



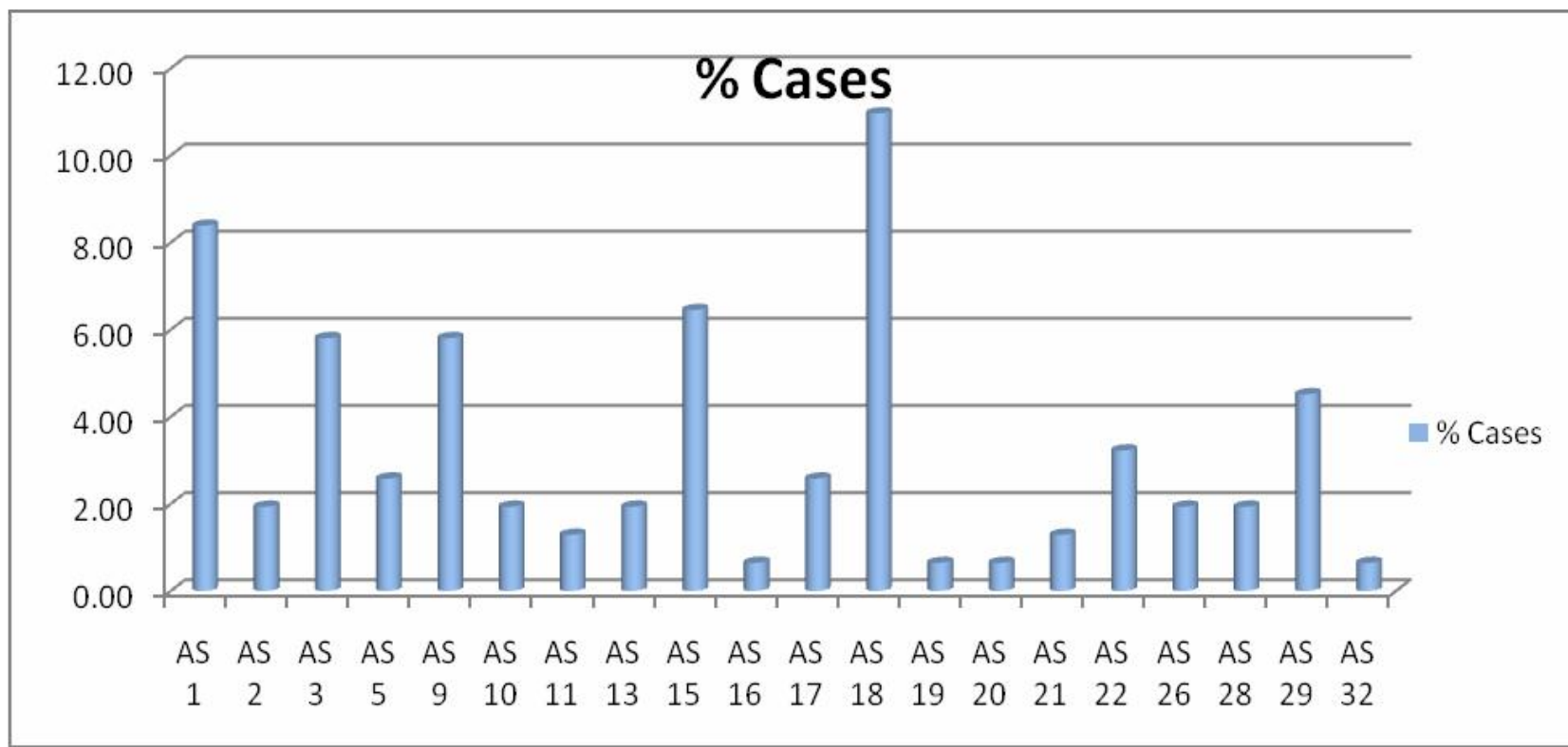
A Report on Audit Quality Review Findings By Quality Review Board

