



## **Audit Quality Review**

A Synopsis

August 2015

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**Brahmayya&co.**

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## Introduction

Government of India has, in exercise of the powers conferred under Section 28A of the Chartered Accountants Act, 1949, constituted the Quality Review Board ('the Board' or 'QRB) to perform the following functions under Section 28B of the Chartered Accountants Act, 1949:

- to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- to review the quality of services provided by the members of the Institute including audit services; and
- to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

Accordingly, the Board initiated a system of review of 'statutory audit services' of audit firms auditing listed companies since August 2012. The detailed findings of QRB was released on 18th August 2015. This synopsis attempts to provide an overview on the detailed findings along with key areas, where the preparers of financial statements and the firms auditing those financials should focus on.

## Selection Criteria

The Board had selected 216 cases for review, out of which review of 175 reports have been completed. The sample spread consisted of 168 listed companies. The year wise spread is tabulated below:

Financial year	No. of Cases
2010-11	10
2011-12	58
2012-13	100
<b>Total</b>	<b>168</b>

The sample 168 listed companies also contributed an elaborate spread of:

- 139 audit firms being reviewed.
- 62% of Market Capitalisation of stocks listed in NSE
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A total of 200 qualified professionals were available with the QRB for conducting the review assignment.

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### Outcome

Details	2013	2014	2015	Total
Reviews Initiated	37	56	123	216
Reviews Completed	37	56	82	175
Advisories sent to Audit Firms	5	26	43	74
Recommended to ICAI for action	4	10	11	25
<b>No. of Cases requiring improvement</b>	<b>9</b>	<b>36</b>	<b>54</b>	<b>99</b>
<b>% of Cases requiring improvement</b>	<b>24%</b>	<b>65%</b>	<b>66%</b>	<b>56%</b>

### Observations on Accounting Standards

AS	No of Observations	%
1	13	8.39
2	3	1.94
3	9	5.81
5	4	2.58
9	9	5.81
10	3	1.94
11	2	1.29
13	3	1.94
15	10	6.45
16	1	0.65
17	4	2.58
18	17	10.97
19	1	0.65
20	1	0.65
21	2	1.29
22	5	3.23
26	3	1.94
28	3	1.94
29	7	4.52
32	1	0.65

The types of observations in case of those exceeding 3% are tabulated standard wise.

### **AS 1 - Disclosure of Accounting Policies**

- Company had not disclosed accounting policies in respect of cash & cash equivalents, revenue recognition in respect of interest on fixed deposits and dividend.
- Accounting policy in respect of capital subsidy in reserve was not disclosed.
- No disclosures were made in significant accounting policies in respect of employee VRS on actuarial valuation basis.
- The accounting policy for recognition of intangible assets was not disclosed separately, though it was significant in respect of the company.
- Company had not disclosed separately in its notes or accounting policies, the indirect method used for presenting its cash flow statement.
- The accounting policy disclosure as per AS-1 was incomplete, as it did not indicate the event and point of recognition of revenue in respect of goods dealt with by the enterprise, nor did the policy of revenue recognition (AS-9) reflect the recognition of revenue in respect of the subsidy paid by the government as part of sales revenue.
- Company had taken the foreign currency loan for acquisition of fixed assets. The policy on exchange difference on loan contracted for acquiring fixed assets was not stated.
- Policy for valuation of inventory of raw material was not disclosed by the company.
- The valuation of inventory had not been done as per the adopted accounting policy of the company. Thus, the auditor should have qualified the audit report or requested to change the accounting policy followed, but no measures were taken.
- Stores and spares were valued at cost. However, it should be lower of cost or NRV. It was not stated that cost of material was net of taxes /duties for which input credit was available
- Point of recognition of revenue in case of commission income was not disclosed in significant accounting policies.
- Accounting policies related to revenue recognition of services rendered, interest, and dividend had not been disclosed in the significant accounting policies.

