

CA FINAL ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS

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- This question bank covers questions of **latest ICAI SM, previous exams, RTPs, MTPs** of ICAI relevant for CA Final with updated answers as per new syllabus.

Author
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CA FINAL ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Question Bank

CA. Sarthak Niraj Jain

Index

| | | | |
|----|---|-----|-------------|
| 1 | Quality Control (SQC1, SA 220) | 24 | 1.1-1.14 |
| 2 | General Auditing Principles and Auditor's Responsibilities (SA 240, 250, 260, 299, 402) | 35 | 2.1-2.22 |
| 3 | Audit Planning, Strategy & Execution (SA 300, 600, 610, 620, 540, 520) | 58 | 3.1-3.34 |
| 4 | Materiality, Risk Assessment and Internal Control (SA 315, 320, 330, 265) | 35 | 4.1-4.22 |
| 5 | Audit Evidence (SA 500, 501, 505, 510, 530, 550) | 48 | 5.1-5.30 |
| 6 | Completion and Review (SA 560, 570, 580, 450) | 28 | 6.1-6.24 |
| 7 | Reporting (SA 700, 701, 705, 706, 710, 720)(S.143, 145 of CA 13 & CARO) | 109 | 7.1-7.74 |
| 8 | Specialised Areas (SA 800, 805, 810) | 14 | 8.1-8.4 |
| 9 | Audit - Related Services (SRS 4400 Series) | 15 | 9.1-9.8 |
| 10 | Review of Financial Information (SRE 2400 Series) | 13 | 10.1-10.6 |
| 11 | Prospective Financial Information and Other Assurance Services (SAE 3400 Series) | 13 | 11.1 - 11.6 |
| 12 | Digital Auditing and Assurance | 24 | 12.1-12.14 |
| 13 | Group Audits | 30 | 13.1-13.22 |
| 14 | A- Special Features of Audit of Bank | 44 | 14.1-14.25 |
| 14 | B- Special Features of Non – Banking Financial Companies (NBFCs) | 23 | 14.26-14.42 |
| 15 | Audit of Public Sector Undertakings | 22 | 15.1-15.14 |
| 16 | Internal Audit | 22 | 16.1-16.12 |
| 17 | Due Diligence, Investigation & Forensic Accounting | 34 | 17.1-17.22 |
| 18 | Sustainable Development Goals (SDG) & Environment, Social & Governance (ESG) Assurance | 19 | 18.1-18.12 |
| 19 | Professional Ethics & Liabilities of Auditors | 198 | 19.1-19.106 |

Chapter 1

Quality Control

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

&

SA -220 Quality Control for an Audit of Financial Statements

1. Continuance of Client Relationship

PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to re-appointment of auditors in the Annual General Meeting, the Company shared the appointment letter with PQR Associates, seeking acknowledgement and acceptance letter. CA. R is the engagement partner and is planning to issue the acceptance letter. During the current financial year, there was a search by the Income Tax authorities on the company, and certain accounting records were seized for verification. Based on the information available on social media, CA. R noted that the promoters' brother, is contemplating to contest in the ensuing elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left PQR Associates and is planning to provide some accounting services to one of the associate companies. PQR Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in automotive sector.

Elaborate the matters to be considered by PQR Associates with respect to acceptance & continuance of client relationships considering the above issues.

(May-2024, MTP-May-2025, SM)

Ans.

Acceptance and Continuance of Client Relationships:

As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," 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.
- Compliance with ethical requirements.

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**.

Further, 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 obtain relevant information from the firm and, where applicable, network firms, to **identify and evaluate circumstances and relationships that create threats to independence**.

In view of the above, PQR Associates should:

- ✓ **follow their firm's policies and procedures** for client acceptance and continuance. This includes **evaluating the integrity of the client, assessing potential risks** associated with the engagement, and **ensuring the firm has the necessary resources and expertise** to perform the engagement effectively. The engagement team, should assess, whether the company is involved in any funding activities, to the political parties, and if so enquire and assess the risks related to such transactions.

