

CA FINAL ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS NEW COURSE



CA. Sarthak Niraj Jain

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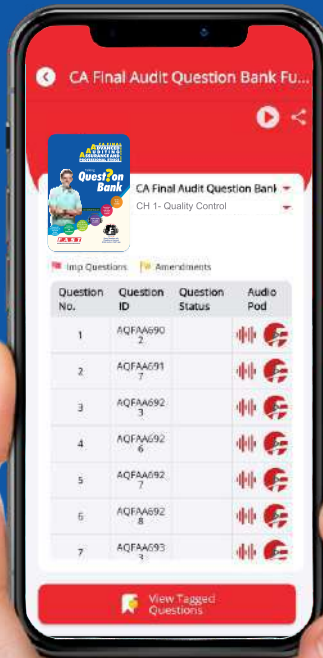
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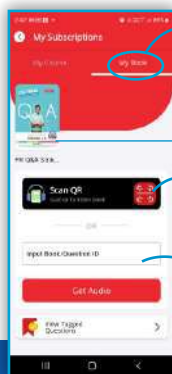
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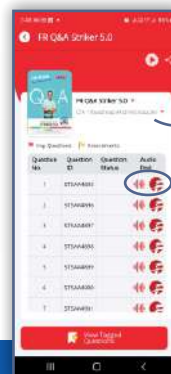
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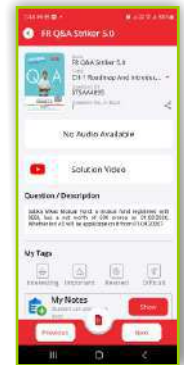
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CA FINAL ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Question Bank

CA. Sarthak Niraj Jain

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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.  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”.

14. Engagement File


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)**

Ans.  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.

15. Difference of Opinion


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)

Ans.  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.

15A. EQCR: Eligibility & Approach

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)**

Ans.  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.

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.

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.

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.

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.

CA FINAL ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS NEW COURSE

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Chapter heading

19 CHAPTER		PROFESSIONAL ETHICS & LIABILITIES OF AUDITORS
PROFESSIONAL ETHICS		
Q.N.	QUESTIONS	ANS.
1.	Mr. Abbas is a practicing CA & Mr. Mastan is a practicing advocate representing matters in the court of law. Abbas and Mastan decided to help each other in the matters involving their professional expertise. Accordingly, Mr. Abbas recommends Mr. Mastan in all litigation matters in the court of law and Mastan consults Abbas in all matters relating to finance and other related matters, which comes to him in arguing various cases. Consequently, they started sharing profits of their professional work. Is Mr. Abbas liable for professional misconduct? a) Guilty under Clause (2) of Part I of the First Schedule b) Guilty under Clause (3) of Part I of the First Schedule c) Not guilty as Regulation 53-A allows such sharing d) None of the Above	(c)
2.	Kamalnath, a practicing Chartered Accountant gave 50% of the audit fees received by him to SC India, who was not a Chartered Accountant, under the nomenclature of office allowance and such an arrangement continued for a number of years. a) Guilty under Clause (2) of Part I of the First Schedule b) Not guilty as he is giving it as an office allowance c) Guilty under Clause (3) of Part I of the First Schedule d) None of the Above	(a)
3.	Mr. Rahul Gandhi, who passed his CA examination of ICAI on 18th July 2015 had started his practice from 16th August 2015. On 17th August 2015 one candidate approached him for articleship. Mr. Rahul decided to give her 1% profits of his CA firm in addition to monthly stipend. She agreed to take both 1% of profits and prescribed stipend. The ICAI had sent a letter to Mr. Rahul objecting the payment of 1% profits. Mr. Rahul replied stating that sharing 1% profits is over and above the stipend, to help the articled clerk to overcome her financial crisis. Is Mr. Rahul liable for professional misconduct? a) Not Guilty b) Guilty for sharing fees of professional business. c) Guilty for paying excess stipend d) Both (b) and (c) <small>(ICAI MCQ Booklet)</small>	(b)
4.	Mr. Paul Walker Singh a Chartered Accountant in practice as a proprietor died in a road accident. His widow sold the practice of her husband to another Chartered Accountant in practice for ₹ 5 lakhs. The price also included right to use the firm name of Paul Walker Singh. a) Widow doesn't have any right to sale the Practice b) Widow can sale the Practice as Clause (2) of Part I to the First Schedule permits sale of Goodwill to another partner for fixed consideration c) Widow cannot sale the practice for a consideration hence such sale is void d) This is not a sale of goodwill hence not allowed	(b)

