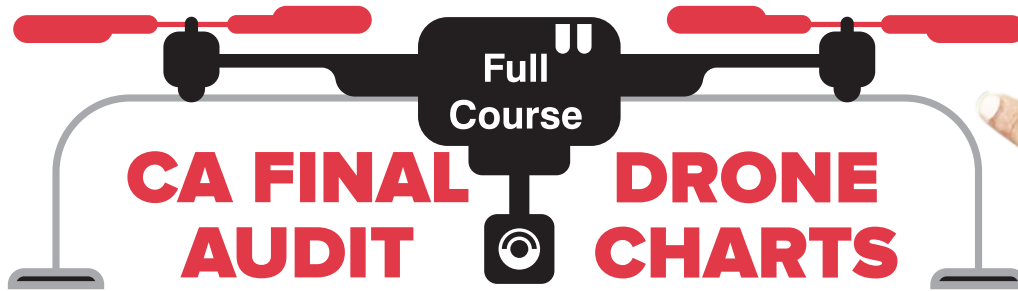


CA FINAL - ADVANCED **AUDITING** ASSURANCE AND PROFESSIONAL ETHICS

NEW COURSE



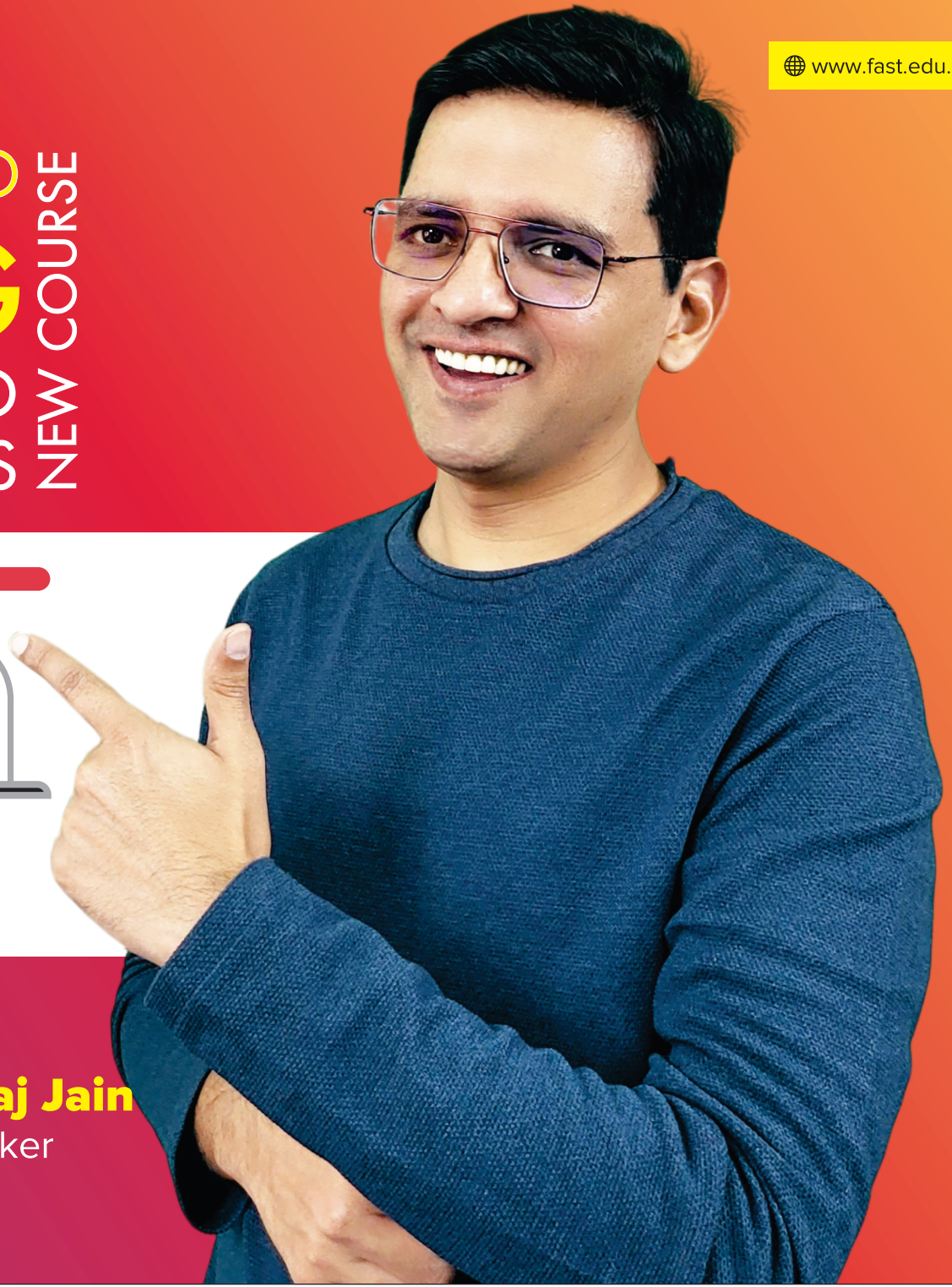
Full Course Summarised - Based on ICAI New Syllabus
Scientifically Designed & Beautifully Crafted

These are not just summary charts but covers all relevant content in
pictorial charts for easy understanding and quick last day revision.

Ab!
Audit
Hoga Sabse
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CA. Sarthak Niraj Jain
All India CA Ranker

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AUDIT DRONE CHARTS INDEX



CA Sarthak Niraj Jain

Dear Students,
Audit Drone Chart in your hand is the output of a dream which we were not just imagining, but living day and night. Finally it has come to life. Thanks to the inspiration given by you!
Every word, concept, connection in the book has been crafted with utmost care. It has been rechecked and subject to rigorous quality reviews and we trust that you will absolutely love this publication of FAST as you have loved the FR Brahmastra, Ind-AS and Audit Full course, Drone Charts, Question Banks and so many more. Now we are confident that 100% of Audit can be well covered and revised just in a day before the exams. Surely Ab Audit Hoga Sabse Scoring.

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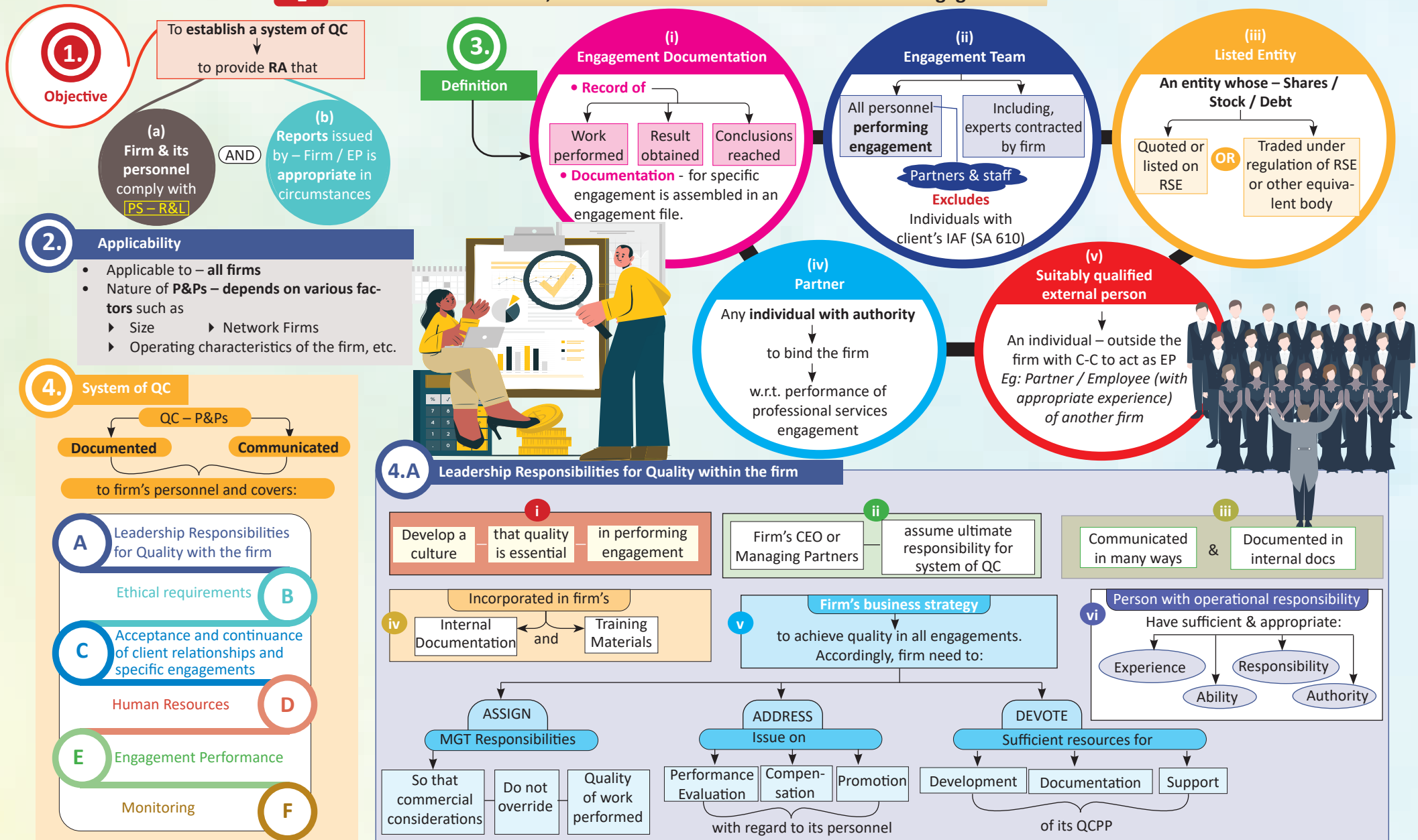
Sarthak

