



# ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS



FOR CA FINAL  
MAY & NOV 2025

CHAPTER 1

## QUALITY CONTROL

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INSTANT RECALL <b>Quality Control</b>	<b>CHAPTER 1</b>
High audit quality is central to auditing profession. If the audit firm does not perform work to a high quality, it increases the risk of giving an incorrect or inappropriate opinion in the report. This can lead to legal action against the firm for damages, bad publicity and loss of reputation and certainly the loss of the client. Therefore, it is in the interests of the audit firm to perform high-quality audits by applying rigorous audit process and quality control procedures that comply with laws, regulations and applicable professional standards.	<b>Concept 1.1</b> <b>High-quality Audits</b> © Manish M. Valechha

**Author's Note**  
 Brief Explanations © Manish M. Valechha

**Quality control** is commonly used to describe procedures used to ensure that the outputs from the process are of the desired standard. For example, a car manufacturer uses quality control procedures such as inspection and test driving to decide whether the motor vehicle is fit to be delivered to a customer. Audit firms also use the term quality control to describe the procedures used to ensure that their product - i.e., audit report (or audit opinion) - is fit to be made public & used by the public.

**When we refer to quality control, we must consider it at two levels: at a 'macro' level** - that considers the quality control of the audit firm as a whole; and **at an 'engagement' level** - which considers the quality control of a specific engagement being carried out. **The need for controls at both firm and engagement level derives from the fact that** audit firms frequently have many offices and each office has a number of audit partners. There are many different staff members on one audit assignment. A small audit assignment will have at least three staff (say, partner, manager & junior) while a large one can have hundreds. All those staff need to be co-ordinated and produce work to the same high standard. This is obviously not left to chance; all firms will have some method of maintaining this quality control. It is only by implementing quality control policies and procedures at both firm and engagement level that the auditing profession can ensure that all audits are conducted with the same high quality of work. **It is important to note that quality control is not only motivated by a need and desire to offer a highly professional and meaningful service** but the most effective safeguard for the auditor against the risk of being sued for negligence by a client is to perform quality audits. Because, auditors give an opinion in their report. They do not certify or guarantee. Assurance engagements, including audits, do not offer the end user absolute assurance about the subject matter of the assurance report. At best, they offer reasonable assurance, a high level of assurance. Therefore, the firm needs to have quality systems and procedures primarily to ensure that its work is of a sufficiently high standard so that failures simply do not happen. **In the event of a complaint, the firm will have a defence, providing it has followed suitable procedures.** Therefore, the entire business strategy of the audit firm should be driven by the need for quality in its operations.

**Two standards are relevant here, namely; SQC 1 and SA 220.** SQC 1 apply to the conduct of a firm's practice as a whole. Whereas SA 220 only applies to audit engagements. **These standards provide protection for the users of audit reports against the risk of poor quality audits.** Thus, audit quality is a very hot topic at the present time. The ICAI has increased its emphasis on quality control, and you should recognize its importance in your studies.

**Professional and Regulatory Measures to Secure High-quality Audits**

**Quality Control in Audit Firms** - Following measures have been adopted by the auditing profession to secure consistently high quality audit work, namely:

- Quality Control Standards** - Two standards are relevant here, namely; SQC 1 and SA 220.
  - Standard on Quality Control 1 (SQC 1)** - "Quality Control for Firms that Perform Audits & Reviews of Financial Statements, and Other Assurance and Related Services Engagements", and
  - Standard on Auditing 220 (SA 220)** - "Quality Control for an Audit of Financial Statements".
- Apart from SQC 1 and SA 220, other Standards** on auditing, code of ethics issued by ICAI and certain provisions in Companies Act, 2013. In addition, quality reviews by organizations like the PRB (Peer Review Board), QRB (Quality Review Board), and NFRA (National Financial Reporting Authority) also facilitate quality control process.

**Quality Control Standards for Securing High-quality Audits**

There are two Standards of Auditing, which address quality control, namely; SQC 1 and SA 220.



**Quality Control and Engagement Standards**

In India, auditing standards are issued by Auditing and Assurance Standards Board (AASB) under the authority of the Council of the Institute of Chartered Accountants of India (hereafter, ICAI). In order to converge with the International Auditing Standards, ICAI has classified the auditing standards into five heads. This can be summarised as below :

Serial No.	Types of Standard	Nomenclature used	When applied	Chapter	Numerical series
1.	Standards on Quality control	SQC	For all services carried out under AASB's engagement standards (i.e. SAs, SREs, SAEs and SRSs).	Chapter 1	01-99
2.	Standards on Auditing	SA	In the audit of historical financial information	Chapter 1-8	100-899
3.	Standards on Review Engagements	SRE	In the review of historical financial information	Chapter 10	2000-2699
4.	Standards on Assurance Engagement	SAE	In assurance engagements other than audits or reviews of historical financial information	Chapter 11	3000-3699
5.	Standards on Related Services	SRS	On apply agreed upon procedures, compilation and other related services engagements	Chapter 9	4000-4699

Please note that **SQC 1** is a mother standard for all other standards and is all pervasive standard in respect of quality control. **SQC 1** applies to all engagements for which there are AASB standards, which include assurance and non-assurance engagements; **SAs, SREs, SAEs and SRSs** are collectively referred to as the AASB's Engagement Standards. Standards on Quality Control (SQC) are to be applied by those providing services falling under the AASB's engagement standards.