Hide with Book mark while solving

Answer key

Reference given of Questions taken from ICAI material



IDEA BEHIND THIS DESIGN

While making this book we researched and found that keeping things in single page makes it more convenient and time saving and we were impressed by this idea. That's why we designed this book in such a way that the answers are given beside the question so that you can check the correct answer without any hassle to turn tons of pages back and forth again and again and you know what! This is the key to save the time and will make you fall in love with MCQs with SJ. We have also added ICAI MCQs with references given at the end of question.

"Happy MCQing"

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CA FINAL

ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

CA. Sarthak Niraj Jain

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1

CHAPTER

QUALITY CONTROL

INTEGRATED CASE SCENARIO

Case CA Mritunjay is statutory auditor of a listed company engaged in providing services relating to “tourism sector”. He is practicing in sole-proprietorship capacity. The audit of above said listed company was conducted by his proprietary firm and report was issued for year 2021-22. Subsequently, audit report was selected by NFRA to oversee quality of service and compliance with Standards. Necessary information was called from auditor towards above objective.

It was required of him to produce audit working papers to show that audit was carried out in accordance with Standards on auditing. Details of the audit plan and details of risk assessment procedures carried out to identify and assess risk of material misstatement in financial statements were called. It was also required to show how response to assessed risks was designed and implemented and communicated with those charged with governance.

Audit working papers sent by him through email included procedures on how some balances in financial statements were verified. Also included in working papers were procedures performed by him relating to verification of inventories, trade receivables and trade payables. The working papers sent by him to the authority did not include details on audit plan and manner of identifying and assessing risks of material misstatement. On being asked to respond, it was reasoned by him that audit was properly planned and required procedures were carried out in relation to material items on test check basis.

It has been further clarified by him to the authority that audit was carried out in accordance with Standards and it was practically not feasible for a firm of small size to make a detailed audit plan. It was also put on record with authority that he had assessed risk of material misstatement to be low based upon his understanding of the company. He has further reasoned that assessing risks is a matter of professional judgment. Representation has also been made by him stating that communications as necessary were made orally with those charged with governance.

It was also pointed out to him that engagement quality control review was not carried out. He has answered that no contentious matter arose during the course of audit and therefore, no need was felt to carry out this exercise.

Attention was also drawn to the fact that financial statements of company were required to be prepared on basis of Ind-AS. However, at some places in notes to accounts, reference is made to accounting standards which are not applicable to the company. These errors have been attributed to data feeding entry errors by junior staff. (Study Material)

MCQs Based upon above, answer the following questions: -

1. It has been contended by auditor that audit was properly planned. He has further stated that it was practically not feasible for firm of small size to prepare a detailed audit plan. Which of the following views is most appropriate in this regard?
 - (a) Audit was, in fact, planned as evidenced by auditor’s submissions.
 - (b) Although auditor has no record of audit plan, it does not affect compliance with SA 220.
 - (c) Since auditor has no record of audit plan, it goes on to show non-compliance with SA 220.
 - (d) Audit was, in fact, planned as evidenced by auditor’s submissions. However. There is an exemption for small CA firms doing away with cumbersome documentation in relation to audit plan.
2. The auditor has reasoned that risk of material misstatement has been assessed to be low based upon his understanding of the company and it is a matter of professional judgment. Identify the most appropriate statement from below in this regard.

