – Interpretations by other than CA's
- ▶ Not enough to do a quality audit but to prove it
- ▶ Complex businesses and accounting thereon
- ▶ Multiple legislations and regulations
- ▶ Audit is at the low end of the fee levels – no added value?
- ▶ Availability of qualified personnel and their cost
- ▶ Time constraints – unreasonable deadlines

## Planning – SA 300/320

- ▶ No planning – No effective audit
- ▶ Involvement of all key members of audit team
- ▶ Significant factors
- ▶ Knowledge of client industry, business and systems
- ▶ Focus on important and key areas
- ▶ Audit strategy
- ▶ Audit plan memorandum
- ▶ Determine planning Materiality
  
- ▶ \*\* Plan the work and Work the plan \*\*\*

## Risk Assessment and Response to Assessed Risks –SA 315 and 330

- ▶ Thorough knowledge of Business, Entity and Controls
- ▶ Without knowledge and understanding – no effective risk assessment possible
- ▶ Audit is not “checking everything thoroughly” but is
  - ▶ - predominantly assessing risk of material misstatements and mitigating those audit risks with appropriate procedures and conclusions”
- ▶ How do you assess risks?
- ▶ Question – “ what can go wrong “ resulting in material misstatement.
- ▶ At Financial Statement Level and Assertion Levels
- ▶ Accuracy, Existence, Completeness, Valuation ,Disclosure .... It is necessary which assertion there is a risk of material misstatement.

## Risk Assessment and Response to Assessed Risks –SA 315 and 330

- ▶ Eg – scenario : The company is affected by pandemic and sales during the year are low but at the same time it is hard pressed to show better results for fund raising....plus other similar factors ...
- ▶ What can go wrong ?
- ▶ Revenue is normally a high-risk item as any misstatement in revenue could be material as it is generally the most significant item in financial statements In the above scenario what could go wrong in revenue ?.
- ▶ Risk of Possible overstatement of year end revenue –
- ▶ Note in the given scenario the Existence of year end sales and its Accuracy are the Risks of Material Misstatement. Whether all the sales have been recognized may not be a risk of material misstatement in this scenario. ( it could be so when there is a scenario of high revenue and tendency to avoid tax )

## Risk Assessment and Response to Assessed Risks –SA 315 and 330

- ▶ Response to the assessed Risk of Material misstatement .
- ▶ Test of controls and a detailed substantive tests focused to mitigate the risks
- ▶ In the above example verifying controls over year end sales and detailed substantive testing of cut off and year end sales focused on existence and accuracy.
- ▶ Audit tests should focus on what risks they are responding to ..
- ▶ The procedures should be effectively respond to the risks to conclude the risk of misstatements are mitigated
- ▶ Use of experienced resources and supervision of audit
- ▶ Professional skepticism across the team
- ▶ The common error -- procedures are generally not focussed on the assertion e.g. instead accuracy and existence the procedure may be testing completeness

## Use of Technology

- ▶ There are two aspects – By the auditee and by the auditor.
- ▶ Use of technology has been changing drastically the manner in which accounting is being processed
- ▶ There are a number of automated entries
- ▶ There are many systems, and they are linked
- ▶ Data transfer between systems
- ▶ The audit trail
- ▶ Remote systems and processing
- ▶ Shared services centres
- ▶ Cyber security has become paramount importance
- ▶ Significant technical involvement in auditing such environment



## Use of Technology

- ▶ Clear understanding of automated and manual controls
- ▶ Detailed understanding of system reports used in control and in processing
- ▶ Detailed plan of testing general controls and automated entries
- ▶ Systematic usage of IT specialists and review of work by the core team

### By the auditor

- ▶ Analytical tools
- ▶ Planning , Data gathering etc.
- ▶ Documentation
- ▶ Reperformance
- ▶ Sampling and identifying exceptions .....

## Audit Evidence –SA 500-599

- ▶ Sufficient and Appropriate Evidence
- ▶ To mitigate the Risks identified
- ▶ Test of controls and Substantive procedures
- ▶ Relevant and Reliable
- ▶ Source - Internal and External
- ▶ Independent corroboration
- ▶ **Process:**

Inspection

Observation

External confirmation

Recalculation

Reperformance

Analytical procedures

Inquiry

## Audit Evidence SA 500-599

- ▶ Focus
- ▶ Control vs process
- ▶ Inherent and unconscious Bias
- ▶ Professional Skepticism
- ▶ Information Produced by the Entity IPE
- ▶ Related Party Transactions
- ▶ Audit Sampling –
- ▶ Element of unpredictability or surprise
- ▶ Audit review and supervision
- ▶ Timeliness
- ▶ Going Concern
  
