

# **Peer Review - Compliance with framework of Quality Control: General and Specific Controls**

**By CA Dr. Dilip V Satbhai**

**B.Com(Hons), LL.M.(First rank), Ph.D (Law), F.C.A.  
D.I.S.A.(icai),D.I.R.M.(icai)**



# ONE DAY TRAINING PROGRAMME FOR PEER REVIEWERS



Organized by:

**Peer Review Board, The Institute of Chartered Accountants of  
India, New Delhi**

**24<sup>th</sup> December 2025 at Pune Branch of WIRC**

**Session 3 Compliance With Framework of Quality Control General &  
Specific Controls**

**CA Dr Dilip V Satbhai**

**B.Com(Hons), LL.M.(First rank), Ph.D (Law), F.C.A.  
D.I.S.A.(icai),D.I.R.M.(icai)**

**Former Chairman Pune Branch of WIRC**

# Agenda of this presentation



- Peer review
- What are quality controls in the context of peer review?
- Review of general controls
- Review of specific controls – additional procedures
- Documentation
- Questions

# Peer review

- The **objective** of peer review is to *understand* the *quality of assurance work done* by PUs and to point out *instances of weakness* for the PU to improve. Peer Review is not file~checking first; **it is system~understanding first.**
- Many PUs in India have longstanding practices, many of them several generations old – these may have cultures and traditions that are *neither* in tune with the changing risk scenario in which we operate today *nor* with the new mandatory accounting and auditing standards



# What are 'assurance engagements?

- ▶ As per clause 2(2) of Peer Review Guidelines 2022, 'Assurance Engagement' has to be considered as defined in the Framework for Assurance Engagements issued by the Institute of Chartered Accountants of India and as may be amended from time to time means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible

# What are 'assurance engagements'?

- ▶ party about the outcome of the evaluation or measurement of a subject matter against criteria but does not include:
- ▶ (i)) Management Consultancy Engagements;
- ▶ (ii) Representation before various Authorities;
- ▶ (iii) Engagements to prepare tax returns or advising clients in taxation matters;

# What are 'assurance engagements'?

- ▶ (iv) Engagements for the compilation of financial statements;
- ▶ (v) Engagements solely to assist the client in preparing, compiling, or collating information other than financial statements;
- ▶ (vi) Testifying as an expert witness;

# What are ‘assurance engagements’?

- ▶ vii) Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, based on facts provided by the client;
- ▶ (viii) Engagement in Due diligence and
- ▶ (ix) Any other service rendered or function performed by a practitioner not prescribed by the Council to be ‘Assurance Engagement’.

## What are ‘assurance engagements?

- ▶ Note:
- ▶ Type of assurance service engagements include Central Statutory Audit, Statutory Audit, Tax Audit, GST Audit, Internal Audit, and Certification work but does not include the engagements as stated at (i) to (ix) above.

- Nothing is achieved without labor – we need to unlearn the old and relearn the new: **at any age, a CA is always a student**
- To be a peer reviewer is a greater challenge than being a reviewee – **you need to know more before you can challenge!**
- Dream is not the one that we see in sleep but it is the one that does not allow peer reviewer to sleep until report is finalised



# What are quality controls in the context of peer review?



# Role of controls testing in peer review

- **What are controls?** ~  
**Preventive,**  
**Detective**
- Their importance
  - COSO framework: Control environment, risk assessment, control activities, information and communication, monitoring



# COSO

- The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative to combat corporate fraud. It was established in the United States by five private sector organizations, dedicated to guide executive management and governance entities on relevant aspects of organizational governance, business ethics, internal control, enterprise risk management, fraud, and financial reporting.



# COSO

- ▶ COSO has established a common internal control model against which companies and organizations may assess their control systems

## Key concepts of the COSO framework

- ▶ Internal control is a *process*. It is a means to an end, not an end in itself.
- ▶ Internal control is affected by *people*. It's not merely policy, manuals, and forms, but people at every level of an organization.
- ▶ Internal control can be expected to provide only *reasonable assurance*, not *absolute assurance*, to an entity's management and board.
- ▶ Internal control is geared to the achievement of *objectives* in one or more *separate but overlapping categories*.



# Key concepts

- ▶ Controls testing (**compliance approach**) vs substantive testing (**substantive approach**)
  - Tests of design, implementation and operating effectiveness
  - Controls testing methods in peer review
    - Inquiry, corroborated by inspection documents



## COMPLIANCE TEST

## SUBSTANTIVE TEST

- ▶ **Compliance test** determines controls that comply with management policies and procedures are being applied. **Substantive test** determines the integrity of actual processing.
- ▶ In **compliance testing**, we gather evidence to assess an organization's compliance with control procedures. **Substantive procedures are tests** designed to obtain evidence to ensure the completeness, accuracy, and validity of the data.



