

Compliance with Technical & Professional Standards

Training Programme for Peer Reviewers

Organised by : Peer Review Board of ICAI

Hosted by Pune Branch of WIRC of ICAI

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Outline

- Concepts
- Technical Standards
- Standards & Frameworks issued by ICAI
- Standards on Auditing

Concepts

- **Technical Standards**

A technical standard is an established norm or requirement for a repeatable technical task which is applied to a common and repeated use of rules, conditions, guidelines etc.

Blueprints for "how things should work" to achieve shared understanding and reliable results in technical fields.

- **Professional Standards**

Professional standards are established guidelines for conduct, competence, and ethics that define the expected quality of work and service within a specific occupation, ensuring consistent, high-quality outcomes and protecting the public, set by governing bodies to guide practice, development, and accountability.

They are vital for maintaining professional reputation and public trust.

Concepts

- **Ethical Standards**

Ethical standards are principles guiding right vs. wrong behaviour, defining moral duties and acceptable conduct for individuals and organizations, based on values like honesty, fairness, and respect, going beyond mere laws to foster trust, integrity, and social good in professional and personal life.

Standards



Standards issued by ICAI

- **Standards on Auditing (SAs)**

Mandatory for audits under section 143 of the Companies Act, 2013.

- ✓ SA 200 – 299: General principles & responsibilities
- ✓ SA 300 – 499: Risk assessment & response
- ✓ SA 500 – 599: Audit evidence
- ✓ SA 600 – 699: Using work of others
- ✓ SA 700 – 799: Audit conclusions & reporting
- ✓ SA 800 – 899: Special purpose audits

- **Standards on Review Engagements (SREs)**

Applicable to limited review of financial statements

- ✓ SRE 2400 – Review of Historical Financial Statements
- ✓ SRE 2410 – Review of Interim Financial Information

Standards issued by ICAI

- **Standards on Assurance Engagements (SAEs)**

Applicable where assurance is provided other than audit or review

- ✓ SAE 3000 – Assurance Engagements other than Audits or Reviews
- ✓ SAE 3402 – Assurance Reports on Controls at a Service Organisation

- **Standards on Related Services (SRSs)**

Applicable for agreed-upon procedures and compilations

- ✓ SRS 4400 – Agreed-Upon Procedures
- ✓ SRS 4410 – Compilation Engagements

- **Engagement & Quality Control Standards**

- ✓ SQM 1 – Quality Management for Firms
- ✓ SQM 2 – Engagement Quality Reviews
- ✓ SA 220 (Revised) – Quality Management for an Audit Engagement

Frameworks issued by ICAI

- Guidance Notes
- Technical / Implementation Guides
- Quality Frameworks
- Concept Papers
- Tools / Utilities

Laws, Regulatory Authorities

- Companies Act, LLP Act, Co-operative Societies Act, Partnership Act, Laws re. Charitable Trusts, Rules issued under the respective acts
- Regulatory Authorities : RBI, IRDA, SEBI, PFRDA, MCA
- Non-Statutory Bodies : IBA, AMFI, FIMMDA, NASSCOM,

SA 210 : Agreeing the Terms of Audit Engagements

- Letter of Appointment of Auditors, with resolution passed on Annual General Meeting
- Engagement Letter, duly accepted by the Client
- Financial Reporting Framework : Companies Act & Accounting Standards under the same
- Any change in audit engagement terms – to be highlighted
- Compliance with fundamental principles of code of ethics :
Independence, Objectivity, Professional Competence, Due Care, Confidentiality, Professional Behaviour

SA 210 : Agreeing the Terms of Audit Engagements

- Professional Skepticism
- A core principle in auditing
- Attitude with questioning mind, alert in various conditions to red flags, doing critical assessment of evidence, judgement based on sufficient & appropriate evidence

SA 220 : Quality Management for an Audit Engagement

- Leadership Responsibility : Engagement Partner
- Ethical Requirements to be complied by EP & Audit Team during entire assignment cycle, till conclusion – Independence declarations
- Engagement Team – Manager and other team members with adequate experience
- Engagement Performance : Documentation regarding Review & Monitoring by the assignment conducted by Engagement Partner
- Quality Control Review

SA 230 : Audit Documentation

- Auditors' responsibilities in preparation of audit documentation while conducting audit of financial statements
- Record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached
- Adequate Working Papers, in physical or electronic form
- Assembly of the Audit working Papers file
- Timely preparation of documentation enhances quality, review, evaluation of the audit evidence and conclusions reached before finalisation of the auditor's report.
- Documentation prepared after audit work is less accurate than that prepared during audit.