	<p>(a) Assessing risks of material statement is a matter of professional judgment. It cannot be demanded from him how his judgment was arrived at.</p> <p>(b) Although auditor has not submitted record of how risk of material misstatement was arrived at, it does not affect compliance with SA 220.</p> <p>(c) Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220.</p> <p>(d) Such a query, itself, is outside the mandate of authority.</p>	
3.	<p>Considering auditor's point of view regarding engagement quality control review, identify the most appropriate statement from below: -</p> <p>(a) Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220.</p> <p>(b) Engagement quality control review is optional in such type of engagement. Therefore, question of not following SA 220 does not arise.</p> <p>(c) No contentious matter arose during the course of engagement. Therefore, question of not following SA 220 does not arise in respect of engagement quality control review.</p> <p>(d) Engagement quality control review is dependent upon benchmarks established under SQC 1. If those bench marks are satisfied, such a review is necessary.</p>	
4.	<p>Considering auditor's reply regarding errors in data feeding entry by junior staff in relation to accounting standards, which of the following statements is proper?</p> <p>(a) Such are examples of clerical errors encountered during preparation of reports. There is no question of non-compliance with SA 220.</p> <p>(b) Such are examples of clerical errors encountered during preparation of reports. There is no effect on auditor's opinion and consequently question of non-compliance with SA 220 does not arise.</p> <p>(c) Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.</p> <p>(d) Such are examples of serious lapses on part of auditor. However, these are not related to compliance with SA 220.</p>	
5.	<p>On your overall reading of the case study, which of the following statements appears to be true?</p> <p>(a) The firm has an effective system of quality control described in SQC 1. Audit engagement has also been performed in accordance with SA-220.</p> <p>(b) The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220.</p> <p>(c) SQC 1 is not applicable in the case. Audit engagement has not been performed in accordance with SA 220.</p> <p>(d) SQC 1 is not applicable in the case. Audit engagement has been performed in accordance with SA 220.</p>	

ANSWERS

1.	(b)	2.	(a)	3.	(c)	4.	(c)	5.	(d)
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SQC 1, SA 220
QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS

1.	A basic objective of a CA firm is to provide professional services that conform with professional standards. Reasonable assurance of achieving this basic objective is provided through a) A system of peer review. b) Continuing professional education. c) A system of quality controls. d) Compliance with generally accepted reporting standards.	(c)
2.	The examination by CA S of a CA Firm’s auditing practices to ascertain compliance with its quality control system by ICAI is: a) Compliance audit b) Examination c) Peer review d) Quality control audit	(c)
3.	The firm is to be staffed by personnel who have attained and maintained the technical standards and professional competence required to enable them to fulfill their responsibilities with due care is the objective of what quality control policy? a) Professional Requirements b) Skills and Competence c) Assignment d) Delegation	(b)
4.	Which of the following is not an element of professional requirements as prescribed by quality control policies for an audit firm? a) Independence b) Integrity c) Confidentiality d) Prudence	(d)
5.	It involves informing assistants of their responsibilities and the objectives of the procedures they have to perform: a) Supervision b) Monitoring c) Directing d) Consultation	(c)
6.	Which of the following is not required by the auditing standards that states that due professional care is to be exercised in the performance of the audit? a) Observance of the standards of field work and reporting b) Critical review of the audit work performed at every level of supervision c) Degree of skill commonly possessed by others in the profession. d) Responsibility for losses because of errors of judgment	(d)
7.	A CA, while performing an audit, strives to achieve independence in appearance in order to a) Reduce risk and liability. b) Comply with the generally accepted standards of field work c) Become independent in fact. d) Maintain public confidence in the profession.	(d)
8.	Information which assists the auditor in accepting and continuing of relationship with the client as per SA 220. a) Behavior of employees of the entity. b) Integrity of principal owners. c) Qualification of the Auditor. d) Size of the entity.	(b)
9.	Objectives of SQC 1 is to establish & maintain a system of quality control to provide reasonable assurance that: a) The firm comply with relevant standards and regulatory and legal requirements, b) Personnel comply with relevant standards and regulatory and legal requirements, c) Reports issued are appropriate in the circumstances d) All of the above	(d)

