

<p><b><u>SQC 1 - Quality Control for Firms That Perform Audits &amp; Reviews of Historical Financial Info &amp; Other Assurance &amp; Related Services Engagements</u></b></p>	<p><b><u>SA 220 - Quality Control For Audit of FS -</u></b> Premised on the basis that Firm is subject to SQC 1</p>
<p>Applies to <b>All types</b> of Engagements</p>	<p>Applies to <b>Audit</b> engagements <b>ONLY</b></p>
<p>Applies to entire <b>FIRM</b></p>	<p>Applies to <b>particular audit</b> engagement</p>
<p><b>Objective</b> - Firms should establish <b>Quality Control System (QCS)</b> for <b>reasonable assurance</b> that -</p> <ul style="list-style-type: none"> <li>• Firm complies with <b>Professional, Regulatory &amp; Legal (PRL)</b> requirements</li> <li>• <b>Reports</b> issued are <b>appropriate</b> in circumstances</li> </ul>	
<p><b>Elements of System of Quality Control</b></p> <ul style="list-style-type: none"> <li>• Leadership responsibilities for quality within <b>firm</b></li> <li>• Ethical requirements</li> <li>• Acceptance and continuance of client relationships and <b>specific</b> engagements</li> <li>• Human resources</li> <li>• Engagement performance</li> <li>• Monitoring</li> </ul>	<p><b>Responsibilities of Engagement Partner (EP) in relation to following</b></p> <ul style="list-style-type: none"> <li>• Leadership responsibilities for quality on <b>audits</b>.</li> <li>• <b>Relevant</b> ethical requirements</li> <li>• Acceptance and continuance of client relationships and <b>audit</b> engagements</li> <li>• Assignment of engagement teams</li> <li>• Engagement performance</li> <li>• Monitoring</li> </ul>
<p><b>1. Leadership responsibilities for quality within firm - Firm's CEO &amp; MD</b> Firm's <b>QCS</b> should <b>override</b> its <b>business</b> strategy. It should be ensured that (<b>considerations to uphold quality</b> of firm) -</p> <ul style="list-style-type: none"> <li>• Firm assigns management (mgt) responsibilities so that <b>commercial considerations do not override quality</b> of work performed</li> <li>• Firm's policies for its <b>personnel</b> demonstrates firm's <b>overriding commitment</b> to quality</li> <li>• Before accepting engagement, firm should have <b>vital info about client</b> to decide about <b>integrity</b> of Client, <b>competence</b> &amp; compliance with <b>ethical requirements</b></li> <li>• Firm devotes <b>sufficient resources</b> for development of <b>QCS policies</b></li> </ul>	<p><b>1. Leadership responsibilities for quality on audits</b> Leadership responsibility of <b>EP</b> is to take <b>responsibility</b> for overall <b>quality on each audit</b> engagement. <b>Actions of EP</b> shall emphasise -</p> <ul style="list-style-type: none"> <li>• Fact that <b>quality is essential</b> in performing audit engagements</li> <li>• <b>Importance</b> to audit <b>quality</b> of -             <ul style="list-style-type: none"> <li>○ Performing work that <b>complies with PRL</b> requirements</li> <li>○ Complying with <b>firm's QCS</b> policies &amp; procedures</li> <li>○ Engagement team's <b>ability to raise concerns</b> without fear of reprisals (punishment)</li> <li>○ Issuing auditor's <b>reports</b> that are <b>appropriate</b> in circumstances &amp;</li> </ul> </li> </ul>
<p><b>2. Ethical requirements - "Independence" is basic</b> requirement. Policies &amp; procedures should enable firm to - (Both SQC 1 &amp; SA 220)</p> <ul style="list-style-type: none"> <li>• <b>Communicate</b> its <b>independence</b> requirements to its personnel</li> <li>• <b>Identify &amp; evaluate</b> circumstances &amp; relationships that create <b>threats to independence</b></li> </ul>	

- Take appropriate **action to eliminate** those **threats** or **reduce** them to acceptable level by **applying safeguards**, or if appropriate, **withdraw** from engagement
- **Independence breaches** are promptly **notified** to firm for appropriate action

At least **Annually**, firm should obtain **written confirmation** of compliance with its policies & procedures on independence from **all firm personnel**

