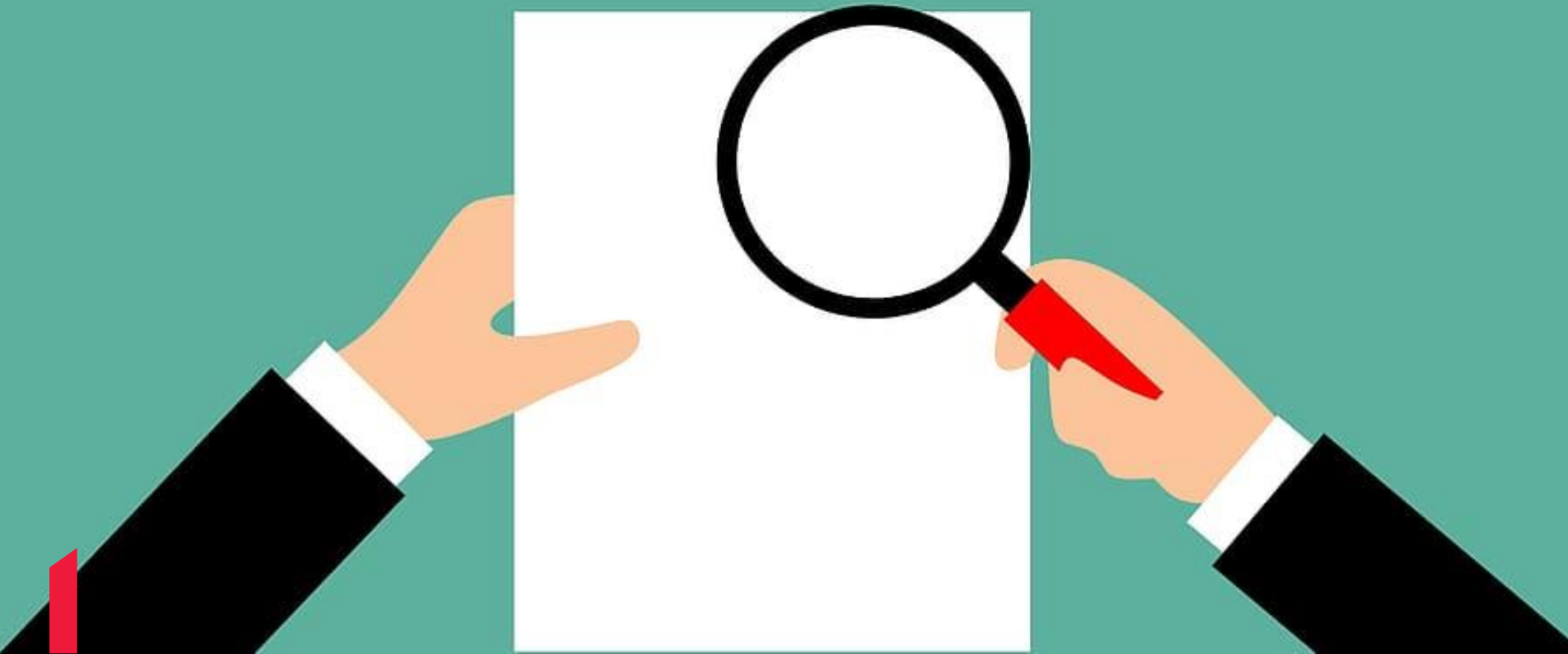


SQC 1, SA - 220 and SA - 550

CA Padmashree Crasto



Agenda



SQC -1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”



SA - 220 “Quality control for an audit of Financial statements”



SA - 550 “Related Party”

SQC -1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”



TABLE OF CONTENT

- Purpose
- Elements of a system of quality control
- Leadership responsibilities for quality within the firm
- Ethical requirements (including independence)
- Acceptance & continuance of client relationships & engagements
- Human resources
- Assignment of engagement teams
- Engagement performance
- Monitoring
- Documentation
- Difference between SQC 1 & SA 220