**Three sets of standards (SAs, SREs and SAEs) share the assurance engagement framework and one standard set (SRSs) is based on the related services framework.**

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**Standards on QARAR (or Qarar)**

Standards on (Link to Learn)  
Q - Quality Control (SQC)\*

A - Auditing (SAs)	These standards (i.e., SAs, SREs, SAEs and SRSs) are collectively referred to as the AASB's (ICAI) Engagement Standards.
R - Review (SREs)	
A - other Assurance, (SAEs) and	
R - Related services (SRSs)	

\* Standards on Quality control (SQC) apply to all services carried out under the AASB's engagement standards (i.e., SAs, SREs, SAEs & SRSs).

**SQC 1 : Firm-level Quality Control**

*SQC 1 is a mother standard for all other standards and is all pervasive standard in respect of quality control. SQC 1 shall apply to all services carried out under engagement standards (i.e. SAs, SREs, SAEs and SRSs). Under the SQC 1, the firm has an obligation to establish & maintain a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements, and that the reports issued are appropriate in the circumstances. The six interrelated elements of quality control are: leadership responsibilities for quality, ethical requirements, acceptance & continuance of clients/ engagements, human resources, engagement performance and monitoring.*

**CHAPTER 1**

**Concept 1.2**

**SQC 1 - Quality Control for Firms that Perform Audit & Review of Historical Financial Information and Other Assurance and Related Services Engagements**

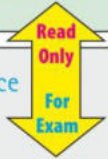
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**Responsibility of the Firm in respect of Quality Control under SQC 1 Audit firms' responsibility for securing high quality audits**

Objectives of SQC 1	Simple Explanation
<p><b>System of Quality Control</b> – SQC 1 places an obligation on a firm to establish and maintain a system of quality control. A system of quality control is broadly defined as quality control policies &amp; procedures (QCPP) to provide a firm with reasonable assurance that the firm and its personnel:</p> <p>(a) Comply with professional standards and regulatory and legal requirements; and</p> <p>(b) Issue reports that are appropriate in the circumstances.</p>	<p><b>The firm, and all its personnel/ employee, must make sure that every engagement meets the required quality standards. This means they must follow:</b></p> <ul style="list-style-type: none"> <li><b>Professional standards</b> (like engagement standards, Code of Ethics, and other guidelines from the ICAI),</li> <li><b>Legal requirements</b> (like Companies Act or other specific laws), and</li> <li><b>Other regulations</b> (like corporate governance requirements).</li> </ul> <p>Ensuring quality also means that the reports issued by the firm and engagement partner are correct and therefore any <b>opinion in the report must be supported by sufficient appropriate audit evidence and documentation.</b></p>

\* Reasonable assurance, means a high, but not absolute, level of assurance.

Any system of quality control has inherent limitations that can reduce its effectiveness so absolute assurance cannot be attained.



To sum up, a firm should establish & maintain a system of quality control (i.e. QCP) that provide reasonable assurance that firm and its personnel

- comply with professional standards and regulatory and legal requirements; and
- Issue reports that are appropriate in the circumstances.

### Applicability of SQC 1

1. **SQC 1** "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information and Other Assurances & Related Services Engagements" applies to all firms of Chartered Accountants irrespective of their constitution. For example, a sole practitioner, partnership, LLP.
2. SQC 1 is a mother standard for all other standards and is all pervasive standard in respect of quality control. SQC 1 applies to all engagements (i.e, SAs, SREs, SAEs and SRSs).

### Nature and Extent of Quality Control

1. A firm's system of quality control should be tailored to the firm's size, the nature of its practice, its organization, and cost-benefit considerations. For example, a Big Four firm will have a far more extensive system than a single-office local firm.
2. In a small audit firm or for a sole practitioner, quality control is usually simple and informal. For example, a sole practitioner with a few staff members might use a basic checklist and have regular informal discussions to ensure compliance with professional standards. In contrast, a large national or international audit firm may create detailed in-house procedures and have dedicated staff to oversee and ensure compliance with the firm's quality control system.

### Six Elements of a System of Quality Control

According to SQC 1, the system of quality control should include policies & procedures that address six elements.

- (1) Leadership responsibilities for quality within the firm ("Tone at the top")
- (2) Ethical requirements
- (3) Acceptance & continuance of clients & engagements
- (4) Human resources
- (5) Engagement Performance
- (6) Monitoring the effectiveness of the system of quality control

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Leaders  
Ethically  
Accept  
Humans,  
Engaged in  
Monitoring



These elements of quality control are interrelated. In order to be effective, the firm's quality control policies & procedures need to be documented and communicated to the firm's personnel employees. It is desirable that the communication should be in writing. The firm's personnel need to recognise & accept that each individual in the firm has a personal responsibility for quality and is expected to comply with the firm's quality control policies & procedures.

