

# **Implementation Guide on Resignation/ Withdrawal from an Engagement to Perform Audit of Financial Statements**

## Foreword

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In 2018, there have been number of mid-term resignations by auditors particularly auditors of listed companies. The matter being a concern for various stakeholders it has been decided to examine the reasons and circumstances leading to resignation of auditors and a Group has been constituted. After considering the matter, a need was felt to create further awareness among the members about the circumstances and responsibility of auditors under the framework of Standards on Auditing in such circumstances through issuing appropriate guidance. The task of developing guidance for the members was entrusted to the Auditing and Assurance Standards Board (AASB) of ICAI.

I am happy that AASB has brought out this *“Implementation Guide on Resignation/Withdrawal from an Engagement to Perform Audit of Financial Statements”*. The Implementation Guide deals with various aspects of auditors’ resignation in simple and easy to understand language.

I wish to place my appreciation for CA. Shyam Lal Agarwal, Chairman, Auditing and Assurance Standards Board for bringing out this Implementation Guide for the benefit of the members at large.

New Delhi  
November 30, 2018

**CA. Naveen N. D. Gupta**  
President, ICAI

## Preface

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Large number of mid-term resignations by auditors this year has become matter of concern for various stakeholders. To examine the reasons and circumstances leading to resignation of auditors, a Group was constituted and it was decided to issue guidance for the members on the matter. The task of developing guidance for the members was entrusted to the Auditing and Assurance Standards Board (AASB).

It gives me immense pleasure to place in hands of the members, this "Implementation Guide on Resignation/Withdrawal from an Engagement to Perform Audit of Financial Statements" brought out by AASB. The Implementation Guide contains guidance on various aspects of auditors' resignation like circumstances leading to withdrawal/ resignation, procedure to be followed by auditors in case of resignation, auditor's responsibilities, professional obligations to be complied with by auditors. The Appendix to the Implementation Guide contains references of relevant paragraphs of various Standards on Auditing, SQC 1 and ICAI's Code of Ethics which deal with auditors' resignation.

The Implementation Guide has been prepared by the Secretariat with the help of CA. Lalit Kumar. I am grateful to him for sparing time out of his pressing preoccupations. Further, I also thank CA. Deepa Agarwal, CA. Bhupendra Mantri, CA. Prahalad Gupta, CA. Dhananjay J. Gokhale and other Board Members for their contribution in the Implementation Guide. I also extend my heartfelt gratitude to CA. M M Chitale, Honourable Past President, ICAI for his valuable inputs in finalizing this Implementation Guide.

I wish to express my sincere thanks to CA Naveen N D Gupta, Honourable President, ICAI and Honourable Vice-President, ICAI for their continuous guidance and support in endeavors of the Board.

I wish to also place on record, the appreciation of Vice-Chairman of the Board and the other members of the Council for their suggestions, support and guidance in finalising this Implementation Guide as well as other pronouncements of the Board. I also wish to thank CA. Megha Saxena, Secretary, CA Rajnish Agarwal, Sr. E. O. and other officers and staff of the Board for their efforts.

I am confident that the members and other interested readers would find the Implementation Guide useful.

November 30, 2018  
Kolkata

**CA. Shyam Lal Agarwal**  
Chairman,  
Auditing and Assurance Standards Board

## Introduction

1. The objective of this Implementation Guide is to provide guidance to auditors in case of resignation/ withdrawal from an engagement to perform audit of financial statements.
2. The financial statements of an entity are prepared by the management of the entity to provide information about the financial position, financial performance and cash flows of the entity that is useful to a wide range of users in making economic decisions. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework and are free from material misstatement whether due to fraud or error. An audit of financial statements is intended to provide credibility to the financial statements through the report issued by an auditor.
3. The auditor needs to comply with the Standard on Quality Control (SQC) 1 - "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", Standards on Auditing (SAs), the Code of Ethics and other relevant pronouncements issued by the ICAI.
4. An audit of financial statements is based on the 'premise'<sup>1</sup> relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted. According to this premise, the management and, where appropriate, those charged with governance have certain responsibilities that are fundamental to the conduct of an audit in accordance with SAs. These responsibilities, *inter alia*, include providing the auditor with:
  - (a) All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements;
  - (b) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
  - (c) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

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<sup>1</sup> Refer to SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" for the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted.

