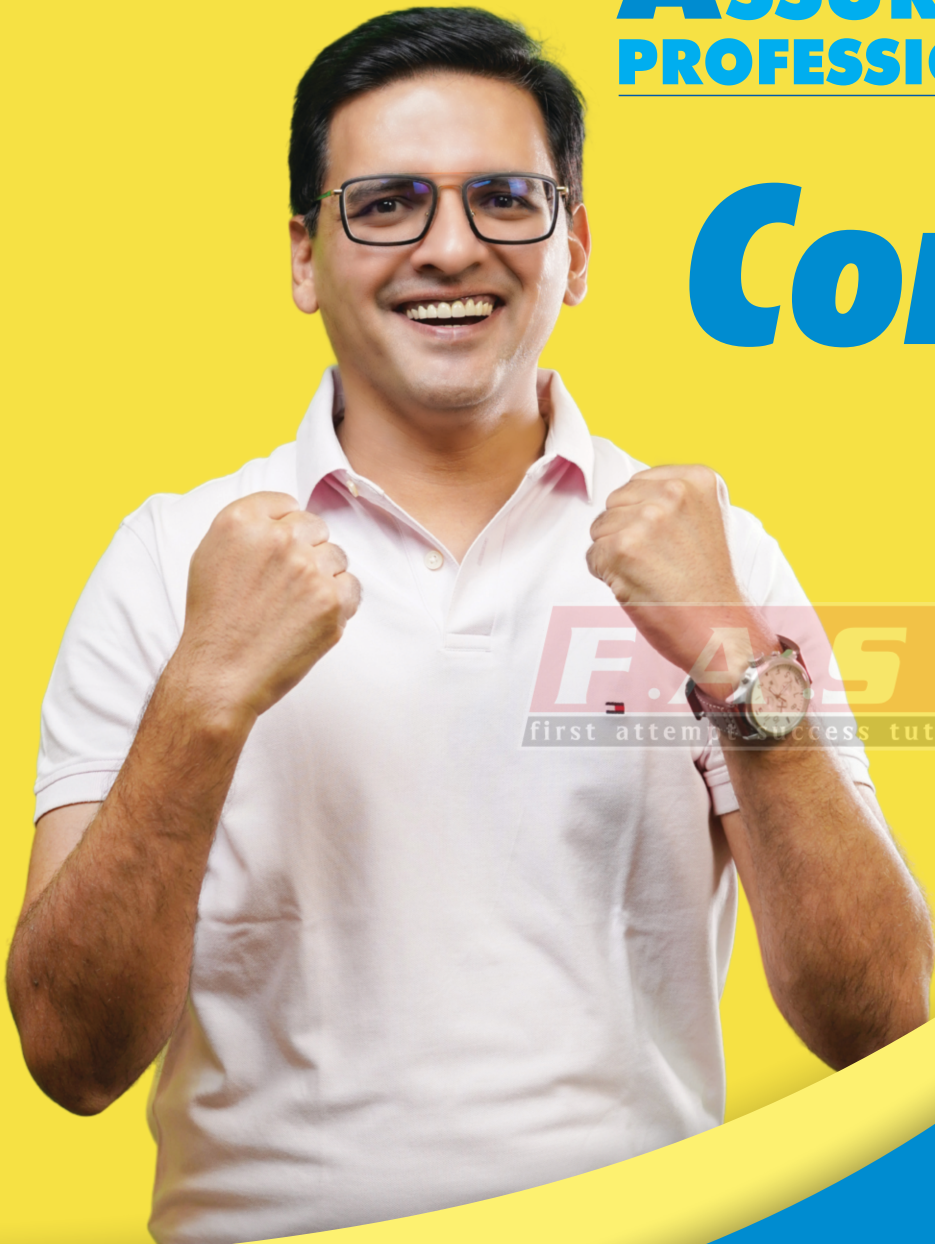
CA FINAL

ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS

NEW COURSE

Concept Book



F.A.S.T
first attempt success tutorials

AUDIT CRUSH

Audit Crush

INDEX

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1.1-1.14	Quality Control (SQC 1, SA 220)	CHAPTER 01
2.1-2.24	General Auditing Principles and Auditors Responsibilities (SA 240, 250, 260, 299, 402)	CHAPTER 02
3.1-3.27	Audit Planning, Strategy and Execution (SA 300, 600, 610, 620, 520, 540, 450)	CHAPTER 03
4.1-4.26	Materiality, Risk Assessment and Internal Control (SA 315, 320, 330, 265)	CHAPTER 04
5.1-5.27	Audit Evidence (SA 500, 501, 505, 510, 530, 550)	CHAPTER 05
6.1-6.8	Completion And Review (SA 560, 570, 580 and additional notes of SA 200, 210, 230)	CHAPTER 06
7.1-7.52	Reporting (SA 700, 701, 705, 706, 710, 720) (Reporting under Companies Act including CARO)	CHAPTER 07
8.1-8.13	Specialised Areas (SA 800, 805, 810)	CHAPTER 08
9.1-9.6	Related Services (SRS 4400 SERIES)	CHAPTER 09
10.1-10.15	Review of Financial Information (SRE 2400 SERIES)	CHAPTER 10
11.1-11.12	Prospective Financial Information and Other Assurance Services (SAE 3400 SERIES)	CHAPTER 11
12.1-12.23	Digital Auditing & Assurance	CHAPTER 12
13.1-13.12	Group Audits	CHAPTER 13
14.1-14.46	Special Features of Audit of Banks & Non-Banking Financial Companies	CHAPTER 14
15.1-15.11	Overview of Audit of Public Sector Undertakings	CHAPTER 15
16.1-16.14	Internal Audit	CHAPTER 16
17.1-17.38	Due Diligence, Investigation & Forensic Accounting	CHAPTER 17
18.1-18.12	Emerging Areas: Sustainable Development Goals (SDG) & Environment, Social And Governance (ESG) Assurance	CHAPTER 18
19.1-19.58	Professional Ethics & Liabilities of Auditors	CHAPTER 19

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Chapter 1