- ✓ **communicate clearly** with the client regarding the scope of the engagement, the responsibilities of both parties, and any limitations on the services to be provided. This helps manage expectations and ensures alignment between the firm and the client.
- ✓ **independence and objectivity throughout the engagement.** Any potential threats to independence, such as relationships with the client's affiliates or involvement in political activities by related parties, should be evaluated and mitigated appropriately. Since the senior manager who was on this engagement is providing certain accounting services, to one of the group companies, the engagement partner, should assess, whether it would have any impact on the audit and examine the relevant ethical/independence requirements.
- ✓ **continually monitor the client relationship for any changes or developments** that may impact the firm's ability to provide services effectively. This includes staying informed about significant events such as the income-tax search, changes in client management, or potential conflicts of interest. Since there was an income-tax raid on the organisation, the engagement partner should evaluate the risks of material misstatements, and non-disclosure of tax disputes and liabilities.
- ✓ **ensure that their engagement team possesses the necessary competence and capabilities to perform the audit effectively.** The departure of a senior manager and the need to recruit a replacement with specific industry experience should be addressed promptly to maintain audit quality. Since one of the senior engagement team members has left PQR Associates, the engagement partner should assess, whether he would be in a position to devote adequate time on the engagement or whether to recruit another resource, before commencement of the audit.

2.

Independence of the firm

SS Ltd. is a company listed in India. The Company has appointed M/s Z & Co. as auditors. Mr. Q, a CA has recently joined the firm and has been appointed as the engagement partner for the first time. He understands that it is necessary to ensure the compliance of independence for the audit team as per standard audit practices. But he could not find as such, any policies and procedures available with the firm in documented form.

Why do you think that the firm should have policies and procedures to ensure the independence of the firm in every assignment? How does an engagement partner ensure the compliance of independence? Discuss with reference to relevant SAs. (Nov-2023)

Ans.



As per 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 the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code.

Such policies and procedures should enable the firm to:

- (i) **Communicate its independence requirements** to its personnel and, where applicable, to others subject to them; and
- (ii) **Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action** to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.

Further, 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:

- (i) **Obtain relevant information from the firm and**, where applicable, **network firms**, to identify and evaluate circumstances and relationships that create threats to independence;
- (ii) **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
- (iii) **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.

3. **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. **(SM, 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:

- The identity and business reputation** of the client's principal owners, key management, related parties and those charged with its governance.
- The **nature of the client's operations**, including its business practices.
- 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.
- Whether the client is aggressively concerned with maintaining the **firm's fees as low as possible**.
- Indications of **an inappropriate limitation** in the scope of work.
- Indications that the **client might be involved in money laundering** or other criminal activities.
- 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.

4. **Familiarity Threat**

XYZ and Associates, Chartered Accountants, is an audit firm, giving services to the various types of clients in



the field of auditing, taxation and management consultancy. It has been doing statutory audit of B Ltd., a listed entity since last seven years. CA X who has been the engagement partner for the company since beginning has a complete idea about the strengths and weaknesses of the internal controls of the company. He maintains good relations with the management and those charged with the governance. Every year audit is completed in a cordial and healthy manner. During current year the quality control reviewer insisted to change the engagement partner for the company saying that continuation of same engagement partner poses certain audit risk and threats to the organization and advises to review the firm's policies and procedures in relation to the engagement partner. The management of the company does not wish to change the engagement partner. How do you view the above situation from the view point of quality control system in audit firm in terms of requirements of SQC 1 ? Guide the firm in establishing the policies and procedures in respect of an engagement partner. **(May-2025)**

Ans. Scan QR for Answer.

5. 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 **this conflict** be **resolved**? **(SM)**

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**.

