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SCAN FOR AMENDMENTS
AND UPDATES

<http://tiny.cc/auditamendments>

AUTHOR

CA. SARTHAK NIRAJ JAIN

F.A.S.T.
first attempt success tutorials



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

OBJECTIVE

The firm should **establish a system of quality control** designed to provide it with **reasonable assurance** that the **firm and its personnel**

- (a) **Comply with professional standards and regulatory and legal requirements**, and that
- (b) Reports issued by the firm or engagement partner(s) are **appropriate** in the circumstances.

APPLICABILITY

This SQC applies to **all firms**. The nature of the **policies and procedures** developed by individual firms to comply with this SQC will **depend on various factors** such as the size and operating characteristics of the firm, and whether it is part of a network.

DEFINITION

Engagement documentation

The record of **work performed, results obtained, and conclusions the practitioner reached** (terms such as “working papers” or “work papers” are also sometimes used). The **documentation** for a specific engagement is assembled in an engagement file;

Engagement team

All personnel **performing an engagement**, including any experts contracted by the firm in connection with that engagement. The term “engagement team” **excludes** individuals within the client’s IAF who provide direct assistance on an audit engagement when the external auditor complies with the requirements of SA 610.

Listed entity

An entity whose shares, stock or debt are **quoted or listed on a recognized stock exchange**, or are traded under the regulations of a recognized stock exchange or other equivalent body.

Partner

Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

Personnel

Partners and staff.

Suitably qualified external person

An individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.

Refer SA 220 for definition of

Engagement partner, Engagement quality control review, Engagement quality control reviewer, Firm, Inspection, Monitoring, Network Firm, Network

SYSTEM OF QUALITY CONTROL

The firm's system of quality control should include policies and procedures addressing each of the following elements. This should be documented and circulated to personnel if firm obtain their feedback

- (a) Leadership responsibilities for quality within the firm.
- (b) Ethical requirements.
- (c) Acceptance and continuance of client relationships and specific engagements.

- (d) Human resources.
- (e) Engagement performance.
- (f) Monitoring.

LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN THE FIRM

Aim to develop a culture that quality is essential in performing engagement

- ▶ *The firm's CEO or managing partners to assume ultimate responsibility for system of quality control.*
- ▶ *They may be communicated by many ways & documented in internal docs*
- ▶ *They are incorporated in the firm's internal documentation and training materials,*
- ▶ *The firm's business strategy is subject to achieving quality in all the engagements that the firm performs. Accordingly:*
 - (a) *The firm assigns its management responsibilities so that commercial considerations do not override the quality of work performed;*
 - (b) *The firm's policies and procedures addressing performance evaluation, compensation, and promotion with regard to its personnel; and*
 - (c) *The firm devotes sufficient resources for the development, documentation and support of its quality control policies and procedures.*
- ▶ *Person assigned with operational responsibility should have sufficient appropriate experience, ability and authority and responsibility*

ETHICAL REQUIREMENTS

- ▶ *The firm should comply with relevant ethical requirements which include:*



- The firm's policies and procedures should emphasize fundamental principles, further reinforced by:
 - (a) the leadership of the firm,
 - (b) education and training,
 - (c) monitoring, and
 - (d) a process for dealing with non-compliance.

ETHICAL REQUIREMENT - INDEPENDENCE

- ► **Firm, its personnel and, where applicable, others need to:**
 - (a) **Communicate** its independence requirements to personnel & others; and
 - (b) **Identify and evaluate** circumstances and relationships that **create threats** to independence, and to take appropriate action to eliminate or reduce them to an acceptable level by applying safeguards, or withdrawal if required.
- ► **Such policies and procedures should require:**
 - (a) Engagement partners to provide the firm with **relevant information** about client engagements;
 - (b) **Personnel to promptly notify circumstances and relationships** that create a threat so that appropriate action can be taken; and
 - (c) **Accumulate & communicate** information to appropriate personnel so that:
 - (i) They can determine whether they **satisfy independence requirements**;
 - (ii) The firm can **maintain and update**; and
 - (iii) The firm can take appropriate action regarding identified threats.
- ► **In case of breaches of independence requirements policies and procedures should include requirements for:**
 - (a) Personnel to promptly notify the **firm of breaches** of which they become aware;
 - (b) The firm to **promptly communicate identified breaches** of these P&Ps to EP & other relevant personnel
 - (c) **Prompt communication** to the firm if necessary, by the EP and the other individuals of the actions taken to resolve the matter, so that the firm can determine whether it should take further action. Atleast **annually**, firm should obtain written confirmation of compliance of its policies and procedures on independence from all firm personnel covered under the Code.