QUALITY CONTROL

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

START

1 — Objective

2 — Applicability

3 — Definition

4 — Elements of System of Quality Control

4A — Leadership Responsibility for Quality of Audits

A. Culture of QC
B. Business Strategy to achieve quality in all engagements

4B — Relevant Ethical Requirements (& Independence)

1. Ethical Requirements
2. Reinforcement of Ethical Requirements after making P&P

4B1. Independence:

A. Responsibility of Firm, Personnel, Others
B. QCPP requirements on Independence
C. Requirements when there is a breach of independence
D. Familiarity Threat

4C — Acceptance and Continuance of Client Relationships and Audit Engagements

A. Management Integrity considerations
B. Source of Management Integrity information
C. Capability, Competency and availablity of Time & Resources

Information causing decline of engagement

- P&P on withdrawl from engagement

4D — Human Resources

- Content on Policies & Procedures (P&P)
- Engagement Partner
- Assignment on Engagement Team (ET)

4E — Engagement Performance

4E1. Consultations

4E2. Difference of Opinion

4E3. Engagement Quality Control Review (EQCR)

A. Meaning, Applicability and Criteria;
B. P&P: to coverage

4E4. EQCR - P&P:

A. Nature, Timing & Extent of EQCR and areas to cover in listed entities
B. Criteria for acceptability of EQCR
C. Documentation of EQCR

4E5. Engagement Documentation (ED)

A. Assembly of File
B. P&P on keeping ED
C. Controls over ED access
D. Scanned ED
E. Retention of ED: P&P for ED, Factors affecting term
F. Ownership of ED

4F — Monitoring

1. Meaning
2. Purpose of Monitoring
3. Factors considered in monitoring QC
4. Inspection
5. Deficiencies: Evaluate deficiencies impact, Communicate and Recommend
6. Documentation of Monitoring