### **AS 3 - Cash Flow Statement**

- The Auditors had not reported whether Cash Flow Statement was in compliance with the Accounting Standards or not.
- The company had written back on account of provision for doubtful debts and advances. It was not adjusted from profits to arrive at the Operating profit before working capital changes, while preparing cash flow statement under indirect method. Thus, violating the provisions of AS-3.
- Company had shown as inflow on account of “proceeds from sale of current investments” under the cash flow from investing activities head. However no calculation for the said figure was available in the working papers of the Auditors.
- As required by Para 25 of AS 3 effect of changes in exchange rates of cash and cash equivalents were not disclosed.
- It was observed that company had not disclosed the effects of change in exchange rates on cash and cash equivalent held in foreign currency that should be reported as a separate part of reconciliation of the changes in cash & cash equivalents during the period.

- In Cash Flow Statement, interest from Inter-corporate deposit had been included in the income from the operation instead of disclosing the same as income from investing and financing activity. Similarly profit and loss on sale of fixed assets was shown in operating income instead of disclosing as income from investing activity, and purchase of fixed assets was shown net of sales proceeds.
- The method adopted for preparation of Cash Flow Statement was not disclosed by the entity.
- Company had not disclosed the components of cash and cash equivalents and had not presented the reconciliation of the amounts in cash flow statement with equivalent items reported in the Balance Sheet.
- The cash flow statement of the audited entity disclosed the aggregate value of investments made and loans & advances to subsidiary companies. However, cash flow from operating activities and financing activities was different. Even after considering the proceeds of sale of investments, there was a decrease in cash and cash equivalents which reflects that the short term funds had been utilized for investing in long term assets like investment in subsidiary companies and advancement of loans and advances. Further, it was presented that long term loans obtained from banks had been advanced to the subsidiary companies for purchase of lands. However, one of the conditions mentioned in sample sanction letters produced was that the "proceeds of loans should not be utilized for procurement of land".

### **AS 9 - Revenue Recognition**

- Sales were shown at net of excise duty in the Statement of Profit and Loss instead of the gross value; however, excise duty should be shown as a deduction in the Statement of Profit and Loss.
- Disclosure with respect of interest received and interest paid were net off which was in contravention to AS-9 Revenue Recognition.
- Accounting policy stated that dividends on equity shares had been recognized on receipt basis. However, para 13 of AS 9 requires dividends on equity shares to be recognized when owner's right to receive is established

### **AS 15 - Employee Benefits**

- The company had disclosed the movement in the liability for gratuity and compensated absences where the present value of defined benefit obligation, current service cost, etc. was mentioned. However, the movement of various cost components did not tally with the certificate obtained from an independent actuary on the valuation of the obligations.
- Actuarial Valuation report was not obtained in case of Gratuity Liability at the year end and hence disclosures as mentioned in AS 15 were not made in the financial statement.
- Disclosure required under Para-120(n) had not been given in the financial statements. Further, there was a variation in the opening balance of the present value of obligation of gratuity the reason for which was not explained.
- An amount had been wrongly classified as provision for 'Leave Encashment'. Further the provision for gratuity was understated.
- Company had not disclosed the disclosures in respect of Leave encashment as required under AS-15.
- The employee benefits were not in accordance with AS-15 Employee Benefits as it comprised only gratuity.

### **AS 18 - Related Party Disclosure**

- The Sales Promotion expenses paid amounting to service charges were not disclosed as related party expense as per AS-18 'Related Party Disclosures'.
- Company had made investment in an associate company. However, the said transaction was not disclosed in the related party transactions as per AS 18. Further the interest accrued on the share application money receivable from the said company was also not disclosed.
- Company had not disclosed the nature of a transaction related to its subsidiary.
- Related party disclosure was not made in respect of debit balance against subsidiary of the Company.
- Company had not made complete disclosure of nature of transaction with related parties. There were outstanding receivable/payable balances as at the year-end. The opening balances with these parties were nil. Thus, the company had transactions with such entities during the year. However, no disclosure had been made for such transactions under "Nature of transaction with related Parties".
- Nature of transaction with the related parties had not been disclosed by the company as per Para 23 of AS 18 "Related Party Transactions". Further, the company had disclosed the year-end balances with related parties but had not disclosed all transactions contributing towards such balances.
- As required by AS 18, material balances (over 10% of total) with related parties should be disclosed separately. However, it had been disclosed by the company in aggregate in the standalone financial statements.
- In the Related Party disclosures relating to Purchase of Fixed Assets, a sum was shown to be relating to one subsidiary; however, the fixed assets were purchased from another subsidiary.

