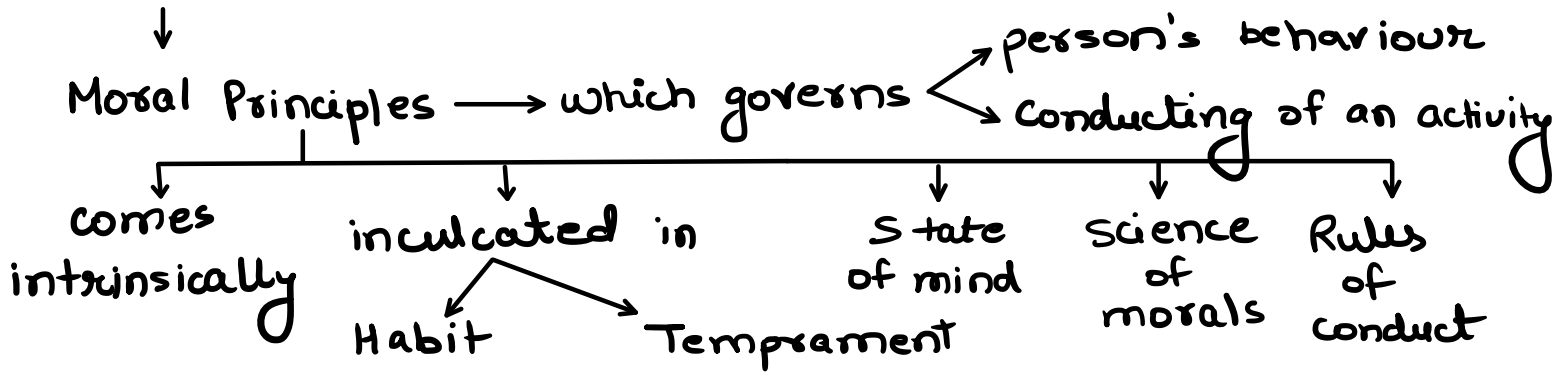
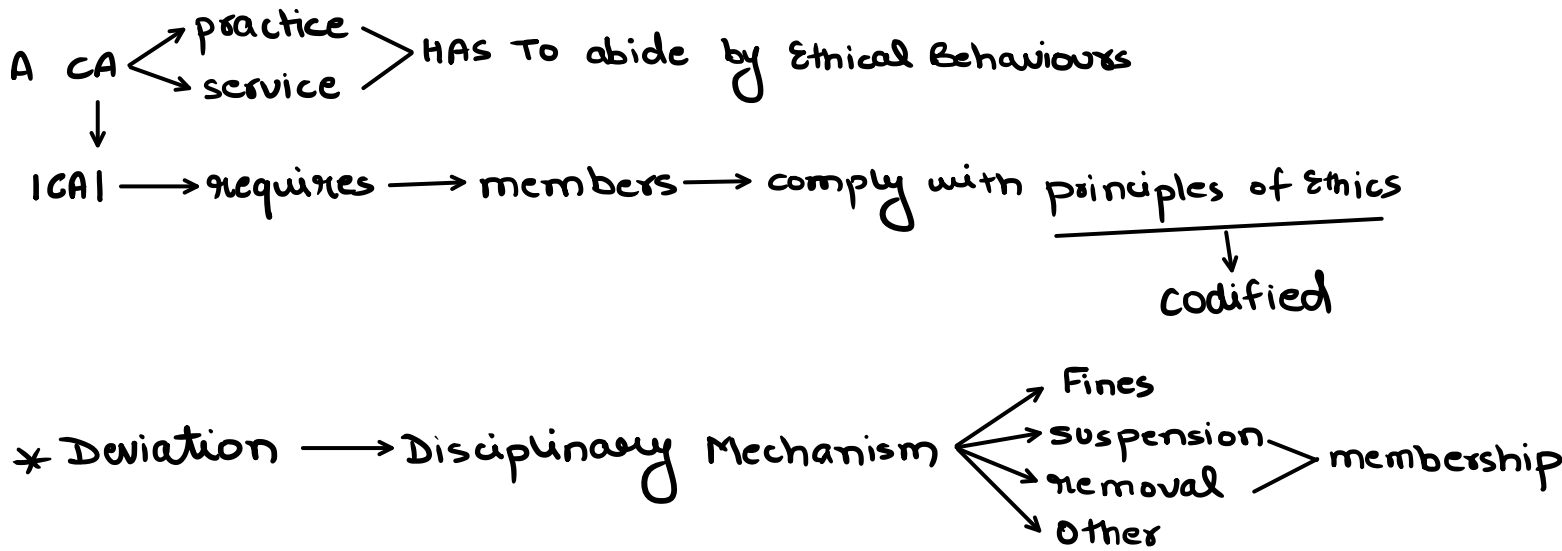


1. MEANING OF ETHICS – A STATE OF MIND



2. NEED FOR PROFESSIONAL ETHICS



3. PRINCIPLES BASED APPROACH VS RULES BASED APPROACH TO ETHICS (ETHICAL OR LEGAL)

Ethical guidance follow

Principles Based Approach

Rule Based Approach

① Essence = Requires compliance with spirit of ethics

② Accountants → Exercise Every situation Prof. Judgement Based on Prof. knowledge Skill Expertise

WINNER

① Strictly follows Clearly established rules

② Narrow outlook

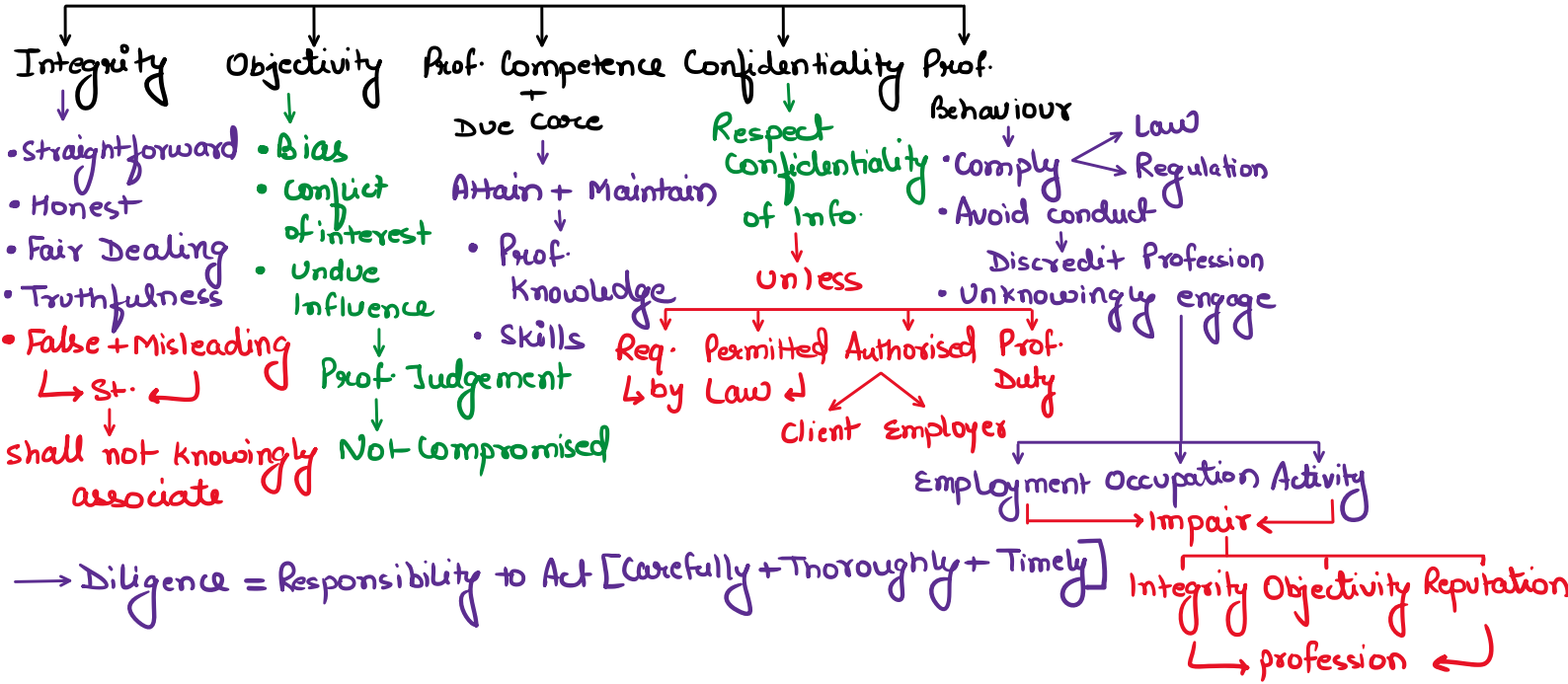
③ Spirit of Ethics Overlooked

④ Rigid

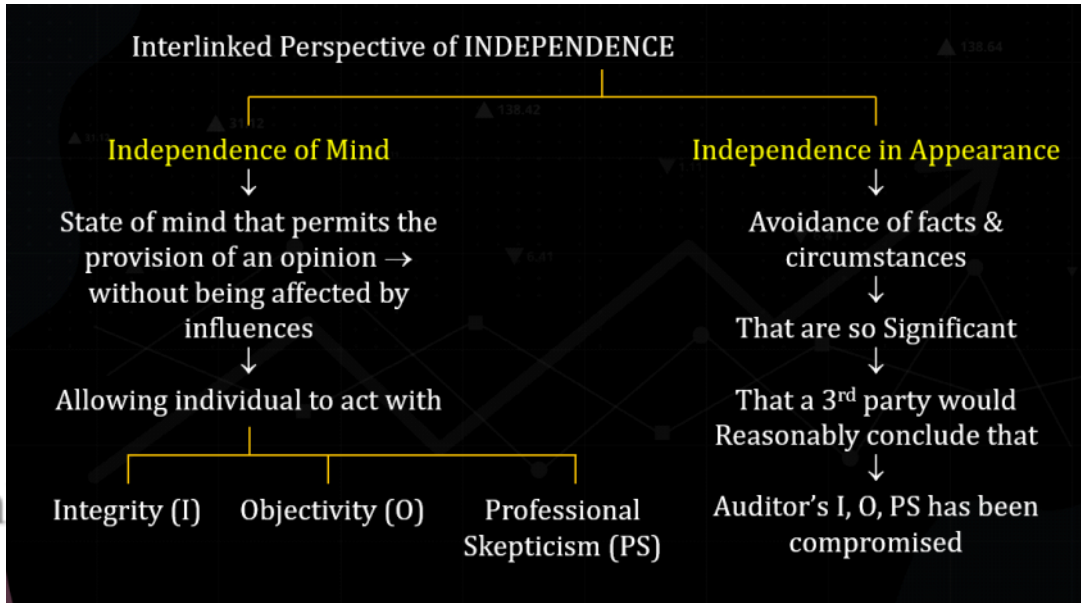
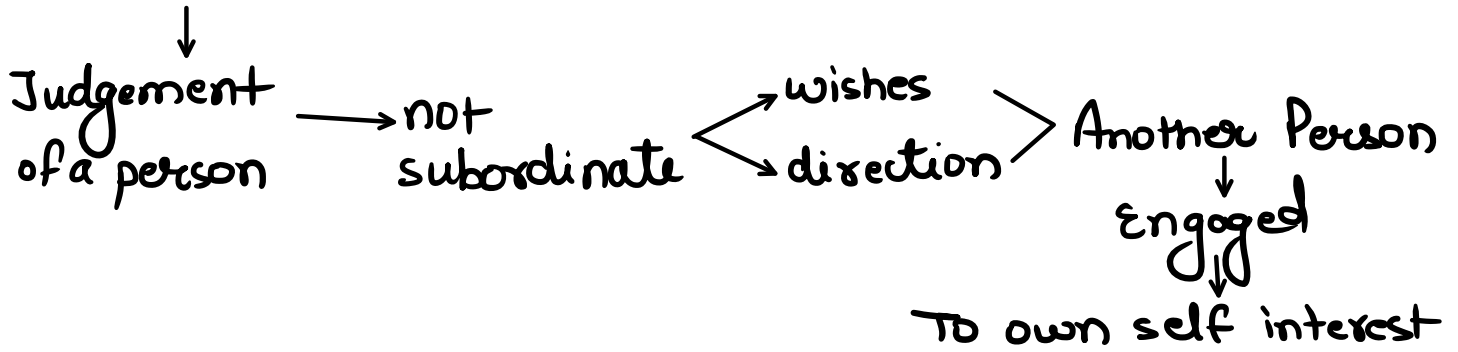
⑤ May not possible Every situation