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F.A.S.T
first attempt success tutorials

SQC 1

Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, & Other Assurance and Related Services Engagements



CHAPTER 1 : QUALITY CONTROL

F.A.S.T
First attempt success tutorials

4.B
Ethical Requirements

Relevant Ethical requirements

Independence

Comply with relevant ethical requirements which includes

- a Integrity;
- b Objectivity;
- c Professional competence and due care;
- d Confidentiality; and
- e Professional behavior

1 Firm, its personnel & others (if any) need to:

- (a) **Communicate**
independence requirements
to personnel & others
- (b) **Identify & Evaluate**
circumstances & relationships
that create threats to independence
- (c) **Take appropriate action**
to eliminate/reduce threats
to an acceptable level
by applying safeguards or withdrawal

2 P&Ps to require

- EP to provide firm with relevant info. about client engagements
- Personnel to promptly notify Circumstances & relationships that create threat to take appropriate action
- Accumulate & communicate Info to appropriate personnel
- To determine whether they satisfy independence requirements
- Firm can maintain & update
- To take action regarding identified threats

3 In case of breaches of independence requirements P&Ps include requirements for:

- Personnel → firm**
Personnel to promptly notify firm of breach of which they become aware
- Firm → EP**
Firm to promptly communicate identified breaches of P&Ps to EP & other relevant personnel
- EP & Other → Firm**
EP & other individuals to promptly communicate to firm of actions taken to resolve the matter
- Obtain annual written confirmation of compliance with independence requirements from all firm personnel

4 Familiarity Threat:

- Set out criteria to reduce familiarity threat to an acceptable level, considering
 - Nature of engagement
 - Extent of public interest involved
 - Length of service of senior on an engagement

For, listed entities audits

- Rotate EPs after a pre-defined period (Normally, upto 7 years except, proprietors)
- Such auditors subjected to mandatory peer review.

Monitoring

P&Ps - to emphasize Fundamental principles, reinforced by

Education & training

Process for dealing with non-compliance

SA 700: FORMING AN OPINION AND REPORTING ON THE FINANCIAL STATEMENTS

1. Introduction

1. Definition of Audit Report

- A **written opinion** of an auditor on entity's FS,
- Written in a **standard format**, as mandated by **GAAS**.

2. Features of Audit Report

- Culmination of audit work.**
- Medium of communication.**
- Significant bearing on the **credibility of FS**.
- Serve as a basis for large number of stakeholders as they rely on FS & depends on auditor's opinion.
- Auditor should be **careful, vigilant, and objective** when preparing report.
- AR should **comply with SAs**.

3. Scope of this SA

The auditor's responsibility to form an opinion on the FS.

The form and content of auditor's report issued as a result of an audit of FS.

SJ Tip

SA 700 covers unmodified opinion★ & SA 705 covers modified opinions.

★ Unmodified opinion

The opinion expressed by the auditor when the auditor concludes that the **FS are prepared in all material respect in accordance with the A-FRFW**.

2. The Auditor's Report on FS

Comply with SA 700 series.

4. Objectives of this SA

To **form an opinion on FS** based on an evaluation of the conclusions drawn from the AE obtained; and

To **express clearly** that opinion through a **written report**.

5. Forming Opinion

5(i)

The auditor shall **express an unmodified opinion** when he concludes that FS are prepared, in all material respects in accordance with A-FRFW.



5(ii)

Basis for opinion

To form that opinion, auditor shall **conclude as to whether the auditor has obtained RA** considering:

- Auditor's conclusion on whether SAAE has been obtained (**SA 330**).
- Auditor's conclusion on whether uncorrected misstatements are material, individually or in aggregate (**SA 450**).

5(iii)

The evaluations required below:

- The auditor shall evaluate whether the FS are prepared, in all material respects in accordance with the **requirements of the A-FRFW**.
- Evaluate whether:
 - The FS **adequately disclose** the significant accounting **policies** selected and applied;
 - The a/cing **policies** selected and applied are **consistent** with the A-FRFW and are **appropriate**;
 - The a/cing **estimates made** by MGT are **reasonable**;
 - The info. presented in the FS is **relevant, reliable, comparable, and understandable**;
 - The FS provide **adequate disclosures** to enable the IU to understand the effect of material transactions and events on the info. conveyed in the FS; and
 - The **terminology used** in the FS, including the title of each FS, is appropriate.
- When FS prepared as per **FPF**, evaluate whether FS achieve fair presentation.

5(iv)

When FS prepared as per fair presentation framework

When FS prepared in accordance with Fair Presentation Framework (FPF)

But, do not achieve fair presentation

Discuss matter with MGT & based on A-FRFW and how matter is resolved,

Determine whether to modify report as per SA 705(R).

When FS prepared in accordance with Compliance Framework

No requirement to evaluate whether FS achieve fair presentation.

However, if auditor concludes that such FS are misleading,

Discuss matter with MGT & how matter is resolved,

Determine whether & how to communicate it in AR.

5(v) Purpose

- Audit of complete set of **general-purpose** FS.
- Aims at **consistency and comparability** in auditor reporting globally.
- Helps to promote user's **understanding** and to **identify unusual circumstances** when they occur.



6. Forming an opinion on the FS

Opinion on whether the FS prepared, in all material respects, in accordance with A-FRFW.

- Auditor shall obtain RA about whether the FS as a whole are free from MM whether due to fraud or error.
- When FS prepared as per FPF, evaluate whether FS **achieve fair presentation** by considering:
 - Overall** presentation, structure and content of the FS; and
 - Whether the FS, including the related **notes**, **represent** the underlying transactions and events in a manner that achieves fair presentation.

7. Basic elements of the Auditor's Report

I. Title – "Independent Auditor's Report"

II. Addressee – As appropriate (member in case of GP-FS of a co.)

III. Auditor's opinion

The opinion section of the auditor's report shall also :

- Identify the entity whose FS have been audited;
- State that the FS have been audited;
- Identify the title of each statement comprising the FS;
- Refer to the notes, including the summary of significant a/cing policies;
- Specify the date of, or period covered by, each statement comprising the FS.

Phrases to be used when auditor expresses an unmodified opinion on FS
When expressing an unmodified opinion on FS prepared in accordance with:

Fair Presentation Framework

Auditor's opinion shall, unless otherwise required by LorR, use one of the following phrases, which are regarded as being equivalent:

- In our opinion, the accompanying FS present fairly, in all material respects, [...] in accordance with [A-FRFW] or
- In our opinion, the accompanying FS give a true and fair view of [...] in accordance with [A-FRFW].

Compliance Framework

Auditor's opinion shall be that the accompanying FS are prepared, in all material respects, in accordance with [A-FRFW]. If the reference to the A-FRFW in the auditor's opinion is not to AS, the auditor's opinion shall identify the origin of such other framework.