Murtuza Vajihi

17 June 2019

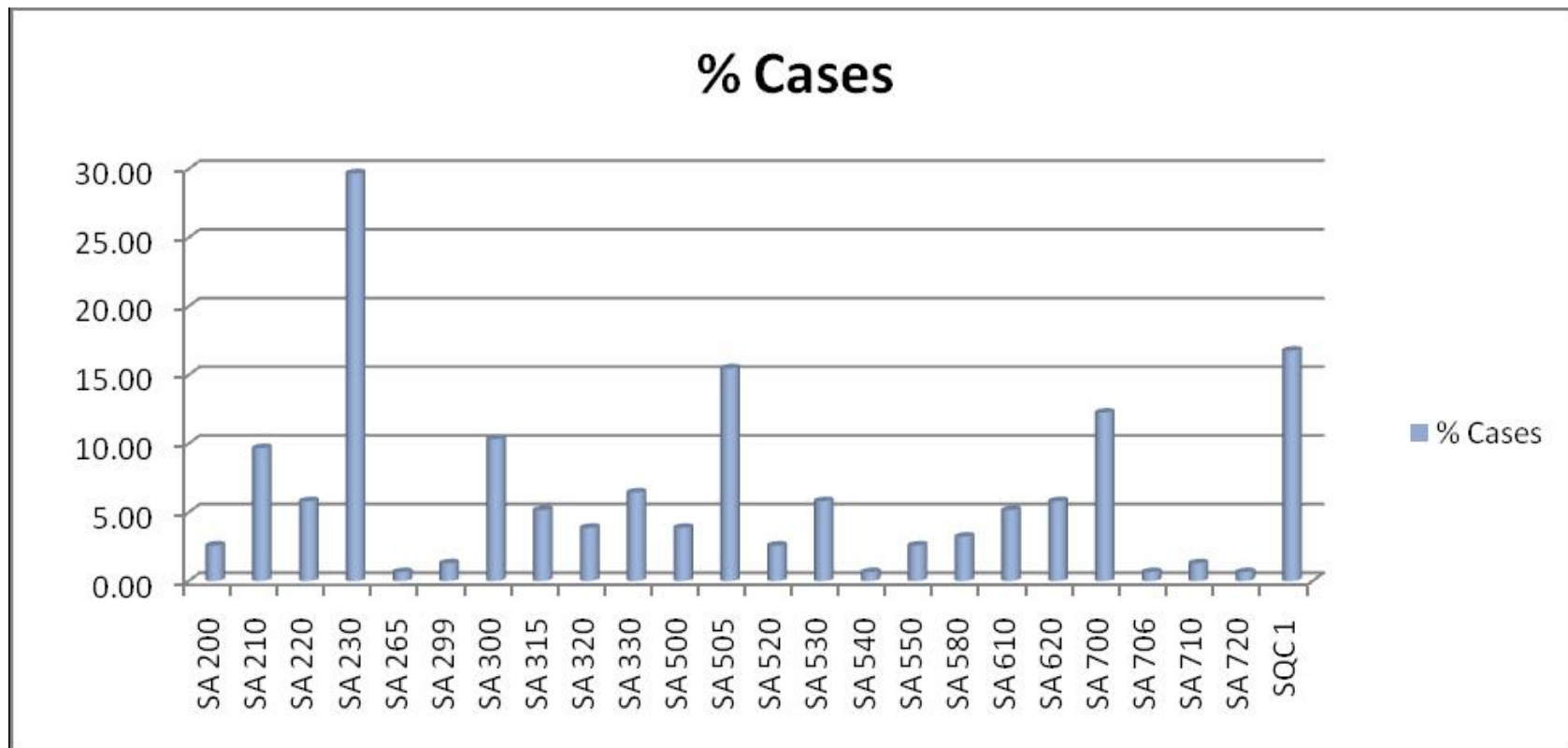


Graphical Presentation of Percentage of Observations on Accounting Stand





Graphical Presentation of Percentage of Observations on Standards on Aud



SQC 1- STANDARD ON QUALITY CONTROL



- The checklist for auditing & assurance standards, guidance notes etc. was not prepared to ensure compliance with all standards while performing attestation engagements.
- The documentations for communication of policies and procedures by the audit firm to its personnel as well as communication of the identity and role of engagement partner to key members of client's management and those charged with governance were not maintained.
- Documented policy or other evidences of procedures for rotation were not available.
- Audit firms had not properly framed its quality control policies and procedures, as it did not ensure that the firm or its staff were free from any self interest which might be regarded as being incompatible with integrity and objectivity.
- No policies and procedures were designed to provide reasonable assurance that the firm had sufficient personnel with capabilities, competence and commitment to ethical principles necessary to perform its engagement.