4. FUNDAMENTAL PRINCIPLES OF PROFESSIONAL ETHICS

Establish → EXPECTED → Standard of Behaviour



5. INDEPENDENCE OF AUDITORS

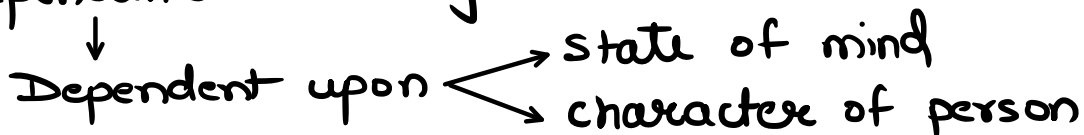


(I) Auditor himself satisfied about his Independence

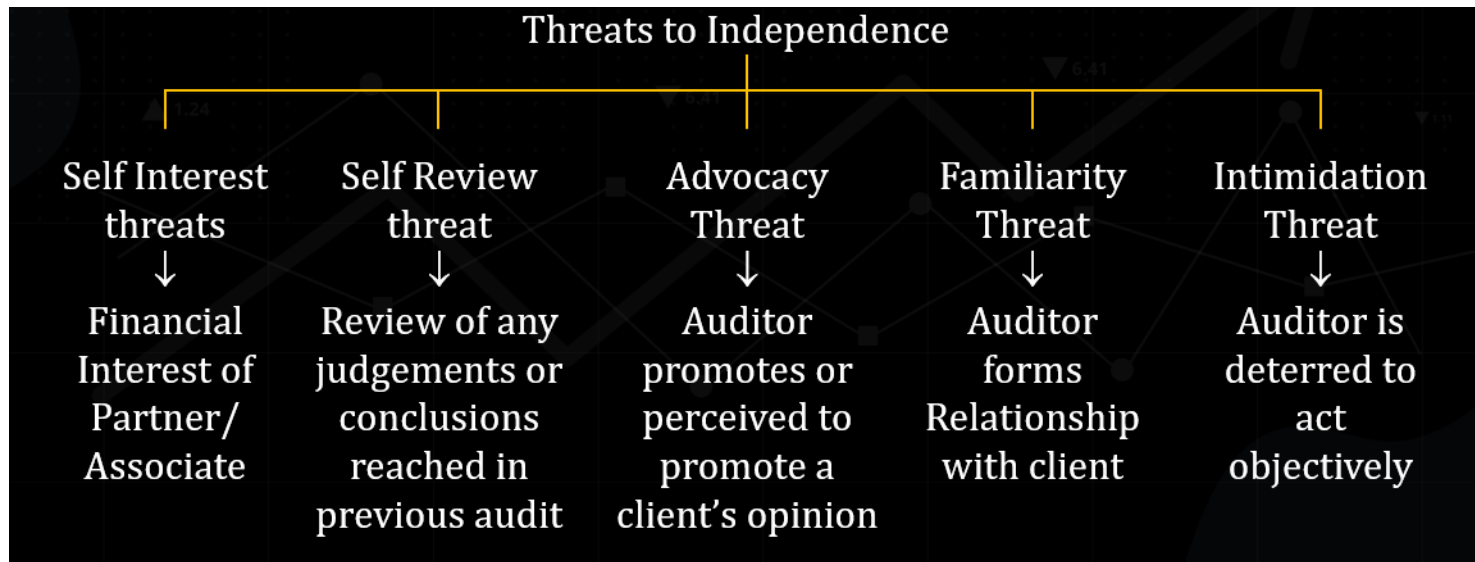
(II) No unbiased person → would be forced to conclude

↓
Abridgement of Auditor's Independence

* Independence → subjective matter



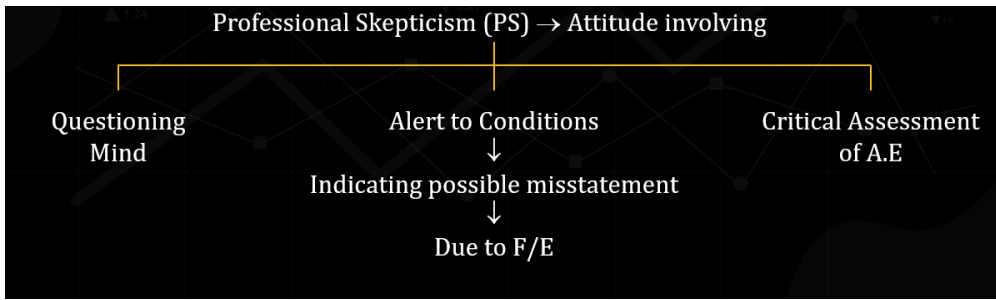
6. THREATS TO INDEPENDENCE



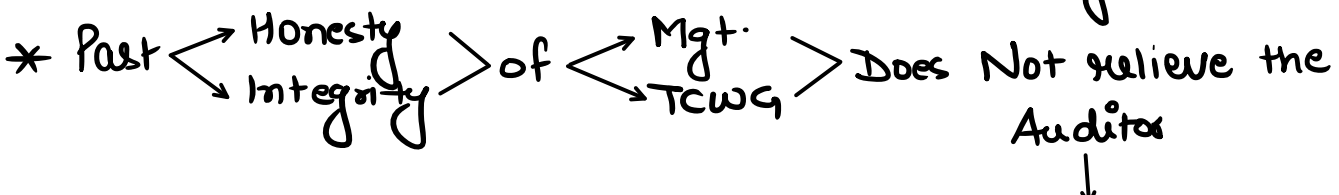
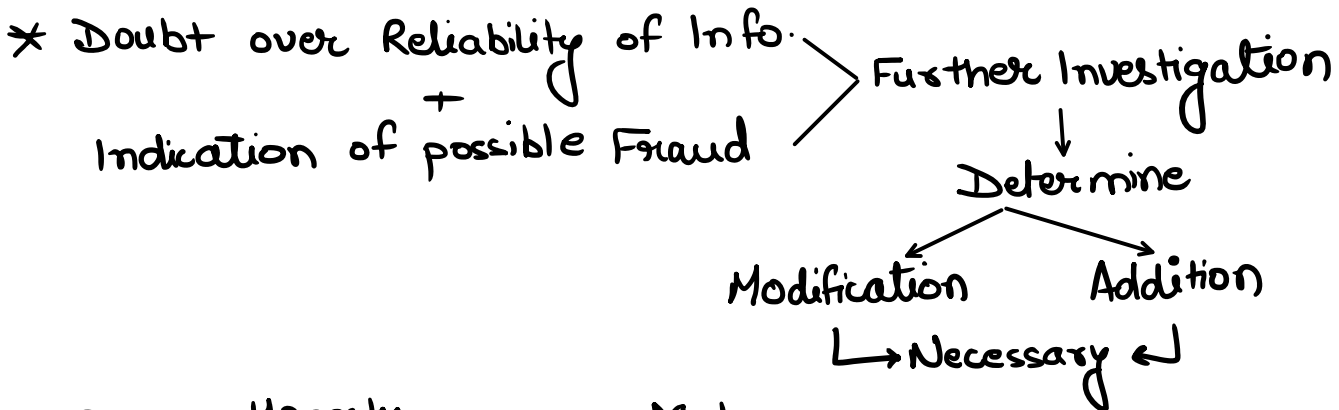
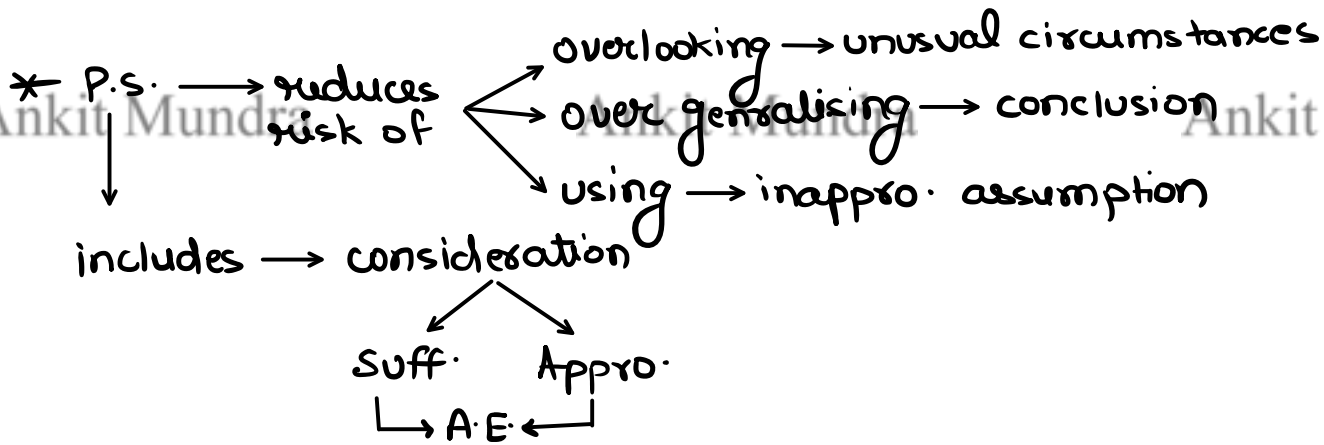
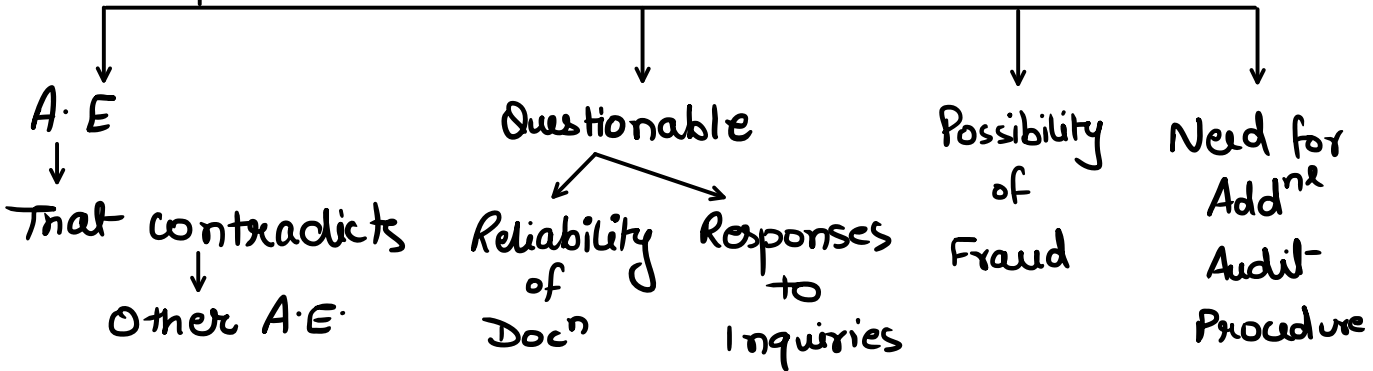
7. SAFEGUARDS TO INDEPENDENCE

Safeguards to Independence

- (i) Always be & appear to be Independent
- (ii) Have I, O, PS
- (iii) Consider threats to his Independence
- (iv) Desist from the task or put in place safeguards
- (v) If unable to fully implement safeguards → must not accept work



Examples



To maintain P.S.

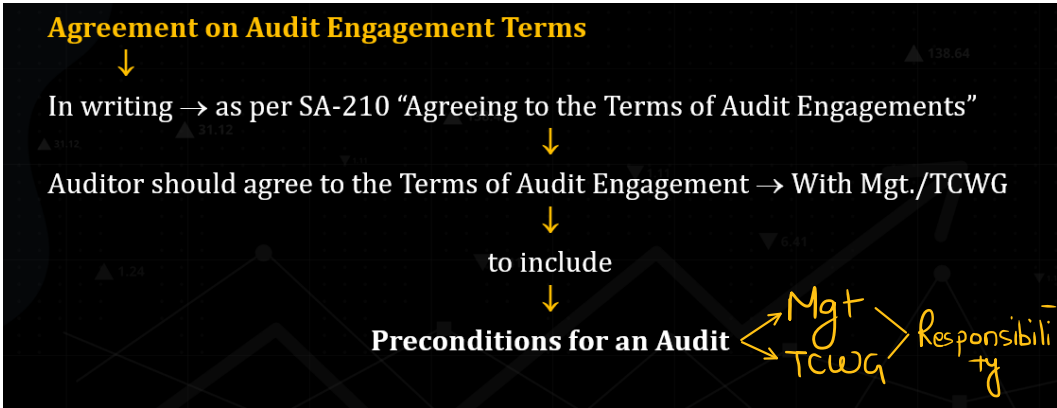
AUDIT ENGAGEMENT	AND	TERMS OF AUDIT ENGAGEMENT
------------------	-----	---------------------------

Engaging an Auditor
 ↓
 By a Client
 ↓
 for Audit of its F.S.