PURPOSE

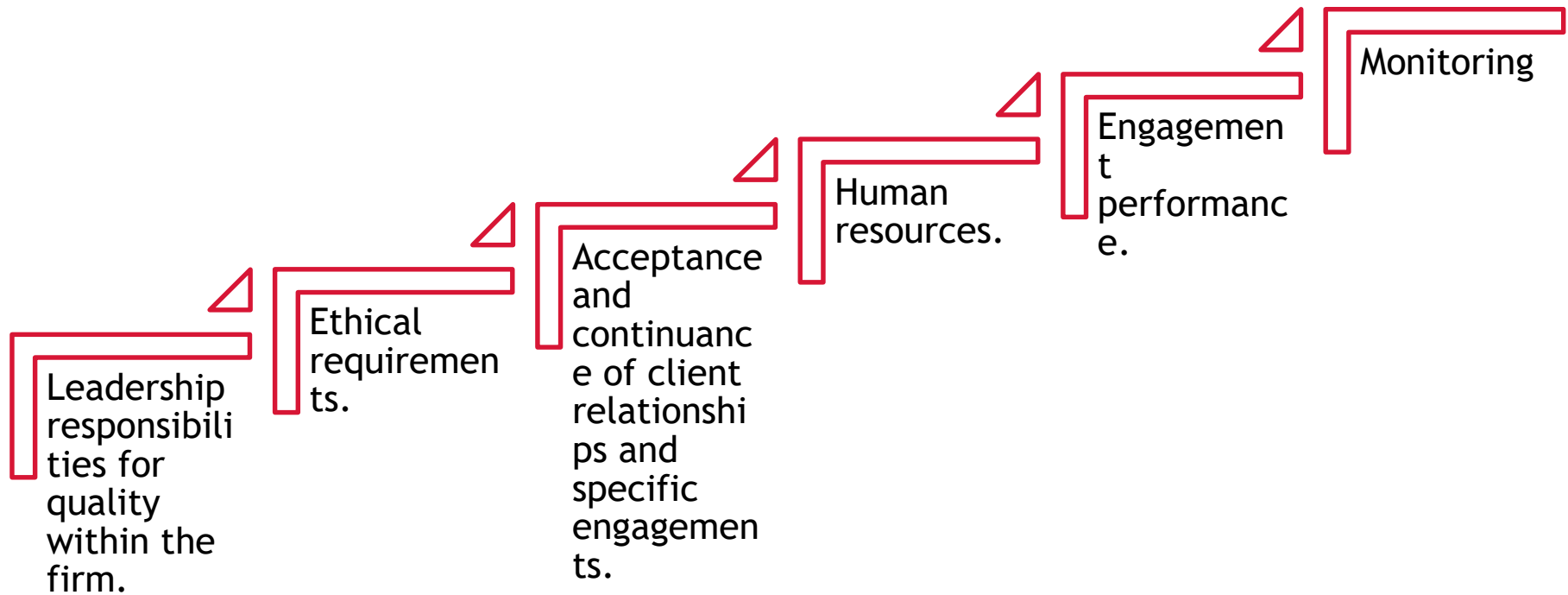
To establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements.

The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances.

This SQC applies to all firms. The nature of the policies and procedures developed by individual firms to comply with this SQC will depend on various factors such as the size and operating characteristics of the firm, and whether it is part of a network.

ELEMENTS OF A SYSTEM OF QUALITY CONTROL

The firm's system of quality control should include policies and procedures addressing each of the following elements:



ELEMENTS OF A SYSTEM OF QUALITY CONTROL

The quality control policies and procedures should be documented and communicated to the firm's personnel.

Such communication describes the quality control policies and procedures and the objectives they are designed to achieve and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures.

In addition, the firm recognizes the importance of obtaining feedback on its quality control system from its personnel. Therefore, the firm encourages its personnel to communicate their views or concerns on quality control matters.

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

Firm should design policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements

Requires the CEO or managing partners to assume ultimate responsibility for firm's SQC

Firm's leadership and eg/- they set, influence the culture within a firm

Should encourage a culture that recognises and rewards high quality work

Can be communicated by trainings, internal memos, informal discussions, newsletters, mission statements

Are incorporated in the firm's internal documentation, training material, partner and staff appraisal procedures to reinforce the firm's view on importance on quality

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

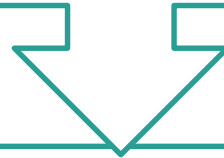
Needs the firm leadership to recognise that the business strategy is subject to the overriding requirement to achieve quality. Accordingly,

- Firm assigns its management responsibilities so that commercial considerations do not override quality
- Firm's policies, performance evaluations compensation and promotions are designed to demonstrate commitment to quality
- Firm devotes sufficient resources for development, documentation and support of its SQC

Persons assigned operational responsibility for SQC should have sufficient experience and ability, and the necessary authority to assume that responsibility

ETHICAL REQUIREMENTS (INCLUDING INDEPENDENCE)

Requires firm to establish policies and procedures to enable it to ensure that the firm and its personnel comply with ethical requirements



The firm's policies should emphasise the fundamental ethical principles as per ICAI's code of ethics (integrity, objectivity, professional competence and due care, confidentiality and professional behavior) which are reinforced by

Firm leadership	Education and training	Monitoring	Process for dealing with non compliance
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Independence

Establish policies and procedures to enable it to ensure that its personnel, and where applicable, others (including external experts used by the firm) maintain independence as per the Code

Such policies and procedures should enable the firm to

- Communicate its independence requirements to its personnel and others
- Identify and evaluate circumstances and relationships that create a threat to independence and take appropriate action to mitigate the threat, reduce it to an acceptable level or withdraw from the engagement

SQC1 specifically requires such procedures to include

- Procedures to enable to provide firm with relevant information on client engagements
- Personnel to promptly notify firm of circumstances & relationships that create an independence threat
- Accumulation & communication of information to personnel so that the firm and its personnel - can determine if they satisfy independence requirements, firm can maintain and update its independence records and can take appropriate action regarding identified threats to independence

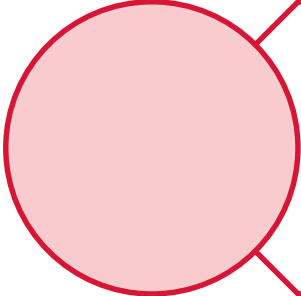
Independence

Firm should also establish procedures which enable it to be notified of independence breaches and should include requirements that