**Notes** - Familiarity threat - Using **same** personnel over **prolonged period**.

- **Safeguards** - **rotating** personnel or **Engagement Quality Control Reviewer (EQCR)**
- **Listed entities** - **EP** should be **rotated** in **at-least 7 years** (**except** in case of **sole** practitioner)

**3. Acceptance & Continuance of Client Relationships & Specific Engagements** - Before accepting engagement, firm should acquire **vital info about client** about -

- **Integrity** of Client
- **Competence** (including capabilities, time & resources) to perform engagement
- Compliance with **ethical requirements**
- **Significant matters** arisen during current or previous audit engagement

If **issues** are **identified** & firm decides to accept relationship - **Document** how issues were **resolved**

**Matters to be considered with regard to integrity of client**

- **Reasons for proposed appointment** of firm & non-reappointment of previous firm
- **Nature** of client's **operations**
- **Identity & business reputation** of client's principal owners, key mgt, & Those Charged with Governance (TCWG)
- Info regarding **attitude of** client's **principal owners**, key mgt & TCWG
- Indications of **inappropriate limitation in scope** of work
- Whether client is aggressively concerned with maintaining firm's **fees as low as possible**
- Indications that client might be involved in **money laundering or other criminal activities**

**Matters to be considered with regard to capabilities, competence, time & resources**

- Firm personnel have **knowledge** of relevant **industry**
- Firm personnel have **experience** of **PRL requirements**, or ability to gain necessary **skills & knowledge**
- Firm would be able to **complete** engagement **within reporting deadline**
- Firm has **sufficient personnel** with necessary capabilities & competence
- **Experts** are available, if needed
- Individuals meeting criteria & eligibility requirements to perform **EQCR are available**

**Matters to consider when info causing to decline engagement has been received**

- **PRL responsibilities**, including whether firm should report to person who made appointment or, to **regulatory authorities**
- **Possibility of withdrawing** from engagement & client relationship
- **Policies on withdrawal** from engagement & client relationship address issues that include -
  - **Discussing** with client's **mgt** & TCWG regarding appropriate **action** that **firm** might take
  - If firm determines that it is **appropriate to withdraw**, **discussing** with client's mgt & TCWG withdrawal from engagement & client relationship, & **reasons** for withdrawal
  - Considering **PRL requirement** for firm to **remain** in place, or to **report** withdrawal with **reasons** to regulatory authorities
  - Documenting **significant issues**, conclusions & basis for conclusions

4. **Human resources** - Policies & procedures for Human Resources require that -

- EP has appropriate **capabilities, competence, authority & time** to perform role
- Responsibilities of EP are **clearly defined & communicated** to that partner
- Identity & role of EP are **communicated to client's** mgt & TCWG

5. **Engagement Performance** - Consultation takes place in **difficult or contentious** (controversial) matters with individuals **within or outside firm**

EQCR

- Should be **Member of ICAI**. Can be **internal or suitably qualified external person** (capabilities & competence to act as EP), or **team** made up of such individuals. For audit of **listed** entity, EQCR should have **sufficient & appropriate experience & authority** to act as **EP** on audits listed entities
- Reviews **Significant judgments** in engagement. It does **not reduce responsibilities** of EP.
- **Mandatory** for audits of **listed** entities. For others, firm should form **criteria for EQCR**

SQC 1

**Consultations with EQCR**

- He should be **objective**. He should **not Participate** in engagement or **making decisions** for team
- EP **may consult** EQCR during engagement but not compromise his objectivity & eligibility for role
- If **consultations** become **significant**, EQCR should **remain objective**.
- If this is **not possible**, **another individual** should be appointed as **EQCR** or person to be **consulted**

**Matters to be considered by EQCR for audits of listed entities**

- Team's evaluation of **firm's independence** for specific engagement
- **Significant risks** identified during engagement & **responses** to those risks
- **Judgments made**, particularly for materiality & significant risks
- Significance of **corrected & uncorrected misstatements** identified during engagement
- Whether **working papers selected** for review reflect work performed for significant judgments & support conclusions reached
- Whether appropriate **consultation** has taken place & **conclusions** arising from those consultation
- **Matters to be communicated** to mgt & TCWG & other parties such as regulatory bodies.