- ▶ Risk of Management Override of Controls ..... A very difficult terrain to cross

## Audit Documentation SA 230

- ▶ Documentation is a key requirement for an auditor given the plethora of regulatory oversight
- ▶ Objective:
  - ▶ - Sufficient and Appropriate to support the basis of the conclusions and Report
  - ▶ - Evidence that the audit was planned and performed as per the Auditing Standards and applicable legal and regulations
- ▶ “ Work Not documented = Work Not done “
- ▶ General Gaps: Planning , Risk assessment , conclusions, etc
- ▶ Use of templates,checklists, questionnaires, automated files, etc.
- ▶ Guard from - ticking without application of mind
- ▶ Work done linked to mitigations of risks identified
- ▶ Documenting client processes but fail to document the tests performed
- ▶ Documenting key areas including judgements and the underlying support
- ▶ Referencing , archival ---House keeping .....

## Compliance with Accounting Standards and Regulations

- ▶ Audit is to report on the Financial Statements
- ▶ Financial Statements are publicly available and prone to review by all
- ▶ While the reader does not have underlying details he has the statements only to review and compare with standards etc.
- ▶ Even accounting standards are now law and it is no longer the domain of only accountants
- ▶ Interpretations and the need to take due care
- ▶ Presentation and Disclosure have to be thorough and needs itemwise check
- ▶ Complete knowledge to the accounting teams and training and updates
- ▶ Additional care of specific regulations
- ▶ Eg NBFC/ Banks - RBI regulations ..... These are invariably inspected every year

## Audit Conclusions and Reporting SA 700-799

- ▶ Final audit opinion needs to be supported by conclusions in each area
- ▶ In every area of audit performance or tests conclusion has to be made based on the results of the tests - this is a common gap
- ▶ Evaluate and conclude audit evidence is adequate and appropriate to draw conclusions
- ▶ Summarise and analyse any exceptions or misstatements –
- ▶ Is additional procedures or increase in samples necessary ?
- ▶ Summary of adjusted and unadjusted errors arising out of audit and analysis
- ▶ Management Representation – Need but limitations involved. They cannot replace audit evidence
- ▶ Report – Evaluate – unmodified , EOM or Modified
- ▶ Qualified – Disclaimer – Negative
- ▶ Be conscious of the Reports – they are the output of the audit available to everyone
- ▶ Be aware of changes and updates in audit reports specially CARO

## Use of Judgement

- ▶ All pervasive throughout the audit
- ▶ Significant matters, Identification of risks, materiality, type ,nature and extent of procedures, review of tests and conclusions .....
- ▶ Judgement has to be backed up by sufficient data and logic
- ▶ Documentation of judgement in every area where it is exercised – a common gap
- ▶ Error Of Judgement or Gross Negligence ----- a thin line of difference
- ▶ Judgement required exercise at a senior level of the audit team with sufficient and appropriate knowledge and experience -
- ▶ Professional Skepticism
- ▶ Use of judgement in testing Valuations and estimates
- ▶ Judgement and Processes are two main ingredients of quality audit
  
- ▶ ..... People who judge auditors and audits may not be auditors themselves

## Quality Control – SA 220

- ▶ Quality control should be predominantly achieved by the process itself
- ▶ Ethical requirements
- ▶ Independence
- ▶ Assignment of Engagement teams
- ▶ Direction , supervision and performance
- ▶ Reviews – every work performed has to be reviewed by someone senior
- ▶ Consult consult consult.....
- ▶ Engagement Quality control review
  - At appropriate level and experience
  - Independent of audit team
  - Review key process , areas of material misstatements judgements and conclusions, documentations, disclosure , compliance .....
  - Documentation and resolution of quality control review questions
  - .....Regulators place as much responsibility on quality control reviewer similar to the engagement partner .....



## New Developments....some thoughts

- ▶ Is audit necessary - the discussions have already reached India for small entities
- ▶ Use of sophisticated IT tools and data analytics
- ▶ Can IT replace auditors?
- ▶ Sampling vs reperformance or recalculations
- ▶ Identifying outliers through system
- ▶ Use of remote resources and teams
- ▶ Shared or specialized service centres and audit
- ▶ Greater interaction between regulators and auditors
- ▶ Increase in oversight of the profession essentially on audit
- ▶ Increased use of specialized skills and industry specialists
- ▶ Auditors need to be updated and upgraded all the time .....including the fees

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Q & A if any

Thank you ....