Complaints and Allegations

FINISH

Chapter 1
QUALITY CONTROL

SA 220 — Quality Control for an Audit of Financial Statement

START

1. Objective
2. Role of Engagement Team wrt QCPP
3. Reliance on Firm's QC System
4. Defintions
5. Leadership Responsibility for Quality of Audits
6. Relevant Ethical Requirements
7. Relevant Ethical Requirements - Independence
8. Acceptance and Continuance of Client Relationships and Audit Engagements
9. Assignment of Engagement Teams
10. Engagement Performance
    - A. Directions
    - B. Supervision
    - C. Engagement Partner Review
    - D. Scope of Engagement Partner Review
    - E. Consultation
11. Engagement Quality Control Review
    1. Engagement Partner Responsibility
    2. Coverage of Review
    3. Listed Entity - Additional Requirements
12. Difference of Opinion
13. Monitoring
14. Documentation
15. SQC 1 Vs. SA 220 Key Differences in Nature, Scope and Applicability
16. Mechanisms for Review of Quality Control
    - 16A. Peer Review Board
    - 16B. Quality Review Board
    - 16C. NFRA

FINISH

AUDIT CRUSH

LEGENDS - For All Chapters

AD = Audit Documentation
AE = Audit Evidence
A-En. = Automated Environment
A-Est. = Accounting Estimates
A-Ex = Auditor's Expert
A-FRFW = Applicable Financial Reporting Framework
AnPr = Analytical Procedures
AO = Adverse Opinion
APlan = Audit Plan
A-Pr = Audit Programme
AR = Audit Report
AS = Audit Strategy
BOA = Books of Accounts
CA = Control Activities
CA13 = Companies Act, 2013
CCO = Capabilities Competence and Objectivity
C-C = Capabilities and Competence
CE = Control Environment
CR = Control Risk
D&I = Designing and Implementing
DIM = Design, Implementation and Maintenance
DIM-IC = Design, Implementation & Maintenance of IC
DOO = Disclaimer of Opinion
DR = Detection Risk
EC = External Confirmations
ED = Engagement Documentation
EP = Engagement Partner
EQC = Engagement Quality Control
EQCR = Engagement Quality Control Reviewer
ET = Engagement Team
EU = Estimation Uncertainity
FVAE = Fair Value Accounting Estimates

FAP = Further Audit Procedures
FFR = Fraudulent Financial Reporting
FI = Financial Information
ForE = Fraud or Error
FRS = Financial Reporting Standards
FRFW = Financial Reporting Framework
FR = Financial Reporting
FS = Financial Statements
GP-FS = General Purpose Financial Statement
I&A = Identifying and Assessing
i.r.o. = In Respect of
IC = Internal Controls
IS = Information System
IFC = Internal Financial Controls
IR = Inherent Risk
IU = Intended Users
JA = Joint Auditor
LE = Listed Entities
L&R = Legal and Regulatory
LOW = Letter of Weakness
MM = Material Misstatements
MOA = Misappropriation of Assets
MR = Management Representation
NSO = Nature, Scope & Objectives
NTE = Nature, Timing and Extent
MU = Material Uncertainty
OA = Other Auditor
OE = Operating Effectiveness
PA = Principal Auditor
P&Ps = Policies & Procedures
PEA = Preliminary Engagements Activities
PJ = Professional Judgement

PorD&C-MM = Prevent or Detect & Correct MM
PPI = Prior Period Items
PS = Professional Skepticism
PS-R&L = Professional Standards, Regulatory & Legal Requirements
PU = Practice Unit
PY = Previous Year
Q/A = Qualified or Adverse
QCPP = Quality Control Policies & Procedures
QC = Quality Control
QO = Qualified Opinion
R&L = Regulatory & Legal
R&R = Rules & Regulations
RA = Reasonable Assurance
RAP = Risk Assessment Procedures
ROMM = Risk of Material Misstatement
SA = Standards on Auditing
SAAE = Sufficient Appropriate Audit Evidence
SAP = Substantive Audit Procedures
SJ = Significant Judgments
SO = Service Organisation
SPF = Special Purpose Framework
T&F = True & Fair
T-AB-D = Transaction, A/C Balance & Disclosure
TCWG = Those Charged with Governance
TOD = Test of Details
UA = User Auditor
UE = User Entity
U/H = Under Head
WR = Written Representations