# COMPLIANCE TEST

## SUBSTANTIVE TEST



- **Compliance testing** checks for the presence of controls Ex: Verification of Access rights controls, Presence of procedures for Program Change control management, incident management, problem management, review of existing network controls
- **Substantive testing** checks the integrity of contents.
- .....contd

# COMPLIANCE TEST

## SUBSTANTIVE TEST

- ▶ Review of transactions/ numbers/ values. Eg: Inventory validation, record matching, balance checks
- ▶ **Compliance testing** will be performed first  
**Substantive testing** is always performed after compliance testing

# COMPLIANCE TEST

## SUBSTANTIVE TEST

- ▶ **Compliance testing** is independent of Substantive testing. However, the results of compliance testing are used to determine if **Substantive testing** is required.
- ▶ If **compliance testing** indicates strong internal control, **substantive testing** may be waived off or reduced.
- ▶ In case **compliance testing** indicates weak internal controls then **substantive testing** to be more rigorous



## Types of controls in peer review

- General controls (SQC)s

These are quality controls at the firm level, 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 are appropriate in the circumstances



# Types of controls in peer review



- **Specific controls:**
  - These are controls at the **engagement level**, designed to ensure that the PU **plans** and **performs** an assurance engagement in compliance with the standards on auditing or review and other **regulatory** and **legal** requirements

# Review of General Controls



## Change in concept of General controls

- **Earlier** there were **5 general** controls –
  - 1.Independence,
  - 2.Maintenance of professional skills and standards,
  - 3.Outside consultation,
  - 4. Staff supervision and development, and
  - 5. Office Administration



# Question 1

- ▶ Q1

Does the PU have a system of quality control for attestation services?

## Task

Assess it based on completed questionnaire developed by the Peer Review Board and initial meeting with PU



# Question 2

► Q2

Is it designed to ensure compliance with Technical Standards and maintenance of quality attestation work?

**Tasks**  
Review of general controls:  
Independence  
Maintenance of Professional skills and Outside consultation  
Staff supervision and development  
Office administration



# Question 3

## ► Chart

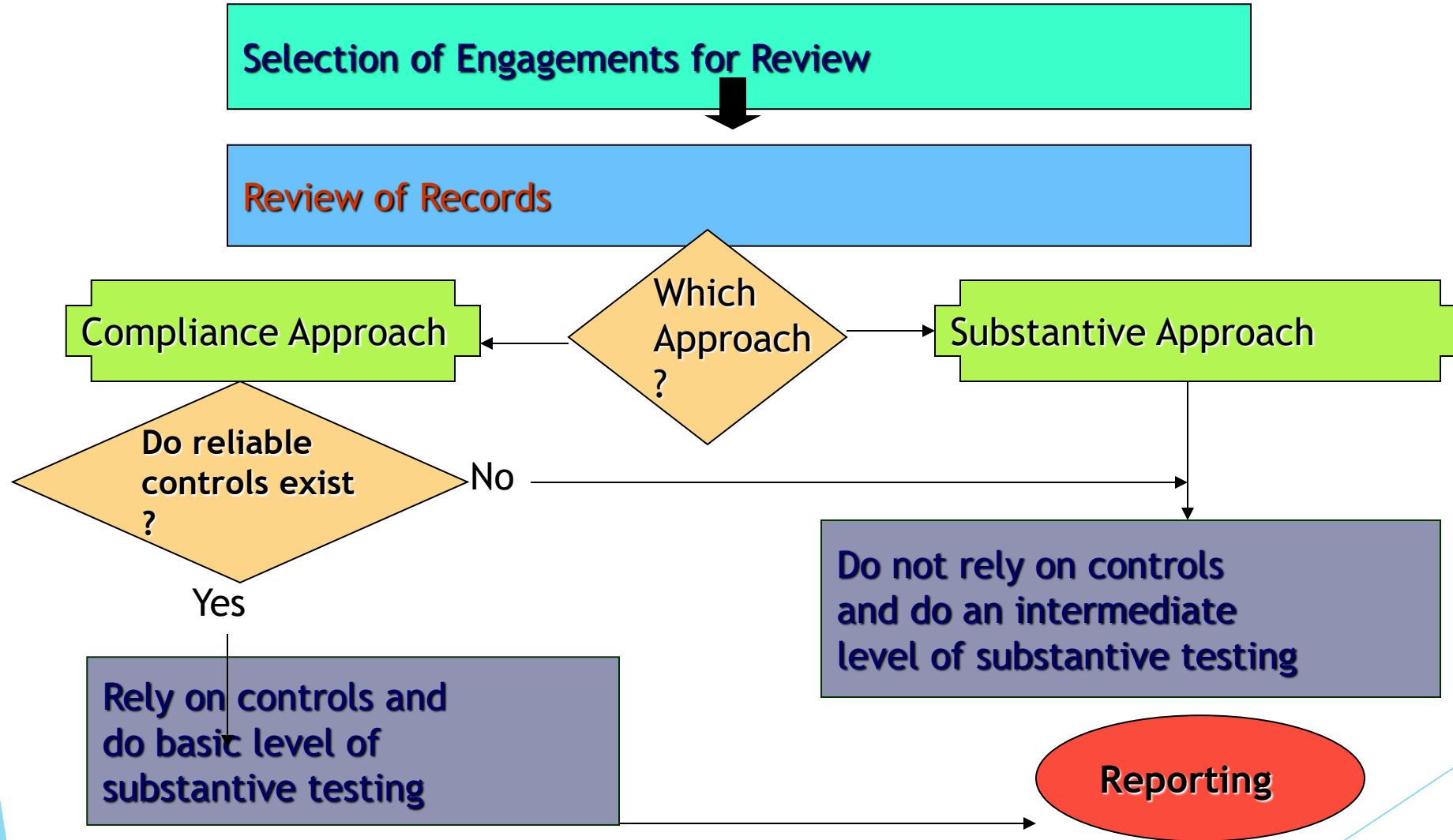
Was it **effective**  
during the  
review period?

