

Chapter - 11 " Ethics and Terms of Audit Engagement "

Topics Covered: (1) Ethics and Fundamental Principles

(2) Independence, Threats to Independence and Safeguards

(3) Professional Skepticism: An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatements due to error or fraud; and includes Critical assessment of Audit Evidences.

(Covered in SA-200)

- ★ Being alert to:
- (a) Contradictory Audit Evidences;
 - (b) Reliability of documents;
 - (c) Conditions indicating possibility of fraud;
 - (d) Circumstances suggesting need for additional audit procedures.

Other Requirements:

- (i) Auditor shall plan and perform an audit with professional skepticism.
- (ii) Professional skepticism reduces risk of:
 - (a) Overlooking unusual circumstances.
 - (b) Overgeneralising when drawing conclusion.
 - (c) Using inappropriate assumptions in determining nature, timing and extent of audit procedures.
- (iii) Professional skepticism also includes consideration of sufficiency and appropriateness of audit evidences.

Note: A belief that management and TCWG are honest and have integrity, does not relieve auditor of need to maintain Professional Skepticism.

★ Those Charged with Governance (e.g. BoD)

(4) Agreeing the terms of Audit Engagement: (SA 210)

(A) Objectives of SA 210:

To accept or continue an audit engagement when the basis upon which audit is to be performed has been agreed with the client through:

- establishing the existence of pre-conditions for an audit; and
- common understanding of the terms between auditor and the client.

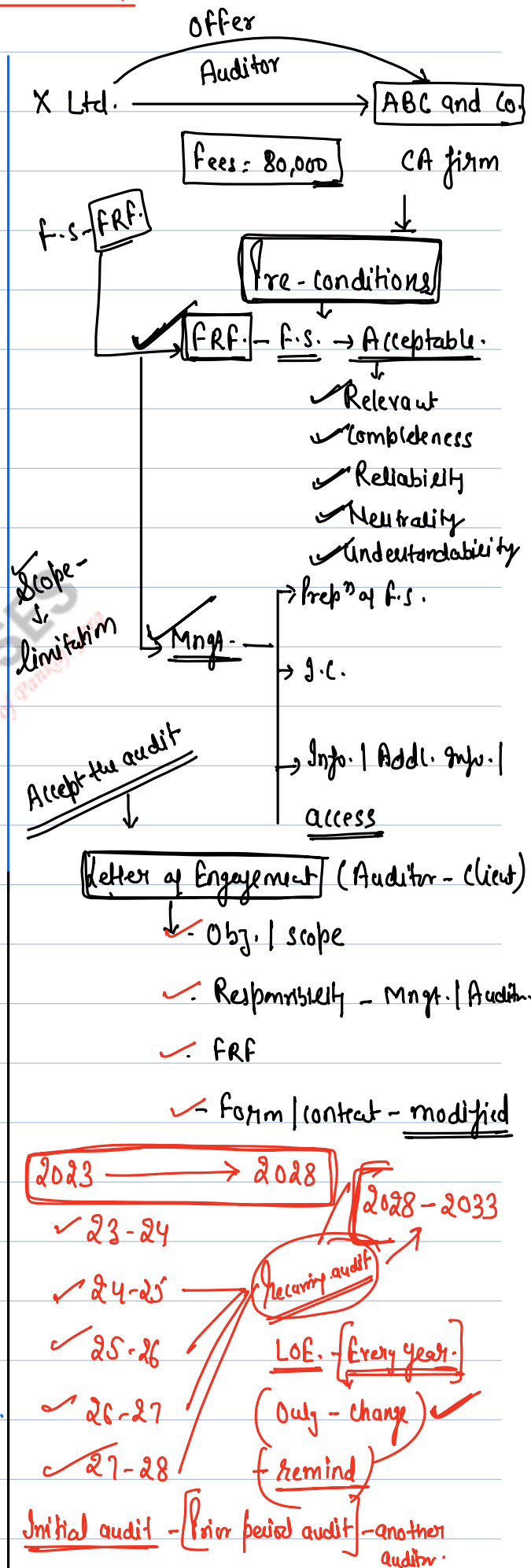
Pre-conditions for an audit:

(a) Acceptable Financial Reporting Framework;

[Attributes - Relevance; Completeness; Reliability; Neutrality; Understandability].

(b) Acknowledgement by management of their responsibilities as to:

- Prepⁿ of f.s. as per applicable FRF;
 - Selection and consistent application of appropriate accounting policies;
 - making reasonable accounting estimates and judgements;
 - Exercising necessary Internal Controls to enable the prepⁿ of f.s. that are free from material misstatements.
- (c) Providing the Auditor with:
- All relevant information required for purpose of audit.