### Leadership Responsibilities for Quality within the Firm ("Tone at the top"). SQC 1 - Quality Control Element 1

1. **Promoting quality-oriented culture** - The firm should promote a culture that quality is essential in performing engagements and should establish policies and procedures that support that culture. The standard refers to this as the "tone at the top."
2. **Responsibility for Quality Control** - These policies should make the firm's CEO or managing partners ultimately responsible for maintaining a strong quality control system. However, the firm's CEO or managing partners may appoint an appropriate person(s) to oversee quality in the firm. Such person(s) should have appropriate experience, ability and necessary authority to assume that responsibility.
3. **Communicating QC Policies & Procedures** - Such policies & procedures should be communicated to the firm's personnel by training seminars, meetings, formal or informal dialogue, etc.
4. **Prioritizing Quality in Firm's Strategy** - Essentially, it implies that audit quality is paramount in all engagements. It is non-negotiable.

Some examples of how this can be done include -

- Management decisions should prioritize quality over financial or commercial goals.
- Staff performance evaluations, pay, incentives, and promotions, should be based on the quality of work performed.
- The firm should allocate enough resources to develop, document, and support its quality control policies & procedures QCP.





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In SQC 1, "Leadership requirements for Quality" makes it clear that firm's commercial considerations/ goals should not override quality objectives. Here are some examples:

- Undue focus on high engagement fees without checking if the firm can perform a quality audit.
- Shortening timeframes for engagements to save time & money, which can result in inadequate/ poor evidence gathering.
- Forcing engagement teams to maximize billable hours to meet revenue targets without addressing complex issues.
- Accepting high-risk client with questionable integrity, weak internal controls, or significant legal/regulatory issues due to the prospect of significant fees.
- Assigning inexperienced personnel to engagements to reduce costs, even when the engagement requires specialized expertise.
- Compromising professional skepticism to maintain a favorable relationship with the client.
- Skipping/ ignoring quality control reviews to meet deadlines or reduce engagement costs.



**Ethical Requirements IMP SQC 1 - Quality Control Element 2**

According to SQC 1, the firm should have policies & procedures designed to provide reasonable assurance that firm & its personnel <sup>i.e. employees</sup> comply with relevant ethical requirements <sup>(e.g., the ICAI code of ethics)</sup> – especially those relating to independence.

- There are 5 fundamental principles\* in ICAI's Code of Ethics – namely; integrity, confidentiality, objectivity, professional competence & due care, and professional behaviour. \*Memory Code™ = i-Cop
- Independence (as part of objectivity) is so crucial to all engagements that SQC 1 addresses this issue separately. Firms should take various actions to ensure that personnel assigned to engagements (including experts contracted and network firm personnel) are independent with respect to firm's clients. In order to achieve this objective, the firms' policies and procedures are required to ensure that:

- ①. Communicate its independence requirements to its personnel and, as needed, to others e.g. expert.
- ②. Identify & evaluate circumstances and relationships that create threats to independence and take appropriate action to eliminate those threats or reduce them to an acceptable level either by applying safeguards, or withdrawing from the engagement if necessary.
- ③. There should exist a mechanism by which engagement partners<sup>EP</sup> quickly inform the firm about any situations or relationships that create a threat to independence so that the firm can take the appropriate actions.

**Key points about firm's policies & procedures on independence** – It should include following requirements –

- Staff must report any breaches of independence quickly to EP or other relevant personnel.
- Personnel/ staff subject to independence requirements must confirm their compliance in writing at least once a year.
- Firm must follow regulations requiring rotation of personnel to avoid familiarity threats.

**Familiarity Threat** – SQC 1 highlights the risk of familiarity, which can arise when the same senior personnel/ staff work on an engagement for too long. This could affect the quality of their work. To address this, the firm should set criteria/ rules for when safeguards are needed, considering:

1. The nature of engagement, especially if it involves public interest.
2. How long senior staff have been working on the engagement.

**Examples of Safeguards** – include

- Rotating senior staff members.
- Requiring an engagement quality control review.

▶ For audits of listed companies, the engagement partner should be rotated after a set period, usually no more than seven years (except when a sole practitioner audits the listed entity). However, to ensure quality in such cases, these firms are subject to mandatory peer reviews.

**Acceptance and Continuance of Clients & Engagements M. IMP SQC 1 - Quality Control Element 3**

According to SQC 1, a firm should accept, or continue with, a client or engagement only when the firm

1. Has considered client integrity (and does not have information that would lead it to conclude that client lacks integrity),
2. Is competent to perform the engagement (and has the capabilities, time and resources to do so),
3. Can comply with legal and ethical requirements (as discussed above in Quality Control Element 2)

The firm should document how any issues with respect to the acceptance and continuance decision were resolved.

1. **Evaluating the Integrity of the Client** – The firm should consider matters such as:

- ①. The identity and reputation of the client's owners, key management [i.e., executives], & TCWG.
- ②. The nature of the client's operations, including its business practices.
- ③. The client's attitude to audit fees and its willingness to pay a fair amount for the work completed.
- ④. Indications of an inappropriate limitation in the scope of work.
- ⑤. Indications that the client might be involved in money laundering or other criminal activities.
- ⑥. The reasons provided for switching audit firms and non-reappointment of the previous firm.
- ⑦. Review of press articles about the client.



The purpose of this process is to avoid association with a client whose management lacks integrity and to ensure that the firm can perform the engagement at an appropriate level.