## Task

Review of records:  
Compliance approach  
Substantive approach



# Procedure



# Technical and Professional Standards

- ▶ Accounting Standards
- ▶ Auditing and Assurance Standards
- ▶ Framework for the Accounting, Auditing and Related Standards
- ▶ Ethical Standards
- ▶ Professional Standards
- ▶ Statements
- ▶ ...contd...



# Technical and Professional Standards

- ▶ Guidance Notes
- ▶ Notifications/Directions, including those of a self-regulatory nature
- ▶ Relevant Statutes and Regulations
- ▶ Framework for the Preparation and presentation of financial statements, Standard on Assurance Engagements, Standards on Quality Control and Guidance Notes on related services issued and framework for assurance engagements



# Standard On Quality Control (SQC) 1

- Now, SQC 1 has codified all these aspects into one Quality Control Standard – **mandatory wef 1st April 2009** and **has 6 elements** –
  - 1. Leadership responsibilities for quality within the firm,
  - 2. Ethical requirements,



# Standard On Quality Control (SQC) 1



- 3. Acceptance and continuance of client relationships and specific engagements,
- 4. Human resources,
- 5. Engagement performance, and
- 6. Monitoring

# What is SQC 1?

- Q: Do SQC 1 requirements apply to all firms?
- A: Yes
- Q: Are there any exemptions for small firms?
- A: No, but the nature of policies and procedures that a small firm is expected to follow may depend upon factors like its size, operating characteristics, and whether it is part of a network



# What is SQC 1?



- Q: What is the peer reviewer's responsibility for this?
- A: A peer reviewer is expected to test if the PU has complied with SQC 1 and,
  - if not,
  - to determine that the PU has failed to comply with general controls

# What does SQC 1 require a firm to do?

- To establish and communicate QC policies and procedures – based on guidance provided
- To implement those standards in its day-to-day practice
- To monitor the implementation and effectiveness of the QC policies and procedures that it has adopted
- The peer reviewer has to evaluate and report if the PU has done all of the above



# Documentation and communication of QC

- QC policies and procedures that are established by the firm **must be** :
  - (a) documented,
  - (b) communicated to the firm's personnel
- Such communication
  - Describes the policies and their objectives



# Documentation and communication of QC



- Emphasizes that each individual has personal responsibility for quality and is expected to comply with the policies
- Explains that the firm encourages its personnel to communicate their views/concerns on QC matters

## 1st element – Leadership responsibilities

- One **at the top** to be set for quality and its message to **percolate down** the line.
- QC to **tie in to partner/ staff appraisals**
- **Commercial considerations** must not override the quality of work and reporting
- **Sufficient resources** are devoted to developing, documenting, and supporting quality control policies and procedures
- Firm's quality controller to have **sufficient and appropriate experience, ability, and authority**



## 2nd element – Ethical requirements

- **Code of Ethics**
  - Integrity, objectivity, professional competence, due care, confidentiality, and professional behavior
- **Independence**
  - **Independence Policies** to be made based on the “threats and safeguards” approach



# What are “threats” to independence?



- **Self-interest threat**
  - Auditor could benefit from an interest
- **Self-review threat**
  - Auditor audits his own work
- **Advocacy threat**
  - Auditor promotes client's position/ opinion

# What are “threats” to independence?

- Familiarity threat
  - Relationship buys auditor’s sympathy
- Intimidation threat
  - Auditor succumbs to client’s threats



## Illustrative “safeguards”

- Involving an additional advisory or reviewing partner or manager
- Rotation of partner/ manager
- Discussion of independence matters with the audit committee or board
- Independence confirmations from the engagement team
- Removing individuals who might cause a threat – eg those with financial/ business interests or having employment relationships



# What independence policies should a PU have?

- **Financial interests**
  - Investments in debt/ equity, making borrowings except commercially, taking insurance, giving loans, being executor/ trustee, etc
- **Employment relationships**
  - Serving as officer/ director, relatives in accounting/ financial reporting oversight role, taking employment or being in employment negotiations



# What independence policies should a PU have?

- **Business relationships**
  - Having a business relationship or joint investment (partnership interest)
- **Long association**
  - Using the same partner/ staff, rotation policy, cooling off period
- **Gifts and hospitality**
  - Accepting gifts/ hospitality unless insignificant



# What independence policies should a PU have?

- Fees
  - Total fees from auditee are a large proportion of the firm's fees, long unpaid fees (=loan), contingent fee arrangements



### 3rd element –

## Acceptance and continuance of client relationships and specific engagements

- Considerations for client acceptance/ continuance
  - Evaluating client for the reputation of integrity – internet media and industry searches, the reputation of promoters/ related parties, any criminal antecedents
  - Background checks
  - Conflicts of interest – other clients



## 3rd element – **Acceptance and continuance of client relationships and specific engagements**



- Nature of operations, business practices, industry, aggressive accounting, low fees, time pressures
- Does the firm have resources to handle work?
- Communication with predecessor auditor
- Does the firm want to associate its name with the client?