10.	<p>Reasonable assurance in the context of this SQC means</p> <p>a) A high, but not absolute, level of assurance b) A high, and absolute, level of assurance c) A low, but absolute, level of assurance d) A high and 100 % assurance</p>	(a)
11.	<p>Internal culture recognizing quality control includes compliances with:</p> <p>a) Professional Standards b) Quality control policies of the firm c) Laws and Regulations d) All of the above</p>	(d)
12.	<p>Elements of a system of quality control includes:</p> <p>a) Leadership Responsibilities b) Relevant Ethical Requirement c) Independence d) All of the above</p>	(d)
13.	<p>PMP Ltd. is an associate of PMP INC, a company based in Kuwait. PMP Ltd is listed in India having its corporate office at Assam. The company's operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures. The company's auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2023. For the financial year ended 31 March 2024, the auditors made some changes in their audit team. While the audit partner remained the same, the field in charge has been replaced, as the field in charge who was engaged in the audit of the financial statements for the year ended 31 March 2023 has left the firm. The audit team has a new person as external quality control reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (chartered accountancy) final exams. The changes were made on the basis of the consideration that the firm has enough experience of engagement with this client. The audit team commenced the work for audit of the year ended 31 March 2024 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understanding of the client and after assessing the comments of the EQCR did not find those relevant. The audit partner without concurrence of the EQCR finalized the audit and issued the audit report. In the given situation, please advise which one of the following is correct?</p> <p style="text-align: right;">(ICAI-MCQs Booklet)</p> <p>a) The changes in the audit team were not appropriate except for the field in-charge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI). b) The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner. c) The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report. d) EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR.</p>	(a)
14.	<p>VKPL & Associates, a firm of Chartered Accountants, have been operating for the last 5 years having its office in Gurgaon. The firm has staff of around 25 persons with 3 partners. The firm has been offering statutory audit, risk advisory and tax services to its various clients. The major work of the firm is for taxation services. The audit partners also discussed that the firm needs to work significantly to improve the quality of the services they offer and that would also help the firm to grown its business. Considering this objective, the firm started training programmes for the staff which were made mandatory to be attended.</p>	(d)

During one of the training programmes on quality, a topic was discussed regarding the information that should be obtained by the firm 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.

It was explained that the following points may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate (as per SA 220):

- (I) the integrity of the principal owners, key management and those charged with governance of the entity;
- (ii) the qualification of all the employees of the entity;
- (iii) whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources;
- (iv) the remuneration offered by the entity to its various consultants;
- (v) whether the firm and the engagement team can comply with relevant ethical requirements; and
- (vi) significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

We would like to understand from you which of the above mentioned points are relevant for the topic under discussion or not? (RTP-Nov-2019, ICAI-MCQs Booklet)

- a) i, ii, iv and v. b) ii, iv, v and vi.
- c) iii, iv, v and vi. d) i, iii, v and vi.

15.	<p>AK & Co., a firm of Chartered Accountants, have been operating for the last 6 years. Due to the quality of service offered by the firm, it has made its name and is quite renowned especially in southern India where its head office is located. The firm has a staff size of 240 including graduates, Chartered Accountants, management consultants, company secretaries and lawyers. The firm has 3 branches other than head office at Bangalore, Chennai and Pune. The firm has got many clients for statutory audit over the period and ensures that to maintain the quality of work, proper planning is done by each team before starting any engagement. One of the engagement team, picked up for statutory audit of sun private ltd, was involved in the process of planning of audit for the financial year ended 31 March, 2024. The audit for the financial year ended 31 March, 2023 was conducted by a different engagement team. However, the engagement team of sun private ltd for the current year has got the industry experience. The audit team is confused during the planning work and would like to have your views on following points. Please advice by answering one of them. (ICAI-MCQs Booklet)</p> <ul style="list-style-type: none"> a) The engagement team should consult the previous year's engagement team during the course of their planning. b) The engagement team should be independent and hence cannot consult the previous year's engagement team during the course of their planning. c) The engagement team needs to maintain confidentiality and hence cannot consult the previous year's engagement team during the course of their planning. d) Only the Partner who is going to sign the audit report may consult the previous year's audit team. 	(a)
16.	<p>Rim Private Ltd. is engaged in the business of manufacturing of steel having annual turnover of INR 10,000 Crores. The company is very capital intensive and has its plants at two locations – Mohali and Hosur. During the year ended 31 March, 2024, the company carried out a detailed physical verification of its property, plant and equipment and also reassessed their useful lives by engaging a consultant. The consultant submitted its report to the management on 21 April, 2024. The statutory auditors of the company started their audit work from May 2024 and when this information was given to them regarding the physical verification and the reassessment of the</p>	(b)

useful lives of property, plant and equipment, the auditors told the management that the consultant should have submitted its report to the auditors also independently. Further, in the absence of this direct communication of the report of the consultant to the auditors, the audit team would have to review the work of the consultant which is not efficient but it cannot be avoided now.