SQC 1- STANDARD ON QUALITY CONTROL...

- Firm did not have an established policy in relation to client acceptance including background checks of key management, performing conflict checks and formalizing documentation for the same in compliance with requirement of SQC-1.
- Quality control review Partner and Partner-in-charge were the same which is not in line with SQC-1.
- No carry forward working papers were prepared by the firm containing the summary of major observations and related documents to be used in subsequent audits.
- The policies and procedures relating to conflict checking system were not documented.
- There was no systematic manner of implementation of certain aspects of the policy in terms of competencies, career developments, evaluation etc.
- Compliance procedures of firm's code of ethics did not address the firm's policies and procedures regarding ethics and independence and its importance was not conveyed to the staff by way of regular trainings and in staff meetings.

• Audit firm did not have any established recruitment policy. Private & Confidential



SQC 1- STANDARD ON QUALITY CONTROL...

- There were no policies and procedures established to provide it with reasonable assurance that the policies relating to quality control were relevant, adequate and there were periodic inspection of selection of completed engagements.
- As per Para 23 of SQC-1 the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel. However, it was noticed that declarations were only in relation to details of investment made.
- Firm needed to strengthen the mechanism to promote a quality oriented internal culture including frequent actions and messages from all levels of firm's management relating to quality.
- Annual independence declarations and declarations for insider trading for all clients did not include detailed list of securities, moreover, in respect of dependents/ relatives, declarations were not consistent. Further, in terms of conserving price sensitive information, declarations were taken on yearly basis.
- There were no specific documentation in the audit working papers with regard to the process on consultation and differences of opinion as required by the firm's SOC-1 policy.



SQC 1- STANDARD ON QUALITY CONTROL...

- The Quality control policy of the audit firm did not cover all the elements of standards of quality control- SQC 1.
- More frequent programmes and seminars needed to be conducted to appraise the partners and staff about latest changes in law, regulation and accounting and other standards.
- There was no policy document in respect of issues detailing the implementation processes and documentation thereof. Moreover, the policies and its implementation with reference to safeguards in respect of the senior personnel on assurance engagements over a long period of time were not documented.
- The firm lacked in defining and designing detailed policies & procedures for systematically implementing policies related to competence, career development, evaluation etc as per SQC -1
- The firm had not effectively designed and documented policies and procedures in respect of completion of assembly of final engagement files, confidentiality, safe custody, integrity, accessibility and retrievability, retention and ownership of engagement documentation. Further, engagement planning memoranda, working paper, deliverables, evaluation process, controls etc were not in tune with the requirement of SQC-1



SQC 1- STANDARD ON QUALITY CONTROL...

- Formal documentation of procedures for rotation of audit engagement partner was not maintained as required by the Para 27 of SQC-1.
- Documentation for communication of policies and procedure by the firm to its personnel was not maintained as required by the Para 106 of SQC-1.
- Audits were conducted only by Articled Assistants who had a maximum tenor of 3 years with the firm. Engagement partner was also not rotated (Ref Para 27 of SQC-1).
- Checklists for Standards on Auditing, Guidance Notes etc. were not prepared.
- The audit firm's system of quality control had not been designed to meet the requirements of quality control standards for attestation services and did not provide a reasonable assurance of complying with technical standards in all material aspects.
- The audit firm had not provided the policy on quality control, if any, implemented within the firm regarding the responsibilities for its system of quality control for audits and review of historical financial information, and or other assurance and related services engagements. (Ref SQC 1)



SQC 1- STANDARD ON QUALITY CONTROL...