- **Considerations for engagement acceptance/continuance**

- Understanding of services to be performed, knowledge and expertise, industry knowledge, quality and quantity of personnel and specialists, ability to perform within timeline, changes in client personnel, reporting requirements, scope of work, delinquency in paying fees, intimidation of team, weak internal controls, going concern



## 3rd element –

### Acceptance and continuance of client relationships and specific engagements

- Processes for controlling acceptance/ continuance, conflict resolution, and withdrawal
  - Formal approval process – client and engagement acceptance and continuance form



## 4th element – Human resources



- Resources possess desired characteristics
- Firm determines required capabilities/competencies – partners and personnel, assigns responsibility
- Right person on the right job, right partner, effective supervision

## 4th element – Human resources



- **Continuing professional education**, upgradation of industry and accounting/ auditing skills (including IT skills), ability to exercise professional skepticism
- **Promotion criteria** – technical competency and professional maturity, rather than mere seniority

# 5th element – Engagement performance

- The firm has practice aids and performs engagement planning
- Selection of team, responsibilities, developing/ updating background information, risk assessment and responses to risks including fraud considerations, tailored detailed audit programs, time budget, **engagement planning memorandum**



## 5th element – Engagement performance

- Engagement performance, supervision, review, documentation, reporting, file archival
  - Consistency in engagement quality (**manuals**), written audit programs, managing new risks, compliance with standards (**checklists**),
  - ....contd....



## 5th element – Engagement performance

- ▶ documentation, consultation and resolving difference of opinion, supervision, review, **engagement summary memorandum**, report issuance, file assembly, back-up/ archival, file retention



# 6th element - Monitoring

- Quality controller
  - Updating policies, procedures, manuals, checklists
  - Monitoring compliance with firm manuals and ethical policies, review observations



## 6th element - Monitoring

- Annual inspection (practice review)
  - Covering all general and specific controls –  
**Firm QC inspection checklist**
- Complaints and allegations
- Documentation of all elements of the firm's QC system



# Review of general controls – bearing on peer review (PR)

- A review of general controls under SQC 1 also encompasses the ‘compliance procedures’ under the Review of Records
- Review of general controls should take up **at least or more than half of the time allowed** for peer review if the PU has documented policies and procedures



# Review of general controls – bearing on PR



- If the results of testing general controls are good, the peer reviewer may reduce the sample size for the file review that he may have selected originally.
- If the results of testing general controls are not good, or if the PU does not have documented policies and procedures, the peer reviewer will not be able to provide a “clean report” to the PU

## Review of general controls – bearing on peer review (PR)

- ▶ Having completed this review, the peer reviewer is ready to move directly to ‘substantive procedures’ – which essentially means ‘file review’

# Review of specific controls



# What are specific controls?



- Specific controls are those that ensure that the **engagement teams (ET)** in the PU, when doing audits, uphold compliance with
  - Laws and regulations – eg Income Tax Act, 1961 for tax audits or Banking Regulation Act, 1949 for bank audits

# What are specific controls?



- Accounting standards – either of the ICAI or those prescribed under Sec 133 of the Companies Act 2013
- Standards on auditing of the ICAI
- Any other applicable standards of the ICAI – eg standards on review engagements

# How far does a review of general controls also cover specific controls?

- When testing QC for the 5<sup>th</sup> element – Engagement Performance, a reviewer may call for checklists used by PU for compliance with standards
- When testing general controls, the peer reviewer would therefore perform a test of ‘design’ and ‘implementation’ on those controls



## How far does review of general controls also cover specific controls?

- ▶ By these additional procedures for testing specific controls, the peer reviewer now tests the 'operating effectiveness' of those controls.



# What is the difference?



- The **control objective** is that the specific controls ensure that all laws, regulations, and accounting and auditing standards are **complied with** by the PU
- To meet this objective the PU may have **designed checklists** or other controls. **Control testing is done** to find out if this objective is met

# Tests

- **Test of design** = To see if the checklists, as designed, have the level of detail and accuracy to meet the objective
- **Test of implementation** = To see if the firm uses those checklists when performing its audits in all cases
- **Test of operating effectiveness** = To see if by using the checklists, the desired compliance is indeed achieved at the engagement level



# How should the peer reviewer check operating effectiveness?



- The most efficient way would be to combine **this testing with the file reviews**
- When reviewing an audit file, ask how the engagement team (ET) has ensured compliance with all relevant laws, regulations, and various standards

# How should the peer reviewer check operating effectiveness?

- ▶ If there are checklists, ask to see them in the working paper file
- ▶ Then, pick out items at random from each checklist and ask the ET to show from other working papers in the same file how they ensured what they have asserted



# Performing file reviews



# Selection of files

- General considerations
  - Period of coverage is three years
  - Different types of engagements should be selected
  - Files of various partners and from all significant branches should be selected



# Selection of files

- If the size of the assurance practice of the PU, **is large**, it may not be possible for a peer reviewer to select so many files because he has limited time, and may use only one assistant



# Selection of files



- Tests of controls will now take up more than half of that time
- Large firms have large engagements – which means for one engagement there may be many files, including large electronic files of up to more than one GB plus manual files

## Selection of files

- ▶ 1 At least **5 samples** in total (**in case less than 5 than 100% population**) must be selected from the category ‘Statutory Audit’ of Listed entities, central/ State Public Sector Undertakings and Central Cooperative Societies
- ▶ 2 At least 1 sample each **from CSA audit of banks and Insurance Companies**, (if any). CSA will be substituted by SBAs in case PU does not undertake CSA.