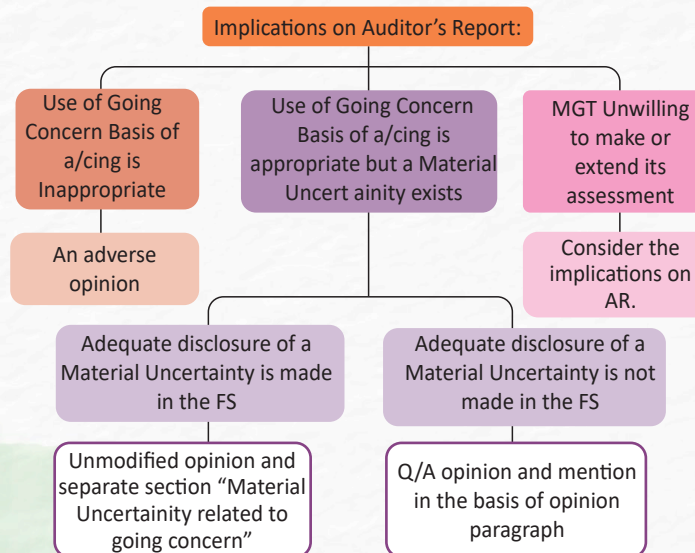
IV. Basis for opinion



V. Going concern

- In accordance with SA 570.
- Auditor is responsible to obtain SAAE & conclude on appropriateness of **MGT's use of going concern basis of a/cing** in the preparation of FS and conclude whether a **material uncertainty exists** about the entity's ability to continue as a going concern.

Implications for the Auditor's Report:



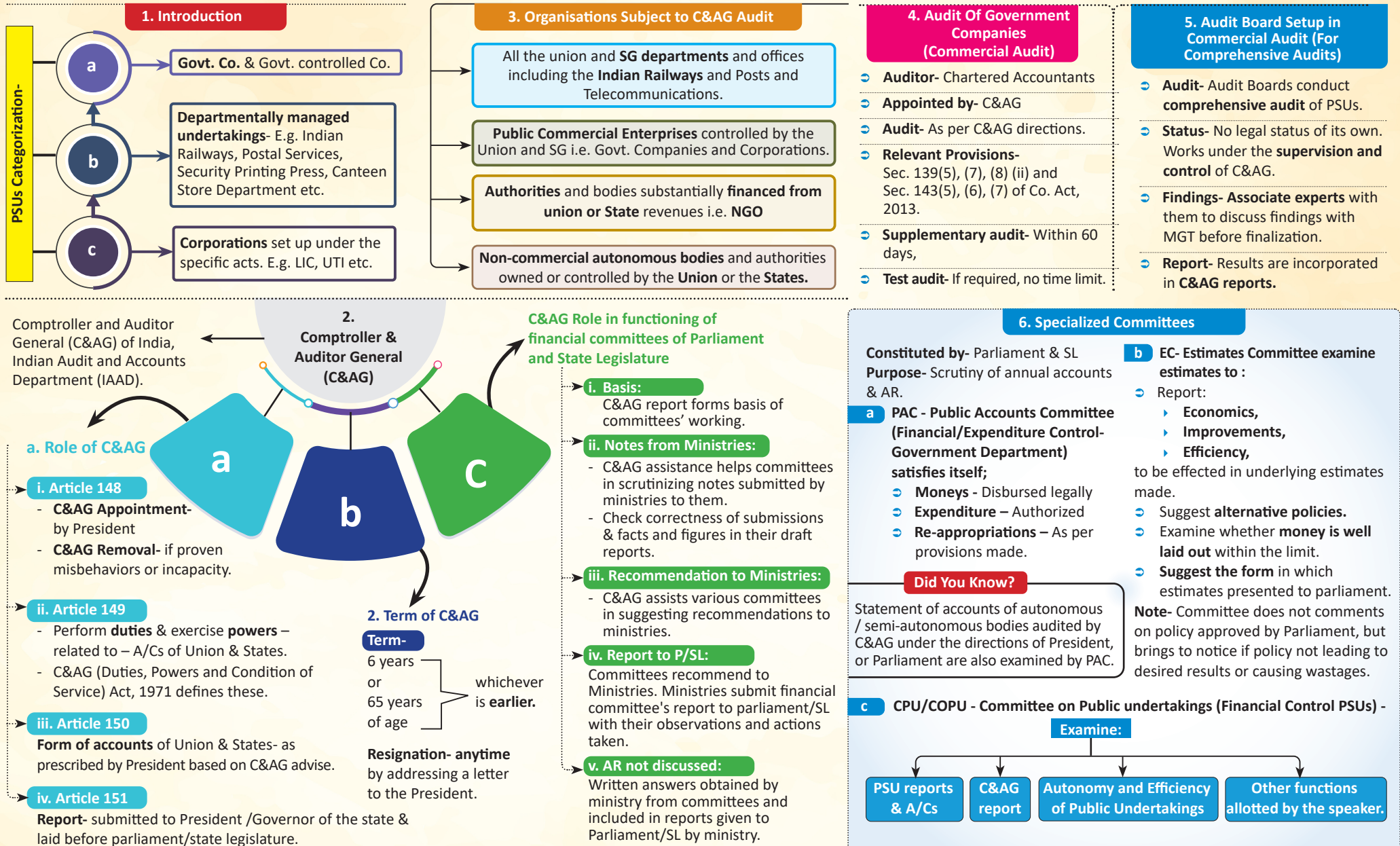
Note: Where the use of Going Concern Basis is appropriate- no special paragraph is required in AR mentioning the fact.

- Key audit matters***: In accordance with SA 701
- Management Responsibilities** for the audit of FS (See below)
- Auditor's Responsibilities for the audit of FS** (See below)
- Other reporting responsibilities**
- Signature:**
 - In case of Individual: Name & ICAI Membership Number
 - In case of Firm: Name of the auditor (Individual & Firm)
 - ICAI Membership Number
 - Firm Registration Number (FRN)
- Place of signature** : Place where AR is signed
- Date of auditor's report** : Not earlier than the date on which the auditor has obtained SAAE on which to base opinion

* It refers to those matters that, in auditor's PJ, were of most significance in the audit of FS of the current period. KAM are selected from matters communicated with TCWG.

VII. Management's Responsibilities (MGT/TCWG)

- Preparing the F.S. in accordance with A-FRFW.
- For such IC as MGT determines is necessary to enable the preparation of FS that are free from MM.
- Assessing the entity's **ability to continue as going concern**.
- Identify those responsible for the oversight of FR process.**



6. Specialized Committees

Constituted by- Parliament & SL
Purpose- Scrutiny of annual accounts & AR.

a PAC - Public Accounts Committee (Financial/Expenditure Control- Government Department) satisfies itself;

- Moneys** - Disbursed legally
- Expenditure** – Authorized
- Re-appropriations** – As per provisions made.

Did You Know?
Statement of accounts of autonomous / semi-autonomous bodies audited by C&AG under the directions of President, or Parliament are also examined by PAC.

b EC- Estimates Committee examine estimates to :

Report:

- Economics,**
- Improvements,**
- Efficiency,**

to be effected in underlying estimates made.

- Suggest **alternative policies**.
- Examine whether **money is well laid out** within the limit.
- Suggest the form** in which estimates presented to parliament.

Note- Committee does not comments on policy approved by Parliament, but brings to notice if policy not leading to desired results or causing wastages.

c CPU/COPU - Committee on Public undertakings (Financial Control PSUs) -

Examine:

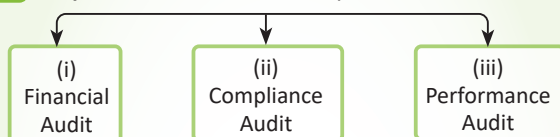
- PSU reports & A/Cs
- C&AG report
- Autonomy and Efficiency of Public Undertakings
- Other functions allotted by the speaker.