SA 220

**EP responsibility wrt EQCR**

- Determine that **EQCR** has been **appointed**
- **Discuss significant matters** arising during audit
- **Not date** auditor's **report** until **completion** of **EQCR**

**EQCR's objective evaluation of significant judgments involves**

- Discussion of **significant matters** with EP
- **Review of selected documentation** relating to significant judgments made & conclusions reached
- Review of **FS** & proposed auditor's **report**
- **Evaluation of conclusions** reached & whether proposed auditor's report is **appropriate**

**Matters to be considered by EQCR for audits of listed entities**

- Team's evaluation of **firm's independence** in relation to audit engagement
- Whether appropriate **consultation** has taken place on matters involving **difference of opinion** or other **difficult or contentious** matters, & **conclusions** arising from those consultations
- Whether audit **documentation selected** for review reflects work performed in relation to **significant judgments** made & supports **conclusions** reached

<ul style="list-style-type: none"> <li>• <b>Appropriateness of report</b> to be issued</li> </ul> <p><b>EQCR Documentation</b></p> <ul style="list-style-type: none"> <li>• <b>Procedures required</b> by firm's policies on EQCR have been <b>performed</b></li> <li>• EQCR has been <b>completed before report</b> is issued &amp;</li> <li>• Reviewer is <b>not aware of any unresolved matters</b> that would cause reviewer to believe that significant <b>judgments</b> made &amp; <b>conclusions</b> reached were <b>not appropriate</b></li> </ul>	<p><b>EP Documentation</b></p> <ul style="list-style-type: none"> <li>• <b>Conclusions</b> regarding <b>acceptance &amp; continuance</b> of client relationships</li> <li>• <b>Conclusions</b> on compliance with <b>independence requirements</b></li> <li>• <b>Issues</b> in compliance with <b>ethical requirements</b> &amp; how they were <b>resolved</b></li> <li>• <b>Nature &amp; Scope</b> of consultations undertaken during course of audit</li> </ul>
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<p><b>Difference of Opinion</b></p> <ul style="list-style-type: none"> <li>• <b>Diff of opinion</b> within team, with those consulted &amp; b/w EP &amp; EQCR.</li> <li>• <b>Report</b> should be issued only <b>after resolution of diff.</b></li> <li>• If recommendations of <b>EQCR</b> are <b>not accepted</b> by EP &amp; matter is <b>not resolved</b> to reviewer's <b>satisfaction</b>, it should be resolved by <b>following established procedures</b> of firm like by consulting with <b>another</b> practitioner or firm, or professional or <b>regulatory body</b></li> </ul>
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<p><b>6. Monitoring</b> - QCS are <b>relevant, adequate, operating effectively &amp; complied</b> with</p> <p><b>Factors to be considered for monitoring QCS</b></p> <ul style="list-style-type: none"> <li>• Deciding whether QCS of firm has been <b>appropriately designed &amp; effectively implemented</b></li> <li>• Examining whether <b>new developments in PRL</b> requirements are reflected in QCS</li> <li>• Conducting monitoring by assigning <b>responsibility of monitoring process to partner</b> or other persons with sufficient &amp; appropriate experience &amp; authority in firm</li> <li>• <b>Dealing with complaints</b> &amp; allegations against firm or any employees of non-compliance with professional standards by person within or outside firm</li> <li>• Taking <b>appropriate remedial actions</b> against personnel who did not conform to QCS</li> <li>• Taking action when deficiencies in design or operation of QCS, or non-compliance with QCS is identified</li> </ul>
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**Mechanisms for Review of Quality Control**

Peer Review Board	Quality Review Board*	NFRA
Council of ICAI	CG + Council of ICAI	Companies Act, 2013
Enhancing Quality of Work	Risk-based Approach	Listed, Insurance & Banking
Unqualified Report - Peer Review Certificate Qualified Report - Date for Follow on Review	Quality of Work - • Review Quality • Recommend to Council • Guide members	<ul style="list-style-type: none"> <li>• Monitor Compliance</li> <li>• Oversee Quality</li> <li>• Suggest Measures</li> <li>• Investigation of Auditors</li> </ul>

\* **QRB** can review quality of members only for entities **other than** those specified under **NFRA Rules** & those **referred to QRB** by NFRA