## Selection of files

- ▶ 3 At least one sample from assurance service rendered by **each partner of the PU**.
- ▶ 4 Sample includes **each ‘type of assurance engagement’** (viz. Statutory/Internal/Concurrent/Tax/GST/Cert./VAT/Stock/System etc.) including services provided on the tender.
- ▶ 5 Sample has been selected from **each of the locations** where the PU is rendering Assurance



## Selection of files

- ▶ services. However, if the branch has a listed client, then that is required to be included in the sample.
- ▶ 6 Samples have been picked from the assurance clients which contribute **15% or more to the total revenue of the firm** (as mentioned under the concentration Clause 17 of Part A of the Questionnaire)



## Selection of files

- ▶ 7 Samples have been picked from **each year under review** & that sample was selected by Reviewer, if verified for all three years then said sample would be treated as One Sample only.
- ▶ 8 Sample includes assurance engagement assignment **which has the highest turnover** among the statutory audit population.



# Selection of files

- ▶ 9 Sample must necessarily include those assurance clients in respect of whom **advisory has been issued by any regulator**. (as mentioned under Clause 14(ii) &14(iii) of Part B (II) of the Questionnaire)



# Understanding the firm's audit approach



- When reviewing general controls the peer reviewer **may get an overall understanding** of the PU's processes – however, each engagement is done by a different ET
- **Step 1:** Therefore, the peer reviewer needs to sit with them and understand how that ET did the audit – the workflow and the documentation

# Understanding the firm's audit approach

- ▶ When doing so, he also simultaneously tests whether the process followed by ET is the same as was explained to him earlier – otherwise it is apparent that the general and specific controls installed by the PU are not operating effectively



# Understanding the risks identified



- **Step 2:** The peer reviewer should then ask the ET to explain what audit risks they identified (SA 315) and the rationale behind them; he should then inspect the related documentation
- Also, what processes the ET followed to identify the risk of fraud (SA 240)

# Understanding the risks identified

- ▶ **Step 3:** Then the peer reviewer should obtain an understanding of what audit procedures the ET planned to perform to respond to the identified risks – including fraud risks (SA 330); he should then inspect the related documentation



## What if no risks were identified or responded to?

- If, based on his examination of related documentation, the finding is that the ET has not identified and responded to risks, a “risk-based audit” as per auditing standards may not have been done – this would be a major weakness in complying with the standards



## What if no risks were identified or responded to?

- ▶ Besides, if duties cast on the auditor under SA 240, Auditor's Responsibilities for Fraud, are not recorded in the audit documentation, the PU could well be exposed to significant risk – and this would again be a major weakness in complying with the standards



# Materiality and planning



- **Step 4:**
- The peer reviewer may then inquire about the materiality established by the ET for performing the audit (SA 320); he should then inspect the related documentation

# Materiality and planning



- ▶ Step 5:
- ▶ He should then inspect the **Engagement Planning Memorandum** (SA 300) to ensure that the ET had spent adequate time and effort in properly planning the audit – commensurate with the size and complexity of the entity audited

# Materiality and planning

- ▶ If, based on his examination of related documentation, the finding is that the **ET has not adequately planned the audit**, this would be a major weakness in complying with the standards
- ▶ In large-sized engagements it is not possible to obtain sufficient audit assurance without performing **tests of internal controls** (SA 315) – i.e. by performing only tests of detail (transaction vouching)



# Controls testing

- **Step 6:** If he has selected a large entity, the peer reviewer should understand the process and inspect documentation of identification and testing of internal controls
- If, based on his examination of related documentation, the finding is that in a large audit, **controls were not adequately tested**, the peer reviewer should challenge how the



# Controls testing

- ▶ ET claims to have obtained sufficient appropriate audit evidence (SA 500) by performing only tests of detail



# Substantive testing and sampling

- Having performed control testing in large entities, the auditor uses the result of his “control assurance” to decide the scope and extent of substantive procedures, which may be of two types:
  - *analytical and*
  - *tests of detail*
- In audits of smaller entities, the ET may rely completely on substantive procedures as the number of transactions is manageable



# Substantive testing and sampling

- The peer reviewer should inquire and inspect documentation to determine if the ET has followed SA 530, Sampling – as the adequacy of scope of work depends **on appropriate sampling**
- Determining sample size is the auditor's judgment, but the peer reviewer should inspect documentation to see if this judgment is as **required under SA 530**



# Compliance with accounting standards

- The peer reviewer **should read** the Notes to the Financial Statements to understand if the significant accounting policies are, *prima facie*, in accord with accounting standards
- If that is not the case, he should inquire if the appropriateness of such policy is supported by other evidence and/or consultation



# Compliance with accounting standards

- When obtaining an understanding of the entity's business, he should also inquire **how accounting is done** for various types of transactions and corroborate the explanation with relevant documentation in the work papers
- He should also examine how the ET **ensured compliance**, using the PU's accounting standards checklist



## Audit of estimates and judgments

- From a study of the financial statements the peer reviewer should identify major management estimates and judgments
- He should then ask the ET to explain how they audited these estimates and judgments
- He should then inspect the related documentation to see if sufficient work was done to validate the estimates as per SA 540,