7. Objective and Scope of Public Enterprises Audit

1 Applicability:

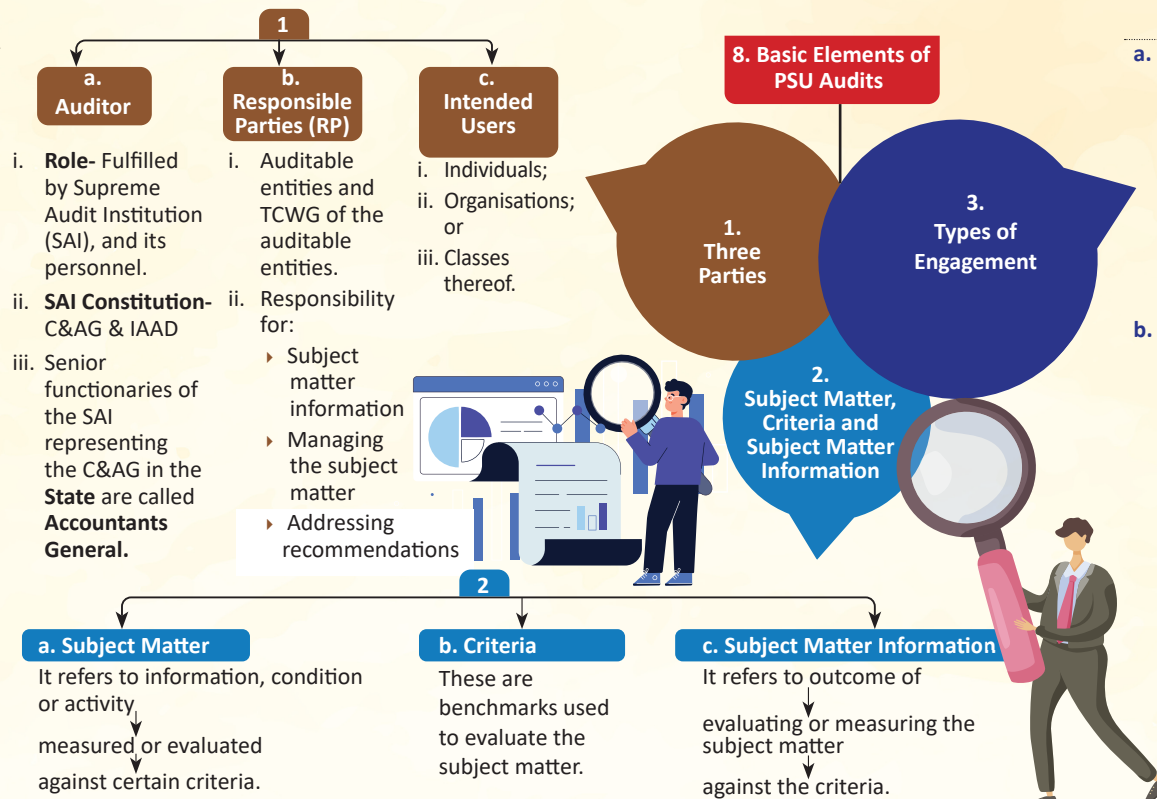
The C&AG's (Duties, Power and Conditions of Services) Act, 1971 specifies the entities that come under audit purview of C&AG at the Union and State level.

2 Scope & Extent: Determined by C&AG.



3 Objective

- (i) Not constrained to Financial and Compliance Audit rather it also extends to performance (E-E-E).
- (ii) **Propriety Audit:** Examine expenditure to be in best interest of the entity and meet financial propriety.
- (iii) **Comprehensive Audit:**
 - a) Whether undertakings;
 - Fulfilled its objectives;
 - Value for-money spent is obtained;
 - Targets have been achieved, etc.
 - b) It does not covers areas already covered.
 - c) It is an efficiency cum performance audit/appraisal.
- (iv) **Org. decision** - taken by competent authority.
- (v) Helping govt. to **improve efficiency and effectiveness** by pointing financial, operating, system, performance deficiencies from or acceptable standards.
- (vi) **Highlighting issues** of efficient and economic operations.
- (vii) **Fiscal and MGT accountability** – two main elements of PSU audit:
 - a) **Fiscal Accountability:** Audit of sanctions, provisions of funds, compliance and propriety
 - b) **Managerial Accountability:** Includes efficiency cum performance audit



3 a. Direct Reporting Engagements (DRE)

Under DRE, it is the auditor - who measures or evaluates – the subject matter - against the criteria.

E.g. Performance Audits and Compliance Audit.

b. Attestation Engagements

Under AE, it is the RP- **measures the subject matter - against the criteria** &

Presents the subject matter info., on which auditor gathers SAAE to provide a reasonable basis for expressing a conclusion.

E.g. Financial Audits.

9. Principles of PSU Audit

It consists the general standards that apply to SAI India's personnel as auditors and fundamental to PSU audits

General Principles

- a) Ethics & Independence
- b) PJ, Due Care and Skepticism
- c) QC
- d) Audit Team Management & Skill
- e) Audit Risk
- f) Materiality
- g) Documentation
- h) Communication

Principles relating to audit process

Planning the Audit

- ▶ Establish the **terms of the audit.**
- ▶ Obtain **understanding of the entity.**
- ▶ **Conduct risk assessment** of problem analysis.
- ▶ Identify **risks of fraud.**
- ▶ Develop an **audit plan.**

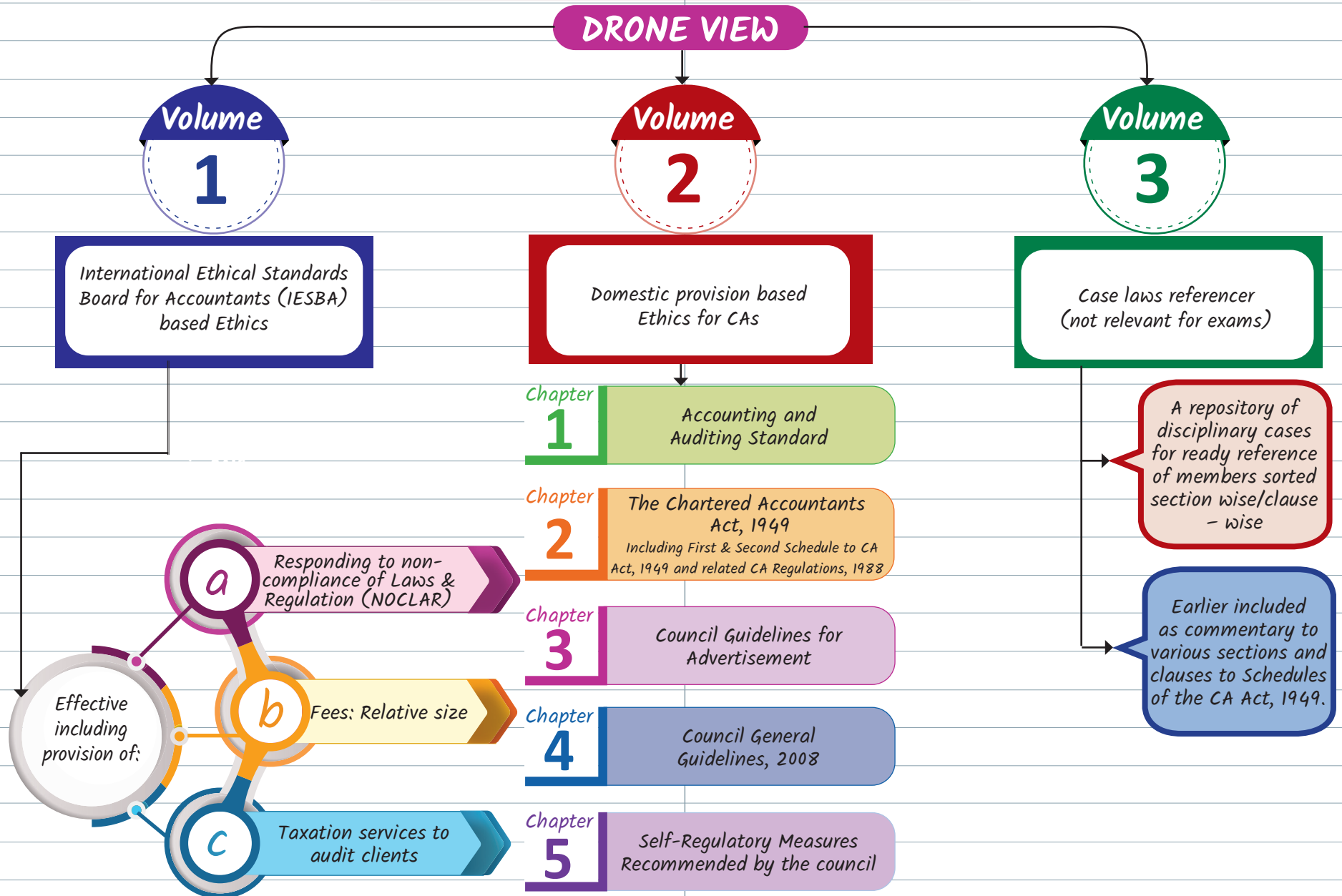
Conducting the Audit

- ▶ **Perform the planned audit procedures to obtain audit evidence.**
- ▶ **Evaluate AE and draw conclusions.**

Reporting & Follow-up

- ▶ **Prepare a report** based on the **conclusions reached.**
- ▶ **Follow-up** on reported matters as relevant.