SA 240 : Auditor's Responsibilities Relating to Fraud

- Auditor's role in addressing fraud in audit of financial statements
- Emphasis professional skepticism
- Identifying fraud risks:
 - ✓ Misstatement in financials
 - ✓ Fraudulent financial reporting
 - ✓ Misappropriation of assets
- Assessing fraud risks & framing appropriate audit procedures
- SA 330 : Auditor's Responses to Assessed Risks
- Auditor's responsibility to design and implement audit procedures (like tests of controls or substantive tests) to address risks of material misstatement identified under SA 315.

SA 315 : Identifying & Assessing Risks of Material Misstatement

- To identify and assess risks of misstatement in financial statements, due to fraud or error
- Purpose : To enable to plan & implement suitable audit procedures.
- Risk Assessment at Financial Statement level and Assertion level.
- Industry, regulatory, and other external factors.
- Nature of the business, ownership, operations, investments, financing, and financial reporting framework.
- Internal controls, including control environment, risk assessment, information systems, control activities, and monitoring.

SA 315 : Identifying & Assessing Risks of Material Misstatement

- Misstatement at Financial Statements Level :
 - Over / Under statement of:
 - ✓ Revenues
 - ✓ PAT / PBT
 - ✓ Inventories
 - ✓ Receivables
 - ✓ Current Liabilities,
- Misstatement at Assertion Level
 - ✓ Non-provision of penalties / deductions by Customers
 - ✓ Non-accounting of expenses, gratuity
 - ✓ Purchases / Sales / Inventories
 - ✓ Valuation of inventories / Computation of Overheads
 - ✓ Slow / Non-moving Inventories
 - ✓ Receivables not recoverable
 - ✓ Revenue / Capital expenditure

SA 250 : Consideration of Laws & Regulations

- Laws & Regulations:
- Having direct impact on determining material amounts in financial statements & disclosures
 - ✓ Income Tax
 - ✓ Goods & Services Tax
 - ✓ Provident Fund
 - ✓ Gratuity
- Having indirect impact on financial statements : Licensing, Environmental laws, Transport, Anti-trust / Pricing etc.
- Non-compliance to be reported to TCWG and included in Auditor's Report

SA 260 : Communication with Those Charged with Governance

- Communication to the Board of Directors / Audit Committee
- Auditor's Independence, Auditor's Responsibilities in financial statements : Engagement Letter
- Planned Scope and Timing of audit, general plan of audit, materiality, sampling etc.
- Significant findings : presentation in meeting of board of directors, management report / letter

SA 265 : Communicating Deficiencies in Internal Control

- Identify deficiencies in internal control.
- Determine if they are "significant".
- Communicate significant deficiencies to TCWG.
- Initially verbally, but should be formally communicated in writing
- Communication must be timely, often before approval of financial statements

SA 320 : Materiality in Planning & Performing Audit

- Auditors to determine materiality
- Significant misstatements / omissions that could affect decision-making for users of financial statements
- Relative, not absolute concept
- Auditors to use professional judgment to set materiality levels (often as a percentage of benchmarks like profit or revenue)
- **Overall Materiality**
- Determined while establishing Audit Strategy.
- **Performance Materiality**
- Set at amount less than overall materiality, acts as overall buffer to lower undetected or uncorrected misstatements
- **Specific Materiality**
- At the level of account balance or classes of transactions
- Useful for for planning audit procedures and assessing risks, focusing on significant items

SA 450 : Evaluation of Misstatements Identified

- Auditor's responsibility to identify, evaluate, and respond to misstatements that are material or potentially material with impact on the financial statements.
- Communication to management including TCWG and Management Response

SA 500 : Audit Evidence

- Sufficient & Appropriate Audit Evidence
- Useful, Relevant & Reliable
- Sources of audit evidence
- Audit Procedures:
 - ✓ Inquiry
 - ✓ Inspection
 - ✓ Observation
 - ✓ External Confirmation
 - ✓ Recalculation
 - ✓ Reperformance
 - ✓ Analytical Procedures

SA 505 : External Confirmations

- Auditors to get direct, written evidence from third parties : banks, customers, suppliers etc.
- Auditors to supervise the process
- Positive, Negative, Blank confirmations