5. Section 143 of the Companies Act, 2013 ('the Act') provides the auditor with wide powers to discharge the duties assigned under the Act. These include right of access at all times to the books of account and vouchers of the Company and entitlement to require from the officers of the Company such information and explanation as he may consider necessary for the performance of his duties as auditor. Further, the Act also specifies the manner of appointment of auditor and the procedures to be followed in case a company wishes to remove an auditor before the expiry of his term. The Act also permits the auditor to resign from the statutory position of auditor by following the procedures laid down in the Act and the Rules issued thereunder.

6. The premise relating to the responsibilities of management and those charged with governance and the powers of the auditors specified in section 143 of the Act and several other provisions under the Act are directed towards ensuring that the auditor is able to perform the audit in accordance with the Standards on Auditing. An auditor is also permitted as per the Standards on Auditing to withdraw from an engagement to audit financial statements.

7. This Implementation Guide provides guidance about circumstances leading to withdrawal/resignation from an existing engagement, auditor's responsibilities and professional obligations to be complied with by an auditor in resigning or withdrawing from an engagement to audit financial statements.

### **Circumstances Leading to Withdrawal/Resignation**

8. Because of the variety of the circumstances that may arise, it is not possible to describe definitively when withdrawal from an engagement is appropriate. The SAs envisage certain situations which require the auditor to consider withdrawal from the engagement to audit financial statements.

9. A firm is also required to comply with the requirements of SQC 1 in performing audits, reviews of historical financial information and for other assurance and related services engagements. An auditor can resign from the statutory audit of a company while evaluating the engagement and/or client acceptance as envisaged in SQC 1.

10. The Code of Ethics also requires an auditor to consider resigning from an engagement when it is concluded that a requirement established by the Code of Ethics cannot be met and the resignation is the only available alternative.

11. It is expected that an auditor may withdraw/resign from the engagement in circumstances that are covered by the professional pronouncements referred to in paragraph 8 to 10 above. **A list of those circumstances is given as Appendix to this Implementation Guide.**

## **Resignation/Withdrawal from an Existing Engagement**

12. When considering resignation/withdrawal from an engagement, the auditor should:

- (a) Consider the circumstances and determine whether the circumstances leading to withdrawal or resignation are those referred to in paragraphs 8 to 10 above;
- (b) Comply with the requirements of the applicable SAs; and
- (c) Communicate with the appropriate level of management and, where appropriate, those charged with governance the circumstances, consideration thereof and the conclusions reached by the auditor.

13. Once a communication is given to the appropriate level of management and, where appropriate, those charged with governance, the auditor should seek a written response to the communication. It is expected that the management and, where appropriate, those charged with governance should respond to the communication made by the auditor within a reasonable period of time. The auditor, prior to resignation, should evaluate the responses received to determine whether the responses have any effect on the conclusions drawn by the auditor in the circumstances.

14. It is expected that if an engagement to audit the financial statements has once been accepted, the auditor should discharge the professional obligations associated with the role and responsibility of an auditor. Unless there are circumstances that are covered in the SAs, SQC 1 and the Code of Ethics issued by ICAI where resignation is the only available alternative, the auditor should complete the engagement accepted.

15. The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation within the Basis for Disclaimer of Opinion section prior to withdrawing. In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. It is therefore advised that the auditor should discharge his professional obligations.

16. The auditor is therefore advised, particularly in case of listed entities, to comply as below:

- (a) In case an auditor has signed all the quarters (either limited review or audit) of a financial year, except the last quarter, then the auditor has to finalize the audit report for the said financial year before resignation.
  - (b) In other cases, the auditor should resign after issuing limited review/audit report for the previous quarter with respect to the date of resignation.
  - (c) To the extent information is not provided to the auditor or the management imposes a scope limitation, the auditor should provide an appropriate disclaimer in the audit report.
17. There could also be situations, as below, where the auditor cannot complete the engagement:
- (a) The auditor cannot legally continue as auditor.
  - (b) Where the firm obtains information that would have caused it to decline an engagement if that information had been available earlier.
  - (c) There has been an unavoidable circumstance beyond the control of the firm, where the firm cannot work for the assignment.