**Source of Information on Client's Integrity** – For a new client, if they were audited before, the new firm should communicate with the previous auditor to gather information, especially about the integrity of the client's management. For a continuing engagement, the firm should assess management's integrity based on past experience. However, if there have been major changes in senior executives or directors, additional checks might be needed, like those done for a new client. Over time, a firm will gain more understanding of a client's integrity as their relationship continues.

2. **Assessing the firm's competence to perform the engagement** – Before accepting an engagement, the firm must ensure it has capabilities, competence, time, and resources needed. Key considerations include –

- ①. Firm personnel have knowledge of the relevant industry or subject matter.
- ②. Firm personnel have experience with required regulations or reporting, or the ability to gain necessary skills & knowledge effectively.
- ③. Sufficient personnel are available with the necessary capabilities and competence to handle the work.
- ④. Experts are available, if needed;
- ⑤. Qualified people are available to perform a quality control review, if needed.
- ⑥. Firm is able to complete the engagement within the deadline.

3. **If conflicts of interest arise between firm & client** – Conflicts can arise where auditors have some kind of personal or business involvement with their client. It should be properly resolved before accepting the engagement.

If after accepting the engagement, the firm gets some information which if it had known earlier, it would have declined the engagement. In such situations, policies & procedures on continuance of engagement and client relationship should be considered. Such procedures might include report to person/s who made the appointment (i.e. shareholders, client management/ TCWG), and, if required, report to appropriate regulatory authority or if possible, firm may withdraw from the engagement or the entire client relationship.

**Policies on withdrawal from an engagement or client relationship should address:**

- ①. Discuss the situation with the client's management/ TCWG and decide on the next steps.
- ②. If withdrawal is appropriate, inform the management/ TCWG about the withdrawal and the reasons for it.
- ③. Check if there are professional, regulatory, or legal obligations to stay on engagement or to report the withdrawal and its reasons to regulators.
- ④. If firms decide to withdraw from an engagement, it must document all significant issues, consultations, conclusions, and reasons for its decision.

**Human Resources**

**SQC 1 – Quality Control Element 4**

1. **According to SQC 1**, the firm must establish policies & procedures to provide reasonable assurance that it has sufficient personnel with the competence and capabilities to
  - perform its engagements in accordance with professional standards, legal and regulatory requirements, and
  - issue appropriate reports.
2. **Human resources policies and procedures should address all aspects of employing professional staff**, namely; recruitment, compensation, training, promotion, career development, performance evaluation etc. There should be emphasis on the continuing professional development of firm's personnel.
3. **Assignment of Engagement Team** – The firm should assign responsibility for each engagement to an engagement partner. The firm should have policies & procedures to ensure that:

- The engagement partner's identity & role are communicated to key members of the client's management/TCWG.
- The engagement partner has appropriate capabilities, competence, authority & time needed to perform the engagement.
- The engagement partner's responsibilities are clearly defined and communicated to that partner.

**Engagement team should have the necessary competence and skill to carry out its responsibilities.** The firm must ensure it has suitable people available and help them grow into their roles.

4. **Lastly**, the firm should assess performance of their partners & team members keeping in mind their commitment towards quality.

#### Engagement Performance M. IMP

#### SQC 1 - Quality Control Element 5

1. **According to SQC 1**, the firms should have policies & procedures to ensure their work performed by engagement personnel meets applicable professional standards, regulatory requirements, and firm's standards of quality. To maintain high-quality work, engagement team members should be clearly briefed about their objectives. They should receive proper supervision and training, and have their work reviewed thoroughly. The work done should also be documented properly.
2. **Direction, Supervision, Review and Consultation -**
  - **Direction - Ensuring that engagement team understands objectives of work being performed.** It is the responsibility of engagement partner to direct the engagement. This duty may be delegated to the most senior team member on site at the engagement.
  - **Supervision & review - Monitoring the progress of engagement and reviewing the work completed to ensure it meets quality standards.** The engagement partner has overall responsibility for supervising/ reviewing the engagement, but this may be delegated to a manager/senior who is responsible for the day-to-day management of the engagement.
  - **Consultation - Seeking advice or guidance from individuals within or outside the firm who have the appropriate expertise to address complex, contentious, or highly technical matters encountered during an engagement.** When an engagement involves complex or contentious matters, teams should consult experts within or outside the firm. Consultation helps ensure quality and better application of professional judgment. These discussions should involve knowledgeable and experienced professionals and should be well-documented. If the firm lacks internal expertise, it can seek advice from other firms or regulatory bodies. **IMP**
3. **Engagement Quality Control Review (EQCR) -** EQCR refers to an independent evaluation of significant judgements made by the engagement team by EQC reviewer. This review is conducted before issuing the final report to ensure compliance with professional standards and firm's quality control policies. EQCR is mandatory for all audits of FS of listed entities. In respect of other engagements, the firm should devise criteria. The extent of the review depends on how complex the engagement is and the risks involved. However, this review does not lessen the engagement partner's responsibility. **M. IMP**

**EQCR Responsibilities for Listed Entity Audits -** The EQCR evaluates/ checks:

- ①. Engagement team's evaluation of firm's independence for the engagement.
- ②. How risks were identified and managed.
- ③. Key judgments, especially around materiality and significant risks.
- ④. Proper consultations on difficult issues and their conclusions.
- ⑤. Significant corrected or uncorrected mistakes found during the engagement.
- ⑥. Communication with management/TCWG or regulators, as needed.
- ⑦. Working papers selected for review reflect the work done and support decisions & conclusions.
- ⑧. Report to be issued is appropriate.