CODE OF ETHICS



Index

VOLUME 1 - CODE OF ETHICS BASED ON IESBA

Guide to the CODE

Structure

New Features of Volume 1 of the Code

PART 1 - General Application of Code IESBA

PART 2 - Professional Accountant in Business / Service

PART 3 - Professional Accountant in Public Practice

VOLUME 2 - ICAI CODE/DOMESTIC CODE

Chapter 1 - Applicability of Various Pronouncements

Chapter 2 - The Chartered Accountants Act & Regulations

- A.** Section 2(2) - Member Deemed to be in practice
- B.** Section 6 - Certificate of Practice
- C.** Section 4 - Member of ICAI i.e. Register of Members
- D.** Section 7 - Members to be known as Chartered Accountants
- E.** Section 8 - How to become a member, removal, suspension and restoration of membership
- F.** Section 27 - Branch Office
- G.** Section 5 - Fellow and Associates Members of ICAI
- H.** KYC Norms for CA in Practice (New)
- I.** Section 21 - Disciplinary Proceeding
- J.** Section 22 - Professional and Other Misconduct

SCHEDULES TO CA ACT 1949

Schedule - I

Part I

Part II

Part III

Part IV

Schedule - II

Part I

Part II

Part III

Chapter 3 - Guidelines for Advertisement

Chapter 4 - Council General Guidelines 2008

(Including Networking Guidelines)

ETHICAL STANDARDS BOARD (ESB)

Recent Announcements Of Ethical Standards Board

Recent Clarifications Of Ethical Standards Board

Brahmastra and Drone Charts have similar content for this chapter hence student having Brahmastra may simply refer that book only

CODE OF ETHICS - VOLUME I

PART I – General Application of Code IESBA (applies to all professional accountants)

Fundamental Principles of Code of Ethics

- ⇒ **Integrity** : Professional accountants to be straightforward and honest in both professional and business relationships.
- ⇒ **Not knowingly be associated** with reports, that:
 - (a) Contains a materially false or misleading statement;
 - (b) Contains statements or information provided negligently; or
 - (c) Omits or obscures required information; unless opinion modified.
- ⇒ When a professional accountant becomes aware of above information the accountant shall take steps to be disassociated from that information.
- ⇒ **Objectivity**: Not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.
- ⇒ **Professional Competence and Due Care** :
 - (a) To maintain professional knowledge and skill
 - (b) To act diligently in accordance with applicable technical and professional standards
 - (c) Serve with professional competence & exercise sound judgment
 - (d) Develop continuing awareness
 - (e) Continuing professional development
 - (g) Shall take steps to train subordinates

- ⇒ **Confidentiality** : To refrain from:
 - (a) Disclosing outside the firm or employing organization confidential information without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
 - (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties
- ⇒ **Confidentiality : Subsection 114**
NOTE: Following are circumstances where professional accountants might, be required to disclose confidential information:
 - Disclosure is required by law,
 - Disclosure is permitted by law and is authorized by the client or the employing organisation;
 - There is a professional duty or right to disclose, in case of:
 - (i) Peer Review or Quality Review
 - (ii) Inquiry or investigation by a professional or regulatory body;
 - (iii) To protect interests in legal proceedings; or
 - (iv) To comply with TPE standards
- ⇒ **Professional Behaviour** :
 - 1. To comply with relevant laws and regulations and avoid any action that may bring discredit to the profession
 - 2. Professional accountants should be honest and truthful and should not:
 - (a) Make exaggerated claims
 - (b) Make disparaging references or unsubstantiated comparisons
 - (c) Any violation of Advertisement Guidelines issued by the Council


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CA FINAL ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS NEW COURSE



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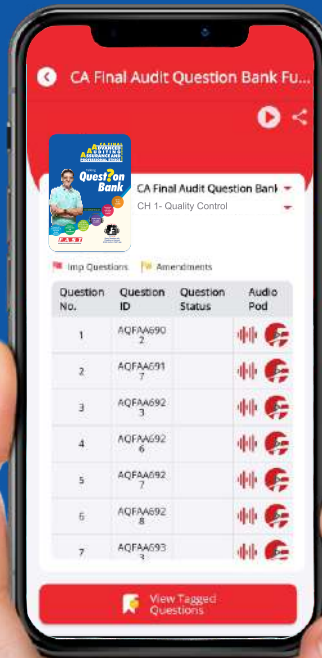
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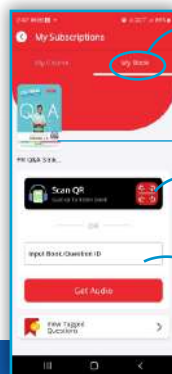
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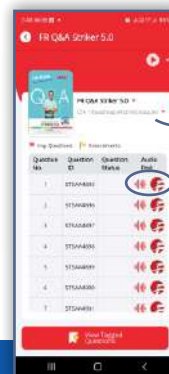
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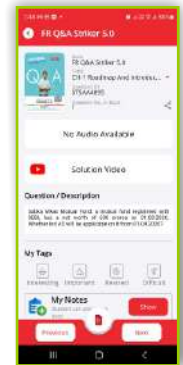
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query for
the question.

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CA FINAL ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Question Bank

CA. Sarthak Niraj Jain

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Chapter 1

Quality Control

SQC-1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

&

SA -220 Quality Control for an Audit of Financial Statements

1. Information assist in Accepting and Continuing of relationship with Client

Ace Limited (manufacturer of textile goods) got an order of manufacturing of PPE kits in December 2020. But there was shortage of machinery and manpower to accomplish the ordered requirement of PPE kits. Ace Ltd. approached another manufacturing unit Jack Limited for purchase of the unit. Jack Limited was interested in the sale of unit, so the deal went through and Ace Limited acquired ninety five percent shares of Jack Limited. The new management of Jack Limited proposed and appointed NKB Associates, Chartered Accountants, (already auditors of Ace Limited) as new auditors of Jack Limited. NKB Associates accepted the assignment without considering information whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. Comment with respect to appropriate Standard on Auditing what type of information assists the engagements partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate or not?

(Dec-2021)

OR

Mention any four information which assists the auditor in accepting and continuing of relationship with the client as per SA 220

Ans.



Acceptance and Continuance of Client Relationships and Audit Engagements :

As per SA 220 - "Quality Control for an Audit of Financial Statements" & SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements"

- The auditor should obtain **information considered necessary** in the circumstances **before accepting an engagement** with a **new client**, when deciding whether to **continue an existing engagement** and When **considering acceptance of a new engagement** with an existing client.
- **Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate::**
 - (i) The **integrity of the principal owners**, key management and those charged with governance of the entity;
 - (ii) Whether the **engagement team is competent to perform** the audit engagement and has the necessary **capabilities**, including **time and resources**;
 - (iii) Whether the firm and the engagement team can **comply with relevant ethical requirements**; and
 - (iv) **Significant matters that have arisen** during the current or previous audit engagement, and their implications for continuing the relationship.

2. Considerations as to Integrity of Clients

MB & Associates is a partnership firm of the Chartered Accountants which was established seven years back. The firm is getting new clients and has also been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it considers necessary in the circumstances before accepting an engagement with a new client and acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. Guide MB & Associates about the matters to be considered with regard to the integrity of a client, as per the requirements of SQC 1.

(Study Material)(Nov-2019)

OR

BSS & Associates is a partnership firm of Chartered Accountants which was established five years back. The firm was offering only advisory services at the beginning, however, after audit rotation and advent of GST, firm sees lot of potential in these areas also and started looking for opportunities in these areas also. These services being assurance in nature, the firm required some internal restructuring and set up some policies and procedures for compliance year on year.

The firm started getting new clients for these new services and is now looking to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified and the firm decides to accept or continue the client relationship or a specific engagement, it has been setting up a process to document how the issues were resolved.

The firm is now looking to work with only select clients which are in line with the policies of the firm. The firm understands that the extent of knowledge it will have regarding the integrity of a client will grow within the context of an ongoing relationship with that client. With regard to the integrity of a client, you are required to give some examples of the matters to be considered by the firm as per the requirements of SQC1.

(RTP-May-2019)

Ans.



As per SQC 1, the firm should obtain **such information as it considers necessary** in the circumstances before **accepting an engagement** with a new client, when deciding whether to **continue an existing engagement**, and when considering **acceptance of a new engagement** with an existing client.

Where **issues have been identified**, and the firm decides to **accept or continue** the client relationship or a **specific engagement**, it should document how the issues were resolved.

With regard to the integrity of a client, matters that the firm considers include, for example:

- a) **The identity and business reputation** of the client's principal owners, key management, related parties and those charged with its governance.
- b) The **nature of the client's operations**, including its business practices.
- c) **Information concerning the attitude of the client's** principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- d) Whether the client is aggressively concerned with maintaining the **firm's fees as low as possible**.
- e) Indications of **an inappropriate limitation** in the scope of work.
- f) Indications that the **client might be involved in money laundering** or other criminal activities.
- g) The **reasons for the proposed appointment** of the firm and **non-reappointment of the previous firm**.