- There were no policies and procedures designed to provide with reasonable assurance that the audit firm, its personnel and, where applicable, others subject to independence requirements (including the experts contracted by the firm and network firm personnel) maintained independence where required by relevant ethical requirements. (Para 18 to 27 SQC-1).
- Annual declarations for independence from all the personnel at firm level were not obtained as suggested by SQC-1.
- Clearance by engagement partner & professional practice director was given on a later date, however, the Audit Acceptance Letter had been sent much earlier

SA 300- PLANNING AN AUDIT OF FINANCIAL STATEMENTS



- Audit Plan made by the audit firm was not elaborate as it did not cover the nature, timing and extent of direction and supervision of engagement team member regarding the vouching part of the Audit engagement.
- The audit strategy and program did not include specific details about related parties and the material transactions as made known by the management and the same was not effectively communicated to the audit team members.
- The audit programs have not been filed and signed by the persons auditing and reviewing the assignment.
- Audit firm had not prepared any document to provide sufficient and appropriate record of the basis of audit report and evidence that the audit was planned and performed in accordance with auditing standards and applicable legal regulatory requirement.
- Audit strategy, audit plan and audit programme had been intermingled by the firm. However, the overall audit strategy should be documented separately in accordance with SA- 300, and the audit plan should also consider the Directions and sub- directions given by CAG u/s 619(3) of the Companies Act, 1956 to be complied with.

SA 300- PLANNING AN AUDIT OF FINANCIAL STATEMENTS...



- In respect of Audit Planning and Risk Assessment, there was no detailed Audit Planning Memorandum; and audit procedures carried out were not complete.
- There were no evidences of any audit planning or risk assessment by audit firm. Improvement in Audit Programme & Procedure in light of experience gained during the course of audit was not evident and documented. The Audit Programme required improvement to enlarge the extent and scope of physical verification of security charged to minimize the perceived risk in this regard.
- The Audit programme was initialed by the engagement partner and not by the concerned team members/assistants who have carried out the verification process.
- Firm did not include all the elements of how the audit plan assessed and addressed the fraud risk in the audit of financial statements.

SA 315- IDENTIFYING AND ASSESSING THE RISK OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT



- The risks of material misstatements to the financial statements were not identified at the planning stage and there were not sufficient documentation in case of any rebuttals.
- No formal risk assessment had been done by the firm to provide a basis for the identification and assessment of risks of material misstatement at financial report and assessment level.
- Audit risk analysis was not comprehensive to make it to commensurate with size and nature of the business.
- The firm had not documented the audit procedures performed during the course of audit for identifying and assessing the risk of material misstatement.
- Identification/assessment of risks was not found documented in the audit file.
- Audit procedures responsive to assessed risks, were not found to be documented in the audit files and further there was no discussion paper held of possible discussions within the team regarding the susceptibility of the financial reports to material misstatements.
- The audit firm had no evidences of any audit planning or risk assessment performed by the firm.

SA 320- MATERIALITY IN PLANNING AND PERFORMING AN AUDIT



- The basis of considering the benchmarks for determining the materiality was not documented along with the revised performance materiality and the nature, timing, and extent of the further audit procedures in case where the revised materiality was lower than that initially determined by the auditor.
- There were no documents on record determining the materiality for the report and for assessing the risk of material misstatement.
- Audit firm had not determined materiality for the report as a whole and performance materiality as per the standard on auditing SA 320-Materiality in Planning and performing an Audit; but determined the materiality based on past experience and risk and control assessments.
- No evaluation had been done to determine materiality level for particular class of transactions, account balances, or disclosures.

SA 210- AGREEING THE TERMS OF AUDIT ENGAGEMENTS



- The engagement letter issued by the audit firm was still in the old format and not as per the format recommended by SA 210.
- The engagement letter mentioned the assignment as review of interim financial information rather than the statutory audit. The firm was appointed as statutory auditors apart from the limited review and certification under corporate governance. However, the engagement letter had no information regarding limited review and certification.
- Engagement letter did not clearly specify the management's responsibility as to the completeness and accuracy of accounts and other reports.
- Engagement letter issued by the firm was not signed by those charged with governance or as authorized by the Board of Directors. Moreover, the engagement letter was not obtained for the other services provided by the firm.



