

Standards on Auditing and the Quality Review Board

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The Government of India, Ministry of Corporate Affairs vide Gazette Notification Number S.O. 1693 (E) dated 3rd October 2007 has set up a Quality Review Board to evaluate various services being provided by the members of the Institute. In simple words, it translates to the evaluation of quality of services being provided by the members of the Institute. In order to undertake review of the services rendered by the members of the Institute in practice, the Board, vide its letter number Tech/QRB/Review/2009/1, dated 14th December 2009 has already intended to receive information with regard to various statutory and non-statutory services rendered by all the practicing members either in their individual capacity or as proprietorship firms or as partners of partnership firms.

International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC) has so far finalised 36 International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC). The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

Financial statements are prepared and presented for external users by many entities around the world. Although such financial statements may appear similar from country to country, there are differences which have probably been caused by a variety of social, economic and legal circumstances and by different countries having in mind the needs of different users of financial statements when setting national requirements. The International Accounting Standards Committee (IASC) is committed to narrowing these differences by seeking to harmonise regulations, accounting standards and procedures relating to the preparation and presentation of financial statements. Financial statements do not provide all the information that users may need. An essential quality of the information provided in financial statements is that it is readily understandable by users. *However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.*

In UK, the Auditing Practices Board (APB) is committed to leading the development of auditing practice in the United Kingdom and the Republic of Ireland so as to: establish high standards of auditing; meet the developing needs of users of financial information; and ensure public confidence in the auditing process. APB reviews standards for auditors to be set on an international basis in

accordance with ISAs. APB has continued to invest a good deal of its time in influencing their development through contributing to the IAASB's Clarity Project.

In India, the Auditing and Assurance Standards Board, constituted by the Institute of Chartered Accountants of India has issued Standards on Auditing (SA) and Standard on Quality Control (SQC) in accordance with ISAs and ISQC.

The Cost Audit Assurance Standard Board, constituted by the Institute of Cost and Works Accountants of India is expected to issue guidelines for its members in practice by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice and strengthening confidence of Quality Review Board. In the mean time, a lead can be taken by recommending adoption of 'ISAs and ISQC' by all the practicing members of the Institute. The ISAs have a uniform structure, in which information is presented in separate sections: Introduction, Objective, Definitions, Requirements, and Application and Other Explanatory Material.

A list of all the 36 ISAs and ISQC is set forth below:

ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

This International Standard on Auditing (ISA) deals with the independent auditor's overall responsibilities when conducting an audit of Financial Statements in accordance with ISAs. Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the ISAs, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the ISAs. The independent auditor is referred to as "the auditor" hereafter. In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the Financial Statements, the ISAs require that the auditor disclaim an opinion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.

ISA 210, Agreeing the Terms of Audit Engagements

This ISA deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present.

ISA 220, Quality Control for an Audit of Financial Statements

This ISA 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. This ISA is to be read in conjunction with relevant ethical requirements.

ISA 230, Audit Documentation

This ISA deals with the auditor's responsibility to prepare audit documentation for an audit of Financial Statements. The Appendix lists other ISAs that contain specific documentation requirements and guidance. The specific documentation requirements of other ISAs do not limit the application of this ISA. Law or regulation may establish additional documentation requirements.

ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

This ISA deals with the auditor's responsibilities relating to fraud in an audit of Financial Statements. Specifically, it expands on how ISA 315 and ISA 330 are to be applied in relation to risks of material misstatement due to fraud.

ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements

This ISA deals with the auditor's responsibility to consider laws and regulations in an audit of Financial Statements. This ISA does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

ISA 260, Communication with Those Charged with Governance

This ISA deals with the auditor's responsibility to communicate with those charged with governance in an audit of Financial Statements. Although this ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This ISA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

This ISA deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of Financial Statements. This ISA does not impose additional responsibilities on the auditor regarding obtaining an understanding of internal control and designing and performing tests of controls over and above the requirements of ISA 315 and ISA 330. ISA 260 establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with those charged with governance in relation to the audit.

ISA 300, Planning an Audit of Financial Statements

This ISA deals with the auditor's responsibility to plan an audit of Financial Statements. This ISA is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.

ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

This ISA deals with the auditor's responsibility to identify and assess the risks of material misstatement in the Financial Statements, through understanding the entity and its environment, including the entity's internal control.

ISA 320, *Materiality in Planning and Performing an Audit*

This ISA deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of Financial Statements. ISA 450 explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the Financial Statements.

ISA 330, *The Auditor's Responses to Assessed Risks*

This ISA deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA 315 in an audit of Financial Statements.

ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

This ISA deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations. Specifically, it expands on how the user auditor applies ISA 315 and ISA 330 in obtaining an understanding of the user entity, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.

ISA 450, *Evaluation of Misstatements Identified during the Audit*

This ISA deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the Financial Statements. ISA 700 deals with the auditor's responsibility, in forming an opinion on the Financial Statements, to conclude whether reasonable assurance has been obtained about whether the Financial Statements as a whole are free from material misstatement. The auditor's conclusion required by ISA 700 takes into account the auditor's evaluation of uncorrected misstatements, if any, on the Financial Statements, in accordance with this ISA. ISA 320 deals with the auditor's responsibility to apply the concept of materiality appropriately in planning and performing an audit of Financial Statements.

ISA 500, *Audit Evidence*

This ISA explains what constitutes audit evidence in an audit of Financial Statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. This ISA is applicable to all the audit evidence obtained during the course of the audit. Other ISAs deal with specific aspects of the audit (for example, ISA 315), the audit evidence to be obtained in relation to a particular topic (for example, ISA 570), specific procedures to obtain audit evidence (for example, ISA 520), and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISA 200 and ISA 330).