**Engagement Quality Control (EQC) Reviewer -** An EQCR can be:

- A partner or qualified person within the firm (ICAI member)
- A qualified external person or a team made up of such individuals

The reviewer must be competent and have proper experience and authority to act as an EQCR. To be objective, s/he must not be selected by the engagement partner and should not be involved in the engagement. EQCR can consult with the engagement team but this should not compromise the reviewer's objectivity. If consultations significantly affect objectivity of EQCR, the firm must replace a reviewer.

4. **Differences of Opinion -** Differences of opinion can arise within engagement team, with those consulted and between engagement partner and EQCR. The report cannot be issued until all differences are resolved. The matter should be resolved by following established procedures of firm like by consulting with another practitioner or firm, or a professional or regulatory

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body. This may mean that a person independent of the engagement may have to be involved in resolving the difference of opinion. The resolution should be documented and implemented.

- Completion of assembly of Final Engagement Files** – 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. For audits, this should be done within **60 days** after the date of auditor's report unless specified otherwise by law. For other engagements, the time limit should align with the type of engagement. If multiple reports are issued on the same subject, such as a group audit and a statutory audit, each report should be treated as a separate engagement for documentation purposes.
- Engagement Documentation** – Engagement documentation is the property of the firm unless the law says otherwise. The firm may, at its discretion, make portions / extracts available to clients, only if it does not affect the validity of the work performed or independence of firm or its personnel. Firm's policies & procedures should also ensure engagement documentation is confidential, safely stored, and easy to retrieve.

**Retention Period** – Firm's policies & procedures covering retention of working papers may refer to local laws & regulations. SQC 1 suggests that, engagement files should be kept for at least **7 years** from the date of auditor's report or if later the date of the group auditor's report.

**Documentation of EQCR – Ensure proper records show:**

- All required review procedures were completed.
- The review was finished before issuing the report.
- The reviewer has no unresolved concerns about the engagement team's judgments or conclusions.

**Monitoring (or Monitoring Effectiveness of System of Quality Control) SQC 1 – Quality Control Element 6**

The firm must have policies & procedures to ensure that its quality control system is relevant, adequate, effective and complied with in practice. This involves regular reviews and updates.

**Factors to be considered in monitoring of quality control of engagements –**

- Regular Reviews** – Ensure the firm's QC system is well-designed and working effectively.
- Stay Updated** – Update QC policies to reflect changes in professional standards, laws, & regulations.
- Monitor Performance** – Assign a qualified person (like a partner) with enough experience and authority to oversee the quality control process.
- Handle Complaints** – Handle complaints or allegations of non-compliance with professional standards or regulations, whether from inside or outside the firm.
- Take Action** – Take remedial actions against personnel who fail to follow quality control policies.
- Fix Deficiencies** – Address any weaknesses in the design or implementation of quality control policies or cases of non-compliance.

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INSTANT RECALL	<b>SA 220 : Quality Control on an Individual Audit</b>	<b>CHAPTER 1</b>
		<b>Concept 1.3</b>
<p>Although establishing and maintaining a system of quality controls that applies to the firm as a whole is a necessary element of the auditing profession's measures for ensuring that audit work is consistently of a high quality, it is not sufficient. Audits are conducted by individual audit teams and, therefore, quality controls are also needed that apply at the audit engagement level. These are addressed in SA 220. This Standard places primary responsibility on the audit engagement partner (the partner responsible for the particular audit) for engendering a quality culture within the audit team and for ensuring that audit team members adhere to procedures designed to ensure high quality audit work.</p>	<p><b>SA 220 – Quality Control for an Audit of Financial Statements</b></p> <p>© Manish M. Valechha</p>	

**Objective of Auditor with respect to Quality Control for an Audit of Financial Statements i.e. Objectives of SA 220**

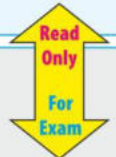
Objectives of SA 220	Simplified Explanation
<p>The objective of the auditor is to implement firm's quality control policies &amp; procedures (QCPP) at audit engagement level that provide the auditor reasonable assurance that :</p> <p>(a) the audit complies with professional standards and applicable legal and regulatory requirements, and</p>	<p><b>Audit firms, and every auditor, must ensure that audits meet the required quality standards. This means auditors and their team must follow:</b></p> <ul style="list-style-type: none"> <li><b>Professional standards</b> (like SAs, the Code of Ethics and other guidelines from the ICAI),</li> <li><b>Legal requirements</b> (such as Companies Act or relevant laws), and</li> <li><b>Other regulations</b>, like corporate governance requirements.</li> </ul>

(b) the auditor's report issued is appropriate in the circumstances.

Maintaining quality also means the audit report must be correct. Any opinion in the report must be supported by sufficient appropriate audit evidence and documentation.

\* Reasonable assurance, means a high, but not absolute, level of assurance.