• **Familiarity Threat -**

1. Using same senior personnel in an assurance over prolonged period may impair quality. Hence firm to **set out criteria** for determining the need for safeguards to reduce the familiarity threat to an acceptable level considering
 - (a) nature of engagement and extent of public interest involved and
 - (b) length of service of senior on an engagement
2. **For all audits of FSs of listed entities**, requiring the rotation of the engagement partner after a specified period in compliance with the Code.
For listed entities audits, the EPs should be rotated after a pre-defined period, **normally not more than seven years (except if audit conducted by proprietors)**. Further such auditors are subjected to mandatory peer review

ACCEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC ENGAGEMENTS

The firm should establish **policies and procedures** for the acceptance and continuance of client relationships to **provide it with reasonable assurance** that it will undertake or **continue relationships** and engagements only where:

- (a) **Client integrity** has been considered;
- (b) **Is competent to perform** engagement w.r.t. capability, time & resources; and
- (c) **Can comply** with the ethical requirements (as discussed above)

The firm should obtain such information **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**.

(a) Management Integrity

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

- ▶ The **identity & business reputation** of the client's principal owners, KMP etc.
- ▶ The **nature of the client's operations**, including its business practices.
- ▶ Information concerning the **attitude** of the client's **principal owners**.
- ▶ **Indications** of an inappropriate **limitation** in the scope of work.
- ▶ Client is aggressively concerned with maintaining the **firm's fees** as low as possible.
- ▶ Indications that the client might be **involved in money laundering**.
- ▶ The reasons for the **proposed appointment and non-reappointment** of the firm.

Source of Information on client integrity:

- ▶ Communications with existing or previous providers of professional accountancy services to the client, and discussions with other third parties.

- ▶ Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers.
- ▶ Background searches of relevant databases.

(b) Capabilities, competence, time and resources

The capabilities, competence, time and resources to undertake engagement:

- ▶ Firm personnel have knowledge of relevant industries or subject matters;
- ▶ Have experience with relevant regulatory or reporting requirements;
- ▶ The firm has **sufficient personnel** with the necessary capabilities and competence;
- ▶ **Experts** are available, if needed;
- ▶ Individuals **meeting the criteria and eligibility** requirements; and
- ▶ The firm would be able to **complete the engagement** within the reporting deadline.

OBTAINING INFORMATION CAUSING DECLINE AN ENGAGEMENT

- ▶ Where the firm obtains information that would have caused it to **decline an engagement if that information** had been available earlier, policies and procedures on the continuance of the engagement and the client relationship should include consideration of:
 - (a) **The professional and legal responsibilities** that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
 - (b) The **possibility of withdrawing from the engagement** or from both the engagement and the client relationship.

Policies and procedures on withdrawal from an engagement

- **Discussing** with the appropriate level of the client's MGT and TCWG regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines to **withdrawal** from the engagement or relationship or from both discuss with MGT alongwith reasons.
- **Considering** any professional, regulatory or legal requirement.
- **Documenting significant issues, consultations, conclusions.**

HUMAN RESOURCES

- ▶ **The firm should establish policies and procedures to reasonable assure that:**
- Firm has **sufficient personnel** with the capabilities, competence, and commitment to ethical principles; and

- Responsibility of engagement partner clearly defined & communicated to them.
- Such policies and procedures address the following personnel issues:

Red Bracket indicates content of SA which are relevant but not included in ICAI SM

- | | |
|-------------------------|------------------------------------|
| (a) Recruitment; | (b) Performance evaluation; |
| (c) Capabilities; | (d) Competence; |
| (e) Career development; | (f) Promotion; |
| (g) Compensation; and | (h) Estimation of personnel needs. |

- **Methods to develop capabilities and competence** - Professional education, Continuing professional development, including training, Work experience, Coaching by more experienced staff, for example, other members of the engagement team.
- **Performance evaluation, compensation and promotion procedures** - In particular, the firm:
 - (a) Makes personnel aware of the firm's expectations regarding performance and ethical principles;
 - (b) Provides personnel with evaluation of, and counseling on, performance, progress and career development; and
 - (c) Helps personnel understand among other things, performance quality, adherence to ethical principles, disciplinary action on failure to comply with the firm's policies and procedures.