The extent of knowledge a firm will have **regarding the integrity of a client** will generally grow within the context of an **ongoing relationship** with that client.

3.

Relying on Work Performed by Another Partner

M/s Suresh Chandra & Co. has been appointed as an auditor of SC Ltd. for the financial year 2021-22. CA. Suresh, one of the partners of M/s Suresh Chandra & Co., completed entire routine audit work by 29 th May, 2022. Unfortunately, on the very next morning, while roving towards office of SC Ltd. to sign final audit report, he met with a road accident and died. CA. Chandra, another partner of M/s Suresh Chandra & Co., therefore, signed the accounts of SC Ltd., without reviewing the work performed by CA. Suresh. State with reasons whether CA. Chandra is right in expressing an opinion on financial statements the audit of which is performed by another auditor.

(MTP-May-2018)

Ans.

(i) As per SA 220, "Quality Control for an Audit of Financial Statements":

The engagement partner shall take **responsibility for reviews** being performed in accordance with the **firm's review policies and procedures**. Review procedures **consists of the considerations, whether,**



1. The work has been performed in accordance with **professional standards and regulatory and legal requirements**;
2. **Significant matters** have been raised for further consideration;
3. **Appropriate consultations** have taken place and the resulting conclusions have been documented and implemented;
4. The work **performed supports the conclusions reached** and is appropriately documented;
5. The **evidence obtained is sufficient and appropriate** to support the auditor's report; and
6. The **objectives of the engagement procedures** have been achieved.

(ii) Using work performed by other

- When the auditor **delegates work to assistants** or **uses work performed by other auditors/experts** he will continue to be **responsible for forming and expressing** his opinion on the financial statements.
- However, **he will be entitled to rely on the work performed by others**, provided he exercises **adequate skill and care** and is not aware of any reason to believe that he should not have so relied.
- The auditor should carefully **direct, supervise and review work delegated** to assistants.
- He **should obtain reasonable assurance** that work performed by other auditors/experts and assistants is adequate for his purpose.

(iii) In the instant case:- Mr. Suresh, a partner of the **firm had completed routine audit work** and **died before signing** audit report. Mr. Chandra another **partner of the firm has signed the accounts** of SC Ltd, relying on the work performed by Mr. Suresh.

(iv) Conclusion:- CA. Chandra is **allowed to sign the audit report**, though, will be **responsible for expressing the opinion**. He may rely on the work performed by **CA. Suresh** provided **he further exercises adequate skill and due care** and **review** the work performed by him.

4.

Determination of Review Responsibility of EP

J.A.C.K. & Co., a Chartered Accountant firm was appointed as the statutory auditor of Falcon Ltd. after ensuring the compliance with relevant provisions of the Companies Act, 2013. Mr. Jay was the engagement partner for the aforesaid audit and prior to commencement of the audit, Mr. Jay had called for a meeting of the engagement team in order to direct them and assign them their responsibilities. At the end of meeting, Mr. Jay assigned review responsibilities to two of the engagement team members who were the most experienced amongst all, for reviewing the work performed by the less experienced team members. While reviewing the work performed by the less experienced members of the engagement team, what shall be the considerations of the reviewers?
(MTP-May-2021)

Ans.



(i) As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements":

- **Review responsibilities** are determined on the basis that **more experienced team members**, including the **engagement partner**, review work performed by **less experienced team members**.

(ii) In the given situation:- Mr. Jay, engagement partner **assigned review responsibilities** to two of the **engagement team members** who were the most experienced team members.

(iii) While reviewing the work performed by less experienced members of the engagement team, **both the more experienced Reviewers** should consider whether:

1. The work has been performed in accordance with **professional standards and regulatory and legal requirements**.
2. Significant **matters** have been raised for further consideration.

3. Appropriate **consultations** have taken place and the resulting conclusions have been documented and implemented.
4. There is a need to revise the **nature, timing and extent** of work performed.
5. The work performed **supports the conclusions reached** and is appropriately documented.
6. The evidence obtained is **sufficient and appropriate to support the report**; and
7. The **objectives of the engagement procedures** have been achieved.

5. Difference of Opinion/Limitation on Auditor:

You are an audit senior working for the firm Bohra & Company. You are currently carrying out the audit of Wisdom Ltd., a manufacturer of waste paper bins. You are unhappy with Wisdom Ltd.'s inventory valuation policy and have raised the issue several times with the audit manager. He has dealt with the client for a number of years and does not see what you are making an objection about. He has refused to meet you on site to discuss those issues. As the audit manager had dealt with Wisdom Ltd. for so many years, the other partners have decided to leave the audit of Wisdom Ltd. in his capable hands. Comment on the situation outlines above.

Ans.



- (i) Provision:- SQC-1 "Quality Control for Firms that perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements" requires:**
- A firm to establish the **policies & procedures** for **dealing/resolving differences of opinion** with in engagement team.
 - An **engagement partner** is usually **appointed to each audit engagement** undertaken by the firm, to **take responsibility for the engagement** on behalf of the firm. Assigning the audit to an **experienced audit manager is not sufficient**.
- (ii) SA 220 "Quality Control for an Audit of Financial Statement":-** Requires that the **audit engagement partner** takes responsibility for **settling disputes** in accordance with the **firm's policy** in respect of **resolution of difference of opinion** required by SQC 1.
- (iii) In the present case:**
- Partners of the firm have decided to **leave the audit in the hands of Audit manager** and **no engagement partner has been assigned**.
 - The lack of an audit engagement partner also means that **several of the requirements of SA 220**, about ensuring that engagements in relation to **independence** and **directing, supervising** and **reviewing** the audit are not in place.
 - Further, the **audit manager and senior have conflicting views** about the valuation of inventory. This does not appear to have been handled well, with the manager refusing to discuss the issue with the senior.
- (iv) Conclusion:** Failure to resolve the **difference of opinion is a breach of the firm's policy under SQC 1**. It indicates that the firm **does not have a suitable policy** concerning such disputes required by SQC1.

6. Date of Signing of Audit Report

OP & Associates are the statutory auditors of BB Ltd. BB Ltd is a listed company and started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2022 got completed on May 1, 2022. The auditor's report was dated May 12, 2022. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2022. Engagement partner had completed his reviews in entirety by May 10, 2022 and signed the report on May 12, 2022. Comment. **(MTP-Nov-2018)**

Ans.

- (i) As per SA 220, "Quality Control for an Audit of Financial Statements"**
- The engagement partner shall take **responsibility for reviews being performed** in accordance with the **firm's review policies and procedures**.



- For audits of financial statements of listed entities, the engagement partner shall:
 - (a) Determine that an **engagement quality control reviewer** has been appointed;
 - (b) **Discuss significant matters arising** during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
 - (c) **Not date the auditor's report** until the completion of the engagement quality control review.
- (ii) **SA 700, "Forming an Opinion and Reporting on Financial Statements"**, requires:
 - The auditor's report to be **dated no earlier than** the date on which the auditor has **obtained sufficient appropriate evidence** on which to base the auditor's opinion on the financial statements
- (iii) **In the present case:-** OP & Associates are the **statutory auditors of a listed company** which started its operations **5 years back**. The field work during the audit of the financial statements of the company for the year ended **March 31, 2022** got completed on **May 1, 2022**. The auditor's report was **dated May 12, 2022**. During the documentation review of the engagement, it was observed that the engagement quality control review was **completed on May 15, 2022**.
- (iv) **Conclusion:-** Signing of auditor's report i.e. on **May 12, 2022 which is before the completion of review** engagement quality control review i.e. **May 15, 2022, is not in order**.

7.

Engagement Quality Control Review

HK & Co. Chartered Accountants have been auditors of SAT Ltd (a listed entity) for the last 8 financial years. CA. H, partner of the firm, has been handling the audit assignment very well since the appointment. The audit work of CA. H and her team is reviewed by a senior partner CA. K to assure that audit is performed in accordance with professional standards and regulatory and legal requirements. CA. K was out of India for some personal reasons, so this year CA. G has been asked to review the audit work. In your opinion, what areas CA. G should consider at the time of review. List any four areas and also comment whether firm is complying with Standard on Quality Control or not? (July-2021)

Ans.