The auditor can not obtain absolute assurance that the financial statements are free from material misstatement because of the inherent limitations.



To sum up, objective of auditor is to implement firm's QCPP to obtain reasonable assurance that

- audit complies with professional standards and applicable legal and regulatory requirements, and
- auditor's report issued is appropriate in the circumstances.

### Engagement Partner's Responsibilities for Securing a High-quality Audit

SA 220 is modelled on lines of SQC 1. SA 220 identifies six duties relating to audit quality for which the engagement partner is responsible, namely;

- (1) Leadership Responsibilities for Quality on Audits
- (2) Ethical requirements
- (3) Acceptance & Continuance of Clients & Engagements
- (4) Assignment of Engagement Teams
- (5) Engagement Performance
- (6) Monitoring the Effectiveness of the Quality Control

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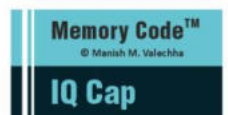
### Leadership Responsibilities for Quality of Audit Engagement

### SA 220 - Quality Control Requirement 1

According to SA 220, the engagement partner<sup>i.e. EP</sup> (i.e. partner responsible for particular audit) shall take responsibility for the overall quality on each audit engagement to which that partner is assigned.

The EP, by his actions and by direct communication with his team, should emphasize the importance of -

1. performing work that complies with professional standards and applicable legal and regulatory requirements;
2. complying with the firm's quality control policies and procedures;
3. issuing an audit report that is appropriate in the circumstances;
4. audit team members' ability to raise concerns without fear of reprisals;
5. quality as an essential element in performing the audit.



### Compliance with Relevant Ethical Requirements

### SA 220 - Quality Control Requirement 2

The responsibilities of an EP in relation to ethical requirements include:

1. Ensure audit team members comply with ethical standards,
2. Any threats to independence are identified and appropriate safeguards are applied, and
3. Report threats to relevant persons within the firm to determine appropriate action such as:
  - eliminating the activity/ interest that creates threat, or
  - withdrawing from the audit engagement, if legally permitted.

### Acceptance and Continuance of Clients and Engagements

### SA 220 - Quality Control Requirement 3

As per SQC 1, audit firms are required to have policies & procedures to properly evaluate whether to accept or continue an audit. SA 220 states that the engagement partner (EP) is responsible for ensuring these requirements from SQC 1 are followed.

### Assignment of Engagement Teams

### SA 220 - Quality Control Requirement 4

The EP must ensure that, collectively, the audit team and any external experts to be used on the audit have the capabilities, competence and time required to complete a high quality audit in accordance with professional standards and regulatory and legal requirements.

**Q Engagement Performance M. IMP SA 220 – Quality Control Requirement 5**

1. The EP is responsible for direction, supervision and performance of audit to ensure it meets professional standards, legal, and regulatory requirements. S/he must ensure that the auditor's report is appropriate in circumstances. **Before the audit report is issued, the engagement partner must review the audit documentation to confirm that enough reliable evidence has been gathered to support the conclusions and the audit report.**
2. EP is also responsible for making sure the team consults appropriately on difficult or contentious matters, both within the team and with others at the right level inside or outside the firm.

**Q Engagement Quality Control Review (EQCR) M. IMP This requirement is also discussed in greater detail in SQC 1**

**SA 220 expands on the requirements of SQC 1, noting that the engagement partner has following responsibilities -**

- - Ensuring an engagement quality control reviewer (EQCR) is appointed.
- - Discussing significant audit issues with the EQCR, including those identified during the review.
- - Ensuring the audit report is not issued until the EQCR is completed.

The SA 220 also notes that the engagement partner remains responsible for the audit engagement and its performance notwithstanding the involvement of the EQCR.

The benefit of using the reviewer is that they will not have been involved in the audit but will effectively re-check the application of quality control from an objective viewpoint.

**Engagement Quality Control Review (EQCR) – EQCR is required for:**

- listed entity audits; and
- other entities that need such a review, as determined by the firm.

The EQCR should be completed before the engagement partner releases the audit report.

**Engagement Quality Control Reviewer – See SQC 1**

**Regarding what an EQCR entails. SA 220 explains that it involves:**

- Discussing significant findings with the engagement partner.
- Reviewing of audit documentation related to significant judgments and conclusions.
- Evaluating significant judgments made by engagement team & the conclusions in the report;
- Reading the financial statements and proposed auditor's report to determine if the report is appropriate.

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**For listed entities EQCRs also cover:**

- Assessing the firm's independence.
- Ensuring proper consultation has taken place on difficult or contentious matters and that actions were taken.
- Verifying appropriate documentation has been selected for review.

**Q Monitoring the Effectiveness of the Quality Control SA 220 – Quality Control Requirement 6**

1. An **effective system of QC includes** a monitoring process that firm's QC policies & procedures are relevant, adequate, and operating effectively.
2. The EP shall consider the results of the firm's monitoring process and, if applicable, other network firms and determine whether deficiencies noted may affect the audit engagement.