# Audit of estimates and judgments

- Auditing
- Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
- If, based on his examination of related documentation, the finding is that the ET has not done sufficient work per SA 540 or has not tested sufficient appropriate audit evidence to evaluate judgements, this would be a major weakness in complying with the standards



# Going concern

- If the entity's net worth is eroded or business suspended or such other information is available, it may raise a question about the appropriateness of using the going concern assumption in preparation of the financial statements
- If such indicators exist, the peer reviewer should ask to examine the ET's documentation of how they have dealt with



## Going concern

- the going concern matter and whether the audit is in compliance with the disclosure and reporting requirements of SA 570
- If, based on his examination of related documentation, the finding is negative, this would be a major weakness in complying with the standards



# Evaluation of misstatements

- Often, errors found by ET in tests of detail by sample are corrected by the management, but no audit procedures are performed to evaluate if the extent of likely misstatements in the untested population is expected to be material – unless this is done, it is not possible to conclude that the financial statements are not materially misstated to give a true and fair opinion



## Evaluation of misstatements

- The peer reviewer should enquire about such procedures in accordance with SA 450, Evaluation of Misstatements Identified during the Audit, and examine **corroborative evidence** in the work-papers file
- If, based on such examination, it is found that the ET did not perform any such procedures it would be **a major weakness in complying with the standards**



# Other auditing standards

- The peer reviewer should evaluate if the other auditing standards of the Institute are complied with
- Some of these important standards are
  - ▶ o SAs 501 (audit evidence – special), 505 (external confirmations), 550 (related parties), 560 (subsequent events), and 580 (written representations)



# Reporting



- The auditor's report is his “finished product” and is the document that gives his audit opinion – a conclusion of all his efforts
- Any intended or unintended error or omission in the auditor's report could invite disciplinary action and other litigation on the auditor and PU

# Reporting



- Inappropriate audit opinions also tarnish the image of the Institute as well as the whole profession and may even invite regulatory retribution
- It is necessary for the peer reviewer to spend time to examine if the audit documentation supports the auditor's opinion

# Reporting

- He should also carefully examine
  - If matters that should be qualified are in fact qualified, and if not, whether the audit documentation contains justification for that
  - If matters that are significant to a user's understanding of the financial statements are reported as matters of emphasis



# Reporting

- ▶ If there are **pervasive misstatements** where audit evidence was available, or pervasive possible misstatements where audit evidence was not available or denied, or where there are multiple uncertainties whose aggregate possible effect could be pervasive,
- ▶ the auditor should not have given a “qualified” opinion but rather a disclaimer of opinion or an adverse opinion