Legends for Chapter 6 to 19 given at 5.27

Chapter 1

QUALITY CONTROL

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

1 OBJECTIVE

To firm should establish a system of QC to provide RA that

a Firm & its personnel comply with PS – R&L

and

b Reports issued by – Firm / EP is **appropriate** in circumstances

2 APPLICABILITY

- Applicable to – **all firms**
- Nature of **P&Ps – depends on various factors** such as:
  - **a** Size
  - **b** Network Firms
  - **c** Operating characteristics of the firm, etc.

3 DEFINITION

i Engagement Documentation

Record of - Work performed, Result obtained, Conclusions reached

Documentation for specific engagement is assembled in an engagement file.

ii Engagement Team

- All personnel **performing** engagement Partners & staff
- Including, experts contracted by firm

Excludes - Individuals with client's IAF (SA 610)

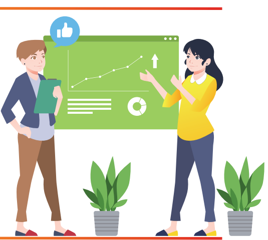
iii Listed Entity

An entity whose– Shares/ Stock/Debt

- Quoted or listed on RSE or
- Traded under regulation of RSE or other equivalent body

iv Partner

Any **individual with authority** to bind the firm w.r.t. performance of professional services engagement



v Suitably qualified external person

An individual – outside the firm with C-C to act as EP

Eg: Partner / Employee (with appropriate experience) of another firm

4 SYSTEM OF QC

The firm's system of QC – P&Ps to be documented and communicated to firm's personnel and should cover:

- **A** Leadership Responsibilitiaes 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

A 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:

(Contd Point A .....)

a) Assign MGT Responsibility of QC :

The firm assigns its **management responsibilities** so that commercial considerations **do not override the quality of work** performed;

b) Personnel-evaluation, compensation & promotion:

The firm's P&P addressing **performance evaluation, compensation, and promotion** with regard to its personnel; and

c) Develop, Document & Support to QCPP:

The firm devotes **sufficient resources** for the development, documentation and support of its QCPP.

Delegate to capable:

Person assigned with operational responsibility should have sufficient appropriate experience, ability and authority and responsibility

B Ethical Requirements

(i) The firm should comply with relevant ethical requirements which include:

(a) Integrity;
(b) Objectivity;
(c) Professional competence and due care;
(d) Confidentiality; and
(e) Professional behavior.

(ii) 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.

B.1 Ethical Requirement - Independence

(i) 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.

(ii) Such P&P 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 record on independance ;** and

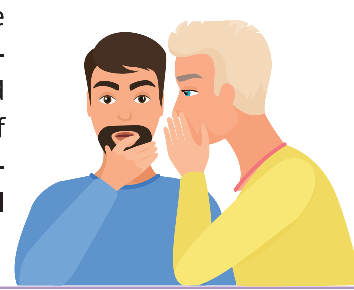
(iii) The firm can take appropriate action regarding identified threats.

(iii) In case of breaches of independence requirements P&P 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 P&P on independence from all firm personnel covered under the Code.