- (a) **As per SQC 1**, an engagement quality control review for audits of financial statements of **listed entities** includes **considering the following**:
- (i) The work has been performed in accordance with **professional standards and regulatory and legal requirements**;
 - (ii) **Significant matters** have been raised for further consideration;
 - (iii) **Appropriate consultations** have taken place and the resulting conclusions have been documented and implemented;
 - (iv) There is a need to revise the **nature, timing and extent** of work performed;
 - (v) The work performed supports the **conclusions reached** and is appropriately documented;
 - (vi) The evidence obtained is **sufficient and appropriate** to support the report; and
 - (vii) The objectives of the **engagement procedures** have been achieved.
- (b) **The firm should establish policies and procedures**:
- (i) **Setting out criteria** for determining the need for safeguards to **reduce the familiarity threat to an acceptable level** when using the same senior personnel on an assurance engagement over a long period of time; and
 - (ii) **For all audits of financial statements of listed entities**
 - Requiring the rotation of the engagement partner **after a specified period** in compliance with the Code.
 - The **familiarity threat is particularly relevant** in the context of financial statement audits of listed entities.
 - **For these audits**, the engagement partner should be **rotated after a predefined period**, normally **not more than seven years**.

(c) **Conclusion:-** From the **facts given in the question** and from the **above stated paras of SQC 1**, it can be concluded that **firm is not complying with SQC 1** as Engagement Partner H is continuing for more than 7 years.

8. Engagement Quality Control Review

PQR & Associates, Chartered Accountants, is a partnership firm having 3 partners CA P. CA Q and CA R. PQR & Associates are appointed as Statutory Auditors of ABC Limited, a listed entity for the financial year 2021- 22 and CA P is appointed as Engagement Partner for the audit of ABC Limited. Before issuing the Audit Report of ABC Limited, CA P asked CA R to perform Engagement Quality Control Review and is of the view that his responsibility will be reduced after review by CA R. Whether the contention of CA P is correct? What are the aspects that need to be considered by CA R while performing engagement Quality Control Review for audit of financial statements ABC Limited ?
(May-2022)

Ans.



As per SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements", the review does not reduce the responsibilities of the engagement partner. Hence, contention of CA. P that after engagement quality control review by CA. R, his responsibility will be reduced, is not correct.

However, CA. R needs to consider the following aspect while performing Engagement Quality Control Review for audit of financial statements of a listed entity ABC Ltd.:

1. The engagement team's evaluation of the firm's independence in relation to the specific engagement.
2. Significant risks identified during the engagement and the responses to those risks.
3. Judgments made, particularly with respect to materiality and significant risks.
4. Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
5. The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
6. The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.
7. Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.
8. The appropriateness of the report to be issued.

Engagement quality control reviews for engagements other than audits of financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.

9. Responsibilities of EP and EQCR in relation to Assessment of Independence

During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.
(RTP-May-2022)(Study Material)(MTP-Nov-2019)(RTP-May-2019)

Ans.

(i) As per SA 220 - Quality control for an Audit of Financial Statements

The engagement partner shall form a **conclusion on compliance with independence requirements** that apply to the audit engagement. In doing so, **the engagement partner shall:**



- (a) **Obtain relevant information from the firm** and, where applicable, network firms, to **identify and evaluate circumstances** and relationships that create threats to independence;
- (b) **Evaluate information on identified breaches**, if any, of the **firm's independence policies and procedures** to determine whether they create a **threat to independence** for the audit engagement; and
- (c) **Take appropriate action to eliminate such threats** or reduce them to an **acceptable level** by applying safeguards, or, if considered appropriate, **to withdraw** from the audit engagement, where withdrawal is **permitted by law or regulation**. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.
- (ii) **For audits of financial statements of listed entities:-** The **engagement quality control reviewer**, on performing an engagement quality control review, shall also consider among other things, **the engagement team's evaluation** of the firm's independence in relation to the audit engagement.
- (iii) **Conclusion:-** In the given case, the **Engagement Partner is not right**. The **independence assessment documentation** should also be given to Engagement Quality Control Reviewer for his review.

10.

SQC-1 : Complaints & Allegations

M/s NK & Co., Chartered Accountants were appointed as Statutory Auditors of Fresh Juice Limited for the F.Y 2021-2022. The previous year's audit was conducted by M/s. LP & Associates. After the audit was completed and report submitted, it was found that closing balances of last financial year i.e., 2020-21 were incorrectly brought forward. It was found that M/s NK & Co. did not apply any audit procedures to ensure that correct opening balances have been brought forward to the current period. Accordingly, a complaint was filed against NK & Co. in relation to this matter. You are required to inform what policies are required to be implemented by NK & Co. for dealing with such complaints and allegations as required by Standard on Quality Control (SQC).

(MTP-May-2022)(Jan-2021)

Ans.



- (i) **In the given question:-** NK & Co. **did not apply audit procedures** to ensure that **opening balances had been correctly brought forward**. A complaint was **filed against the auditors** in this context.
- (ii) **As per 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",
- The firm should **establish policies and procedures** designed to provide it with **reasonable assurance** that it deals appropriately with:
 - (a) **Complaints and allegations** that the work performed by the firm **fails to comply with professional standards** and regulatory and legal requirements; and
 - (b) **Allegations of non-compliance** with the firm's system of quality control.
 - **Complaints and allegations** (which do not include those that are clearly frivolous) may originate from **within or outside** the firm.
 - They may be made by **firm personnel, clients or other third parties**. They may be received by engagement **team members** or other firm personnel.
 - As part of this process, **the firm establishes clearly defined channels** for firm personnel to **raise any concerns** in a manner that enables them to come forward without fear of reprisals.
 - **The firm investigates such complaints and allegations** in accordance with established **policies and procedures**. The investigation is **supervised by a partner** with sufficient and appropriate **experience and authority** within the firm but who is not otherwise involved in the engagement, and includes **involving legal counsel** as necessary.
 - **Small firms and sole practitioners** may use the services of a **suitably qualified external person** or another **firm** to carry out the investigation. Complaints, allegations and the responses to them are documented.

- Where the **results of the investigations indicate deficiencies** in the design or operation of the firm's quality **control policies and procedures**, or **non-compliance** with the firm's system of quality control by an individual or individuals, the **firm takes appropriate action**

11. Withdrawl

AP & Associates, Chartered Accountants. arc Statutory Auditors of XP Limited for the last four years. XP Limited is engaged in the manufacture and marketing of FMCG Goods in India. During 2021-22, the Company has diversified and commenced providing software solutions in the area of "e-commerce" in India as well as in certain European countries. AP & Associates, while carrying out the audit for the current financial year, came to know that the company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise and infrastructure to carry out the audit of this diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw. **(Nov-2022)**

Ans.


Acceptance and Continuance of Client Relationships and Specific Engagements: As per SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements", the firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it is competent to perform the engagement and has the capabilities, time and resources to do so.

In the given case, AP & Associates, Chartered Accountants, statutory auditors of XP Limited for the last four years, came to know that the company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise for the same, therefore, AP & Associates wish to withdraw from the engagement and client relationship. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

- Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant issues, consultations, conclusions and the basis for the conclusions.

AP & Associates should address the above issues before deciding to withdraw.

12. Engagement Quality Control Review





PQR & Associates are statutory auditors of a listed company. There arose an issue during the course of audit relating to related party transactions. The engagement partner wants to consult engagement quality control reviewer on this matter during the course of audit process itself. Can he consult with engagement quality control reviewer? Discuss. **(Study Material)**

Ans.


It is necessary to maintain objectivity of reviewer. Therefore, participation in engagement or making decisions for engagement team is to be avoided at all costs. However, engagement partner may consult engagement quality control reviewer during the review so as not to compromise his objectivity and eligibility to perform the role.