**Q Engagement Documentation This requirement is also discussed in greater detail in SQC 1**

**Engagement Documentation** – It refers to the record of work performed, results obtained & conclusions the practitioner reached (also called 'working papers' or 'work papers'). The documentation for a specific engagement is assembled in an engagement file. **SAs require every step of the audit process to be fully and properly documented.**

**More specifically, SA 220 requires the following matters to be documented:**

1. Issues related to compliance with ethical requirements and how they were resolved.
2. Conclusions about meeting independence requirements, along with any discussions with the firm that support these conclusions.
3. Decisions regarding the acceptance or continuation of client relationships and audit engagements.
4. Details of nature, scope and conclusions from consultations undertaken during the course of the audit engagement.

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**Documentation of the EQCR** – Records should show that: **IMP**

- ①. The firm's EQCR procedures were followed.
- ②. The EQCR was completed before the audit report was issued, and
- ③. The reviewer found no significant unresolved issues.

<b>CHAPTER 1</b>	<b>Difference between SQC 1 and SA 220</b>
<b>Concept 1.4</b>	<b>SQC 1 vs. SA 220</b>
<b>SQC 1 - Firm-level quality control &amp; SA 220 - Engagement-level quality control for audits</b>	© Manish M. Valechha

*Quality control is a very important consideration for auditors. SQC 1 and SA 220 implicitly recognise that responsibility for securing high quality audit work lies at all levels of audit firms. While SQC 1 relates to quality control at the firm level, SA 220 addresses quality control at the audit engagement (individual audit) level. At firm level, an important element in securing high quality audit work is embedding quality in the firm's policies and procedures and monitoring the results of audit work. At an engagement level, the auditor should implement those quality control procedures that are in, the context of the policies and procedures of the firm, appropriate to the individual audit. In particular, delegated work should be properly directed, supervised, and reviewed.*

**Key Differences Between SQC 1 and SA 220** **V. IMP**

Serial No.	SQC 1	SA 220
1.	SQC 1 is applicable to audits, reviews of historical financial information, and other assurance and related services engagements.	SA 220 is applicable to audits of financial statements.
2.	SQC 1 applies to entire firm. Thus, it may affect audits.	SA 220 only applies to a particular audit engagement.
3.	Under SQC 1, responsibility for the firm's system of quality control is placed on the firm's CEO or managing partner/s (as appropriate).	Under SA 220, engagement partner takes responsibility of the same. So if quality standards are not maintained, it is the engagement partner's fault.
4.	SQC 1 relates to setting up of a quality control system consisting of policies and procedures for firm as a whole.	SA 220 deals with responsibilities of engagement teams to apply the firm-wide quality control procedures in the context of individual audits.
5.	The purpose of SQC 1 is to establish quality control policies & procedures (QCPP) that provide reasonable assurance that the firm and its personnel <ul style="list-style-type: none"> <li>• comply with professional standards and applicable regulatory &amp; legal requirements, and</li> <li>• issue reports that are appropriate in the circumstances.</li> </ul>	SA 220 is premised on the basis that firm is subject to SQC 1 (i.e. SA 220 assumes that the firm is already following SQC 1) Hence, <b>SQC 1 is a sine qua non (a necessary requirement) for SA 220 to apply.</b> Under SA 220, engagement teams implement firm-wide quality control procedures that are appropriate to the individual audit.

<b>CHAPTER 1</b>	<b>Mechanisms for Review of Quality Control</b>
<b>Concept 1.5</b>	<b>Peer review Board, Quality review Board and NFRA</b>
<b>Peer review Board, Quality review Board and NFRA</b>	© Manish M. Valechha

*Quality control is a major issue for audit firms. There are two Standards of Auditing which address quality control in audit firms, namely; SQC 1 and SA 220. Apart from these two standards, there also exists mechanism for review of quality control through - 1) Peer review Board (PRB), 2) Quality review Board (QRB), and 3) National Financial Reporting Authority (NFRA)*

**Peer Review Board or PRB**

1. **Meaning of Peer review** – "Peer" means a professional of similar standing, and "review" means re-examination. **Peer review is a process where an independent CA or firm (the "reviewer") checks policies & procedures of another CA firm (the "practice unit").** Its main purpose is to ensure that ICAI members follow all technical, professional, ethical standards, including regulatory requirements while performing assurance assignments. It also ensures that proper systems & documentation are in place to demonstrate the quality of the assurance services provided.
2. **Peer review applies only to attestation services that provide some form of assurance to users.** The "reviewer" is a member of ICAI, selected from a panel maintained by the **Peer Review Board**. The Peer Review Board is set up by the ICAI Council.
3. **Peer review Process** – During a peer review, the reviewer looks at the assurance engagement records of the practice unit for the review period. If the reviewer finds everything in order, they issue an unqualified report i.e. "peer review certificate." If there are issues (a "qualified report"), the reviewer informs the practice unit of the reasons and provides a due date for a follow-up review as decided by the Board.

#### Quality Review Board or QRB

- Quality Review Board (QRB)** – The QRB is set up by the Central Government. Its members are nominated by the Central Government and the ICAI Council. **The QRB's main functions are:**
  - Recommend ways to improve the quality of services provided by ICAI members.
  - Review the quality of services provided by ICAI members, including audit services.
  - Guide ICAI members on improving service quality and following legal and regulatory requirements.
- Statutory auditors of companies are selected for audit quality review using a risk-based approach.
- These reviews are conducted by technical experts empanelled by the QRB from across the country.