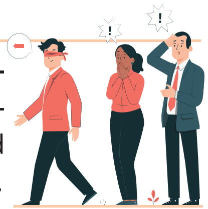
(iv) Familiarity Threat -

(a) 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

(i) nature of engagement and extent of public interest involved and

(ii) length of service of senior on an engagement

(b) **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.**

C Acceptance and continuance of client relationships and specific engagements

(i) The firm should establish **P&P** 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)

(ii) 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:

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

Source of Information on client integrity:

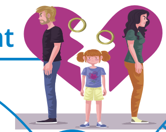
- Communications with existing or previous providers of professional accountancy services to the client, and discussions with other third parties.
- Inquiry of other firm personnel or third parties such as bankers, legal counsel and industry peers.
- Background searches of relevant databases.

(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.

C.1 Obtaining information causing decline an engagement



(1) Where the **firm obtains information** that would have caused it to **decline an engagement if that information** had been available earlier, P&P on the continuance of the engagement and the client relationship should **include consideration of:**

A — The **P&L responsibilities** that apply to the circumstances:

(i) like, whether there is a requirement for the firm to report to the person or persons who made the appointment or,

(ii) to regulatory authorities; and

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B — The **possibility of withdrawing from the**

(i) engagement or

(ii) **from both :** the engagement and the client relationship.

(2) P&P on withdrawal from an engagement

- **Discussing** with the MGT and TCWG regarding the appropriate action that the audit firm might take based on the relevant facts and circumstances.
- If the firm determines to **withdrawal** discuss with MGT alongwith reasons.
- Considering any **professional, R or L requirement.**
- **Documenting** significant issues, consultations, conclusions.

D. Human Resources

(i) The firm should establish P&P to reasonable assure that:

- Firm has **sufficient personnel** with the capabilities, competence, and commitment (c-c-c) to ethical principles; and
- **Responsibility of engagement partner** clearly defined & communicated to them.
- **Such P&P address the following personnel issues:**

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

(ii) EP (Engagement Partner)

The firm should establish P&P requiring that:

a) The identity and role of the EP 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.

(iii) 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 PS-L&R.
- 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 QCPP.

Red Bracket indicates content not in ICAI SM but part of Standards

E. 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:

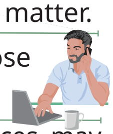
- How engagement teams are **briefed on the engagement** to obtain an understanding of the objectives of their work.
- Processes for **complying** with applicable engagement standards.

Supervision Refer SA → 220
Review Refer SA → 220

- **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 P&P** current.

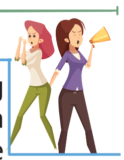
E.1 Consultation in Difficult & Contentious Matters

1. **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.
2. **Effective consultation** requires that those consulted be given all the relevant facts



3. A firm without appropriate internal resources, may **consider advisory services provided by (a) other firms, or (b) professional and regulatory bodies**
4. 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.
5. The firm should establish **P&P** 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.**

E.2 Differences of Opinion



The firm should establish **P&P** 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.

E.3 Engagement Quality Control (EQC) Review (required before report is issued)

(i) The firm should establish **P&P** requiring, for appropriate **engagements, an engagement quality control review** that provides an objective evaluation of the significant judgments made by the ET and the conclusions reached in formulating the report.

Such P&P 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.

(ii) 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.

(iii) The firm should establish P&P 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.

E4. EQC Review: Policies and Procedures

a Nature, Timing and Extent of the EQC Review

i. 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 EP.

ii. 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): can be partner, another CA, suitably Qualified External Person or Team:

i. The firm's P&P 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.

ii. 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.

iii. EP consultation with EQCR during engagement:

Permitted, provided the engagement EQCR eligibility to perform the role is not compromised.

iv. Sole Practioners

Suitably qualified external persons may be contracted

v. Replacement

Change Reviewer if objectivity found to be threatened

vi. Differences of Opinion

Refer above discussion on it

c Documentation of the Engagement Quality Control Review

P&P 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 ET made and the conclusions they reached were not appropriate.

E5. Engagement Documentation

1 Completion of the Assembly of Final Engagement Files

(a) Establish P&P for ET 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 P&P** relating to time limits for the assembly of final engagement files address **each report as if it were for a separate engagement.**

2 The firm should establish P&P designed to

maintain the confidentiality, safe custody, integrity, accessibility and retrievability of ED. 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.