Includes matters
 ↓
 Objective Responsibilities
 + of
 Scope Auditor Mgt.
 ↓
 Audit of F.S.

Identification
 ↓
 App. F.R.F.
 Expected
 ↓
 Form Content
 ↓
 Audit Report

9. AGREEING THE TERMS OF AUDIT ENGAGEMENTS



* Objective of Auditor

↙ Accept ↘ Continue

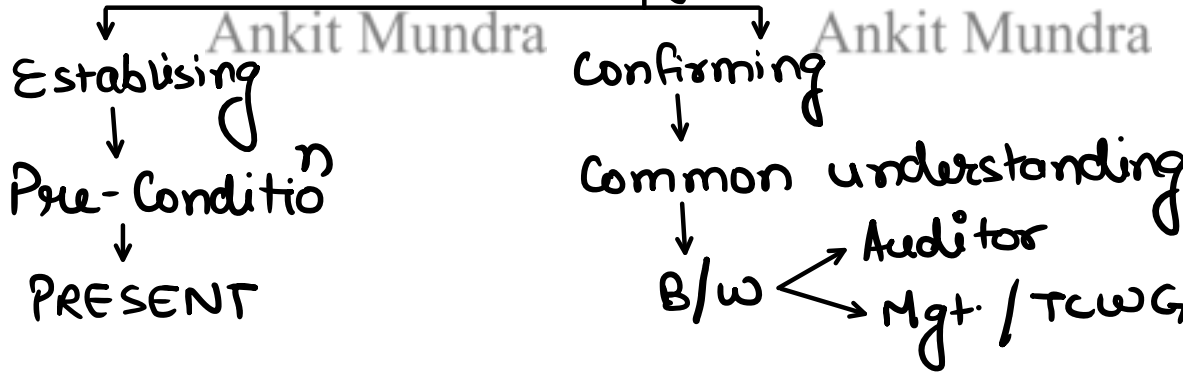
↗ Audit Engagement → ONLY WHEN

↘ Basis upon which it is to be performed

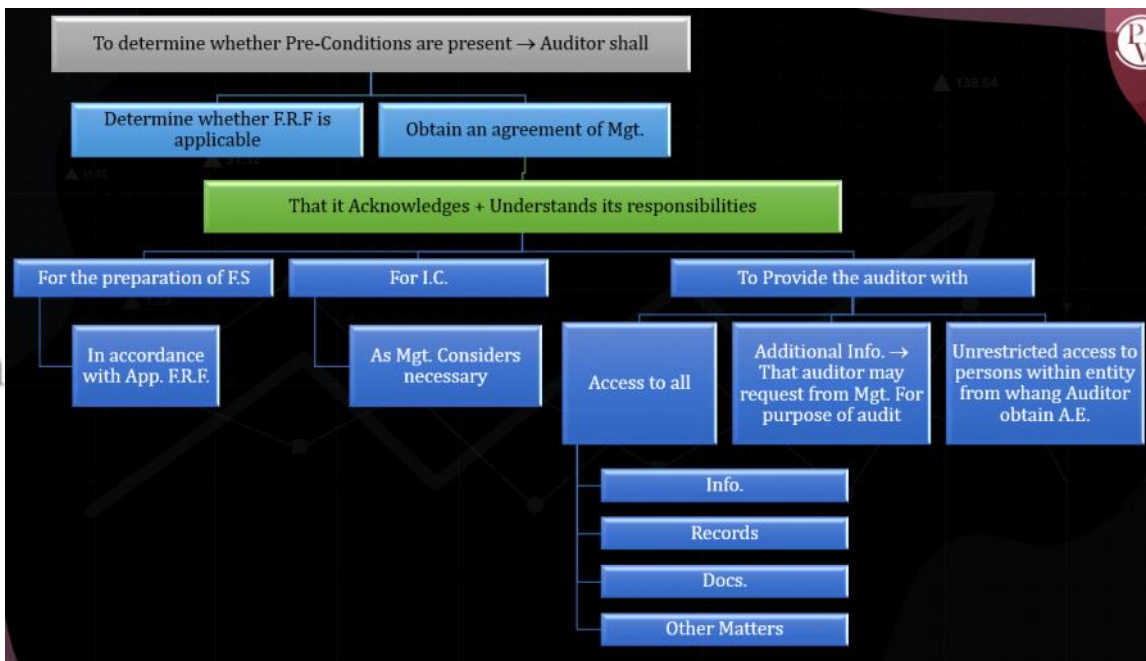
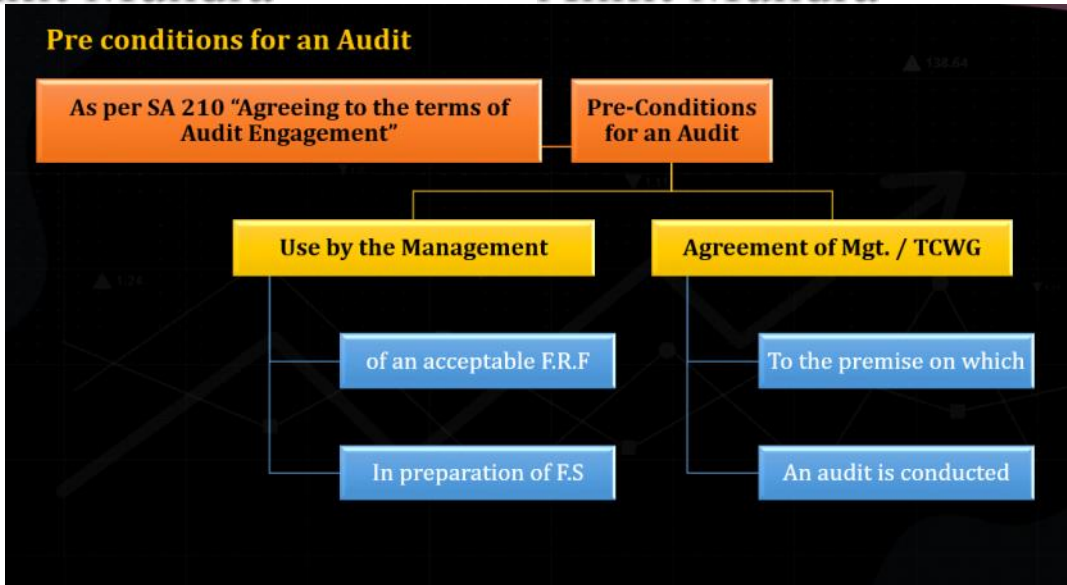
Has been Agreed

↓

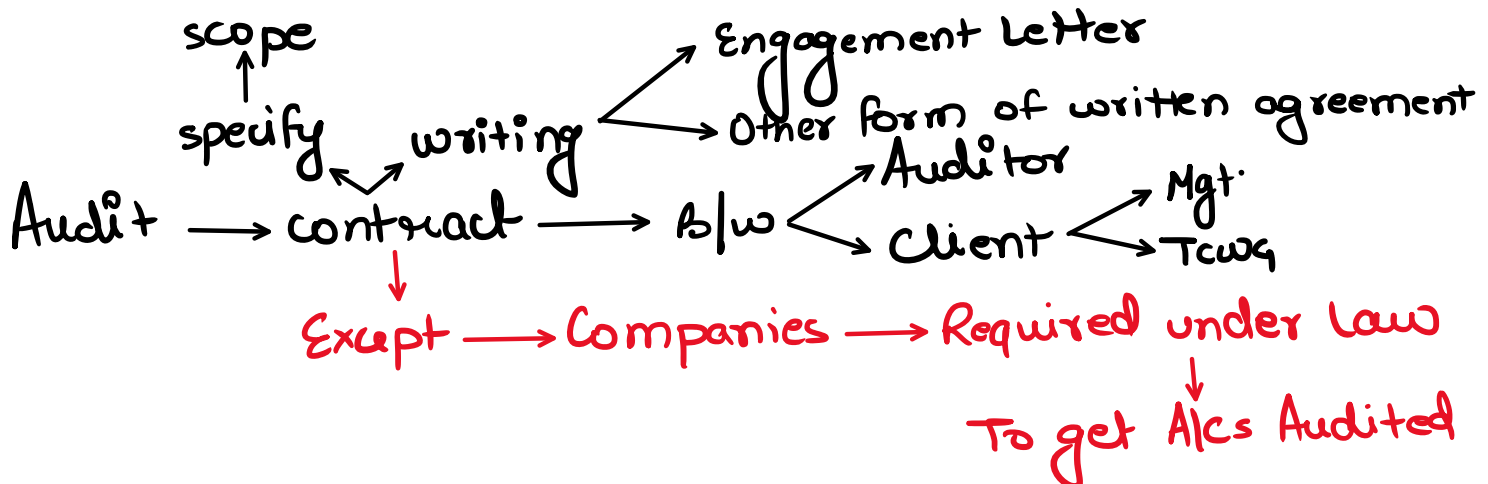
Through



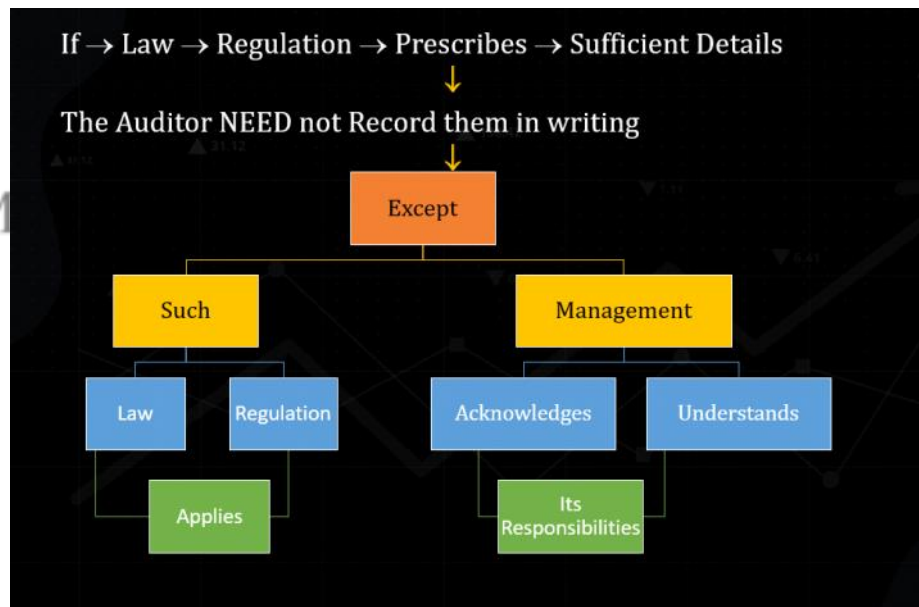
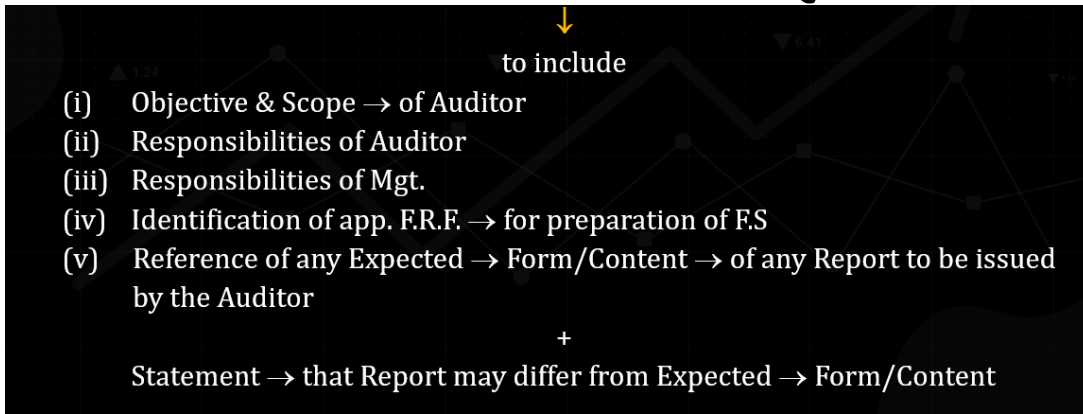
9A Preconditions for an audit



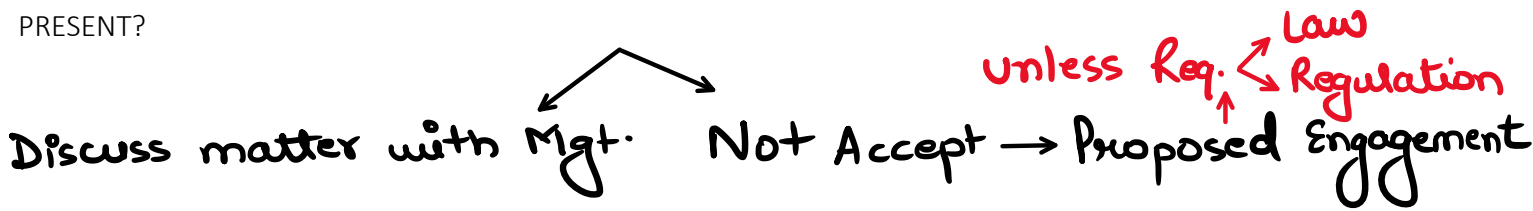
9B. Agreement on audit engagement terms



→ Engagement Letter → Sent by Auditor → To Client
 ↓
 Possibility of Misunderstanding → Reduced



11. WHAT HAPPENS IF PRECONDITIONS FOR AN AUDIT ARE NOT PRESENT?



Auditor determines

F.R.F.