SA 210- AGREEING THE TERMS OF AUDIT ENGAGEMENTS...

- Engagement letter issued was not covering all the aspects as mentioned in SA210- Agreeing the terms of audit engagements. Further the engagement letter was addressed to Senior General Manager- F & A Department instead of Board of Directors and was also not acknowledged by the client.
- No separate engagement letter for e-filing of Tax Audits was held on record.
- Audit engagement letter did not contain terms of assignment and fee.
- The firm had not sent engagement letter to auditee Company in respect of Quarterly Review of Financial Statements, Corporate Governance Certificate assignment, Tax Audit and Taxation assignments.
- The firm had not documented policy with regard to obtaining necessary information before accepting the engagement, deciding whether to continue an existing engagement and when considering acceptance of new engagement with



SA 230- AUDIT DOCUMENTATION

- The significant audit observations were noted by the firm, for which there were no reference of the source document. Further, the available documentation was not linked up in all cases to enable an assessment that the work was performed as planned.
- Documentation of audit plan, the nature, timing and extent of auditing procedures was unsatisfactory.
- No documentation was maintained for the work done by the team, obtaining declarations about independence, client acceptance and continuance, engagement planning memoranda, working papers, deliverables etc.
- As per SA-230 the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed. However, the firm had not obtained any audit evidences for evaluation of estimates made by the management.

SA 230- AUDIT DOCUMENTATION..



- The firm needed to improve its existing engagement documentation policy. Detailed procedures need to be stipulated regarding maintenance of confidentiality, safe custody, integrity, accessibility and retrieving of engagement documentation, along with electronic documentation.
- System of documentation did not provide proper segregation and indexation making it difficult to access and retrieve audit evidences.
- There were no working papers for verification of restructured accounts.
- The working papers for verification of Significant Accounting Policies, Notes on Accounts and Disclosures were not available on record.
- The audit firm had not documented any procedures to ensure that the firm or its staff adhered to other ethical standards outlined by the ICAI.
- There were no working papers available with the firm with regard to the nature of the income and in respect of calculation of Deferred Tax

SA 230- AUDIT DOCUMENTATION...



- There was no documentary evidence in the audit files on qualification in Auditor's Report with regard to the prior approval of the Central Govt. u/s 297(1) of Companies Act, 1956 for transactions, covered by register maintained u/s 301 of Companies Act, 1956.
- The firm did not effectively design and define the procedures sufficient enough in relation to the financial statement considering the company's size, nature and complexity and document the same.
- The documentations were prepared only for certain areas and not for all the areas of risks.
- Audit documentations were not linked up to the audit planning and procedures as required by SA 230-Audit documentation.

SA 230- AUDIT DOCUMENTATION...



- No audit conclusion was drawn on the litigation sheet wherein there were cases for and against the company. There were various litigations against the company as per list available in the Audit Firm's file, however, none of this litigation appeared in the Contingent Liability of the company. (Ref to para 8-A2 of SA230).
- There was no document available in the Audit firm's file, to show the conclusion arrived by them for loans to subsidiaries were not prejudicial to the Company as required by CARO under clause 4(iii)(b), especially when there was no qualification in their final report.
- Work papers on complex accounting areas had not been dated and signed by the team / audit partner.
- No evidences were held on record to show that senior team member of audit team conducted a planning, meeting, discussion and agreed on audit approach etc.

SA 230- AUDIT DOCUMENTATION...



- Certain documents/working papers were prepared and reviewed after the date of audit report, and in some cases prepared before audit report date but reviewed after audit report date.
- Adequate work-papers for documenting whether or not the factoring was with-recourse or without-recourse had not been held in audit files.
- The policies stated in the audit manual for client acceptance and continuation was not in the name of the firm. Secondly, there were no documentary evidences to prove that the firm had performed the task of the said procedures.
- Working papers had been prepared and reviewed in the month of July which was well later than the date of report in May. There was no evidence available on record that the review was carried out in a timely manner at appropriate stages.
- Auditor had not documented the procedure adopted to arrive at the conclusion that there was reasonable certainty to recognize deferred tax asset as per AS-22.