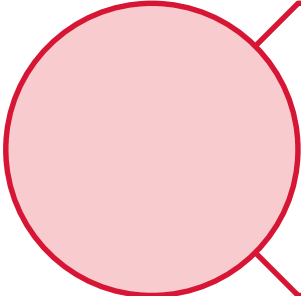
- All those subject to independence notify firm of breaches which they become aware of
- Firm communicates identified breaches to the engagement partner who needs to address the breach and other personnel who need to take action in respect thereof

Communication by the above people to communicate back to the firm of the actions taken

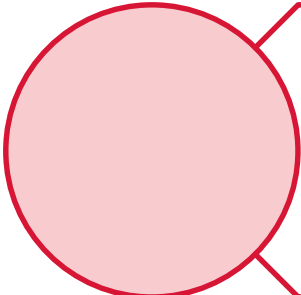
Independence



Appropriate action comprises - elimination of the independence threat, reducing it to an acceptable level (eg changing personnel on an engagement if certain team members are not independent, altering scope of other services which may pose an independence threat to assurance services) or withdrawing from the engagement



Requires the firm to obtain at least annually a written confirmation of compliance with independence from all relevant personnel



The policy should address the familiarity threat by setting criteria to mitigate threat by using the same senior personnel on an assurance engagement and requiring audit partner rotation for listed entities (currently rotation required every 7 years; sole practitioners excluded)

ACCEPTANCE & CONTINUANCE OF CLIENT RELATIONSHIPS & ENGAGEMENTS

Requires firm to establish policies and procedures to enable it to ensure it will undertake client relationships and engagements only where

- It has considered integrity of the client and does not have information that leads it to believe client lacks integrity
- Is competent to perform the engagement and has the time and resources to do so (eg complex industries, highly regulated entities, etc)
- Can comply with ethical requirements

Firm should obtain such information as considered necessary and if client is accepted after issues have been identified during acceptance, should document how the issues were resolved.

ACCEPTANCE OF A CHANGE IN THE TERMS OF THE AUDIT ENGAGEMENT

Matters to be considered for considering client integrity

- Identity/business reputation of the owners, KMP, related parties & those charged with governance
- Nature of client operations (eg gambling companies, etc) and its business practices
- Information regarding attitude of owners, KMP & those charged with governance towards matters such as aggressive interpretation of accounting standards and attitude to internal control
- Whether the client is aggressively concerned with maintaining fees at a low level
- Indications of inappropriate limitation on scope of work
- Indications that client may be involved in money laundering or other criminal activities (business environment in India v/s requirements in overseas countries for MNC client - FCPA, UK Corrupt Practices Act)
- Reasons for proposed appointment of firm v/s continuation of the earlier firm

Such information can be obtained from previous accountancy service providers, third parties, inquiry of firm personnel, bankers, legal counsel, industry peers and background searches

ACCEPTANCE & CONTINUANCE OF CLIENT RELATIONSHIPS & ENGAGEMENTS

In evaluating whether firm has capability, competence, time and resources to undertake the new client/engagement following to be considered

- Knowledge of firm personnel for the relevant industry/subject matter
- Experience with relevant regulatory/reporting requirements or ability to gain the necessary skills and knowledge
- Availability of sufficient personnel with necessary capability and competence
- Availability of experts as needed

These matters may generally be complied with but the SQC now requires the ability to demonstrate compliance with these matters.



In case firm obtains information after commencement of work which would have caused it to decline the engagement policies on continuance of engagement should include consideration of the professional and legal responsibilities that apply and whether there are any external reporting requirements and possibility of withdrawal from the engagement

ACCEPTANCE & CONTINUANCE OF CLIENT RELATIONSHIPS & ENGAGEMENTS

Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

- Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant issues, consultations, conclusions and the basis for the conclusions.

HUMAN RESOURCES

Requires firm to establish policies and procedures to enable it to ensure that it has sufficient personnel with

- Capabilities
- Competence and
- Commitment to ethical principles to enable it to perform its engagements

Such policies address the following issues (SQC does not say should but inclusion of these matters would enable demonstration of compliance with SQC requirements)

- Recruitment
- Performance evaluation
- Capabilities, competence
- Career development, promotion and compensation and
- Estimation of personnel needs

Capabilities and competence are developed through professional education, continuing professional development including training, work experience and coaching by more experienced members



It Can be achieved by training and states where internal technical training resources are unavailable suitably qualified external persons could be used (eg ICAI's training on IND AS, external professional development courses, etc)

HUMAN RESOURCES

Firm's performance evaluation, compensation and promotion procedures give due recognition to and reward the development and maintenance of competence and commitment of ethical principles

States a firm

- Makes personnel aware of its expectations regarding performance and ethical principles
- Provides personnel with evaluation of and counselling on performance, progress and career development and
- Helps personnel to understand that advancement to positions of greater responsibility depend upon performance quality and adherence to ethical principles.
- Recognises that smaller firms may have less formal procedures in this area

ASSIGNMENT OF ENGAGEMENT TEAMS

Responsibility of each engagement team to be with an engagement partner whose identity and role are communicated to key client personnel and those charged with governance, requires that the partner have necessary capability, competence, authority and time to perform the role and partner's responsibilities are clearly defined and communicated.