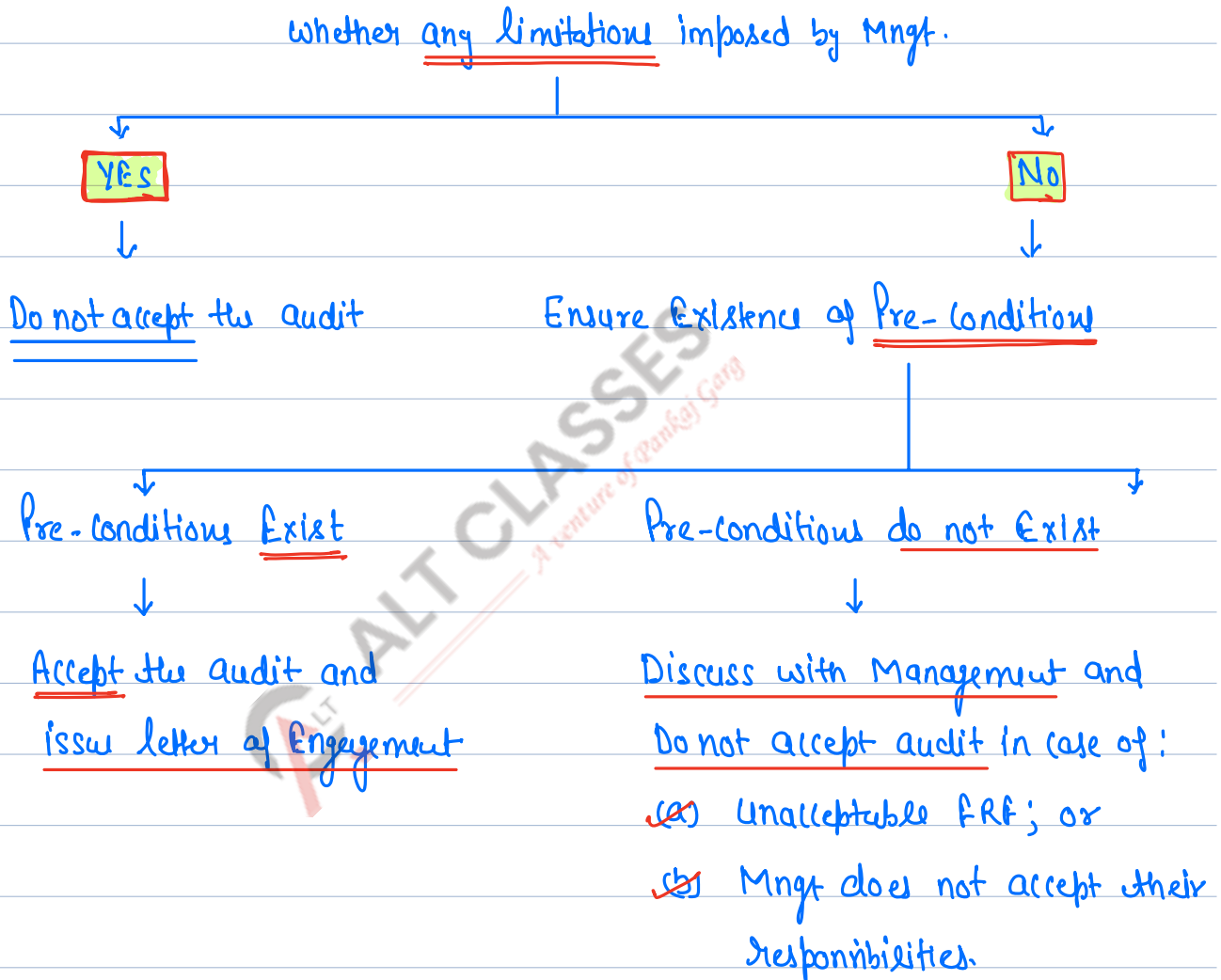


(b) Additional information required; and

(c) Unrestricted access to the persons within the Entity.

(B) Requirements of SA-210:

(i) At beginning of audit in case of Initial Audit Engagement:



Audit Engagement letter: Agreed terms should be recorded in Letter of Engagement.

Letter of Engagement is sent by Auditor to client and

includes: (i) Objective and scope of audit of financial statement;

(ii) Responsibilities of the Auditor;

(iii) " " " Management;

(iv) Identification of applicable FRF for prepⁿ of F.S.; and

(v) Reference to expected form and content of Audit Report.

(ii) At beginning of audit in case of recurring audit:

Assess whether Circumstances^{*} requires (a) Revision of terms of audit engagement; or
(b) Reminding the existing terms.

No Requirement



No need to issue
New Letter of Engagement

Requirement Exist



Issue New Letter of Engagement;
Or
Record revised terms in letter of Engagement.

* Circumstances in which there exist requirement of issue of New Letter of Engagement in case of Recurring Audit:

- (i) Any Indication that Entity misunderstand the objective and scope of audit Engagement.
- (ii) Any revised or special terms of audit engagement.
- (iii) Changes in senior management.
- (iv) " " Ownership.
- (v) " " nature and size of entity's business.
- (vi) " " legal or regulatory requirements.
- (vii) " " financial reporting framework.
- (viii) " " Other reporting requirements.

(iii) Mngt. request for changes in terms of audit engagement, during course of audit:

(A) Request for change in terms of Audit Engagement

Auditor shall not agree to a change in terms of audit engagement where there is no reasonable justification for doing so.

Circumstances in which mngt. may request for changes in terms of audit Engagement:

- (a) change in circumstances affecting the need for the service;
- ✓ (b) Misunderstanding as to nature of audit originally requested; or
- ✓ (c) restriction on scope of audit engagement, whether imposed by mngt. or caused by circumstances.

(B) Request for change to a Review of F.S./ Related Services (Compilation)

Management request for changes that conveys a lower level of assurance or no assurance.

Auditor - Assess legal and contractual implications for change.

Determine reasonable justification for doing so.

Auditor satisfied with the mngt. request for change of audit to review or related services

- Work performed till date - remains relevant

- Work to be performed and report to be issued - as appropriate to revised engagement (Review or related service)

Note: In order to avoid confusion, report on related services should not include reference to: (a) Original Engagement; or (b) Any procedures that may have been performed in audit engagement.

If a request for the change is not considered reasonable, Auditor should deny the management.



[A request is considered not reasonable, if it appears that the change relates to information that is Incomplete, incorrect or unsatisfactory]

Management is not permitting the auditor to continue with the original audit engagement.



Auditor shall (a) withdraw from the engagement; and

(b) determine whether there is any obligation to report the circumstances to TCWG, owners or regulatory authorities.