### **Auditor's Responsibilities**

18. When an auditor resigns from the statutory position of being an auditor of a company, the auditor is required to file form ADT 3, Notice of Resignation by the Auditor<sup>2</sup> with the Registrar of Companies (ROC). The Form ADT 3, inter alia, also requires the auditor to specify the reasons for resignation and other facts relevant to the resignation. The auditor should describe the circumstances while giving the reasons for resignation suitably, instead of mentioning ambiguous reasons such as other pre-occupation or personal reasons or administrative reasons or health reasons or mutual consent or unavoidable reasons. The auditor should give valid reason like pending/ non-payment of audit fees is a valid reason for resignation.

19. Further, the auditor is also advised to include the following in the letter of resignation, as applicable:

- (a) If the withdrawal or resignation results from an inability to obtain sufficient appropriate audit evidence, the reasons for that inability;
- (b) The possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive;

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<sup>2</sup> Refer to Rule 8 of the Companies (Audit and Auditors) Rules, 2014.

- (c) If the matter is related to a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor should include a description and quantification of the financial effects of the misstatement, unless impracticable;
- (d) If the withdrawal or resignation results from inability of the auditor/the firm to complete the engagement due to bonafide reasons (Refer paragraph 17 above);
- (e) The fact that circumstances leading to withdrawal or resignation from the engagement were communicated to an appropriate level of the management, and where appropriate, to those charged with governance;
- (f) The response from the management or those charged with governance on the written communication made by the auditor [Refer paragraph 12(c)]. If response is not received, state the fact.
- (g) Prior to resignation, the last audit/ limited review report issued by the auditor.

20. In case the management and, where appropriate, those charged with governance do not respond to the communication sent by the auditor (refer paragraph 13 above), the auditor should state this fact in Form ADT 3 and the letter of resignation.

21. The auditor may also consider it necessary to take legal advice to evaluate if there are any other legal responsibilities associated with the resignation/withdrawal from the engagement.

### **Professional Obligations**

22. When a new auditor ('incoming auditor') is appointed by an entity, the incoming auditor, prior to accepting the position as auditor is required to communicate with the previous auditor.<sup>3</sup> The Code of Ethics recognizes that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant.

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<sup>3</sup> Refer to Clause 8 of Part I of the First Schedule to the Chartered Accountants Act, 1949, "Professional misconduct in relation to Chartered Accountants in Practice".

Therefore, it is the professional obligation of the outgoing auditor to respond to any such request on receiving the communication from the auditor who has been appointed in his place, as soon as possible setting out in detail the reasons, which according to him had given rise to the change and other attendant circumstances but without disclosing any information as regards the affairs of the client which he is not competent to do. In view of the above, the outgoing auditor should share with the incoming auditor, a copy of letter of resignation stating the reasons as submitted with the ROC as referred to in paragraph 18.

23. Since such a communication by the incoming as well as outgoing auditor is required under Clause 8 of Part I of First Schedule to the Chartered Accountants Act 1949, the disclosure of circumstances as required in this Implementation Guide shall not be construed as breach of confidentiality by the outgoing auditor.

### **Documentation**

24. The auditor should maintain documentation to demonstrate compliance with the requirements of this Implementation Guide, SAs, SQC 1, and the Code of Ethics as relevant. Such documentation should be retained by the auditor for a period of 7 years from the date of resignation.

### **Applicability**

25. This Implementation Guide is applicable in case of audits of all listed entities. Further, in case of audits of banks, insurance companies and other corporate entities, the guidance given in this Implementation Guide be also followed, as applicable.

**Appendix: References given in SQC 1, SAs and Code of Ethics****References given in SQC 1 and SAs**

<b>S.N.</b>	<b>Standard</b>	<b>Paragraph</b>
1.	SQC 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	18, 22, 34, 35
2.	SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	12, 24
3.	SA 210, Agreeing the Terms of Audit Engagements	17
4.	SA 220, Quality Control for an Audit of Financial Statements	11, A6-A7
5.	SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	38, A53- A56
6.	SA 250, Consideration of Laws and Regulations in an Audit of Financial Statements	A18
7.	SA 260(Revised), Communication with Those Charged with Governance	A53
8.	SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment	A108
9.	SA 580, Written Representations	A24
10.	SA 705(Revised), Modifications to the Opinion in the Independent Auditor's Report	13-14, A13-A15
11.	SA 706(Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	A10
12.	SA 720(Revised), The Auditor's Responsibilities Relating to Other Information	18, A43, A46, A47

**References given in Code of Ethics (Under revision)**

Paragraphs number 100.7, 100.20, 220.5, 280.4, 290.120, 290.135, 290.168, 290.184, and 290.199