Unacceptable

Not obtained

Agreement of Mgt.

Preparation of F.S.

I.C. Access All Info. persons

12. LIMITATION ON SCOPE PRIOR TO AUDIT ENGAGEMENT ACCEPTANCE

Limitations on Scope prior to Audit Engagement Acceptance

If Mgt./TCWG → Impose Limitations → On the scope → Such that



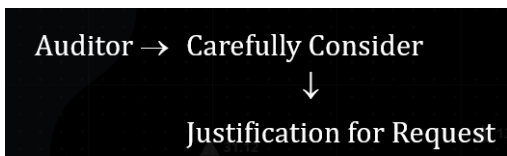
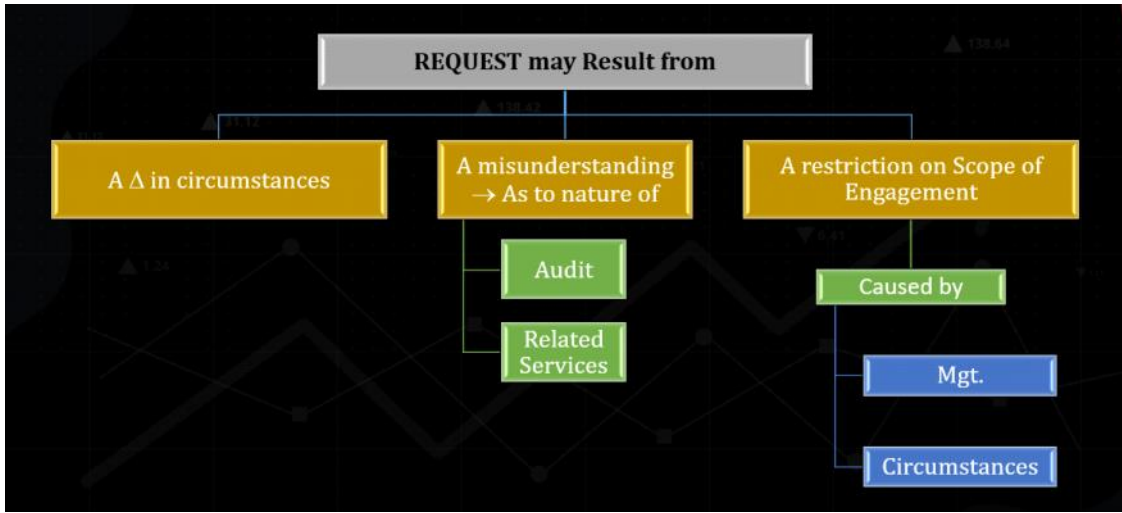
Limitation would Result in → Auditor Disclaiming an opinion



The Auditor shall not accept such a limited engagement

13. ACCEPTANCE OF A CHANGE IN THE TERMS OF THE AUDIT ENGAGEMENT

13.1 Request from Entity to change the Terms of Audit Engagement-When Reasonable Justification Exists?



→ particularly → Implications of
 ↓
 A restriction on
 ↓
 The scope of Audit Engagement

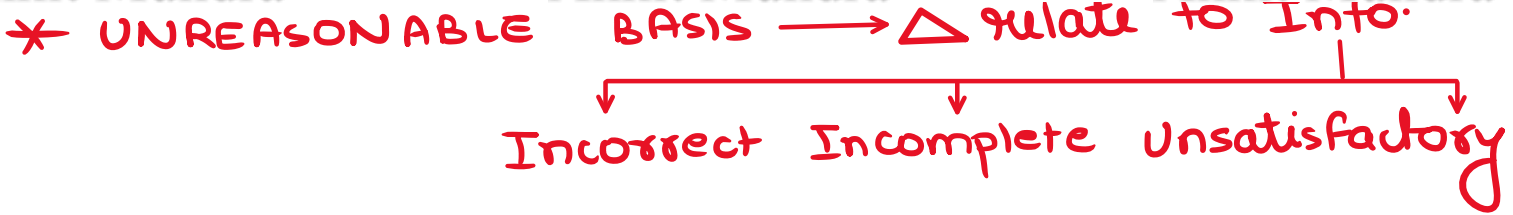
* A Δ in circumstances
 ↓
 affects Entity's Requirement

Misunderstanding

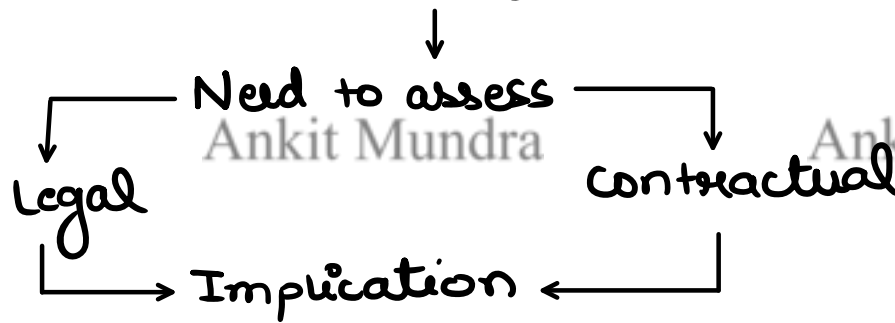
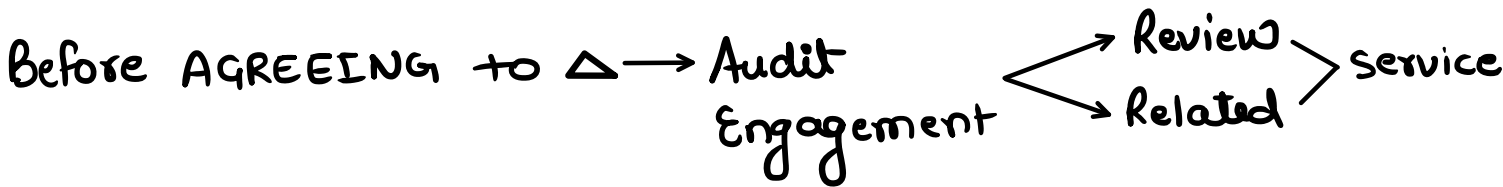
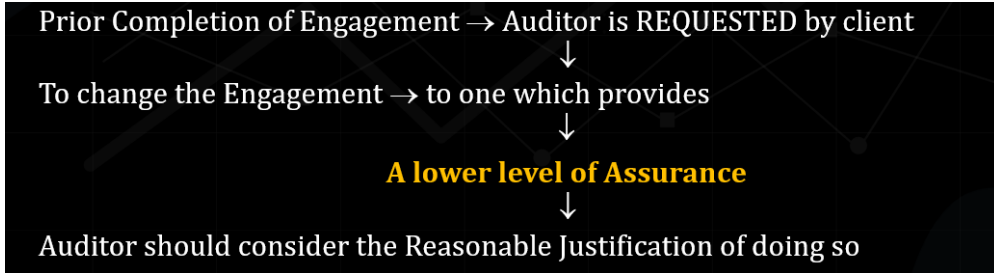
↓
 Nature of Service originally requested

Considered
 ↓
 REASONABLE BASIS

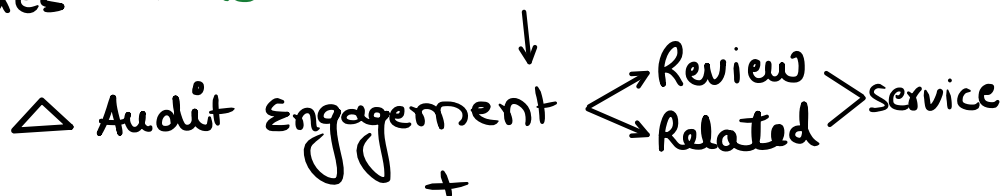
* UNREASONABLE BASIS → Δ relate to Info.



13.2 What should auditor consider before agreeing to change the audit engagement to the engagement providing lower level of assurance?



* Auditor concludes \rightarrow REASONABLE JUSTIFICATION



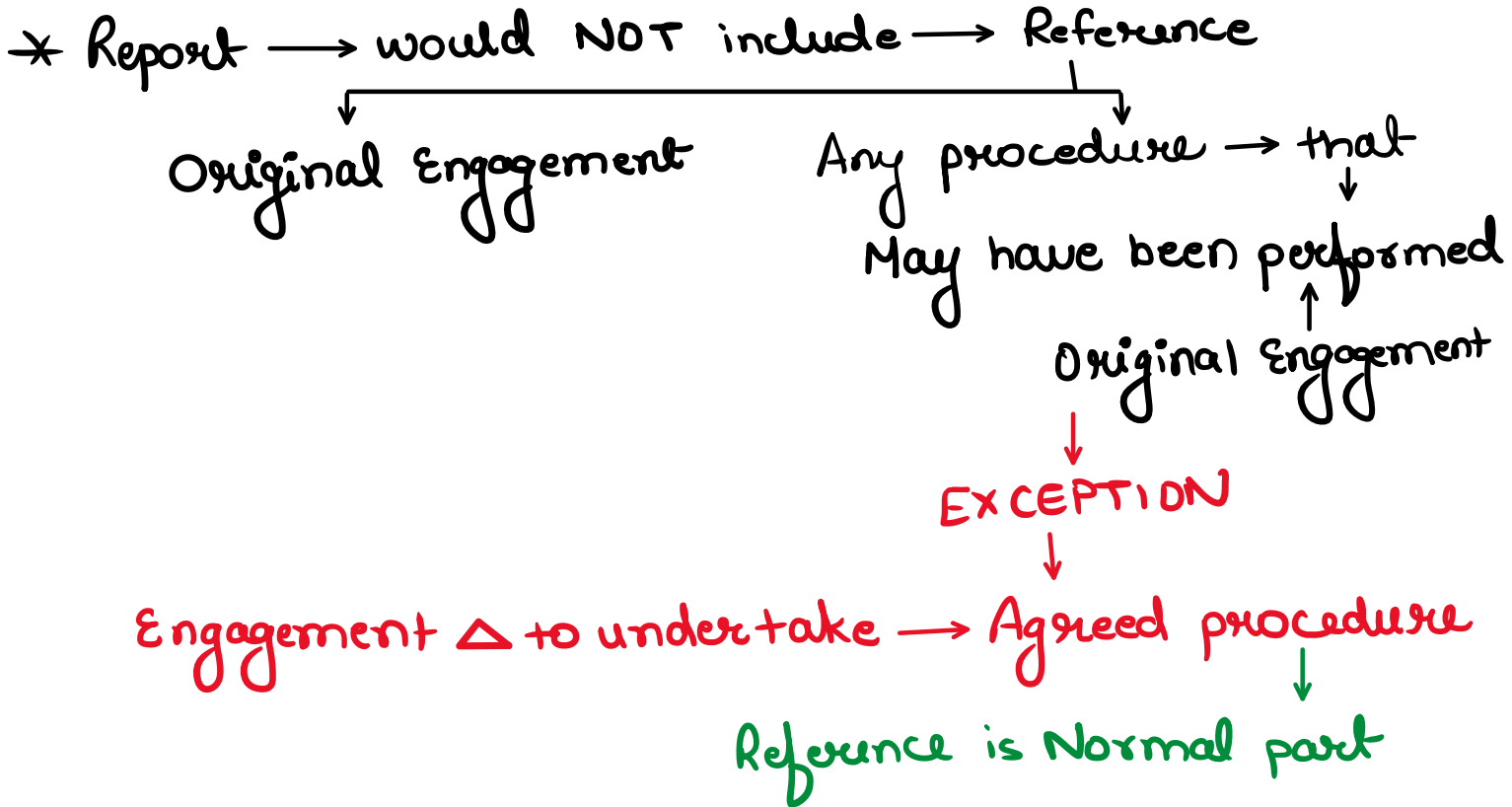
Audit work \rightarrow up to the date of Δ \rightarrow Relevant