EP (Engagement Partner)

The firm should establish policies and procedures requiring that:

- (a) The identity and role of the engagement partner are communicated to key members of the client's management and TCWG;
- (b) The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and
- (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner.

Assignment of Engagement Teams (Responsibility assigned to EP)

The capabilities and competence considered when assigning engagement teams, and in determining the level of supervision required, include the following:

- An understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation.
- An understanding of professional standards and regulatory and legal requirements.
- Appropriate technical knowledge, including knowledge of relevant information technology.
- Knowledge of the relevant industries in which the clients operate.

- Ability to apply professional judgment.
- An understanding of the firm's quality control policies and procedures.

ENGAGEMENT PERFORMANCE

- ▶ **The firm should establish policies / procedures to reasonable assure w.r.t.:**
 - Compliance with professional standards.
 - Compliance with laws/ regulations.
 - Engagement partner issues reports that are appropriate in the circumstances.
- ▶ **Consistency in quality is achieved through addressing matters that:**
 - How engagement teams are **briefed on the engagement** to obtain an understanding of the objectives of their work.
 - Processes for **complying** with applicable engagement standards.
 - **Processes** of engagement supervision, staff training etc.
 - **Methods** of reviewing the work performed.
 - Appropriate **documentation** of the work performed & timing & extent of review.
 - Processes to keep **all policies and procedures** current.

Supervision Refer SA → 220

Review Refer SA → 220

CONSULTATION IN DIFFICULT & CONTENTIOUS MATTERS

- ▶ **Consultation** includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter.
- ▶ **Effective consultation** requires that those consulted be given all the relevant facts
- ▶ A firm without appropriate internal resources, may **consider advisory services provided by (a) other firms, or (b) professional and regulatory bodies**
- ▶ The **documentation** of consultations with other professionals involve
 - (a) The issue on which consultation was sought; and
 - (b) The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.
- ▶ The firm should establish **policies and procedures** designed to provide it with **reasonable assurance** that:
 - (a) **Appropriate consultation** takes place on difficult or contentious matters;
 - (b) **Sufficient resources** are available to enable appropriate consultation to take place;

- (c) The **nature and scope** of such consultations are documented; and
- (d) **Conclusions** resulting from consultations are **documented and implemented**.

DIFFERENCES OF OPINION

The firm should establish **policies and procedures** for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer. Conclusions reached should be documented and implemented. The report should not be issued until the matter is resolved.

ENGAGEMENT QUALITY CONTROL (EQC) REVIEW (REQUIRED BEFORE REPORT IS ISSUED)

- The firm should establish **policies and procedures** requiring, for appropriate engagements, an **engagement quality control review** that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. **Such policies and procedures should:**
 - (a) Require an EQC review for **all audits of FSs of listed entities**;
 - (b) Set out criteria against which **all other audits & reviews services** should be evaluated to determine whether an engagement QC review should be performed;
 - (c) Require an **engagement QC review** for all engagements meeting the criteria established in compliance.
- ▶ **Criteria to include engagements other than audits of listed entities include:**
 - The nature of the engagement, whether involves public interest.
 - Unusual circumstances or risks in an engagement or class of engagements.
 - Whether laws or regulations require an engagement quality control review.
- ▶ **The firm should establish policies and procedures setting out:**
 - (a) The nature, timing and extent of an engagement quality control review;
 - (b) Criteria for the eligibility of engagement quality control reviewers; and
 - (c) Documentation requirements for an engagement quality control review.

EQC POLICIES AND PROCEDURES

a Nature, Timing and Extent of the EQC Review

- ➔ **An engagement quality control review ordinarily involves**
 - **discussion** with the engagement partner,
 - **a review of significant judgments made, the FSs or other subject matter information and the report**

- It also involves a **review of selected working papers**.
- The **extent of the review** depends on the complexity & risk
- The review **does not reduce** the responsibilities of the engagement partner.