Management did not agree with both the points of the auditors that the consultant should have shared report with the auditors directly and that the auditors need to review the work of the consultant. The management would like to have your views on this matter.

(ICAI-MCQs Booklet)

- a) The view of the management seems to be correct because there is no such requirement that any consultant of the company should share his report directly with the auditor. Also when the consultant has already submitted a detailed report, no further review is required on that.
- b) Both the management and auditors are not correct. The auditor is not supposed to receive their report directly. Further, the auditor needs to review the work of the consultant irrespective of the fact whether he received the report directly or not.
- c) The auditor's requirements are reasonable because he carries duty in respect of audit of financial statements and by not getting report directly from the consultant he would not know whether it belongs to that consultant or not. And now only because of this lack of proper communication the auditor would have to review the work of the consultant
- d) Both management and auditors should find a solution to this problem. The management may request the consultant to send the report to the auditor directly now. On the basis of the same, the auditor can avoid unnecessary procedure related to review of report of the consultant.
17. What is the maximum recommended time limit within which assembly of engagement files should be completed after the engagement reports have been finalized? (ICAI) (d)
- a) 30 days b) 65 days
c) 45 days d) 60 days
18. At least, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code. (ICAI) (b)
- a) Half yearly b) Annually
c) Once in two years d) Once in three years
19. What is excluded from the definition of "Firm"? (ICAI) (c)
- a) Sole practitioner b) Partnership
c) Corporation d) Other entity of professional accountants

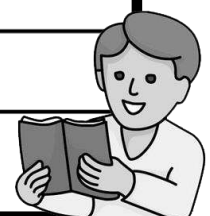
OTHER TOPICS OF THE CHAPTER

1. A basic objective of a peer review of practice unit is to ensure - (d)
- a) Compliance of technical, Professional and ethical standard as applicable.
b) Have in place proper systems including documentation.
c) Compliance with generally accepted reporting standards.
d) a and b.
2. Technical, professional and ethical standards includes following, except: (d)
- a) Accounting standard. b) Engagement and quality control standard
c) Guidance notes on related services. d) Institutes Journal.
3. An audit firm is the subject of the peer review, please indicate the maximum number of years in the review cycle: (c)
(MTP-May-2019)
- a) 1 year b) 3 years
c) 4 years d) 5 years

4. **Mr Q, a peer reviewer appointed for the firm ABC & Co. For the period under review starting from 2017-18 to 2019-2020 decided to select 5 samples of audit engagement. All samples were appropriate, and no deviations or issues were identified in the review with respect to those samples. Post that, Mr Q reviewed the training & development program for the staff, article assistant and other assistant and he found that the training and development program were not appropriate and rather out dated. The staff, article assistant and other assistant placed on the audits were not trained related to the specific matters of the industries to which the audit client belonged. As a result, the peer reviewer included a comment in the preliminary report regarding training programmes for staff (including articled assistant and other audit assistants) concerned with assurance functions, including availability of appropriate infrastructure. Upon receiving such preliminary report, the practice unit raised concerns that the said comment of peer reviewer is related to the matter which is out of scope of the peer review. Kindly decide whether the comment of peer reviewer on the training programmes for staff (including articled assistants and other audit assistants) concerned with assurance functions is within the scope of peer review or not? (MTP-Dec-2021)** (b)
- a) The Review shall only cover Compliance with Technical, Professional and Ethical Standards, Quality of reporting, Systems and procedures for carrying out assurance services, Compliance with directions and / or guidelines issued by the Council to the Members and Compliance with directions and / or guidelines issued by the Council in relating to article assistants and / or audit assistants. Hence the comment of peer reviewer on the training programmes for staff (including articled and other assistants) concerned with assurance functions is not within the scope of peer review.
 - b) The Statement defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements. Hence the comment of peer reviewer on the training programmes for staff (including articled and other assistants) concerned with assurance functions is within the scope of peer review.
 - c) The Statement of Peer Review makes it clear that the peer review, "does not seek to redefine the scope and authority of the Technical, Professional and Ethical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards but only seeks to ensure that they are implemented, both in letter and spirit. Therefore, it is evident that the scope of peer review is restricted to the compliance Technical, Professional and Ethical Standards
 - d) The scope of Peer Review is decided by the Practice Unit and Peer Reviewer Mutually and hence if the Practice Unit is contending that it is out of scope then it should be considered as out of scope.