6. 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 It indicates that the firm does not have a suitable policy concerning such disputes required by SQC1. |
| 7. | 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. (SM) |
| 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 . |
| 8. | 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, 2024 got completed on May 1, 2024. The auditor's report was dated May 12, 2024. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2024. Engagement partner had completed his reviews in entirety by May 10, 2024 and signed the report on May 12, 2024. Comment. (MTP-Nov-2018, MTP-May-2024, SM) |
| Ans. |  <p>(i) As per SA 220, "Quality Control for an Audit of Financial Statements"</p> <ul style="list-style-type: none"> 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: <ol style="list-style-type: none"> Determine that an engagement quality control reviewer has been appointed; Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and Not date the auditor's report until the completion of the engagement quality control review. <p>(ii) SA 700, "Forming an Opinion and Reporting on Financial Statements", requires:</p> <ul style="list-style-type: none"> 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 <p>(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, 2024 got completed on May 1, 2024. The auditor's report was dated May 12, 2024. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2024.</p> <p>(iv) Conclusion:- Signing of auditor's report i.e. on May 12, 2024 which is before the completion of review engagement quality control review i.e. May 15, 2024, is not in order.</p> |
| 9. | 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. (RTP-May-2025, MTP-May-2018) |
| Ans. | <p>(i) As per SA 220, "Quality Control for an Audit of Financial Statements":</p> <p>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,</p> |



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.

10.

Withdrawal

SPS & Associates, Chartered Accountants, are statutory auditors of Grec Limited for the last two years. Grec Limited is engaged in the manufacturing and marketing of pharmaceutical goods in India. During the year 2023-24, the company has diversified and commenced providing software solutions in "e-commerce" in India as well as in certain African countries. SPS & Associates, while carrying out the audit, noticed that the company has expanded its operations into a new segment as well as in a new country. SPS & Associates does not possess the necessary expertise and infrastructure to carry out the audit of these 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, MTP-Nov-2024, SM)

Ans.



As per 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 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, SPS & Associates, Chartered Accountants, statutory auditors of Grec Limited for the last two years, came to know that the company has expanded its operations into a new segment as well as in new country. SPS & Associates does not possess the necessary expertise for the same, therefore, SPS & 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 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.

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

11. 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. **(SM)**

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.**

12. 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. **(SM)**

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".

13. 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 ECQR 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 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.

14. 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.:

- The engagement team's **evaluation of the firm's independence in relation to the specific engagement**.
- Significant risks identified** during the engagement **and the responses to those risks**.
- Judgments made**, particularly with respect to materiality and significant risks.
- 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.
- The **significance and disposition of corrected and uncorrected misstatements identified** during the engagement.
- The **matters** to be **communicated** to management and those charged with governance and, where applicable, other parties such as regulatory bodies.
- Whether **working papers selected for review** reflect the work performed in relation to the significant judgments and support the conclusions reached.
- 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.

15. Engagement Quality Control Reviewer & Differences of Opinion

CA Giri is a senior partner of M/s TSV Associates. M/s TSV Associates is a reputed firm of Chartered Accountants which has been in practice for more than five decades. The firm undertakes statutory audits of large listed companies across various industry sectors and has more than fifty qualified experienced professionals. CA Giri has been assigned as an Engagement Quality Control Reviewer for an audit engagement of a listed company. What are the aspects, which would be looked into by CA Giri as an EQCR in relation to the engagement?

Upon completion of the review, CA Giri has identified certain issues, with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The views of CA Giri are not accepted by the Engagement Partner. Suggest the ways of resolving the differences of opinion between CA Giri and the engagement partner.

(May-2024, SM)

Ans.



As per SA 220, "Quality Control for an Audit of Financial Statements", for audits of financial statements of listed entities, CA. Giri, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:

- (i) The engagement team's **evaluation of the firm's independence in relation to the audit engagement;**
- (ii) 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;
- (iii) Whether **audit documentation selected for review** reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,", there might be difference of opinion within engagement team, with those consulted and between engagement partner and engagement quality control reviewer. The report should only be issued after resolution of such differences.

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.

In the given situation, under completion of review, **CA. Giri**, Engagement Quality Control Reviewer **has identified certain issues**. However, the view of CA Giri, **the EQCR are not accepted by the Engagement Partner**. This **difference of opinion** among the CA Giri and Engagement Partner **should be resolved with abovementioned manner as per SQC 1**.

16.

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, MTP-Nov-2019, RTP-May-2019, SM)

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.

17.

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**

18.


System of QC : Documentation

TPX & Co., Chartered Accountants is a large audit firm. It maintains audit documentation both electronically and in physical form (hard files). The physical files are neither scanned and incorporated into electronic files nor cross-referenced to the electronic files. Further, there are many instances where audit working papers do not

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