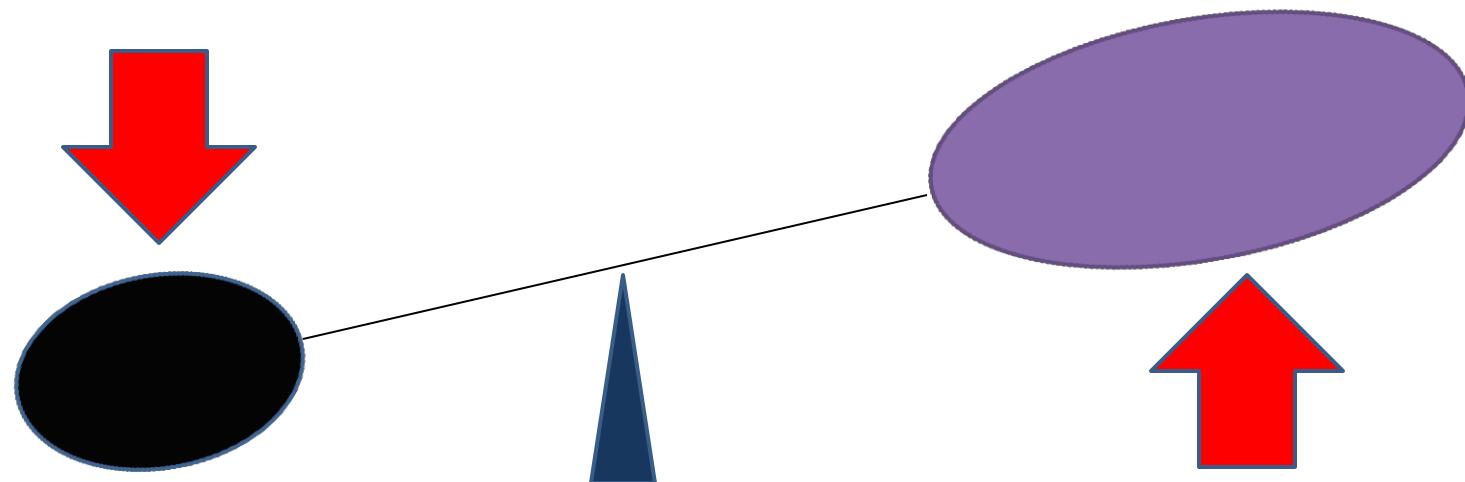


# Audit documentation



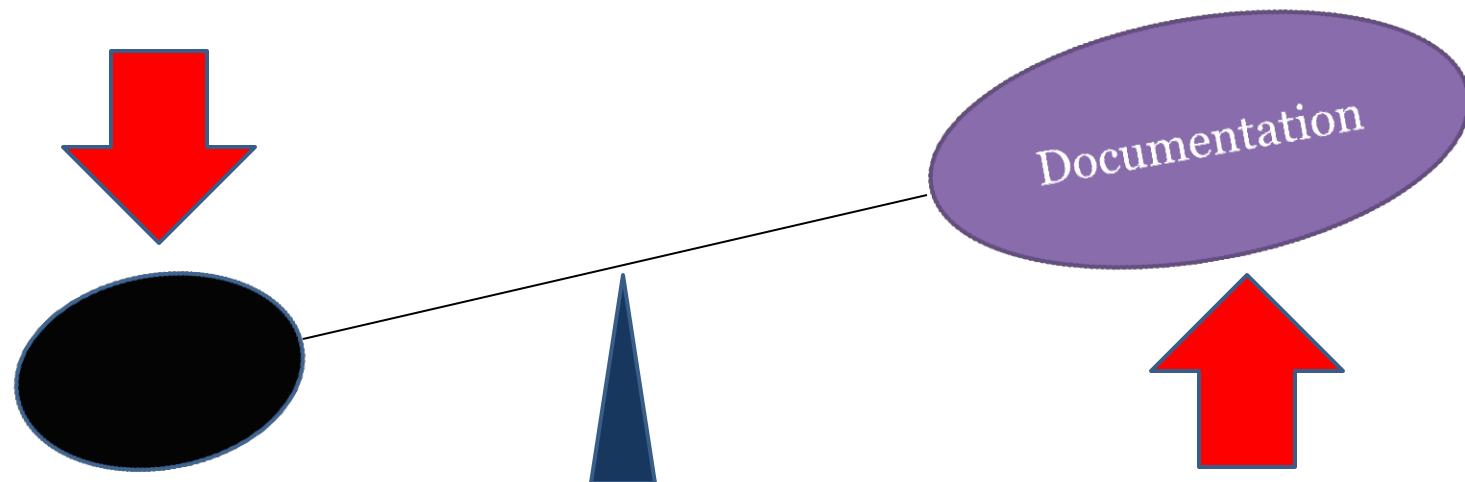
# Changing attitude

- Changing attitude towards documentation



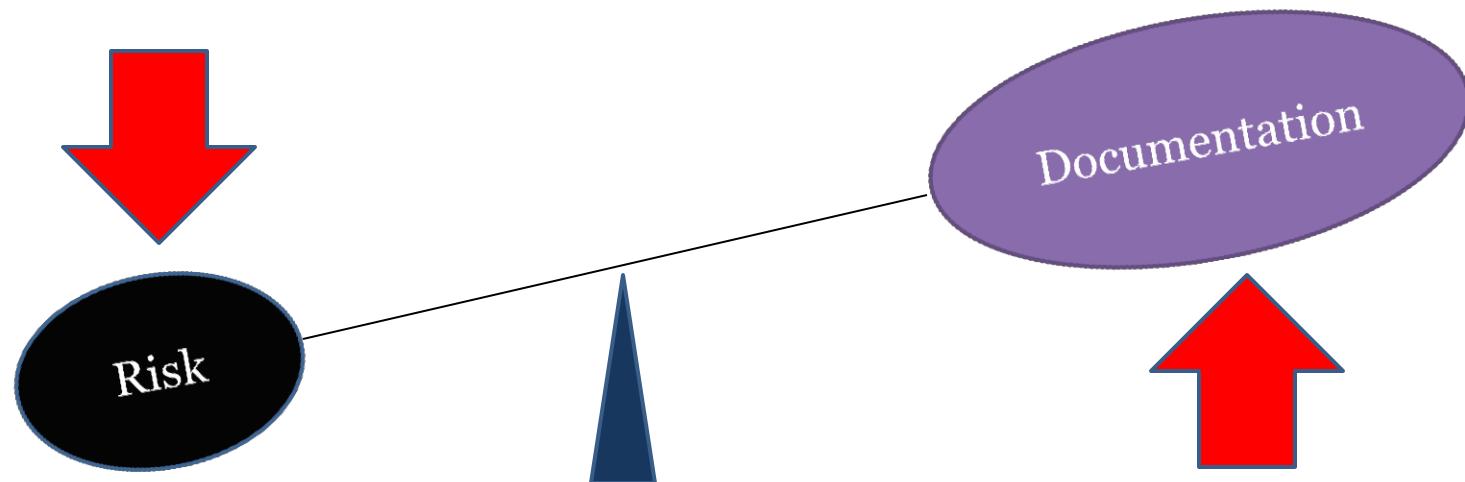
# Changing attitude

- Changing attitude towards documentation



# Changing attitude

- Changing attitude towards documentation



# What is documentation?

- Definition of audit workpapers in SA 230
  - The **record** of (i) audit procedures performed, (2) relevant audit evidence obtained, and (3) conclusions the auditor reached
- Documentation provides -
  - **Evidence** of the auditor's basis for a conclusion about the achievement of the overall objective of the auditor; and
  - **Evidence** that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.