SA 520 : Analytical Procedures

- Analysing relationships between financial & non-financial data
- To investigate fluctuations which do not match with the expected values significantly
- **Methods:** Trend analysis, Ratio analysis, Reasonableness test,
- **Planning Stage:** To assist in understanding the entity and identifying areas of risk (linked with SA 315)
- **Completion Stage:** To conclude whether Financial Statements reflect consistent results or indicate possible misstatements

SA 520 : Analytical Procedures

- **Example 1 – Revenue**

Sales ↑ 40% but capacity ↑ only 10%

Risk: fictitious sales / cutoff errors

- **Example 2 – Gross Profit**

GP margin dropped from 28% → 18%

Risk: inventory valuation, pricing pressure, unrecorded costs

- **Example 3 – Payroll**

Employee count stable, payroll ↑ 25%

Risk: ghost employees / bonus provisions

SA 520 : Analytical Procedures

- **Revenue / Sales**

- ✓ Trend analysis of sales (monthly/quarterly vs PY)
- ✓ Sales growth vs production capacity
- ✓ Sales vs industry growth
- ✓ Sales vs receivables movement
- ✓ Average selling price (ASP) comparison
- ✓ Gross margin by product / geography

- **Inventory**

- ✓ Inventory turnover ratio
- ✓ Gross margin vs inventory valuation
- ✓ Inventory days vs PY
- ✓ Slow-moving / obsolete inventory trend
- ✓ Consumption vs production levels

SA 550 : Related Parties

- Auditor's responsibilities for understanding, identifying, and evaluating risks related to an entity's transactions with related parties
- To ensure that related party transactions are appropriately accounted for and disclosed per accounting standards AS 18
- Compliance with the Companies Act, 2013

SA 580 : Written Representations

- To obtain written representation from the management
- Confirmation of key aspects, such as their responsibility for financial statements and providing all necessary information
- Serves as important audit evidence

SA 610 : Using Work of Internal Auditors

- External auditor's plans to use the internal audit function's work for audit evidence or direct help.
- The ultimate opinion on financial statements rests with the external auditor; they must evaluate if internal audit work is adequate for audit purposes.

SA 700 : Forming an Opinion & Reporting

- Auditor's responsibility to form an opinion on financial statements
- Decide the structure and content of the auditor's written report, ensuring clarity and consistency in expressing an opinion (usually an unmodified opinion)
- Opinion whether the financial statements are presented fairly according to the applicable framework, with key components like the opinion section, basis for opinion, and auditor's signature.

SA 705 : Modifications to Audit Opinion

- Guides auditors on when and how to modify their standard "unmodified" opinion due to issues found during the audit.
- **Material Misstatement:** Financial statements are incorrect or incomplete (e.g., wrong policies, insufficient disclosures).
- **Scope Limitation:** Auditor can't obtain sufficient appropriate audit evidence (e.g., destroyed records, management refusal).
- **Types of Modified Opinions:**
 - ✓ **Qualified Opinion:** Opinion is "except for" the effects of a material issue that is *not pervasive*.
 - ✓ **Adverse Opinion:** Financial statements are materially misstated and *pervasively* incorrect (don't give a true & fair view).
 - ✓ **Disclaimer of Opinion:** Auditor *cannot* form an opinion because of *pervasive* scope limitations (inability to get evidence).

SA 706 : Emphasis of Matter & Other Matter Paragraphs

- An EOM paragraph highlights crucial matters already in the financial statements (like litigation uncertainty) for better user understanding.
- An OM paragraph addresses other relevant matters *outside* the statements, such as explaining restrictions on report use or reporting on financial statements prepared under different frameworks

SA 700 : Other Information

- Auditor's responsibilities for "other information" (like management reports, corporate governance statements) in annual reports alongside the audited financial statements.
- Auditors to read annual report for material inconsistencies with financial statements or audit knowledge, and to request corrections, if found, ensuring users aren't misled

SRS 4400 : Agreed-Upon Procedures

- **Objective:**
 - To provide a standard for reporting factual findings from specific procedures on specified financial (or sometimes non-financial) information.
- **No Assurance:**
 - Unlike an audit (which gives an opinion), AUPs just present what was found; there's no opinion or assurance provided.
- **Scope defined by Users / Clients:**
 - The client, along with other parties (like lenders, funding agencies etc.) agrees on exactly what procedures to perform and on what information.

SRS 4400 : Agreed-Upon Procedures

- **Report Focus:**
 - The report details the procedures performed, the factual findings, and clearly states it's for restricted use (only by those who agreed to the procedures).
- **Relevance:**
 - Increasingly important for accountability, especially required by lenders, funding bodies.



Thank you !!!