+

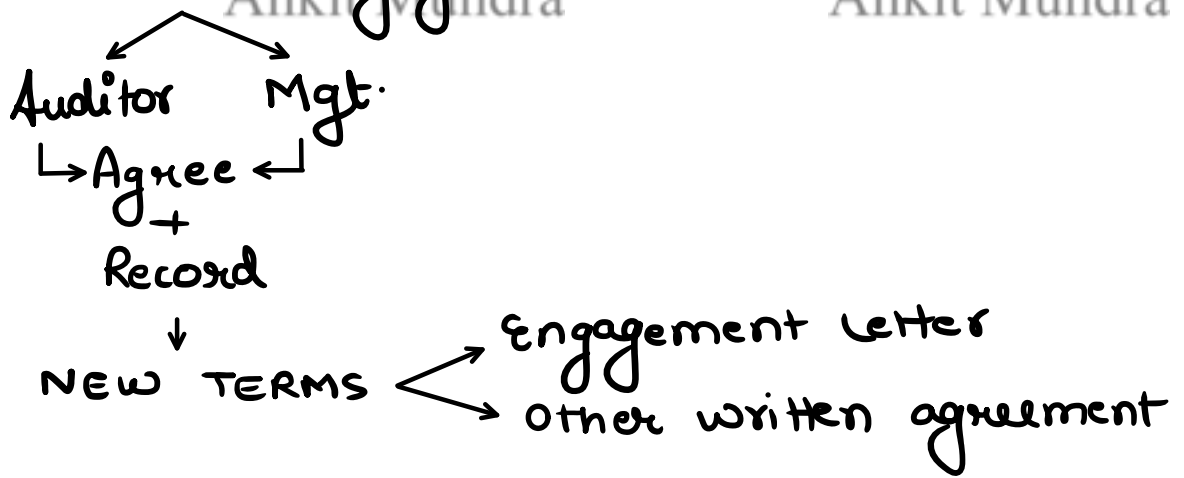
work \rightarrow To be performed

Report \rightarrow To be issued \rightarrow Apprx. to Revised Engagement

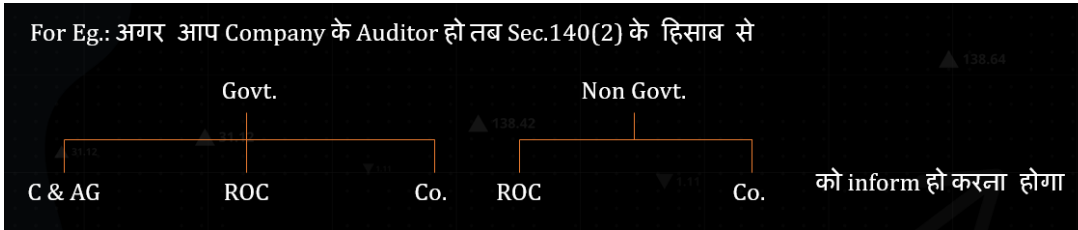
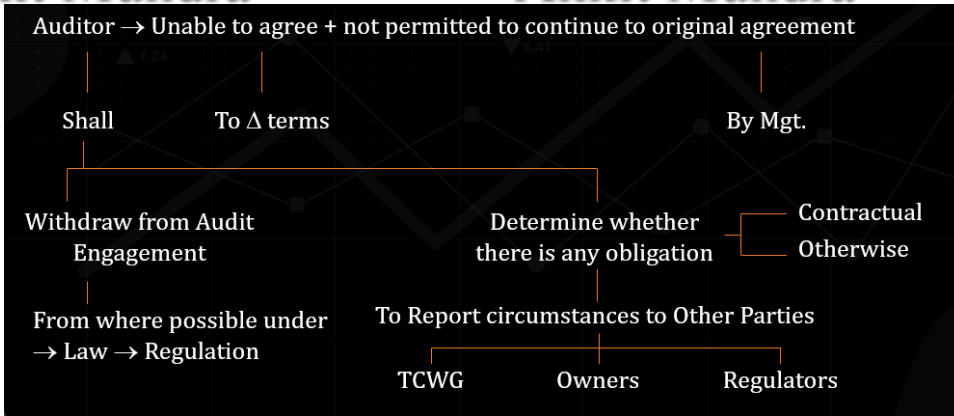
* Report \rightarrow would NOT include \rightarrow Reference



* Δ Terms of Audit Engagement

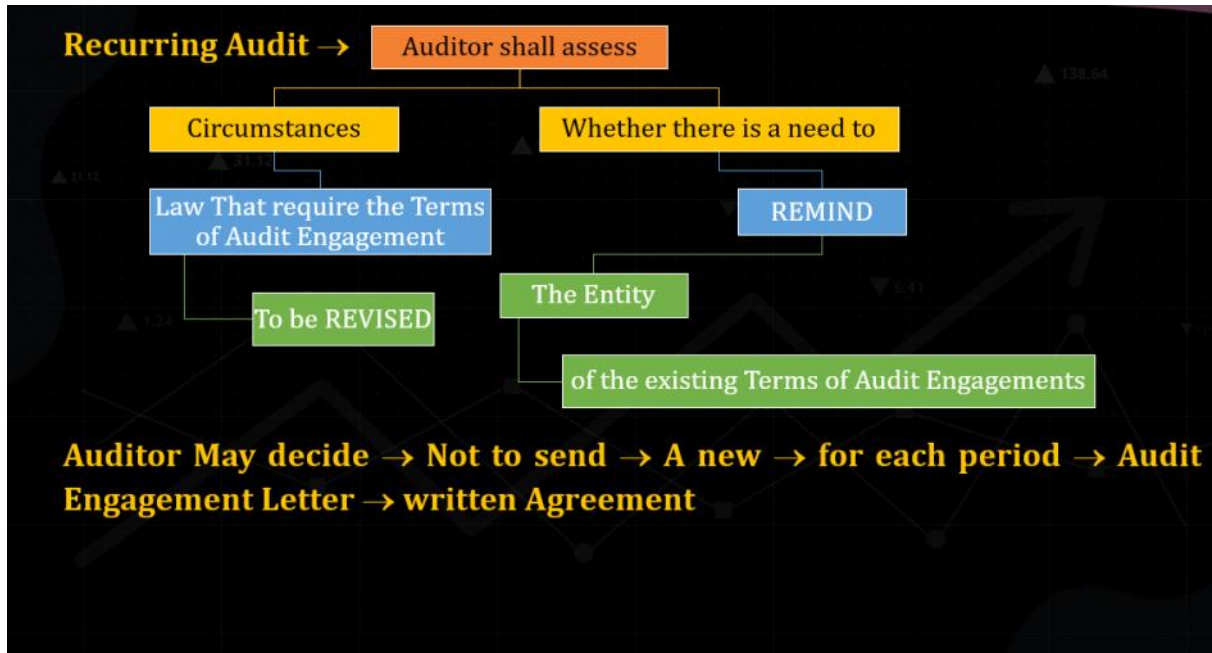


13.3 Recourse available to auditor in situation of non-agreement to a change in terms of engagement and lack of permission from management to continue original audit engagement



14. TERMS OF ENGAGEMENT IN RECURRING AUDITS

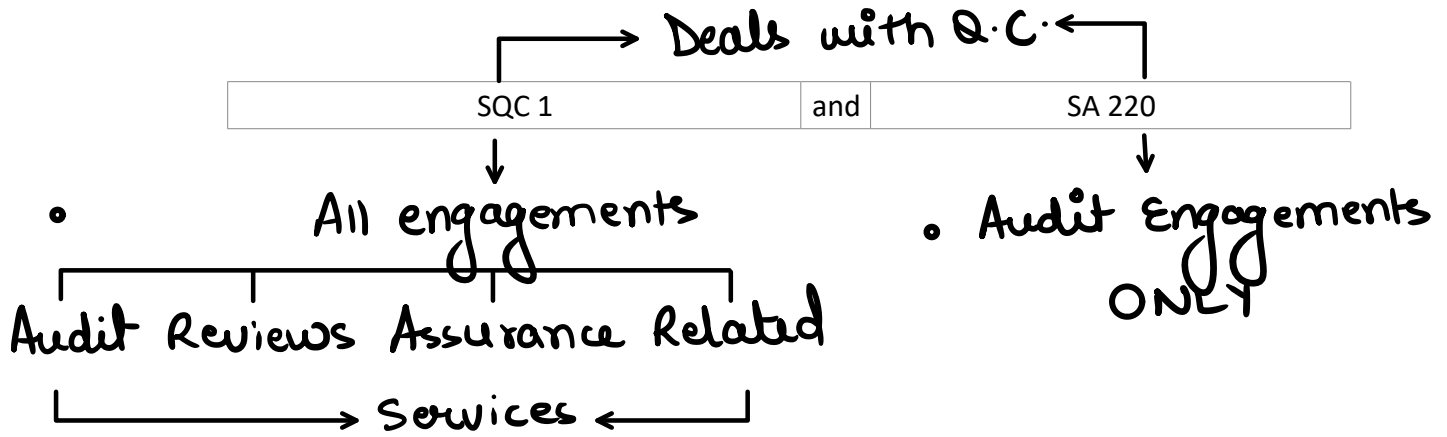
An audit → performed → over years



Following Factors makes it appropriate to → Revise → Remind :

- (i) Any indication that Entity → Misunderstands → Objective/Scope
- (ii) Any → Revised → Special → Terms of Audit Engagement
- (iii) A recent Δ in senior Mgt.
- (iv) A significant Δ in ownership
- (v) A Significant Δ in → Nature → Size → of Entity Business
- (vi) A Δ in → Legal → Regulatory → Requirement
- (vii) A Δ in F.R.F.
- (viii) A Δ in other Reporting Requirement

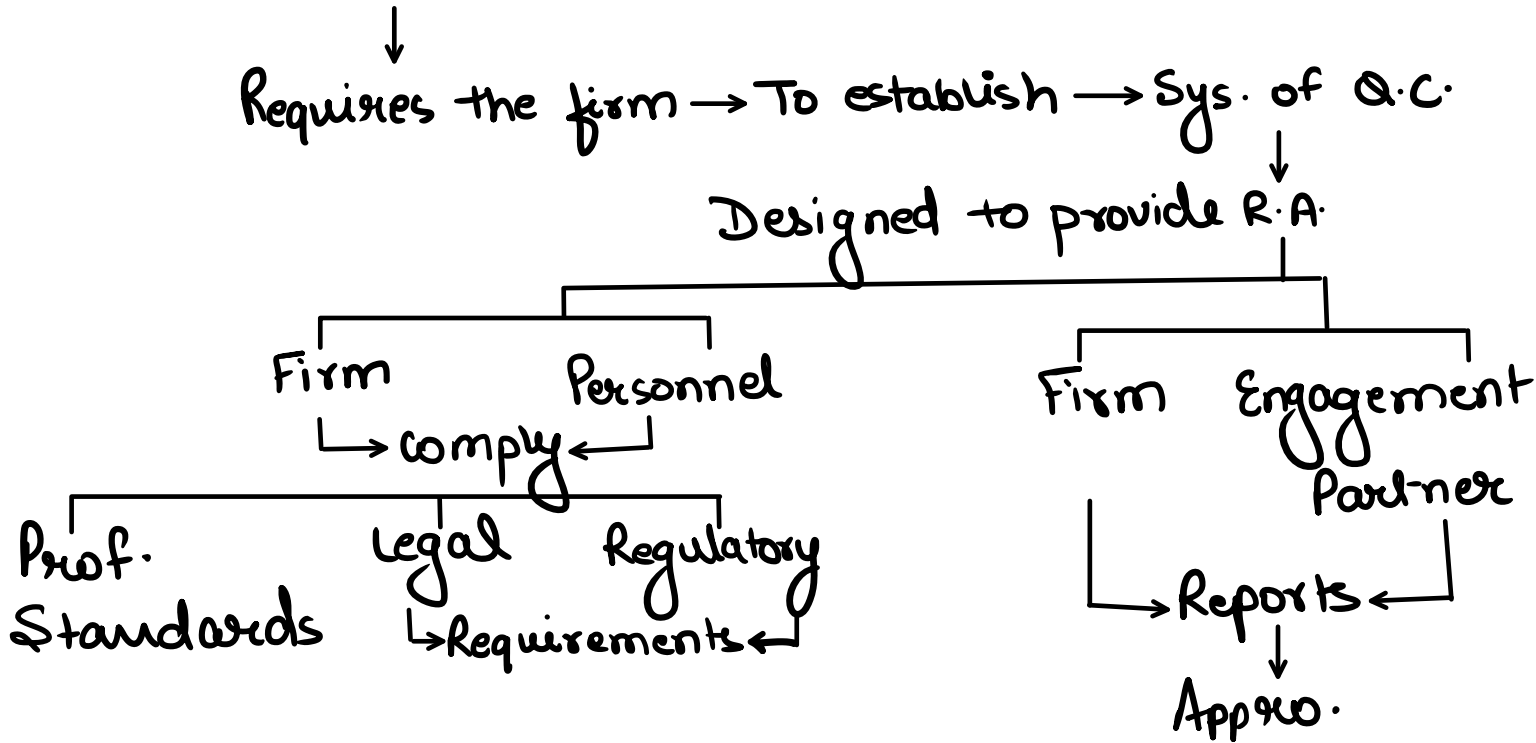
High Audit Quality → Essential → Maintain Confidence
 ↓
 Independent assurance
 ↓
 provided by Auditor