Policies and procedures should include systems to monitor workload and availability of engagement partners

Assignment of appropriate staff to the engagement. Following criteria considered for the same

Understanding and experience with similar engagements through training and participation (in past engagements)

Understanding of professional standards, regulatory and legal requirements and appropriate technical knowledge

Ability to apply professional judgement

Understanding of the firm's SQC

ENGAGEMENT PERFORMANCE

Requires firm to establish policies and procedures to enable it to ensure that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or partner issues appropriate reports



States that firms seek to achieve consistency in engagement performance and this can be achieved through manuals (written or electronic), software tools or other standardized documentation and industry and subject matter-specific guidance materials. The policy could address matters such as

How engagement teams are briefed on understanding their work objectives

Process for complying with applicable standards

Processes for engagement supervision, training and coaching

Methods of reviewing work performed, significant judgements made

Appropriate documentation of work performed

How policies and procedures are updated and kept current

ENGAGEMENT PERFORMANCE

Supervision policies would cover inter alia how engagement progress is tracked, considering competencies of team, addressing significant issues and identifying consultation matters

Review responsibilities are determined on the basis that more experienced engagement team members review work performed by lesser experienced members.

Most of the requirements articulated here would be followed in most cases. Challenges may arise in demonstrating that these have been executed.

Could be done by various means - eg sign off of hard copy working papers by preparer or reviewer to evidence work done and review, memos on how significant issues were identified and addressed

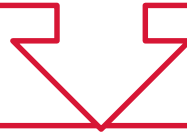
Most of these are covered in detail in the Standards on Auditing

ENGAGEMENT PERFORMANCE - CONSULTATION

Requires establishment of policies and procedures that

- Appropriate consultation takes place on difficult or contentious matters
- Sufficient resources are available to enable appropriate consultation to take place
- Nature and scope of such consultations are documented
- Conclusions from those consultations are documented and implemented

Consultation could be external or internal, uses overall firm experience, to ensure that persons consulted have all relevant facts



Documentation of consultation with other professionals is agreed by both the individual seeking the consultation and the individual consulted. Documentation sufficiently detailed and complete to enable an understanding of the issue and the results (including the decision and basis thereof) of the consultation.

ENGAGEMENT PERFORMANCE - DIFFERENCES OF OPINION

Requires establishment of policies and procedures for dealing with and resolving difference of opinion

- within the engagement team
- with those consulted and
- between the engagement partner and EQR reviewer.

Conclusions should be documented and implemented. Report should not be issued till the matter is resolved



In practice this situation may be rare but policies need to be in place to address these matters in case these arise

ENGAGEMENT PERFORMANCE - EQCR

EQCR is “a process designed to provide an objective evaluation, before the report is issued, of the significant judgements the engagement team made, and the conclusions reached in formulating the report”



Performed by an EQCR reviewer who is “a partner, other person (member of ICAI) in the firm, suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgements the engagement team made and the conclusion they reached in formulating the report.”. In case of an EQCR review team, it should be headed by an ICAI member.

SQC requires firm to formulate policies that for appropriate engagements provide an objective evaluation of the significant judgements made by the engagement team and should

Require an EQCR review of audits of financial statements of all listed entities

Set out the criteria against which all other engagements should be evaluated

Require performance of EQCR for all such engagements

ENGAGEMENT PERFORMANCE - EQCR

Criteria to be considered for considering EQCR for other than listed entities include

- Nature of the engagement including the extent to which it involves matters of public interest (eg a private insurance company, a oil block, a private telecom company, banks, etc).
- Identification of unusual circumstances or risks (significant litigation, going concern issues, etc) in an engagement (eg revenue recognition in infrastructure, real estate companies, claim accounting for insurance), or class of judgements (warranty, environment liability provisions)
- Whether laws and regulations require an EQCR

Firm should

- Set out the nature, timing and extent of an EQCR (ie requirements could be more strict than the SQC)
- Criteria for eligibility of an engagement quality reviewer
- Documentation requirements for them

ENGAGEMENT PERFORMANCE - EQR (NATURE, TIMING AND EXTENT)

EQCR involves discussion with the engagement partner, review of the financial statements, other information, the report and review of selected workpapers relating to the significant judgements made by the engagement team. The review does not reduce the responsibilities of the engagement partner.

EQCR for audits of financial statements of listed entities includes

- Engagement team's evaluation of the firm's independence for the engagement
- Significant risks (as defined in SA 315) identified during the engagement and responses thereto
- Judgements especially w. r. t. materiality and significant risks
- Whether appropriate consultations has taken place - difficult or contentious matters or differences of opinion
- Significance and disposition of misstatements during the audit (corrected or uncorrected). Eg corrected may be required to be reported to those charged with governance, uncorrected to be included in management representation
- Whether working papers reviewed support the conclusion on the related risk
- Appropriateness of the report to be issued

ENGAGEMENT PERFORMANCE - EQR (NATURE, TIMING AND EXTENT)

EQCR is conducted to the reviewer's satisfaction before the report is issued



Where the engagement quality control reviewer makes recommendations that the engagement partner does not accept and the matter is not resolved to the reviewer's satisfaction, the report is not issued until the matter is resolved by following the firm's procedures for dealing with differences of opinion.