Important Notes



2
CHAPTER

**GENERAL AUDITING PRINCIPLES AND
AUDITORS RESPONSIBILITIES**

INTEGRATED CASE SCENARIO

Case CA. Biswajit is conducting audit of "Have More Limited". He is auditor of the company since last three years and has found nothing unusual in operations and financial statements of the company. The company has many locations where substantial inventories are stored and lying. During his fourth year stint, he finds that inventory quantities have risen disproportionately as compared to past few years trends. He has assessed existence of risk of material misstatement due to fraud.

The company has revenue of ₹ 750 core during the year. He has deeply verified all aspects pertaining to revenue recognition of the company and has concluded that there is no risk of material misstatement due to fraud related to revenue recognition.

During the course of audit, it has come to his knowledge that company is also required to install online air pollution control monitoring systems in its plant as mandated in state pollution control legislation and regulations. Non-installation of such online air pollution control monitoring systems may lead to fines and even sealing of plant.

While verifying pay roll data of the company, it has come to notice that provisions of law preventing employment of child labour are not being adhered to and company is employing child labour in flagrant violation of rules in this regard. The company also exports part of its turnover and matter has gone unnoticed in compliance audits carried out by agencies of overseas buyers.

(Study Material)

MCQs On the basis of above, answer the following questions: -

1. **Considering description of disproportionate rise in inventory quantities, which of the following is not likely to be an appropriate response to outlined assessed risk of material misstatement due to fraud?**
 - (a) Observing inventory counts at all locations at same date by employing necessary resources.
 - (b) Observing inventory counts at certain locations after prior intimation.
 - (c) More rigorous examination of packed items during observing inventory count process.
 - (d) Observing inventory count at end of reporting period to minimize risk of manipulation.
2. **It has been concluded by auditor that there is no risk of material misstatement due to fraud related to revenue recognition. Which of the following statements is most appropriate in this respect?**
 - (a) The auditor needs to document reasons for arriving at conclusion that there is no risk of material misstatement due to fraud related to revenue recognition.
 - (b) Identified and assessed risks of material misstatement due to fraud need to be documented. Since no risk of material misstatement due to fraud pertaining to revenue recognition was identified, separate documentation in this respect is not needed.
 - (c) The auditor needs only to document that no risk of material misstatement due to fraud relating to revenue recognition was identified.
 - (d) The auditor needs to give reference to discussion among engagement team members to document that no risk of material misstatement due to fraud relating to revenue recognition was identified.
3. **Which of the following statements most appropriately describes responsibilities of auditor in relation to compliance with state pollution control legislation and regulations?**
 - (a) Sufficient appropriate evidence needs to be obtained by auditor to verify compliance.
 - (b) Physical verification of workability of such systems is required from an auditor.

	<p>(c) Only inquiry of company management personnel and review of correspondence with regulatory authorities are suffice to verify compliance.</p> <p>(d) Only physical verification of workability of such systems and review of correspondence with regulatory authorities are suffice to verify compliance.</p>	
4.	<p>The auditor has observed non-compliance of law prohibiting employment of child labour. Which is the most appropriate course of action for him to proceed in this matter?</p> <p>(a) He should obtain further information to evaluate the possible effect on financial statements.</p> <p>(b) He must report the matter to concerned government department.</p> <p>(c) He should obtain further information to evaluate the possible effect on financial statements. Besides, he should evaluate implications of non-compliance for audit risk assessment.</p> <p>(d) He should express a modified opinion in audit report.</p>	
5.	<p>Which of the following statements is most appropriate about documentation of noncompliance with laws and regulations by an auditor in context of SA 250?</p> <p>(a) Instances of identified non-compliance with laws and regulations need to be documented.</p> <p>(b) Instances of suspected non-compliance with laws and regulations need to be documented.</p> <p>(c) Instances of non-compliance with laws and regulations finally determined by Courts of law need to be documented.</p> <p>(d) Instances of identified as well as suspected non-compliance with laws and regulations need to be documented.</p>	