SA 230- AUDIT DOCUMENTATION...



- Audit File did not contain the loan agreement or a term loan profile containing the amount of loan, rate of interest, terms of repayment, securities created and duly signed by the client, which is normally recommended.
- There was mismatch in other long term liabilities between the amounts as per CARO and Balance Sheet. However, no calculations of the amounts were held on record and accordingly, the difference had not been documented appropriately.
- In respect of walkthrough conducted for cash payments, it was mentioned in the work papers that a particular voucher was tested for the walkthrough process, however, no evidence of the record were available in the physical file. Similarly, in case of walkthrough conducted for sales, the physical copy of the document verified was not available on record (Ref para A1 of SA 230).
- The work papers relating to testing of quantitative reconciliation of production and the closing stock were not tied up with the records.

SA 230- AUDIT DOCUMENTATION...



- Product wise workings for quantitative reconciliation were not evident from the work papers.
- Work papers relating to test of details for Interest Income on bank deposits were not tied up to the statement of profit and loss. There was difference in interest income as per financial statements and as per work papers.
- There was no documentation to ascertain whether the fair value of long term unquoted investments had been reviewed or not. Further, the said area was also not covered in the audit programme/checklist of the Audit firm.
- No document was there to support the verification of share capital received by the bank from qualified institutional buyers. Further, there were no notings in the working papers that how the share capital received during the year was verified.

SA 230- AUDIT DOCUMENTATION...



- An office premise was purchased and that was the only addition under the head of 'Office Premises', however no documentations were available with the firm in support of the verification of the addition made.
- Company had sold land and the same was shown under exceptional item in the statement of Profit and Loss. However, the conclusion note from the audit firm was not available in the file, treating it as an exceptional item.
- Specific documentations were not maintained to determine the reportable segments for the year.



SA 500- AUDIT EVIDENCE

- No evidences were taken by the firm to verify the ageing of the leased assets.
- There was no evidence of any work being reviewed by any partner.
- There was no evidence of having verified the reasonableness of actuarial assumptions for estimating the liability for employees benefit.
- There were no documents in the audit files to justify/ evidencing the classification of security deposits taken by the company from dealers, expected to remain with the company till the dealership was terminated.
- Some of the key audit evidence such as orders from sales tax /Income tax/Excise and other authorities resulting in material transaction were not held on record.
- The firm had no formal means for assessment of audit risks, and no further evidences were obtained to reduce the audit risk to an acceptable level.



SA 500- AUDIT EVIDENCE...

- There was no evidence of evaluating the reasonableness both of accounting estimates and management representations, and to make judgement regarding the appropriateness of accounting policies and disclosures of the relevant industry and the concerned guidance notes, if any.
- In certain accounts, the persistent irregularities in the accounts of substantial amounts were adjusted at the year-end. However, evidence of source of such credits to ascertain genuineness was not available on record. Further, recovery through RTGS did not evidence the source of remittance of funds.
- There was lack of sufficient appropriate audit evidence for reversal of amount payable to a group company.
- The Company sold plots of land during the year, however, it was informed that cost of these lands had been already written off in the earlier financial years. On verification of movement of stock of development rights and the cost of development rights debited to profit & loss account, a difference was noticed for which no evidence was produced.



SA 520- ANALYTICAL PROCEDURES

- No workings/ evidences in the audit working files for the analytical procedures carried out under SA-520.
- The firm did not clearly document application of analytical procedures



SA 530- AUDIT SAMPLING

- The sample selected by the audit firm was not adequate to mitigate the risks of material misstatement.
- Documentation was not done related to audit sampling as required by SA 530-Audit sampling.
- Basis of audit sampling had not been documented and explained and thus SA 530 requirements had not been complied with.
- Documentation was not maintained in relation to selection of audit samples (Ref Para 8 of SA 530 Audit sampling).
- The sample selection was on the basis of professional judgement taking into account selecting specific items and audit sampling, thus, the system of selection needed to be documented comprehensively.
- While conducting the test of controls / test of details for the journal entries, most of the entries on the dates beginning at each of the months had been selected for verification, the sample did not cover the other dates as well.



Thank you