- Entire firm

- Particular Audit

16. SQC 1 – “QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS”



[Please See the NEXT TOPIC first]



Q.C. → P & P $\left\{ \begin{array}{l} \text{Documented} \\ \text{Communicated} \end{array} \right\}$ to Firm's Personnel

17A. Leadership responsibilities for quality within the firm

SQC-1 → Requires Firms → To establish P & P
 ↓
 Designed to promote
 ↓
 Internal Culture
 ↓
 Based on recognition → QUALITY IS ESSENTIAL

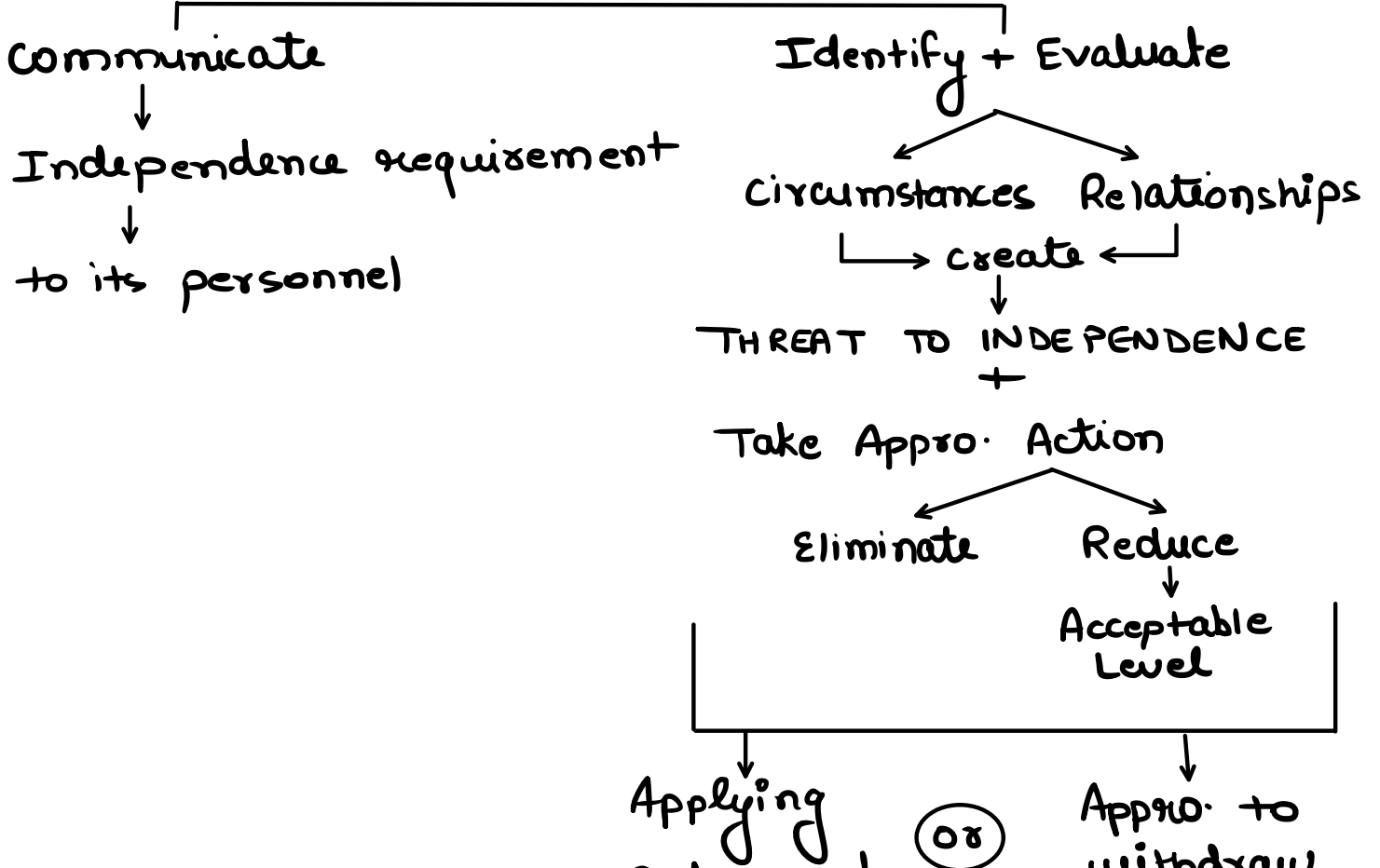
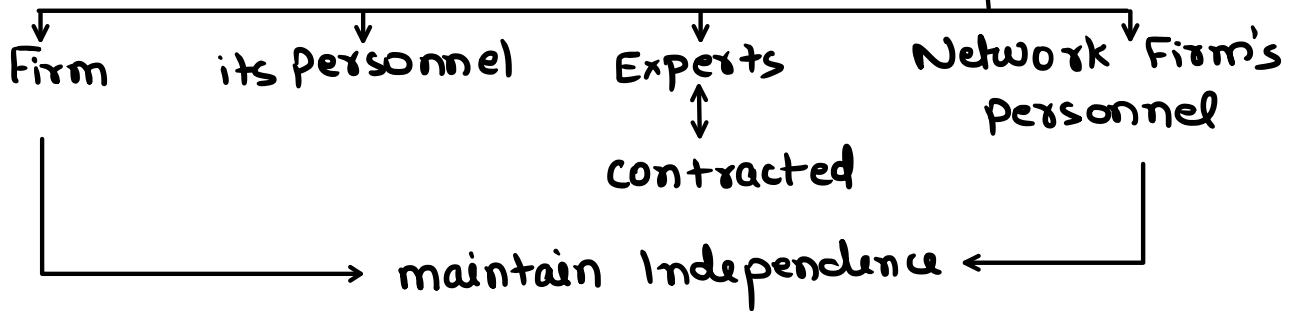
⇒ P & P require → Firm's $\left\{ \begin{array}{l} \text{CEO} \\ \text{Managing} \\ \text{Partner} \end{array} \right\}$ ultimate responsibility
 ↓
 Firm's Sys. of Q.C.

→ Persons assigned → for Firm's Q.C. Sys.
 ↓
 should have $\left\{ \begin{array}{l} \text{Suff.} \\ \text{Appso.} \end{array} \right\}$ Experience + Ability + Authority

17B. Ethical requirements



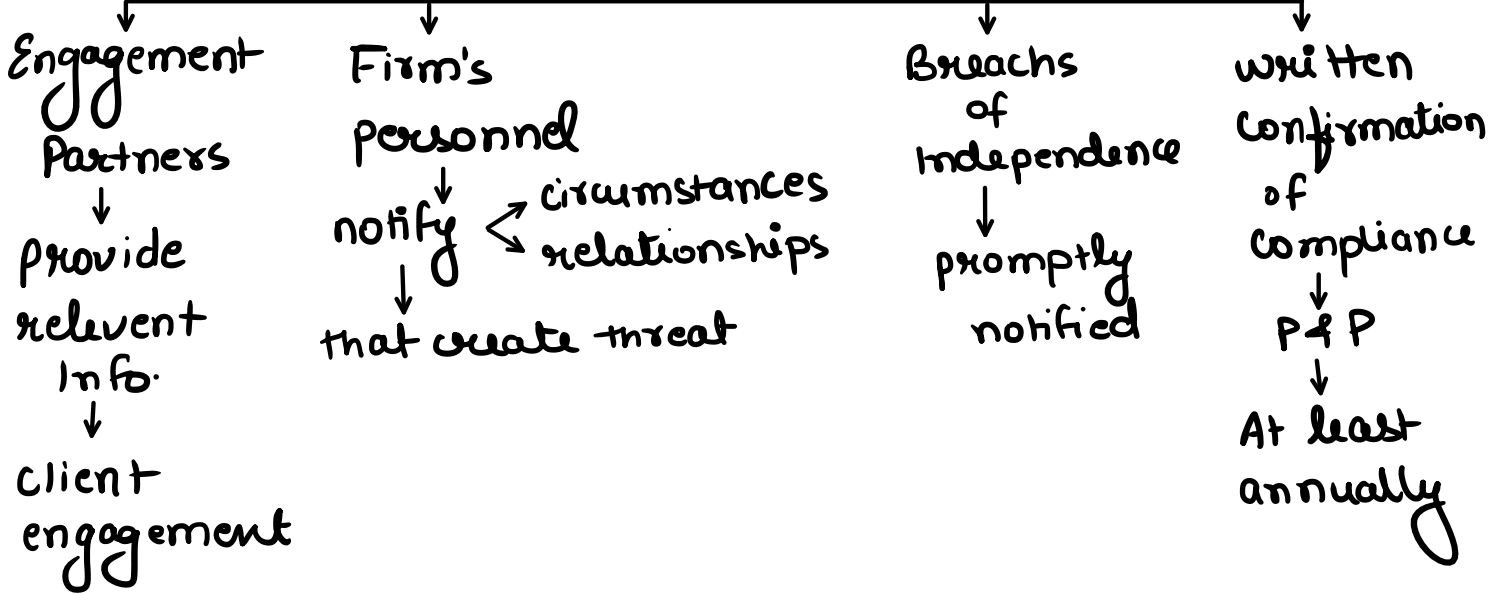
Observance of Independence → Basic Req. → All Engagements
 ⇒ Firm should establish P & P → designed to provide it with R.A.



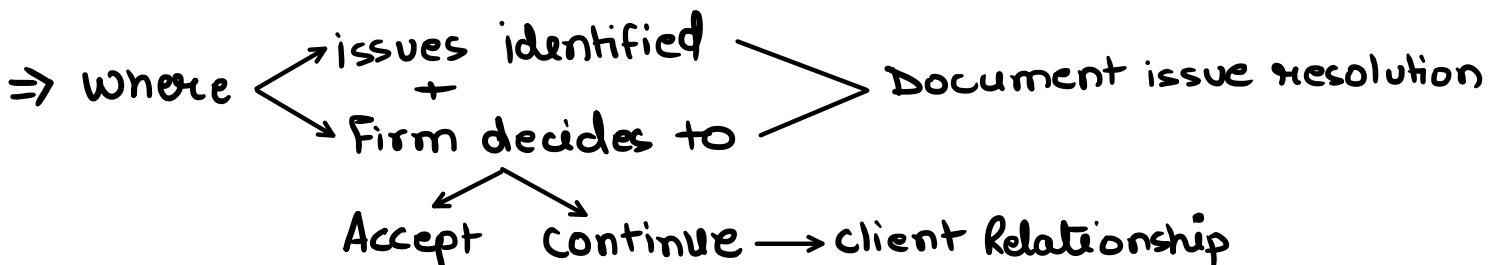
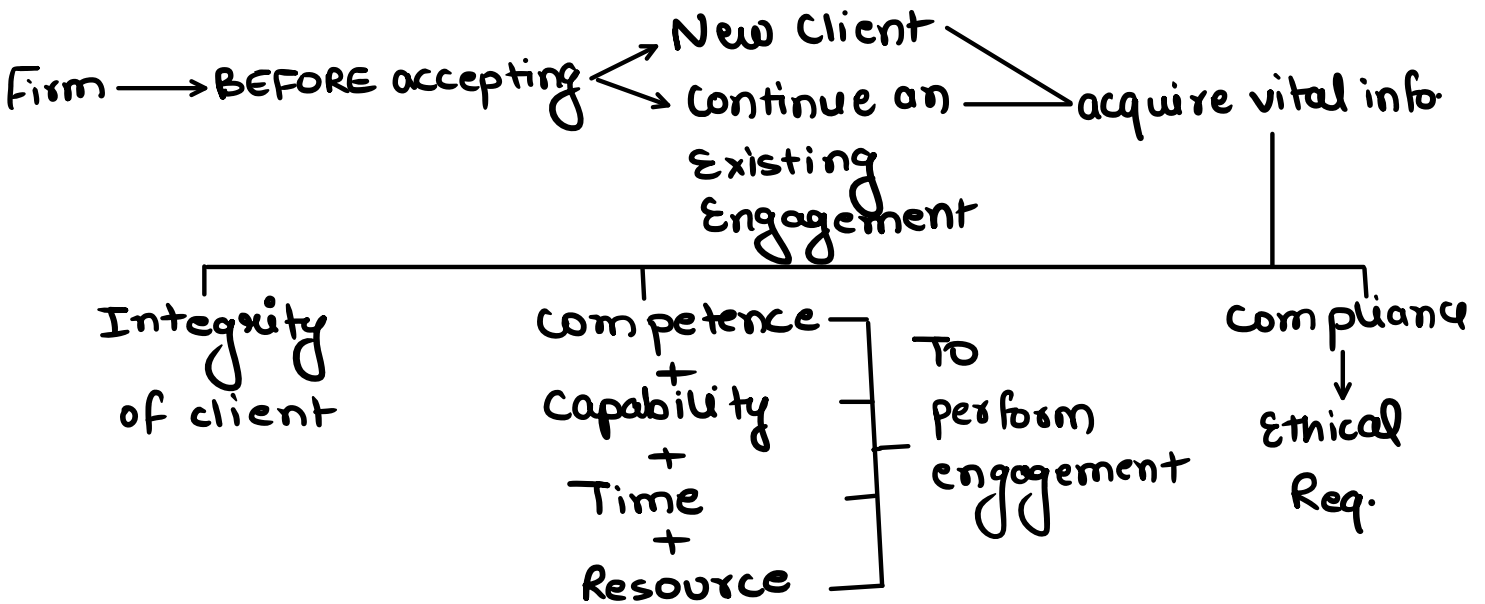
Applying Safeguards (08)