ANSWERS

1.	(c)	2.	(a)	3.	(d)	4.	(a)	5.	(b)
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SA - 240

THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

1.	<p>The term "fraud" refers to an intentional act by one or more individuals among Management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Which statement is correct regarding fraud?</p> <p>a) Auditors make legal determinations of whether fraud has actually occurred.</p> <p>b) Misstatement of the financial statements may not be the objective of some frauds.</p> <p>c) Fraud involving one or more members of management or those charged with governance is referred to as "employee fraud".</p> <p>d) Fraud involving only employees of the entity is referred to as "management fraud".</p>	(b)
2.	<p>Fraudulent financial reporting involves intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users. Fraudulent financial reporting least likely involve</p> <p>a) Deception such as manipulation, falsification, or alteration of accounting records or supporting documents from which the financial statements are prepared.</p> <p>b) Misrepresentation or intentional omission from, the financial statements of events, transactions or other significant information.</p> <p>c) Intentional misapplication of accounting principles relating to measurement, recognition, classification, presentation, or disclosure.</p> <p>d) Embezzling receipts, stealing physical or intangible assets, or causing an entity to pay for goods and services not received.</p>	(d)

3.	<p>The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error because:</p> <p>a) The effect of fraudulent act is likely omitted in the accounting records. b) Fraud is ordinarily accompanied by acts specifically designed to conceal its existence. c) Fraud is always a result of connivance between or among employees. d) The auditor is responsible to detect errors but not fraud.</p>	(b)
4.	<p>In comparing management fraud with employee fraud, the auditor's risk of failing to discover the fraud is</p> <p>a) Greater for employee fraud because of the higher crime rate among blue collar workers. b) Greater for management fraud because of management's ability to override existing internal controls. c) Greater for employee fraud because of the larger number of employees in the organization. d) Greater for management fraud because managers are inherently smarter than employees.</p>	(b)
5.	<p>Which of the following best describes what is meant by the term "fraud risk factor"?</p> <p>a) Factors whose presence indicates that the risk of fraud is high. b) Factors whose presence often has been observed in circumstances where frauds have occurred. c) Factors whose presence requires modifications of planned audit procedures. d) Reportable conditions identified during an audit.</p>	(a)
6.	<p>Fraud risk factors relating to management's characteristics and influence over the control environment</p> <p>a) Pertain to management's abilities, pressures, style, and attitude relating to internal control and the financial reporting process. b) Involve the economic and regulatory environment in which the entity operates. c) Pertain to the nature and complexity of the entity and its transactions, the entity's financial condition, and its profitability. d) Involve the lack of controls designed to prevent or detect misappropriation of assets.</p>	(a)
7.	<p>The following are examples of fraud risk factors relating to industry conditions, except</p> <p>a) There is a high turnover of management, counselor Board members. b) A high degree of competition or market saturation, accompanied by declining margins. c) A declining industry with increasing business failures and significant declines in customer demand. d) Rapid changes in the industry, such as high vulnerability to rapidly changing technology or rapid product obsolescence.</p>	(a)
8.	<p>Which of the following is most likely an example of fraud risk factor relating to management's characteristics and influence over the control environment?</p> <p>a) There is a strained relationship between management and the current or predecessor auditor. b) Inability to generate cash flows from operations while reporting earnings and earnings growth. c) Significant related party transactions which are not in the ordinary course of business. d) Significant, unusual or highly complex transactions (especially those close to year-end) that pose difficult questions concerning substance over form.</p>	(c)
9.	<p>Examples of fraud risk factors relating to susceptibility of assets to misappropriation include the following, except</p> <p>a) Large amounts of cash on hand or processed. b) Inventory characteristics, such as small size combined with high value and high demand. c) Easily convertible assets, such as bearer bonds, diamonds or computer chips. d) Lack of appropriate management oversight.</p>	(d)
10.	<p>The auditor may encounter circumstances that, individually or in combination, indicate the possibility that the financial statements may contain a material misstatement resulting from fraud or error. These circumstances include the following, except</p>	(d)