Engagement Performance - Criteria for EQCR

Firm's policies should address the appointment of EQRs and establish their eligibility

Technical qualifications required to perform the role including necessary experience and authority

Degree to which EQCR can be consulted without compromising objectivity

Other matters to maintain objectivity of the EQCR reviewer could need to cover

That he/she is not selected by the engagement partner

He/She does not otherwise participate in the engagement during the period of review

He/She does not make decisions for the engagement team

For sole practitioners suitably qualified external persons contracted to perform EQCR review. Rotation like exception does not seem to be available for sole practitioners.

Engagement Performance - EQCR (Documentation of EQCR review)

Firm's policies should require that the following be documented to evidence performance of EQCR

Documentation to demonstrate the procedures required by the firm's policies on quality review have been performed

The process is completed before issuance of the report

Reviewer not aware of any unresolved matters

Engagement Performance - Engagement Documentation

Policies and procedures should be set out for completion and assembly of final audit files after completion of engagement on a timely basis (specifies maximum time limit of 60 days)

Two reports issued for same subject matter - eg group reporting for consolidation into parent, safe custody, integrity, accessibility and retrievability of engagement documentation

Whether documentation is in hard copy or electronic, integrity could be compromised if it can be altered, added to or deleted without the firm's knowledge and hence the firm should

Enable the determination of when and by whom engagement documentation was created, changed or reviewed

Protect its integrity (including when it is shared within the engagement team or transmitted to other parties via the internet)

Prevent unauthorised changes and Allow required access to the same by the appropriate personnel in discharge of their duties greater difficulty in ensuring these with paper documentation

Firm should ensure policies for retention of documentation as required by laws and regulation. Currently this is required to be retained for 7 years

Ownership of documentation - property of the firm unless otherwise specified by law or regulation

Monitoring

The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice.



Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements.



The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of:

Adherence to professional standards and regulatory and legal requirements;

Whether the quality control system has been appropriately designed and effectively implemented; and

Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances.

Monitoring

Inspection of completed engagements performed on a cyclical basis

But requires at least one engagement for each partner over an inspection cycle (which ordinarily should not exceed 3 years)

Inspection cycle is organized based on

- Size of the firm
- Number of geographical locations of offices
- Results of previous monitoring activities
- Nature and complexity of firm's practice and organization and risks associated with firm clients

Smaller firms and sole practitioners could use suitably qualified external persons or another firm to carry out the inspection or share resources with other firms.

MONITORING (REQUIRED PROCEDURES)

The firm should evaluate the effect of the deficiencies and determine whether they are either

Instances that do not necessarily indicate that the firm's SQC is insufficient or

Systemic, repetitive or other significant deficiencies that require prompt corrective action.

It should communicate to relevant engagement partners and other relevant personnel (engagement team for engagement specific issues or senior members of the firm for generic issues) deficiencies noted and recommendations for remedial action

Recommendations should result in one or more of

Taking appropriate remedial action in relation to an engagement or personnel

Communication of findings to those responsible for training & professional development

Changes to the SQC procedures and policies

Disciplinary action for repeated non compliance cases

At least annually, the firm should communicate the results of the monitoring of its quality control system to engagement partners and other persons

MONITORING-COMPLAINTS AND ALLEGATIONS

The firm should establish policies & procedures to ensure it deals appropriately with

- Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and
- Allegations of non-compliance with the firm's system of quality control

To ensure compliance with these requirements the firm should

- establishes clearly defined channels for personnel to raise concerns (in a manner which enables them to come forward without fear of reprisals)
- Investigates these in accordance with its policies and procedures (supervised by a partner with sufficient appropriate experience and authority in the firm). Legal counsel may be used as deemed necessary.



DOCUMENTATION

The firm should document the policies and procedures to provide evidence of the operation of each element of its SQC.

Documentation depends on the size, complexity, geographical spread of the firm and the complexity of its clients, etc.

This can be in hard copy or electronic or otherwise in a manner to disseminate and make available the documentation to all personnel of the firm.



DIFFERENCE BETWEEN SQC1 AND SA220

SQC 1

- Applies to all type of assignments.
- It talks about how to develop quality control at firm level.
- It also talks about internal rotation of partner after 7 years & maintenance of documents for 7 years.

SA 220

- Applicable only to audit of historical information,
- It talks about how to implement quality policies at assignment level.

SA - 220 “QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS”



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Scope and Purpose
System of Quality Control and Role of Engagement Teams
Leadership Responsibilities for Quality on Audits
Relevant Ethical Requirements
Independence
Acceptance and Continuance of Client Relationships and Audit Engagements
Assignment of Engagement Teams
Engagement Performance
Documentation



SCOPE & OBJECTIVE

This SA deals with the specific responsibilities of the auditor regarding quality control procedures for an audit of financial statements. It also addresses, where applicable, the responsibilities of the engagement quality control reviewer.