3 Designs and implements controls for ED 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 ET and other authorized parties to properly discharge their responsibilities.

4 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:

(a) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;

(b) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary; and

(c) Enable the scanned copies to be retrieved and printed as necessary.

E5. Retention of Engagement Documentation

1. The firm should establish P&P for the retention of ED for a period sufficient to meet the needs of the firm or as required by law or regulation.

2. Firm's need for retention & period of such retention, will vary with:

(a) **the nature of the engagement & circumstances,**

(b) May also depend on **local** law or regulation prescribes

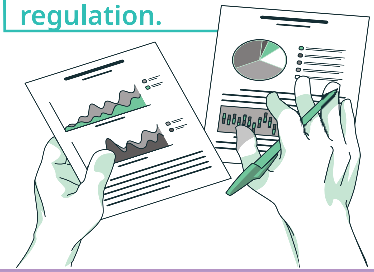
(c) **In the** specific case of audit engagements, **- No shorter than** 7 years from the date of the auditor's report.

(d) **Procedures for retention of ED include:**

- Enable the **retrieval of, and access to,** the ED during the retention period.
- Provide, where necessary, a **record of changes made** to ED after the engagement **files have been completed.**
- **Enable authorized external parties** to access and review specific ED for QC or other purposes.

3. Ownership of Engagement Documentation

Unless otherwise specified by law or regulation, ED is the **property of the firm.** The firm may, **at its discretion, make portions of, or extracts** from, ED



F. Monitoring (& Inspection)

1/ Establish P&P to reasonably assure that QC policies and procedures are:

- Relevant
- Operating effectively
- Adequate
- Complied with in practice

2/ Such P&P should include **an ongoing consideration and evaluation** of the firm's system of quality control including a period inspection of completed engagements.

3/ Purpose of monitoring compliance with QCPP is to provide evaluation of:

a. **Adherence** to PS-R&L ;

b. Whether the QC system has been **appropriately designed** and **effectively implemented**; and

c. Whether the **firm's quality control P&P** have been **appropriately applied,** so that **reports** that are issued by the firm or engagement partners **are appropriate** in the circumstances.

4/ Factors considered in monitoring QC of engagements:

- Deciding whether **quality control** system of the firm has been **appropriately designed and effectively implemented.**
- Examining whether **new developments** in the professional standards, legal and regulatory requirements have been **reflected** in the quality control policies.
- Conducting **monitoring by entrusting responsibility of monitoring process to a partner or other persons** with sufficient and appropriate experience and authority in the firm.
- **Dealing with complaints and allegations** against the firm or any employees of it of non-compliance with professional standards or appropriate regulatory requirements by a person within or outside the firm.
- **Taking appropriate remedial actions** against the personnel who did not conform to quality control policies.
- **Taking action when deficiencies** in the design or operation of the firm's QCPP, or **non-compliance** with the firm's system of quality control **are identified**

5/ Inspection - Manner in which inspection cycle is organized depends on:

- The size of the firm.
- The number and geographical location of offices.
- The results of previous monitoring procedures.
- The degree of authority both personnel and offices have (for example, whether individual offices are authorized to conduct their own inspections).
- The nature and complexity of the firm's practice and organization.
- The risks associated with the firm's clients and specific engagements.

6/ The firm should evaluate the effect of deficiencies noted as a result of the monitoring process and should determine whether they are either:

(a) Instances that indicate that the firm's system of quality control is insufficient to meet the objectives or

(b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.

7/ The firm should communicate to relevant engagement partners and other appropriate personnel - Deficiencies noted in the monitoring process and recommendations for appropriate remedial action.