ISA 501, *Audit Evidence-Specific Considerations for Selected Items*

This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with ISA 330, ISA 500 and other relevant ISAs, with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of Financial Statements.

ISA 505, *External Confirmations*

This ISA deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA 330 and ISA 500. It does not address inquiries regarding litigation and claims, which are dealt with in ISA 501.

ISA 510, *Initial Audit Engagements-Opening Balances*

This ISA deals with the auditor's responsibilities relating to opening balances in an initial audit engagement. In addition to Financial Statements amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When the Financial Statements include comparative Financial/Cost information, the requirements and guidance in ISA 710 also apply. ISA 300 includes additional requirements and guidance regarding activities prior to starting an initial audit.

ISA 520, *Analytical Procedures*

This ISA deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures"). It also deals with the auditor's responsibility to perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion on the Financial Statements. ISA 315 deals with the use of analytical procedures as risk assessment procedures. ISA 330 includes requirements and guidance regarding the nature, timing and extent of audit procedures in response to assessed risks; these audit procedures may include substantive analytical procedures.

ISA 530, *Audit Sampling*

This ISA applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample. This ISA complements ISA 500, which deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 500 provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

This ISA deals with the auditor's responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of Financial Statements. Specifically, it expands on how ISA 315 and ISA 330 and

other relevant ISAs are to be applied in relation to accounting estimates. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.

ISA 550, *Related Parties*

This ISA deals with the auditor's responsibilities relating to related party relationships and transactions in an audit of Financial Statements. Specifically, it expands on how ISA 315, ISA 330, and ISA 240 are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.

ISA 560, *Subsequent Events*

This ISA deals with the auditor's responsibilities relating to subsequent events in an audit of Financial Statements.

ISA 570, *Going Concern*

This ISA deals with the auditor's responsibilities in the audit of Financial Statements relating to management's use of the going concern assumption in the preparation of the Financial Statements.

ISA 580, *Written Representations*

This ISA deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance in an audit of Financial Statements.

ISA 600, *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*

The ISA apply to group audits. This ISA deals with special considerations that apply to group audits, in particular those that involve component auditors. An auditor may find this ISA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of Financial Statements that are not group Financial Statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location.

ISA 610, *Using the Work of Internal Auditors*

This ISA deals with the external auditor's responsibilities relating to the work of internal auditors when the external auditor has determined, in accordance with ISA 315, that the internal audit function is likely to be relevant to the audit. This ISA does not deal with instances when individual internal auditors provide direct assistance to the external auditor in carrying out audit procedures.

ISA 620, *Using the Work of an Auditor's Expert*

This ISA deals with the auditor's responsibilities relating to the work of an individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence. This ISA does not deal with: (a) Situations where the

engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with in ISA 220; or (b) The auditor's use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the Financial Statements (a management's expert), which is dealt with in ISA 500.

ISA 700, *Forming an Opinion and Reporting on Financial Statements*

This ISA deals with the auditor's responsibility to form an opinion on the Financial Statements. It also deals with the form and content of the auditor's report issued as a result of an audit of Financial Statements. ISA 705 and ISA 706 deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report.

ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

This ISA deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA 700, the auditor concludes that a modification to the auditor's opinion on the Financial Statements is necessary.

ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

This ISA deals with additional communication in the auditor's report when the auditor considers it necessary to: (a) Draw users' attention to a matter or matters presented or disclosed in the Financial Statements that are of such importance that they are fundamental to users' understanding of the Financial Statements; or (b) Draw users' attention to any matter or matters other than those presented or disclosed in the Financial Statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

ISA 710, *Comparative Information-Corresponding Figures and Comparative Financial Statements*

This ISA deals with the auditor's responsibilities relating to comparative information in an audit of Financial Statements. When the Financial Statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in ISA 510 regarding opening balances also apply.

ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

This ISA deals with the auditor's responsibilities relating to other information in documents containing audited Financial Statements and the auditor's report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion does not cover other information and the auditor has no specific responsibility for determining whether or not other information is properly stated. However, the auditor reads the other

information because the credibility of the audited Financial Statements may be undermined by material inconsistencies between the audited Financial Statements and other information.

ISA 800, *Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

The ISAs in the 100-700 series apply to an audit of Financial Statements. This ISA deals with special considerations in the application of those ISAs to an audit of Financial Statements prepared in accordance with a special purpose framework. This ISA is written in the context of a complete set of Financial Statements prepared in accordance with a special purpose framework. ISA 805 deals with special considerations relevant to an audit of a single Financial Statements or of a specific element, account or item of a Financial Statements. This ISA does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

ISA 805, *Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statements*

The ISAs in the 100-700 series apply to an audit of Financial Statements and are to be adapted as necessary in the circumstances when applied to audits of other historical Financial/Cost information. This ISA deals with special considerations in the application of those ISAs to an audit of a single Financial Statements or of a specific element, account or item of a Financial Statements. The single Financial Statements or the specific element, account or item of a Financial Statements may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, ISA 800 also applies to the audit.

ISA 810, *Engagements to Report on Summary Financial Statements*

This ISA deals with the auditor's responsibilities relating to an engagement to report on summary Financial Statements derived from Financial Statements audited in accordance with ISAs by that same auditor.

International Standard on Quality Control (ISQC) 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

This ISQC deals with a firm's responsibilities for its system of quality control for audits and reviews of Financial Statements, and other assurance and related services engagements. This ISQC is to be read in conjunction with relevant ethical requirements. Other pronouncements of the IAASB set out additional standards and guidance on the responsibilities of firm personnel regarding quality control procedures for specific types of engagements. ISA 220, for example, deals with quality control procedures for audits of Financial Statements.

Resources

<http://web.ifac.org>

<http://www.iasb.org>

<http://www.frc.org.uk>

<http://www.icwai.org>

<http://www.icaai.org>