The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

The audit complies with professional standards and regulatory and legal requirements; and

The auditor's report issued is appropriate in the circumstances.

SYSTEM OF QUALITY CONTROL AND ROLE OF ENGAGEMENT TEAMS

Quality control systems, policies and procedures are the responsibility of the audit firm. Under SQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

The firm and its personnel comply with professional standards and regulatory and legal requirements; and

The reports issued by the firm or engagement partners are appropriate in the circumstances.

This SA is premised on the basis that the firm is subject to SQC 1.

Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.

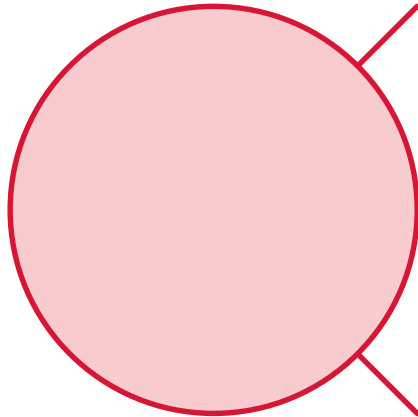
LEADERSHIP RESPONSIBILITIES FOR QUALITY ON AUDITS

The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.

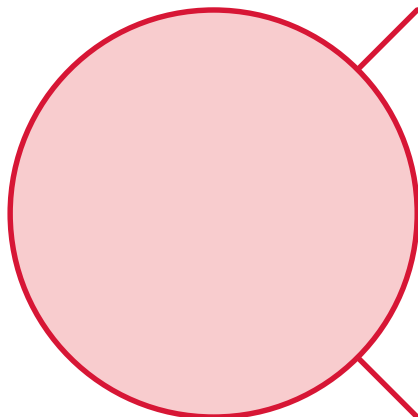
EP should emphasize the ET the following:

- Compliance with professional Standards and legal requirements.
- Compliance with firm's Q.C. Policies.
- Issuance of appropriate audit report.
- Ability to raise concerns without fear.
- Quality is essential & indispensable in engagement performance.

RELEVANT ETHICAL REQUIREMENTS



Throughout the audit engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team.



If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action.



INDEPENDENCE

The engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:

- Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
- Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
- Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND AUDIT ENGAGEMENTS

The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate.

If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action.

Examples of Information

- Integrity of Principal Owners, Mngt & TCWG
- Competency of ET to perform engagement.
- Availability of necessary capabilities, including time & resources.
- Compliance with relevant ethical requirements.
- Significant matters that arises during the current or previous audit engagement.



ASSIGNMENT OF ENGAGEMENT TEAMS

The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:

- Perform the audit engagement in accordance with professional standards and regulatory and legal requirements; and
- Enable an auditor's report that is appropriate in the circumstances to be issued.

ENGAGEMENT PERFORMANCE DIRECTION, SUPERVISION AND PERFORMANCE

The engagement partner shall take responsibility for:

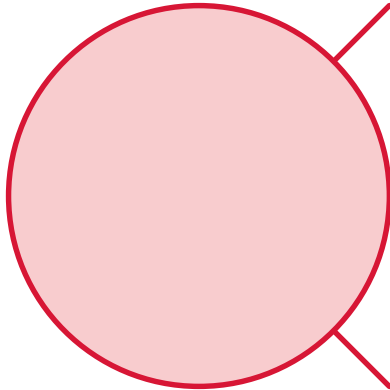


The direction, supervision and performance of the audit engagement in compliance with professional standards and regulatory and legal requirements; and

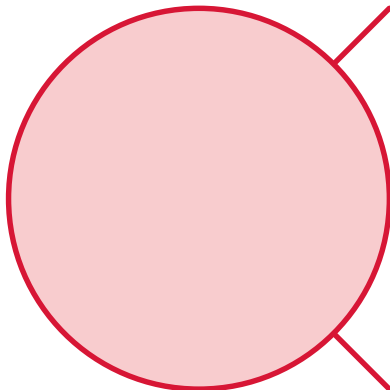


The auditor's report being appropriate in the circumstances

ENGAGEMENT PERFORMANCE REVIEWS



The engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures.



On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.



ENGAGEMENT PERFORMANCE CONSULTATION

The engagement partner shall:

- Take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters;
- Be satisfied that members of the engagement team have undertaken appropriate consultation during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm;
- Be satisfied that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
- Determine that conclusions resulting from such consultations have been implemented.

ENGAGEMENT PERFORMANCE ENGAGEMENT QUALITY CONTROL REVIEW

For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:

Determine that an engagement quality control reviewer has been appointed;

Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and

Not date the auditor's report until the completion of the engagement quality control review.