13. Engagement Quality Control Review

Beta Private Limited has approached a firm of Chartered accountants to assist them in preparation of financial statements and issue a compilation report in this regard. Does CA firm have responsibility in relation to quality control for above said engagement? Discuss with reasons. **(Study Material)**

Ans.	 <p>Such kind of services fall in category of “related services”. SQC 1 is applicable to all type of engagements including engagement pertaining to “related services”.</p>
14.	Engagement File <p>Ramanujan, a CA final student, feels that engagement file in audit engagement should be ready prior to issue of audit report. Discuss whether Ramanujan’s view is in order. (Study Material)</p>
Ans.	 <p>The firm should establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. Engagement files should be completed in not more than 60 days after date of auditor’s report in case of audit engagements. Thus, view of Ramanujam is not in order.</p>
15.	Difference of Opinion <p>BNE & Co. are in midst of audit process of a listed company. During the course of audit, an issue arose relating to revenues from contracts with customers in terms of Ind AS 115. The engagement partner took a certain stand. However, engagement quality control reviewer recommended otherwise after review. The engagement partner is not willing to accept recommendations of reviewer. How can the stalemate be ended? (Study Material)</p>
Ans.	 <p>In case, recommendations of engagement quality control reviewer are not accepted by engagement partner and matter is not resolved to reviewer’s satisfaction, the matter should be resolved by following established procedures of firm like by consulting with another practitioner or firm, or a professional or regulatory body. The audit report should be issued only after resolution of matter.</p>
15A.	EQCR: Eligibility & Approach <p>CA Ragini is offered an appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of the financial year 2022-23 of XPM Limited, a listed company operating from a small town. She is also based in the same town and was not engaged previously to conduct an audit of a listed entity. She accepts the appointment to act as EQCR. She performs the review by ticking a Yes/No checklist and signing on some of the working papers prepared by the engagement team. The audit file does not contain any material misstatement which shows that the work of EQCR is separate from the work of the engagement team. Do you agree with the approach adopted by EQCR? Comment. (MTP-Nov-2023)</p>
Ans.	 <p>As per SQC 1 engagement quality control reviewer can be a partner, other person in the firm (member of ICAI), suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report.</p> <p>It also states that the engagement quality control reviewer for an audit of the financial statements of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.</p> <p>In addition, the work of EQCR involves objective evaluation of the significant judgments made by the engagement team and ensuring that the conclusions reached by the team in formulating audit report are appropriate. It is necessary for EQCR to have the requisite technical expertise and experience to enable her to perform the assigned role of evaluating the work of engagement team so that any possible misstatement can be avoided. Without ensuring the appropriate technical expertise and experience, the whole purpose of EQCR is defeated. Therefore, it was not appropriate for her to accept appointment as EQCR for listed entity.</p> <p>Further, SA 220 states that the engagement quality control reviewer shall document, for the audit engagement reviewed, that the procedures required by the firm’s policies on engagement quality control review have been performed. It also states that it shall also be documented that the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.</p>

In the given situation, CA Ragini is offered an appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of the financial year 2022-23 of XPM Limited, a listed company operating from a small town. She has accepted the appointment and performed the review by ticking a Yes / No checklist and signing on some of the working papers prepared by the engagement team.

In the instant case, there are no working papers to show that evaluation has been done by EQCR on conclusions reached by engagement team. Mere ticking of a Yes/No checklist and signing on some working papers of engagement team shows that no such evaluation and review of work performed by engagement team has been made by EQCR. Therefore, her approach was not proper in performing work of EQCR.

Test Your Understanding

16. ABC & Associates, Chartered Accountants has a policy to accept the clients wherein the risk evaluation is conducted with respect to the Company and the promoter. XYZ Limited approached ABC & Associates. Promoter of XYZ Limited is a close associate and family friend of Mr. A, Managing Partner of ABC & Associates. XYZ Limited is in news in the previous year for certain inquiries from the regulatory authorities in relation to certain matters. The existing auditor of XYZ Limited has resigned and has created a casual vacancy. XYZ Limited is ready to offer 25% more than the existing fees and has approached ABC & Associates for appointment as Auditor. Mr. A has strong recommendation to the Firm to accept the audit. What is your understanding of the functioning of the tone at the top of the Firm ABC & Associates, Chartered Accountants.? What are the considerations one should exercise to uphold Quality of the Firm?

Ans.



The given situation indicates that proposed client is a new one whose promoter is close associate and family friend of managing partner of M/s ABC & Associates. However, previous auditor of proposed client has resigned and company is offering hike in audit fees in comparison to audit fees paid to previous auditor. Besides, there are also regulatory inquiries against the company. In spite of all this, managing partner of firm Mr. A has recommended for acceptance of offered audit of the company. **It reflects poorly regarding functioning at top of the firm as regards to quality control.**

SQC 1 requires that firm should establish a system of quality control designed to provide it with reasonable assurance that firm and its personnel comply with professional standards and legal and regulatory requirements. It further requires that firm's business strategy is subject to overriding requirement of firm to achieve quality in all engagements.

However, in the given situation, commercial considerations seem to be overriding factor. The managing partner of firm is close associate and family friend of promoter. The matter should have been brought to knowledge of firm in accordance with requirements of SQC 1 as it involves issue of independence of managing partner of the firm with respect to proposed audit engagement. **Further, matters of inquiries from regulators and resignation of previous auditor raise question about integrity of the proposed client.** SQC 1 further requires firm to consider before acceptance of an engagement that client does not lack integrity. All these factors need to be taken into consideration before accepting engagement. **Overall, such a situation reflects lack of proper establishment of quality control framework at top of the firm.** Following considerations should be taken into account while upholding quality of firm:-

- (i) The firm assigns its management responsibilities so that commercial considerations do not override quality of work performed
- (ii) The firm's policies and procedures in relation to its personnel are designed to demonstrate its overriding commitment to quality.
- (iii) The firm devotes sufficient resources for development and documentation of its quality control policies and procedures.
- (iv) A firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about integrity of Client, promoters and key managerial personnel, competence (including capabilities, time and resources) to perform engagement and compliance with ethical requirements.

PROUD STUDENTS OF CA SJ



Ruth Clare Dsilva



Kalpesh Jain



Shikha Jain



Ramyashree



Akshat Goyal



Anjali Goyal



Yash Tapadiya



Subham Kumar Singh



Piyush Aggarwal



Vinamra Kabra



Farhan Ur Rehman



Priyansh Changoiwala



Vandita Sonkiya



Sahil Samnani



Om Akhani



Sanyukta Bhattad



Hrithik Singhal



Ashish Sharma



Kunal Rekhathe



Romi Gambhir



Ayush Thacker



Palash Mittal



Ruchit Vakharia



Aayush Khutale



Gaurav Agrawal



Raghav Rathi



Sandeep Varma



Sagar Parwani



Riya Jain



Priya Jain



Dhavnil Shah



Prashant Goyal



Karan Kothari



Amogh Ajay Doshi



Sidharth Choraria



Madhukar Kumar



Agam Agrawal



Arun Borana



Shreyas Surve



Aman Goyal



Rakshita Khandelwal



Gaurav Garg



Dishant Solanki



Tanu Jindal



Anshul Rathi



Advait Gajare



Shubham Agrawal



Shubham Mehta



Ujjwal Jajodia



Vivek Batavia



Mustafa Kutub



Param Kaur



Anmoldeep Singh



Harshita Senani



Ansh Agrawal



Makarand Jain



Sakshi Singh



Naina Agrawal



Famina Jain



Bhavika Sarda



Disha Singhal

AIRs in Last 3 attempts!



NEW CA FINAL MAY 24 & ONWARDS

**LATEST BATCH
100% AS PER
NEW COURSE**

FR

REGULAR



275
HOURS

89
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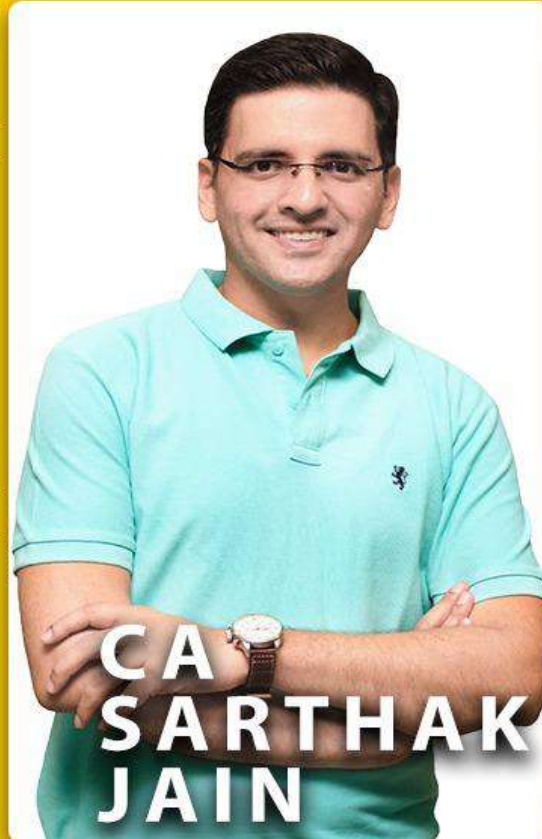


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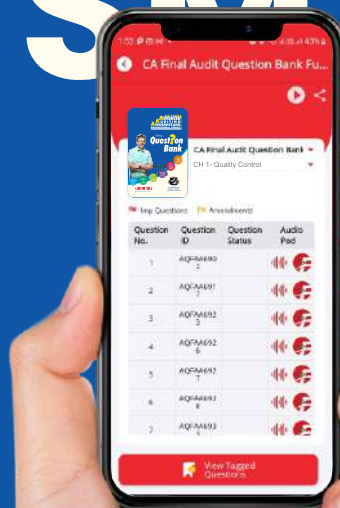
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