### **AS 22 - Accounting for Taxes on Income**

- The Company included land as an item considered for WDV of assets from the books of accounts and computed deferred tax, whereas the land does not suffer depreciation and thus has no timing difference, hence it should not be considered for deferred tax computation.
- Incomplete disclosure had been made in respect of Deferred tax assets and deferred tax liabilities as required by para 31 of AS 22.
- The company had netted off DTL from DTA, management had not disclosed it separately looking at the materiality.

### **AS 29 - Provisions, Contingent Liabilities and Contingent Assets**

- In respect of two standstill projects undertaken by the company due to Court orders, the carrying value was material however; no impairment testing was done as per AS 28 (Impairment of Assets) and AS 29 (Provisions, Contingent Liabilities, and Contingent Assets).
- Service tax demand was not shown as contingent liability.
- No disclosure was made in contingent liability for the interest portion of the disputed demands.
- Contingent liability in respect of the amount discounted through Bank was not disclosed.
- No disclosure was made in contingent liability for consequential demands under service tax on the basis of demands raised by the department for earlier years.
- No disclosure had been made as per AS 29, Provision, Contingent liabilities and Contingent Assets for the factoring arrangements entered into by the Company.
- Disputed demands in respect of Sales tax and excise duty were not disclosed under Contingent Liability.

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- The company in its Director's report had mentioned demands of excise duty and demands of luxury tax were pending decision before various Courts and Appellate Authorities. However, the company has not treated it as contingent liabilities.

### Observations on Standards on Auditing

SA	No of Observations	%
200	4	2.58
210	15	9.68
220	9	5.80
230	46	29.68
265	1	0.65
299	2	1.29
300	16	10.32
315	8	5.16
320	7	4.52
330	10	6.45
500	6	3.87
505	24	15.48
520	4	2.58
530	9	5.81
540	1	0.65
550	4	2.58
580	5	3.23
610	7	4.52
620	9	5.80
700	19	12.26
706	1	0.65
710	2	1.29
720	1	0.65
SQC 1	27	17.42

The types of observations concerning certain important compliance requirements are tabulated standard wise.

#### **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.

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- 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.
- Engagement letter issued was not covering all the aspects as mentioned in SA 210. 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 an existing client.

### **SA 220 – Quality Control for an Audit of Financial Statements**

- There was no process of maintaining standard checklists, manuals, working papers and other methods to ensure consistency in the quality of each engagement.
- Written confirmation of compliance with its policies and procedures on independence from employees was not taken as required by SA 220.
- Since there were only two partners and both of them being part of engagement team, there has been no review of completed engagements by an independent person. No other partner other than the engagement partner was involved in the audit process.
- Para 20 of SA 220 states that the engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor's report. However, there was no evidence on record in the work papers for having conducted the review process on the matters specified in Para 20.
- The documentation to provide evidence of the operation of each element of its system of quality control not maintained as required by the SA 220 Quality control for audit of financial Statement. In other case, no document was found regarding quality control review.
- The Audit Firm did not document the policy for second partner review as required by the Para 25 of SA 220.
- The firm was not having any written policies and procedures on record as required under SA 220.

### **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



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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.

- 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 Liability.
- 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
- 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 SA 230).
- 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.
- 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.
- 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. There was a difference between the actual report and calculation made by audit firm.
- 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.
- 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 300 – Planning and 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.
- In respect of Audit Planning and Risk Assessment, there was no detailed Audit Planning Memorandum; and audit procedures carried out were not complete.

