

CA FINAL

**HANDWRITTEN NOTES
ADVANCED AUDITING**

For MAY 24 & onwards

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CHAPTER - 1

QUALITY CONTROL

★ Overview of chapter :

- ▶ Quality Control : Quality Control is divided in 2 parts :

SQC-1

SA 220

Quality Control for firms that perform audit & review of historical fin. info., and other assurance & related service engagements.

Quality Control for an audit of Financial Statements.

- ▶ Audit Quality : High audit quality helps in creating trust in users of Fin. information.

The stakeholders relies upon assurance given by auditor, so it is necessary to ensure high audit quality in audit process. Audit quality involves application of audit process by auditors & quality control procedures.

SQC-1 & SA 220, both the standards deal with framework of audit quality → SQC-1 At level of firm.

→ SA 220 At individual Engagement level.

- ▶ Standards which are covered in this chapter : (Discussed later)

→ SQC-1 : Quality Control (QC) for firms

→ SA 220 : Quality Control for an audit of FS.

- ▶ Mechanism for review of quality control : (Discussed later)

1) Peer Review Board

2) Quality Review Board

3) NFRA

- Concept 1 : Introduction of SQC-1
Concept 2 : Elements of System of Quality Control
Concept 3 : Introduction of SA-220
Concept 4 : Responsibilities of Engagement Partner
Concept 5 : SQC-1 VS. SA-220 Key Differences
Concept 6 : Mechanisms for Review of Quality Control.

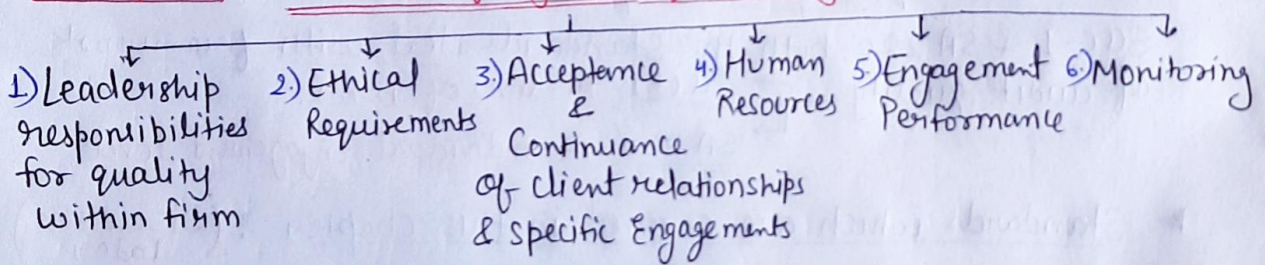
Concept 1 SQC-1 : Quality Control for firms that Perform Audits and Reviews of Historical Fin. Info. & Other Assurance & Related Service Engagements

Firm should Establish a system of quality control, designed to provide it with reasonable assurance that

Firm & its personnel Comply with professional std., regulatory and legal requirements.

Note : This quality control std. applies to all firms irrespective of their constitution.

Concept 2 Elements of System of Quality Control



1.) Leadership responsibilities : SQC-1 requires firms to Establish policies & Procedures and this policies required to assume ultimate responsibility of firm's CEO or managing partner.

Person who assign of operational responsibilities, they should have sufficient & appropriate experience, ability and necessary authority.

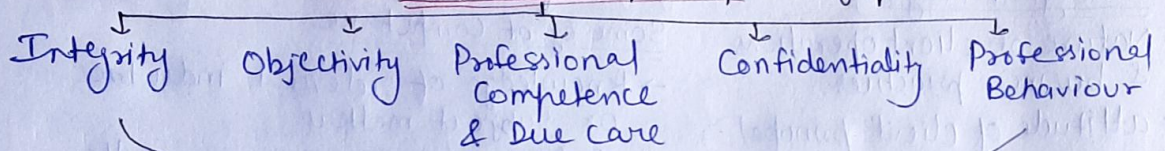
Requirement for firm's business strategy is subject to achieve quality in all the Engagements.

Audit quality is Non-negotiable. In this regard, it should be ensured that :

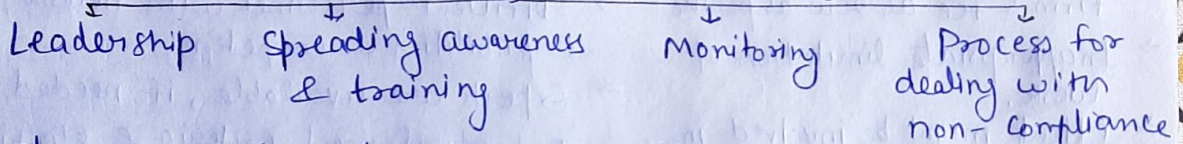
- (a) Firm assigns responsibilities so that Commercial Consideration do not overside quality. (यैसे की काए से quality affect न हो।)
- (b) Firm's policies & procedures are designed to demonstrate quality by addressing performance Evaluation, Compensation and promotion of personnel.
- (c) Firm devotes sufficient resources for development, documentation & Support to quality control policies.