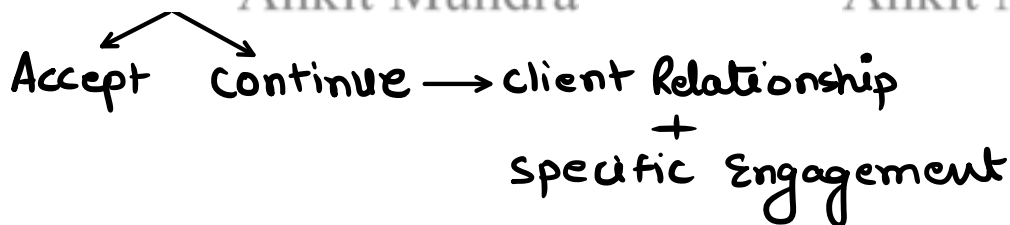
Appro. to withdraw

→ The firm should create a mechanism



17C. Acceptance and Continuance of Client Relationships and Specific Engagements





⇒ Matters → Regarding → Integrity of client

1) Identity + Reputation → client's

2) Nature → client operation
→ Business Practices

Principal Owners
KMP
Related Parties
TCWG

3) Info. → Attitude → client's

Aggressive Interpretation of AS
I.C. Env.

Principal Owners
KMP
TCWG

4) Client → Aggressively concerned → maintaining low Firm's Fees

5) Indication → Inapprox. Limitation → scope of work

6) Indication → client involved → money laundering
→ criminal activities

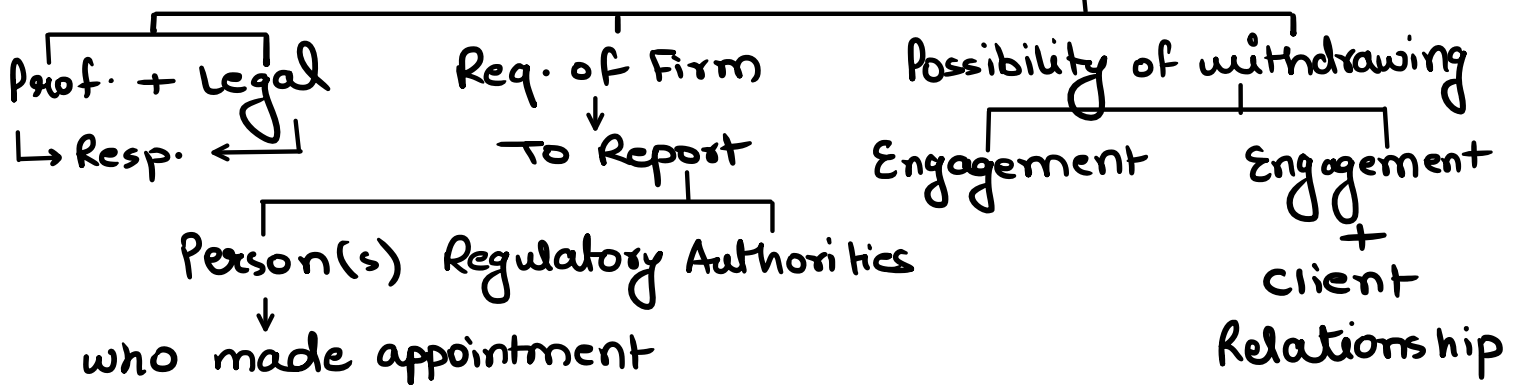
7) Reason → proposed appointment → of firm
→ non-reappointment → previous firm

⇒ Any → Conflict of Interest → Firm
→ Client

Properly Resolved → Before accepting

⇒ Firm obtains Info. → would have caused to decline
↓
if info. had been obtained earlier

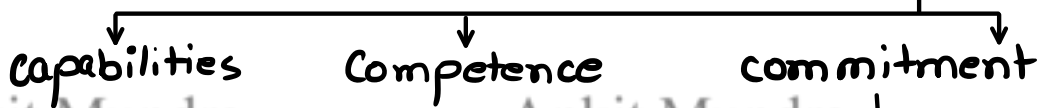
P&P should include consideration of



17D. Human resources

Firm should establish P&P → Designed to provide it with R.A.

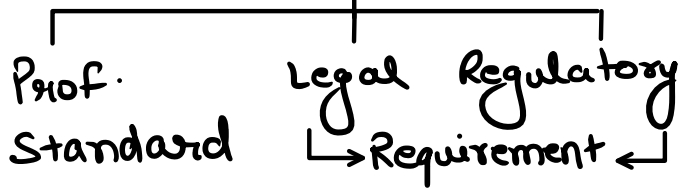
That it has suff. Personnel with



To ethical Principles

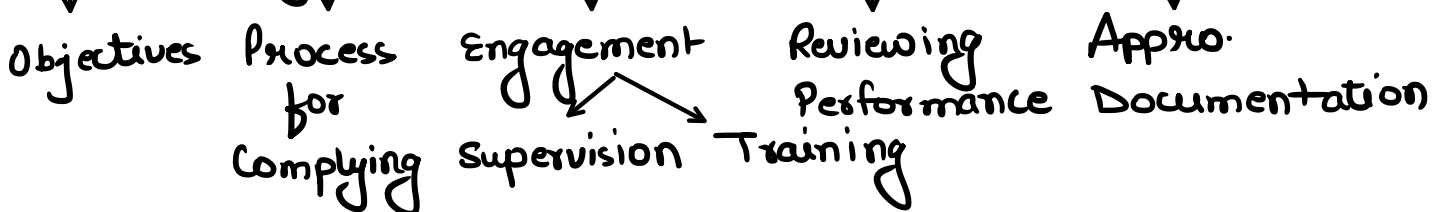
To perform in accordance with +

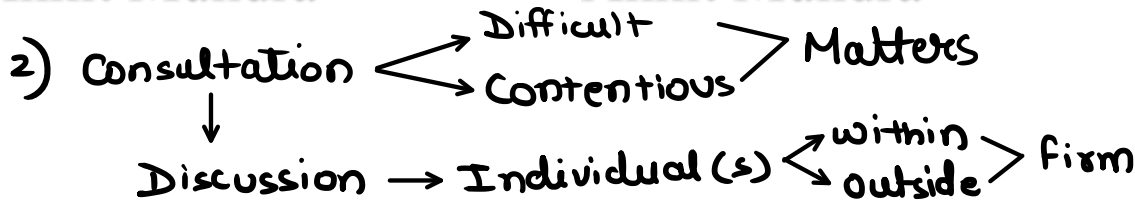
Issue Appro. Report



17E. Engagement Performance

1) Consistency in Quality → through briefing of team





3) Sig. Judgement → Reviewed by → Q.C. Reviewe

→ Firm should establish P&P

↓

To complete the assembly of Final Engagement File

↓

On Timely Basis → Generally ≤ 60 Days

↓

After the date of Auditor's Report

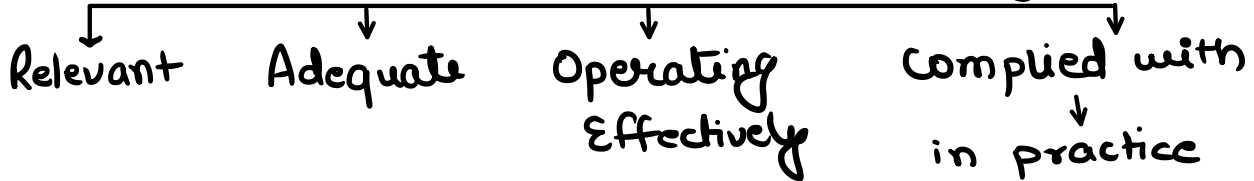
→ Engagement Docⁿ → Retained → Suff. Time pd.

↓

No shorter than 7 years

17F. Monitoring

Firm should ENSURE that P&P → Related to Sys. of Q.C.



18. SA 220- "QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS"

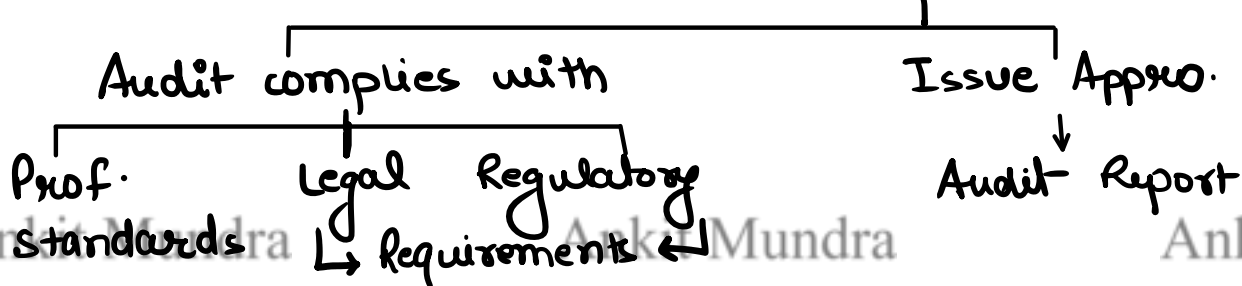
* Based on Q.C. Sys. of a Firm [previous topic]

Q.C. policies pertaining to Audit Engagements are decided by Engagement Teams

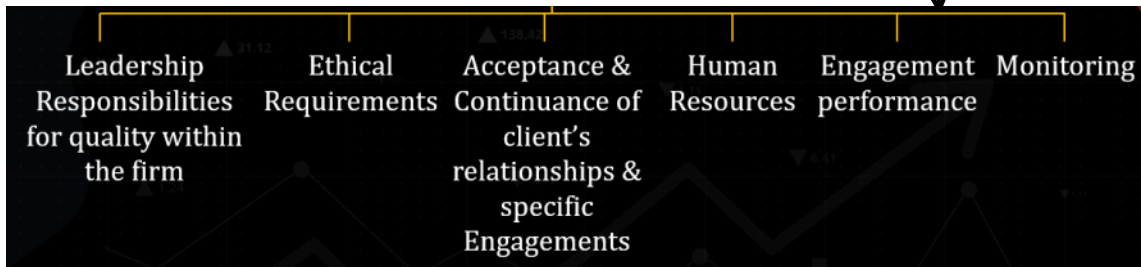
* Engagement Partner → Responsible for Q.C. → as per SA 220

* As per SA 220 → Objective of Auditor → implement Q.C. policies

provide him with R.A.