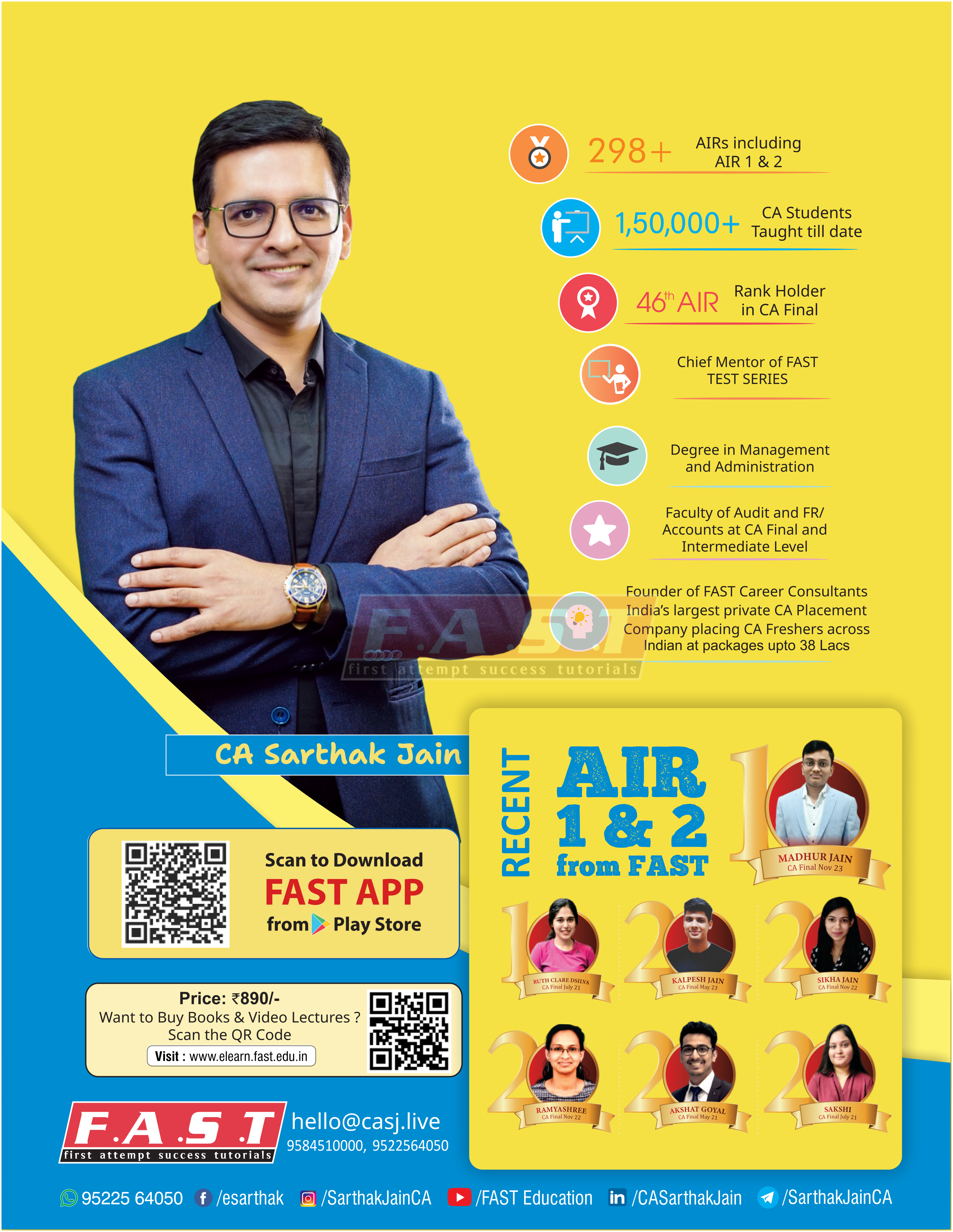
8/ Recommendations on each type of deficiency includes:

(a) Taking appropriate remedial action in relation to an engagement or personnel;

(b) Communication of the findings to person engaged in training and development;

(c) Changes to the QCPP; and

(d) **Disciplinary action.**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