# Why is record & evidence of audit important?



- Changing perception of auditors worldwide and in India – scams
- Auditors under attack in media
- Political demands to “regulate” auditors
- Investors’ demand for auditors to become “informers”
- Role as “watchdog” no longer valid – auditors are expected to find and report frauds and failures in the making

# Auditors

- They must often change, who would be constant in happiness or wisdom. ~ Confucius
- When we are no longer able to change a situation, we are challenged to change ourselves.
  - ▶ ~ Victor Frankl
- It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change. ~ attributed to Charles Darwin



# Responsibility of a peer reviewer



- Peer reviewers are the Institute's "agents of change" – they have the unique opportunity and responsibility to identify weaknesses and to recommend their remediation by the PU
- Documentation will be the greatest challenge – audits will be done but workpaper files will not provide evidence of work said to have been done, of audit evidence examined, of the basis for conclusions reached – under the circumstances what is the peer reviewer expected to do?

# Golden Rule



What is not documented is  
not done !!!

# Peer reviewers should

- Identify shortfalls in documentation
- Sit with the PU partners and explain to them this problem
- Impress upon them that investing in proper “documentation” is like buying a professional insurance policy
- Tell them that it will not be possible for you to issue a clean report on peer review to the PU and that a second review to see remediation would be necessary



# Form, content and extent of documentation

- Depend on
  - Size and complexity
  - Audit procedures
  - Risks
  - Audit evidence
  - Exceptions identified
  - Conclusions/ basis of conclusion
  - Audit methodology



# What is the minimum that is expected?

- Engagement acceptance/ continuance form
- Evidence of planning the audit – engagement planning
  - ▶ memorandum
    - Risk assessment, fraud procedures and fraud risk assessment, materiality, unusual transactions, audit programmes by account (including responses to risk + nature, timing and extent of audit procedures), copies of major contracts/ documents



# What is the minimum that is expected?

- Evidence of performing the audit
  - Controls testing for significant business cycles, details testing including sample selection, details of findings (evidence examined) and conclusions on audit procedures/ significant matters, how risks were mitigated, who did what (review), memoranda on contentious matters, accounting/ auditing standards checklists



# What is the minimum that is expected?

- Evidence of effective reporting
  - Engagement summary memorandum, aggregation of errors and error evaluation working, management representation letter, signed financial statements, cross-referenced trial balance, notes and disclosures workpapers, CARO workpapers, auditor's report



# What is the minimum that is expected?

- Specific documentation requirements under various auditing standards
  - Most importantly these are under: SAs 240, 250, 260, 300, 315, 330, 580, 600



# Discussion on documentation

- Q: Should client's records be part of audit documentation?
  - A: No, but copies of significant contracts/agreements, trial balances, financial statements are kept in workpapers file
- Q: Should superseded drafts, preliminary notes, duplicates be included in workpaper file?
  - A: No



# Discussion on documentation



- Q: Aren't oral explanations by the auditor sufficient?
  - ▶ o A: No – unless backed up by information contained in workpapers
  - ▶ Q: When asked a question about audit evidence on record, the engagement team says that oral explanation was given by the client. How should the peer reviewer respond?

# Discussion on documentation



- A: Oral audit evidence is acceptable evidence from an audit viewpoint unless the matter is contentious.
- If it is contentious, a written representation should be obtained from management and filed.
- If routine, the engagement team should record “minutes” of discussions held with management to reduce oral evidence to written evidence and save those minutes in their workpaper file

# Discussion on documentation

- Q: Should a peer reviewer have a higher expectation for maintenance of quality and documentation from a larger PU than from a small PU?
  - A: Yes. A smaller PU cannot be expected to have as elaborate a system of QC and documentation as a big or medium-size PU





- Nevertheless, every PU – small or big – must comply with the accounting and auditing standards / laws and regulations – there is no exemption and no lower level of professional risk for small PUs
- However, for example, if a very large PU has a 300-page QC manual, a small firm should at least have a 30-page manual; it cannot say that it does not have a manual or that it does not have quality controls!

# What if the peer reviewer feels that an audit judgment taken is wrong



- A peer reviewer cannot challenge the engagement partner's judgment – unless it is clearly contradictory to accounting/ auditing standards
- If justification for a significant audit judgment is not on record in the file, he may conclude that there was no proper application of mind in making the judgement as well as recognise a documentation deficiency

# What is the basic principle peer reviewer must keep in mind?



- After understanding the overall audit strategy from the engagement team, if he went through the workpapers on his own, without help of engagement team, **would he be able to understand what was done and would he be able to reach the same audit opinion as the audit partner reached?**
- In other words, does the file speak for itself and does it stand on its own legs?

# Is peer reviewer a critic, a teacher or a friend?

- Depending on the quality of the PU, he may be a little of all three
  - He should look for and identify shortcomings and determine if they are accidental or systemic – if systemic, there should be no compromise in giving an honest report, otherwise the object is defeated
  - He should guide the PU in understanding what it needs to do and give practical advice on how to do it within the shortest timeframe
  - He should treat the PU as “his responsibility” to ensure that the PU remediates its policies and practices and “earns” a peer review certificate



# Fall out of peer review on reviewer

- Reviewers will have to revise knowledge of accounting and auditing standards, including SQC 1 – this will be professionally enriching
- Reviewers will realise weaknesses in QC and documentation within their own practices and should set their own house in order before reviewing others
- Reviewers with uncompromising but helpful attitude will earn respect in peer circles



# Thank you learned attendees



## Questions?

Email: [dvsatbhaiandco@gmail.com](mailto:dvsatbhaiandco@gmail.com)

Cell: **9822850606**