2) Ethical Requirements : The firm should Establish policies & procedures to Comply with Ethical requirements contained in Code of Ethics by ICAI.

Code Establishes fundamental principles of prof. Ethics



This principles should be Emphasized by (येसे इन Principles को follow करनी है।)



★ Observance of Independence in all Engagements is the foundry requirements. So Establish policies & procedures to maintain independence and such policies should enable the firm to :

- Communicate independence requirements
- Identify & Evaluate threat to independence & take appropriate action to Eliminate or reduce, if appropriate then withdraw.

★ There should exist a MECHANISM in firm where Engagement partner share relevant info about client & any threat to independence for taken appropriate action by firm.

★ Code के according जिन लोगों को independent होने की जरूरत है उनसे firm को एक written confirm लेनी चाहिए at least annually.

SQC-1 lays special emphasis on familiarity threat.

Using same senior personnel on assurance engagement over prolonged period may impair quality of performance.

Therefore firm need safeguards to address this threat by determining appropriate criteria such as $\left\{ \begin{array}{l} \text{Nature of Engagement} \\ \text{Length of service of Senior personnel.} \end{array} \right.$

(एक Person को ज्यादा time तक 1 काम पर नहीं रखा जा पाए। उससे Quality Impact हो सकती है।)

3) Acceptance & Continuance of client relationships and Specific Engagements

A firm before accepting an engagement should acquire info. about client & it should help firm to decide about:

<p><u>Integrity</u> of client, Promoters & KMP</p> <p>↓</p> <p><u>Some Eg. of integrity</u></p>	<p><u>Competence</u> (including Capabilities, time & resources) to perform Engagement. (Based on Firm's Pov)</p> <p>↓</p> <p><u>Some Eg. of Competence</u></p>	<p><u>Compliance</u> with Ethical requirements.</p>
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- Nature of client operations & business practices.
- attitude of client's principal, KMP & TCWG
- Client aggressively maintain firm's fee as low as possible.
- Inappropriate limitation of work.
- Client might be involved in money laundering or other criminal act.
- Reasons of firm's appointment & non-reappointment of previous firm.

- Knowledge of relevant industries or subject matter.
- Ability to gain necessary skills & knowledge effectively.
- Sufficient personnel with necessary capabilities & competence.
- Experts are available, if needed.
- Individual meet criteria & eligibility ~~to~~ to perform engagement.
- Firm able to complete engagement within the reporting deadline.

★ If any conflict b/w firm & client, it should be properly resolved before accepting engagement. अगर firm को बात की गई info. मिलती है जो पहले मिलती तो firm decline कर देती Engagement को so now procedures & policies on continuance of engagement & client relationship should include:

- Prof. & legal responsibilities of firm to report to persons who made appointment & regulatory req. (in some cases). AND
- Possibility of withdrawing from engagement or from both.

- ★ Policies & Procedures on withdrawal, address issues that include the following:
 - Discussing with client's Mgt. & TCWG regarding appropriate action.
 - Firm think appropriate to withdraw then discuss with Mgt. & TCWG about withdrawal & its reason.
 - If any prof., regulatory or legal requirement to report the withdrawal together with reasons.
 - Documenting significant issues, consultations, conclusions.
- (अगर withdrawal करना है तो client के Mgt. & TCWG & regulatory authority को inform कर ले with reasons & कुछ resolve हो सके तो करना तो Mgt./TCWG से। and ये सब कुछ document करना है।)

4) Human Resources: Firm should establish policies & procedures to provide reasonable assurance that

→ Sufficient personnel with capabilities, competence & commitment to ethical princ

To perform its engagement with prof. std. and regulatory req.

- ★ Such policies & procedures should address relevant HR issues including → Recruitment → Compensation → training → Career development → Performance Evaluation.
- ★ There should be emphasis on continuing prof. development of firm's personnel.
- ★ Firm should assign responsibility for each engagement to an engagement partner.
- ★ Firm should establish policies & procedures requiring that:
 - Identity & role of engagement partner → communicated to client's Mgt. & TCWG.
 - Eng. partner has capabilities, competence, authority & time.
 - Responsibility of Eng. partner are clearly defined.
- ★ Firm should assess performance of their partners & team member keeping in mind their commitment towards quality.