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- 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 505 – External Confirmations**

- Procedure and manner of obtaining external confirmations, its correctness, maintenance of adequate records, control over confirmations, and obtaining direct confirmation from the external parties was not there.
- Confirmations were not sent under the control of the firm as it is a mandatory audit procedure.
- Log were not maintained of what confirmations have been sent, received, not received, undelivered, or unreconciled as in few cases it was observed that no documentary evidences were available for the list of cases selected for external confirmation and evidence of sending letters to any of parties.
- External confirmations were not obtained for trade receivables and payables. Alternate procedures were duly applied but the sample selected for conducting alternate procedures was too small.
- External confirmations received from bank branches could not be verified in respect of bank balance as there were no documentations evidencing the same in audit file.
- The external confirmation response was not directly received by the audit firm as required by Para 7 of SA 505 External confirmation.
- No independent balance confirmations from debtors had been circulated/obtained by the firm.
- The firm had not obtained external confirmation of account payable balances.
- Analysis of confirmation of balance received/alternate audit procedure adopted etc. was not documented.
- Legal confirmations from Solicitors & Lawyers of the Company were not obtained by the firm.
- In respect of related party balances, no confirmations had been obtained.
- Whether, audit firm had invited the external confirmation as a substantive audit procedure or not could not be verified in the absence of any documentation thereof in the audit file. Further the balances held with various banks under current accounts/FDRs were relied upon by the Audit firm, based on the bank confirmation provided by the Company. However, documentation in its support was not found in file (Ref SA 500, 501 & SA 505).

### **SA 700 – Forming an Opinion and Reporting on Financial Statements**

- The auditor while signing the Balance Sheet, Statement of Profit & Loss and Cash Flow statement did not mention his membership number and firm's FRN.
- The auditor's report of a listed Bank had been addressed to the President of India instead of to the Members.
- The requirement of SA 700 was not complied with in respect of one of the branch.
- Long format audit report did not comply with the provisions of SA 700; it did not bear the date, place and signature of the auditor.
- The auditor has to mandatorily report the compliance of all the applicable Accounting Standards in its

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report. However, the audit firm had not reported it in its report.

- According to SA 700, an audit report should be appropriately addressed as required by the circumstances of the engagement. However, the firm had not mentioned the addressee, to whom it was addressed in its report.
- The Independent Auditor's Report was issued in old format i.e. not as per SA 700(Revised) as applicable to the financial year 2012-13.
- In the heading of auditor report for consolidated financial statement of the company the word "Independent" was not used. It should have been "Independent Auditor's report".

### **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.
- 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.
- 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

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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 policy.
- The Quality control policy of the audit firm did not cover all the elements of standards of quality control
- 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
- 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.
- 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
- The quality review programme/checklist containing the details of team involved, test performed, extent of verification etc. were not found.
- 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.

### Observations on Other Relevant Laws & Regulations

Laws & Regulations	No of Observations	%
Companies Act, 1956	8	5.16
CARO, 2003	18	11.61
Income Tax Act, 1961	5	3.23
Chartered Accountants Act, 1949	3	1.94
Revised Schedule VI	56	36.13

### Conclusion

Suo Moto Powers of the QRB to review financial statements with a view to assessing the quality of audit and the auditor's report thereon would certainly enhance quality on preparation of financial statements and the manner in which the entities are audited. It is also important to note that the Companies Act 2013, also mandates constitution of a separate National Financial Reporting Authority which would, also review the quality of services provided by the members of the Institute. These oversight bodies are set up with the objective of enhancing public trust on the profession. The QRB has also extended dialogue with International Forum of Independent Audit Regulators (IFIAR), Public Company Accounting Oversight Board (PCAOB) and Certified Public Accountants and Auditing Oversight Board (CPAFOB) to understand international audit regulation mechanism; and other matters of mutual interest. The wealth of information gathered during these interactions would provide the QRB the right platform for making the review systems and practices in line with the best international practices.

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