ENGAGEMENT PERFORMANCE ENGAGEMENT QUALITY CONTROL REVIEW

The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:

- Discussion of significant matters with the engagement partner;
- Review of the financial statements and the proposed auditor's report;
- Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
- Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

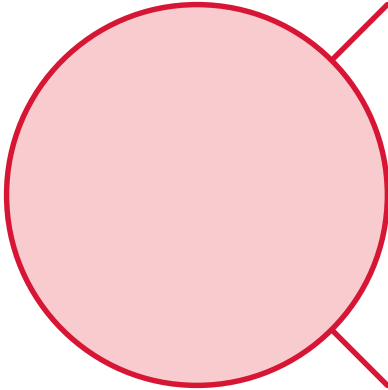


ENGAGEMENT PERFORMANCE DIFFERENCES OF OPINION

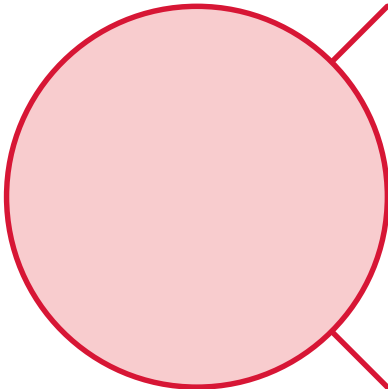


If differences of opinion arise within the engagement team, with those consulted or, where applicable, between the engagement partner and the engagement quality control reviewer, the engagement team shall follow the firm's policies and procedures for dealing with and resolving differences of opinion

ENGAGEMENT PERFORMANCE MONITORING



An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.



The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement

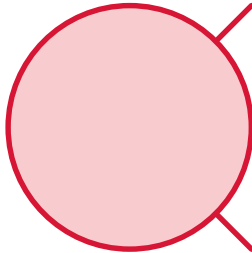
DOCUMENTATION

The auditor shall document

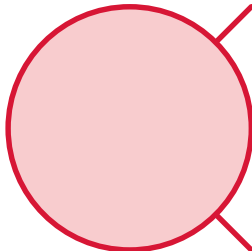
- Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
- Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions.
- Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.
- The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement

DOCUMENTATION

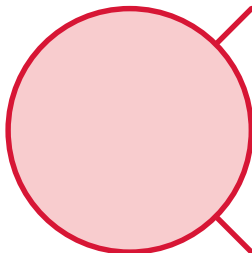
The engagement quality control reviewer shall document, for the audit Engagement reviewed, that:



The procedures required by the firm's policies on engagement quality control review have been performed;



The engagement quality control review has been completed on or before the date of the auditor's report;
and



The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

SA - 550 “RELATED PARTY”

TABLE OF CONTENT

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Definitions
Identification of related party (RP) - how and procedures
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Transaction with RP - how to test & procedures
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Documentation & disclosures
Communication with those charged with governance and written representations
Implications

INTRODUCTION, NATURE OF RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

SA 550 deals with auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements.

Two Types of Transactions- One carrying normal risk of material misstatement and one carrying significant risk of material misstatement.

Examples of Significant Risk of Misstatement in transactions (SA 315, SA 330)
Complex structure and transactions Ineffective Information Systems for identification of transactions and balances Transactions not conducted at arms length pricing



OBJECTIVES AND AUDITORS RESPONSIBILITIES

Objectives

Understanding of Related Party Relationships and Transactions

Responsibilities relating to above objective

Conclude as to whether financial statements associated with those relationships and transactions are true and fair and not misleading.

Assess whether there are any fraud risk factors pertaining to related parties.

Objectives

Proper accounting and disclosure of Relationships and Transactions

Responsibilities relating to above objective

Perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the framework.

Other Responsibilities

Planning and performing the audit with professional skepticism.

There is higher detection risk of material misstatement for related party relationships and transactions due to greater opportunity for collusion, concealment and manipulation by management since management may be unaware of all related party relationships and transactions.



DEFINITIONS

Arm's Length Price

A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests

Related party

A party that is either:

- (i) A related party as defined in the applicable financial reporting framework; or
- (ii) Where the applicable financial reporting framework establishes minimal or no related party requirements:
 - a. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
 - b. Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
 - c. Another entity that is under common control with the reporting entity through having:
 - i. Common controlling ownership;
 - ii. Owners who are close family members; or
 - iii. Common key management.

However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

IDENTIFICATION OF RELATED PARTY (RP) - HOW AND PROCEDURES

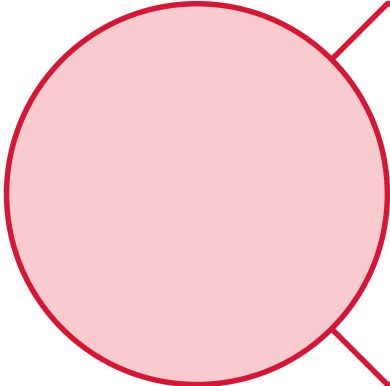
Auditor should inquire management regarding:

- Identity of entity's RP, changes from prior period.
- Nature of relationships between entity and RP.
- Whether the entity entered into any transactions with these related parties during the period and if so, type & purpose of transactions with RP

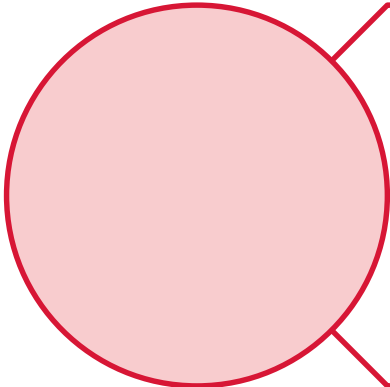
Obtain understanding whether management has established controls to:

- Identify, account for & disclose RP relationships & transactions with applicable FRF.
- Authorise & approve significant transactions with RP.
- Authorise & approve significant transactions outside normal course of business.