➔ **Listed entity - Engagement quality control review includes considering:**

- (1) Evaluation of the firm's **independence**
- (2) **Significant risks** identified and the responses
- (3) Judgments made, particularly with respect to materiality and significant risks.
- (4) Whether appropriate consultation taken on matters involving differences of opinion /difficult matters, and conclusions 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, TCWG, regulatory bodies, etc.**
- (7) Whether **working papers** 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 FS of listed entities may, depending on the circumstances, include some or all of these considerations.

b Criteria for the Eligibility of Engagement Quality Control Reviewers (EQCR)

➔ **The firm's policies and procedures to establish their eligibility through:**

- (a) The **technical qualifications** required to perform the role, including the necessary experience and authority; and
- (b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's **objectivity**.

➔ **Maintain the objectivity of the engagement quality control reviewer. For example, the engagement quality control reviewer:**

- (a) Is not selected by the engagement partner;
- (b) Does not otherwise participate in the engagement during the period of review;
- (c) Does not make decisions for the engagement team; and
- (d) Is not subject to other considerations that would threaten the reviewer's objectivity.

➔ **EP consultation with EQCR during engagement** - Permitted, provided the engagement EQCR eligibility to perform the role is not compromised.

➔ **Sole Practitioners** - Suitably qualified external persons may be contracted

➔ **Replacement** - Change Reviewer if objectivity found to be threatened

➔ **Differences of Opinion** - Refer above discussion on it

c

Documentation of the Engagement Quality Control Review

Policies and procedures to require documentation that:

- (a) The **procedures required** by the firm's policies on engagement quality control review **have been performed**;
- (b) The engagement quality control review has been **completed before the report** is issued; and
- (c) 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.

ENGAGEMENT DOCUMENTATION

→ **Completion of the Assembly of Final Engagement Files**

- (a) Establish policies and procedures for Engagement Team to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized.
- (b) **In case of an audit**, for example, such a time limit is ordinarily **not more than 60 days after** the date of the auditor's report.
- (c) **Where two or more different reports are issued** in respect of the same subject matter information of an entity, the **firm's policies and procedures** relating to time limits for the assembly of final engagement files address each report as if it were for a separate engagement.

→ **The firm should establish policies and procedures designed to** maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. Controls to include (a) use of a password, (b) appropriate back-up, (c) procedures for distributing engagement documentation to the team members; and (d) restricting access to it.

→ **Designs and implements controls for engagement documentation to:**

- (a) Enable determination of when, by whom documentation was created, changed or reviewed;
- (b) Protect the integrity of the information at all stages of the engagement;
- (c) Prevent unauthorized changes; and
- (d) Allow access to engagement team and other authorized parties to properly discharge their responsibilities.

→ **Scanned Documentation** - For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:

PROUD STUDENTS OF CA SJ



Ruth Clare Dsilva



Kalpesh Jain



Shikha Jain



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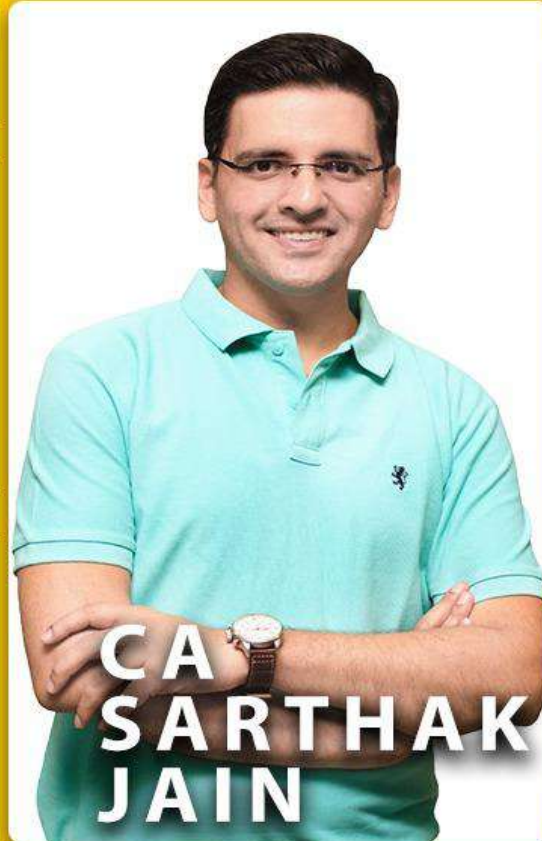


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