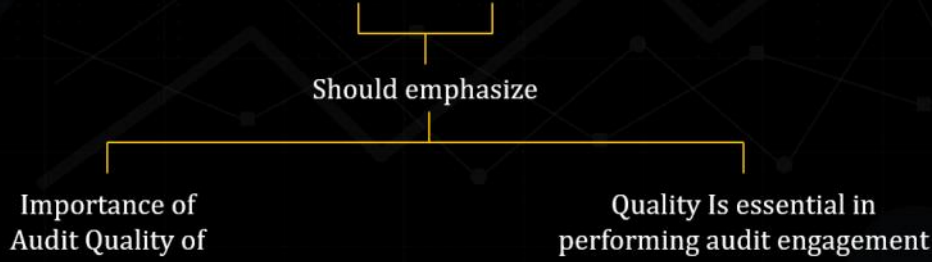
SA 220 → modelled → on lines of SQC-1



18A. Leadership responsibilities for quality on audits

Leadership Responsibilities for quality within the firm on Audit

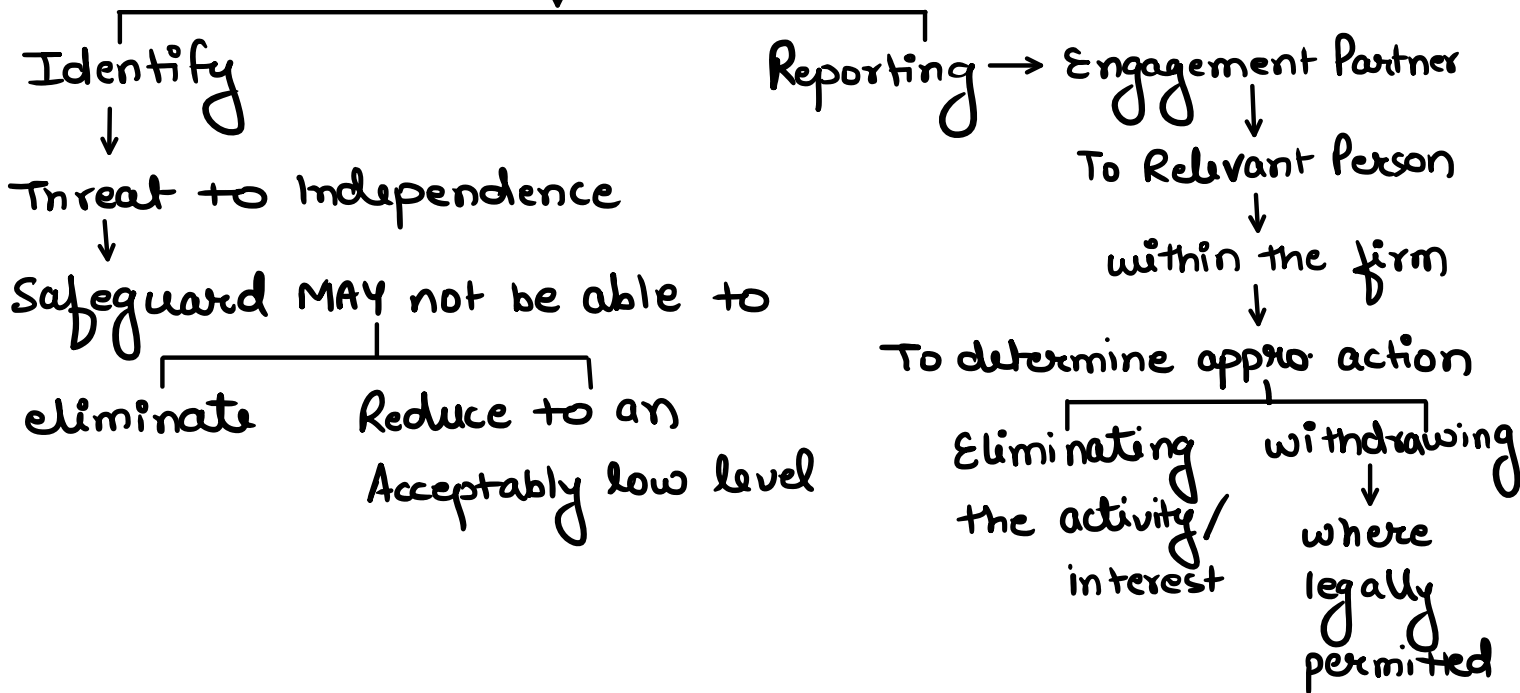
- As per SA 220 "Quality control for an Audit of F.S"
- Engagement partner shall take responsibility for overall quality of each audit engagement → to which he is assigned.
- Engagement partner's Actions + Messages to Engagement Team Members



Importance of Audit Quality of



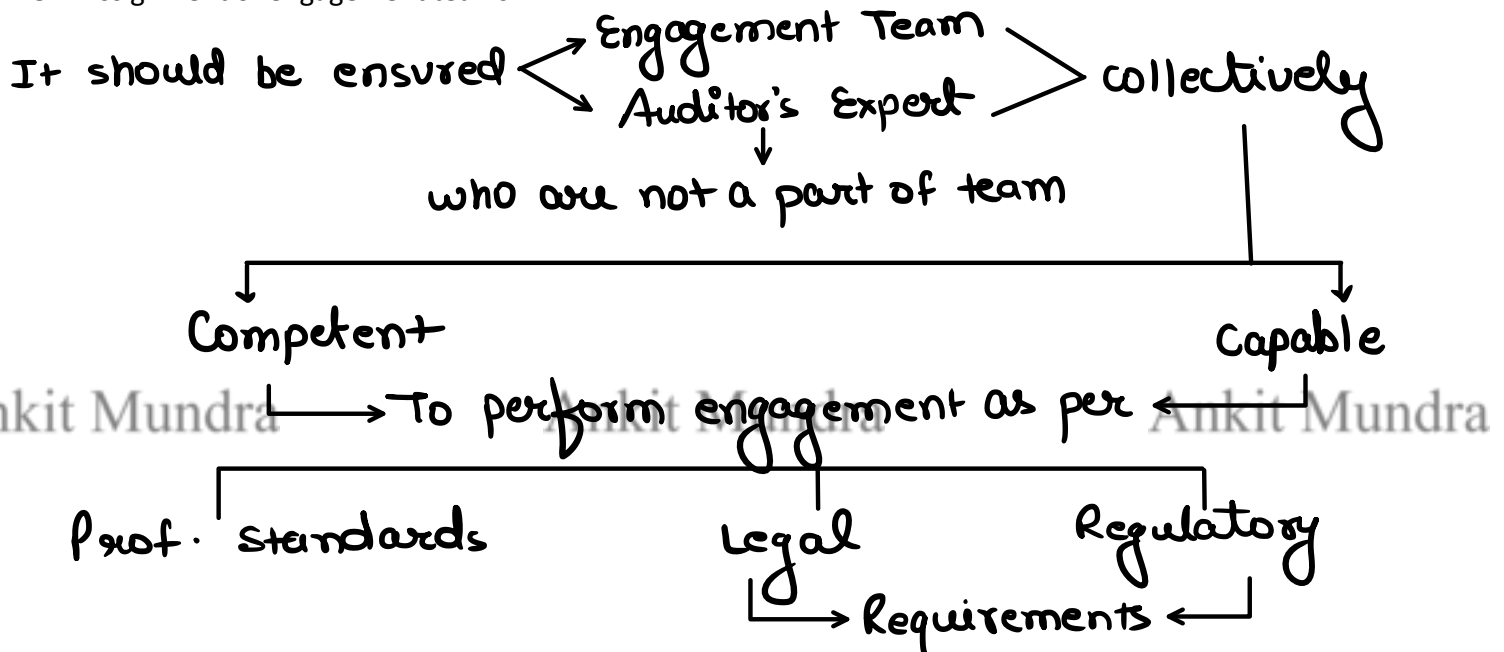
18B. Relevant ethical requirements



18C. Acceptance and Continuance of Client Relationships and audit Engagements



18D. Assignment of engagement teams



18E. Engagement Performance

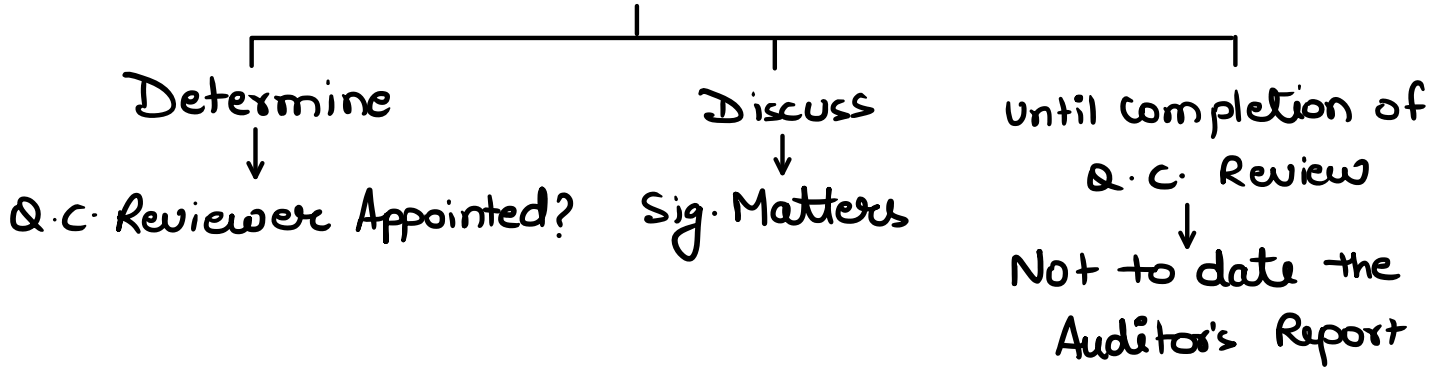
Responsibilities of Engagement Partner

- 1) Direction Supervision Performance → Audit → as per [Prof. standard, Legal Requirement, Regulatory Requirement]
- 2) Appro. Audit Report
- 3) Review → Audit Docⁿ → Before → Issue of Audit Report
- 4) Ensure → Suff. + Appro. → A.E. → obtained

4) Ensure → Suff. + Appxo. → A.E. → obtained

5) Undertaking → Appxo. Consultation → $\left\{ \begin{array}{l} \text{Difficult} \\ \text{Contentious} \end{array} \right\}$ Matters

6) For → Listed Entities + Where Q.C. Reviewer Required

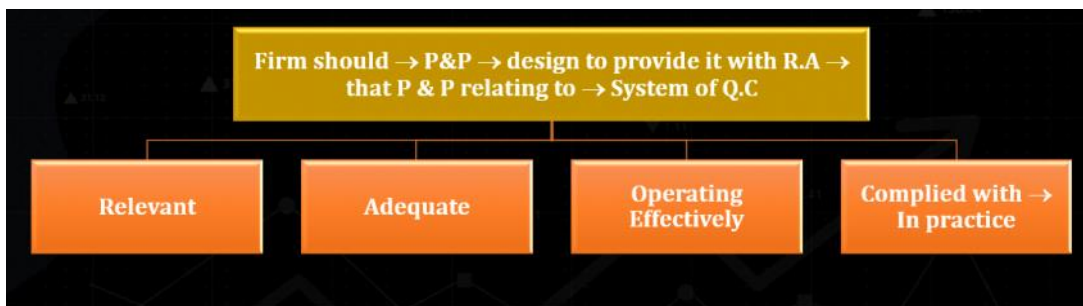


→ If Difference of Opinion arise → Engagement Team

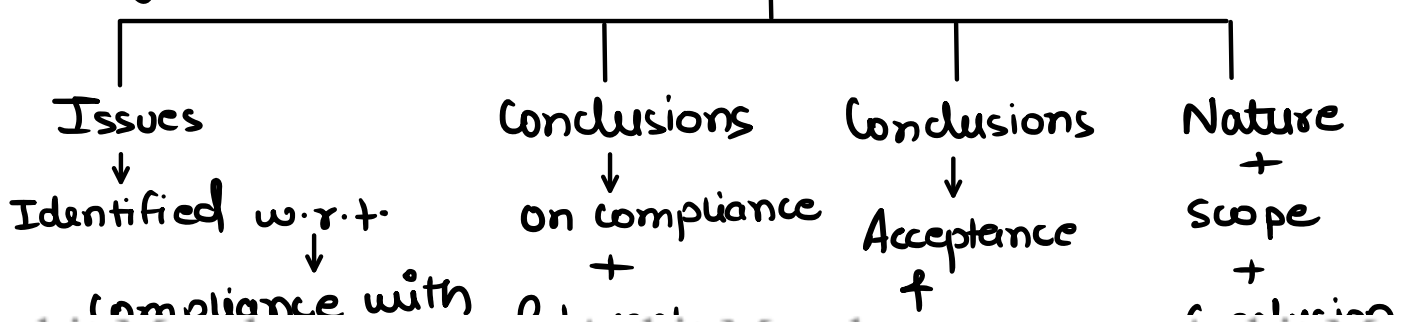
Follow

Firm's P & P for $\left\{ \begin{array}{l} \text{Dealing} \\ \text{Resolving} \end{array} \right\}$ Differences

18F. Monitoring



Engagement Partner → Document



↓

Compliance with
Ethical Req.

+

How they were
Resolved

↓

+
Relevant
Discussions

Acceptance

+
Continuance
of
Client

Relationship

↓

+
Conclusion

↓
consultation