IDENTIFICATION OF RELATED PARTY (RP) - HOW AND PROCEDURES



Auditor to remain alert when inspecting records w.r.t. information indicating existence of RP relationships or transactions not previously identified or disclosed.



If auditor identifies significant transactions outside entity's normal course of business, inquire of management about

- Nature of these transactions, and
- Whether RP could be involved.

POSSIBLE SOURCES FOR IDENTIFICATION OF RP INFORMATION:

- Income Tax Returns
- Shareholder's Register
- Internal Audit Report
- Life insurance Policies
- Contracts with Management
- Statement of conflict of interest
- Contracts outside normal course of business
- Information supplied to regulatory authorities
- Contracts re-negotiated
- Specific Invoices from advisors
- Register of Investments

IDENTIFYING FRAUD RISK FACTORS

Domination of management by a single person or small group without compensating controls is a fraud risk factor.



Indicators of dominant influence:

RP has vetoed significant business decisions taken by management or TCWG.

Significant transactions are referred to RP for final approval.

No/ little debate among mgmt. or TCWG regarding business proposal initiated by RP.

Transactions involving RP are rarely independently reviewed / approved

TRANSACTION WITH RP - HOW TO TEST & PROCEDURES

Inspect underlying contracts to evaluate business rationale.



Examine the terms on which transactions takes place.



Collect evidences w.r.t. approval and authorisation of transaction.



Collect evidences for appropriate accounting & disclosure in compliance of FRF.



Perform procedures to confirm identified related party relationships and transactions and identify others including: - inspecting bank and legal confirmations obtained as part of other audit procedures; - inspecting minutes of shareholder and management meetings and any other records or documents considered necessary, such as regulatory returns, tax returns and records of investments.

TRANSACTION WITH RP - HOW TO TEST & PROCEDURES

Consider any fraud risk factors in the context of the requirements of SA 240.

Establish the nature of significant transactions outside the company's normal course of business and whether related parties could be involved, by inquiring of management.

Consider any arm's-length assertions and obtain supporting evidence from third parties.

Where the existence of related party relationships or transactions that management has not previously identified or disclosed is indicated, communicate the information to team members promptly and;

request management to identify all such transactions;

ask why controls failed to identify or disclose the related parties or transactions; - perform appropriate substantive procedures;

reconsider the risk that further unidentified or undisclosed relationships or transactions may exist and evaluate the implications for the audit.

ASSERTIONS THAT RP TRANSACTIONS WERE CONDUCTED ON ARM LENGTH PRICE

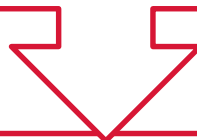
Collect SAAE w.r.t. management assertion of Arm's length transaction.

Compare transaction prices with the prices for identical transactions prevailing in ordinary course of business.

Engage expert to determine market value

EVALUATION OF RELATED PARTY DISCLOSURES

Evaluating the related party disclosures in the context of the disclosure requirements of the applicable FRF means considering whether the facts and circumstances of the entity's related party relationships and transactions have been appropriately summarized and presented so that the disclosures are understandable.



Disclosures of related party transactions may not be understandable if:

The business rationale and the effects of the transactions on the financial statements are unclear or misstated; or

Key terms, conditions, or other important elements of the transactions necessary for understanding them are not appropriately disclosed.

DOCUMENTATIONS

Names of identified related parties



Nature of related party relationships



Board approval of RPT



Bank and legal confirmations obtained as part of the audit procedures,



Copy of Minutes of shareholders' and board of directors' meetings.



Written representation from the management regarding those RPT prevailing in an arm's length



Copy of significant contracts with related parties or intermediaries & Copy of employee whistleblowing reports if available



In seeking sufficient appropriate audit evidence to support arm's-length assertions, auditors may obtain evidence from third parties such as confirmation of loan balances; correspondence with solicitors; bank confirmations; debtor or creditor confirmations (including terms of trade); group audit confirmations.

DISCLOSURES

The name of the transacting related party;



A description of the relationship between the parties;



A description of the nature of transactions;



Volume of the transactions either as an amount or as an appropriate proportion;



Any other elements of the related party transactions necessary for an understanding of the financial statements;



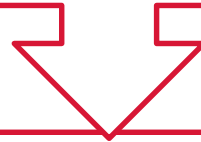
The amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and



Amounts written off or written back in the period in respect of debts due from or to related parties.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AND WRITTEN REPRESENTATIONS

Communication with those charged with governance the Significant matters arising during the course of audit with respect to entity's related parties.



Written Representations by Management includes

Management has disclosed all related party relationships and transactions of which it is aware.

Appropriate accounting and disclosure of relationships and transactions.

IMPLICATIONS

- Communicate to other members of ET.
- Request management to identify the transactions with the newly identified RP.
- Inquire reasons for management failure to identify RP or disclose RP relationship and transactions.
- Reconsider the risk that other unidentified RP or undisclosed RP transactions may exist.
- If non-disclosure appears intentional, evaluate implications for audit





Thank You!