#### National Financial Reporting Authority or NFRA

- National Financial Reporting Authority (NFRA)** – NFRA is established under **Section 132(1)** of the Companies Act, 2013.
- Its duties include: Section 132(2)**
  - Monitoring and enforcing compliance with accounting and auditing standards.
  - Overseeing quality of services provided by professionals & suggesting measures for improvement.
- Section 132(3) of the Companies Act outlines the composition of NFRA** – NFRA comprises Chairperson and upto 15 members appointed by central government.
- Under Section 132(4), NFRA can investigate the auditors of certain companies, such as listed companies, insurance companies, banking companies, and others specified in Rule 3 of the NFRA Rules, 2018.**

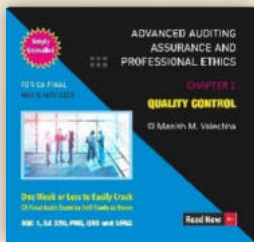
#### NFRA Vs. QRB

- NFRA** is responsible for overseeing the audit quality of listed companies and certain other entities such as insurance companies, banking companies, and others specified in NFRA Rules.
- QRB**, on the other hand, reviews the audit quality of ICAI members only for entities –
  - Not covered under Rule 3 of the NFRA Rules, 2018, and
  - Those referred to QRB by NFRA under relevant rules.

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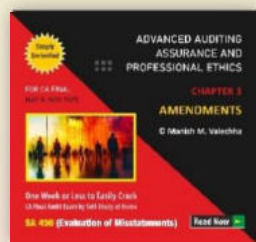
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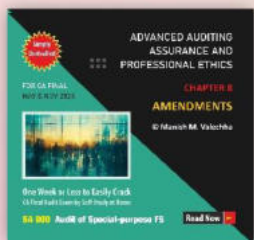
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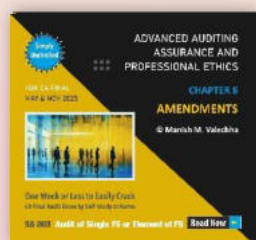
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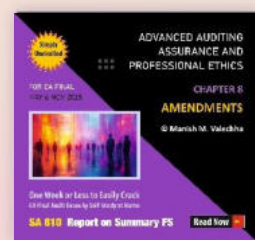
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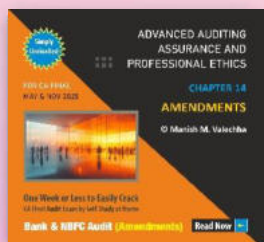
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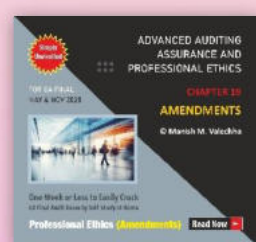
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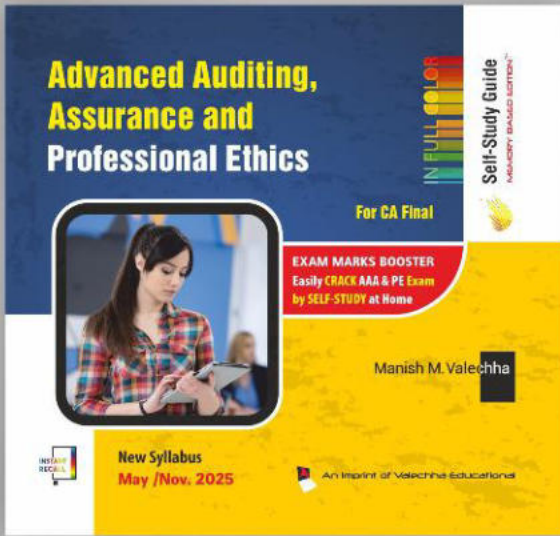
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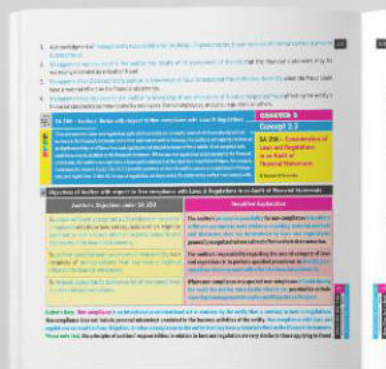
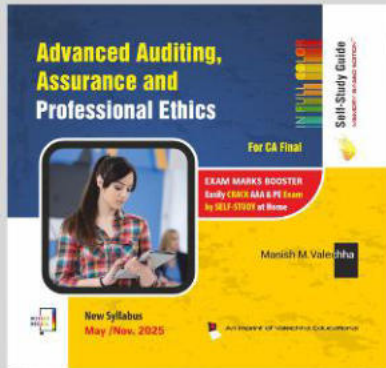
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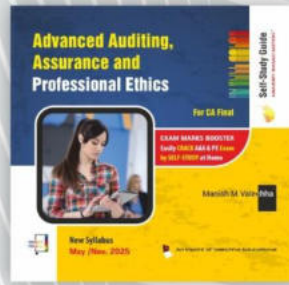
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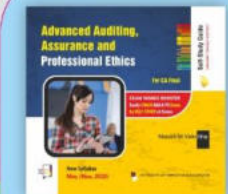
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