	<p>a) Unrealistic time deadlines for audit completion imposed by management. b) Conflicting or unsatisfactory evidence provided by management or employees. c) Information provided unwillingly or after unreasonable delay. d) Transactions recorded in accordance with management's general or specific authorization.</p>	
11.	<p>If the auditor believes an indicated fraud or error could have a material effect on the financial statements, the nature, timing and extent of the procedures to be performed depends on the auditor's judgment as to</p> <p>a) The type of fraud or error. b) The likelihood that a particular type of fraud or error could have a material effect on the financial statements. c) The likelihood of their occurrence. d) All of the above.</p>	(d)
12.	<p>The auditor should document</p> <p>a) Fraud risk factors identified as being present during the auditor's assessment process. b) The auditor's response to fraud risk factors identified. c) Both a and b. d) Neither a nor b.</p>	(c)
13.	<p>The auditor least likely obtains written representations from management that the management:</p> <p>a) Acknowledges its responsibility for the implementation and operations of accounting and internal control systems that are designed to prevent and detect fraud and error. b) Believes the effects of those uncorrected financial statement misstatements aggregated by the auditor during the audit are material, both individually and in the aggregate, to the financial statements taken as a whole. c) Has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity. d) Has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.</p>	(b)
14.	<p>Communication of a misstatement resulting from fraud, or a suspected fraud, or error to the appropriate level of management on a timely basis is important because it enables management to take action as necessary. Ordinarily, the appropriate level of management is</p> <p>a) At least equal to the level of the persons who appear to be involved with the misstatement or suspected fraud. b) At least one level above the persons who appear to be involved with the misstatement or suspected fraud. c) The audit committee of the Board of directors. d) The head of internal audit department.</p>	(b)
15.	<p>While auditing accounts of a public limited company for the year ended 31st March 2014, an auditor found out an error in the valuation of inventory, which affects the financial statement materially -</p> <p>a) Auditor is required to communicate with TCWG to correct the same. b) He should qualify the Audit Report since it affects the conclusion of the auditor. c) Auditor should mention this matter in his final audit report in bold italic letters. d) Auditor should apply additional audit procedures to detect the fraud or misstatements.</p>	(d)
16.	<p>In the course of audit of Dhadak Ltd. you suspect the management has indulged in fraudulent financial reporting? The possible source of such fraudulent financial reporting is</p> <p>a) Causing entity to pay for goods and services not received. b) Altering records and terms related to significant and unusual transactions. c) Recording of genuine journal entries, during the accounting period. d) All of the above.</p>	(b)

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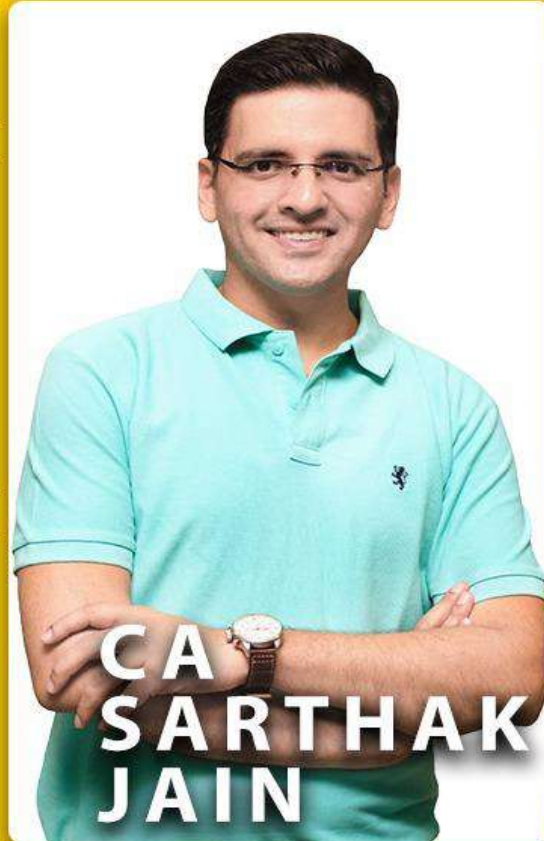


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