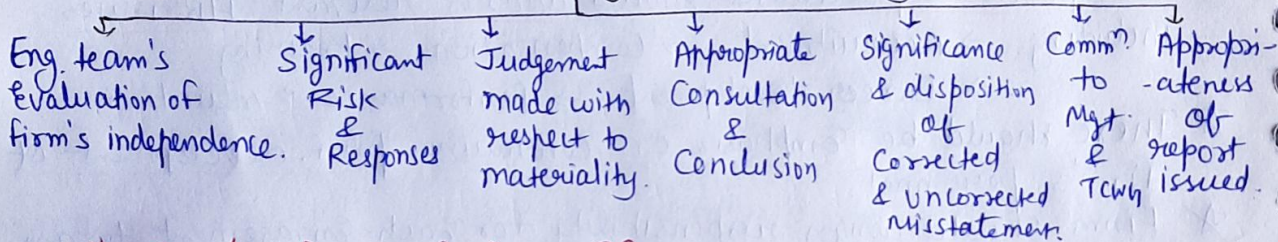
5) Engagement Performance: Consistency in quality is achieved through briefing ~~briefing~~ briefing of Eng. team of their obj., process for complying std., supervision, training, method of review of performance & documentation.

* Consultation in difficult or contentious matters

- Consultation includes discussion at prof. level with individual within/outside the firm who have expertise to resolve matters.
- Consultation is done with who having knowledge, seniority & experience on technical, ethical & other matters.
- A firm without internal resources, may take advantage of advisory services.
- Complete and proper documentation should be maintained on issues involved & result of Consultation.

* Engagement Quality Control (QC) Review

- Significant judgement reviewed by Eng. QC reviewer before report is issued. Extent of review is depend on Complexity & risk.
- Review doesn't reduce responsibilities of Eng. partner.
- Eng. QC reviewer is mandatory for all audits of FS of listed entities includes considering the following:

Who can be Eng. QC Reviewer ??

- Partner / other person (member of ICAI) / qualified external person (having Capability & Competence) / Team made of such individuals.
- In addition, Reviewer is an individual with suff. & App. Experience & authority to act as audit Eng. partner in listed entities.
- Reviewer को objectivity maintain करनी है so वो किसी भी Eng. में participate नहीं करेगा But Eng. partner consult कर सकता है reviewer से ।
AND objectivity maintain करना Eng team & review दोनों का काम है अगर possible न हो तो another person appoint कर के firm में से हो या तो Reviewer के लिए या Consultation के लिए ।
AND ability of reviewer for objective review impair हो रहा हो तो replacement कर सकते हैं ।

* Differences of Opinion

- The report should only be issued after resolution of such differences of opinion within Eng. team, with those consulted and b/w Eng. partner & reviewer.
- In case, recommendations of reviewer are not accepted & matter is not resolved then resolved by consulting with another practitioner or firm or prof. or regulatory body.

* Engagement Documentation

- The firm should establish policies & procedures to complete assembly of final Engagement files on timely basis after Eng. reports finalized.

Time limit of Completing Eng. reports

In case of Audit Eng. other cases
Not more than 60 days after date of auditor's report. within the limits appropriate to Engagements.

- Where 2 or more diff. reports are issued for same subject matter then it is considered as separate Eng. report on basis of time limits. Eg: firm issues auditor's report on component's fin. info. for group consolidation purpose and at subsequent date auditor's report on same fin. info. for statutory purpose.

- Policies & procedures should be designed to maintain the Confidentiality, safe custody, integrity, accessibility & retrievability of Eng. documentation.

AND it should require documentation that :

- Reg. procedures have been performed.
- Eng. QC review completed before report is issued.
- Reviewer is not aware of any unresolved matter that would cause to believe that sig. judgement of Eng. team & conclusion were not appropriate.

- Unless otherwise specified by law or regulation, Eng. documentation is property of firm. Firm not to provide Extract Client is available to provide is work perform is not to undermine of of assurance Eng. is case of firm & personnel is independence undermine of of

- Period of Retention of Eng. documentation :
 - In case of Audit Eng. : Not less than 7 yrs.
 - In other cases. : Time suff. to perform monitoring

6.) Monitoring : Quality control of Engagements has to be monitored taking into account following factors:

- QC system → Appropriately designed & Effectively implemented
- Changes reflected in QC policies, if change in Prof. Std., legal & regulatory req.
- Monitoring should be conducted by partner or person with suff. & App. Experience & authority.
- Dealing with Complaints & allegation.
- taking appropriate ~~at~~ remedial actions.

Concept 3 SA 220 : Quality Control for an audit of FS

SA 220 is premised on the basis that firm is subject to SAC-1.

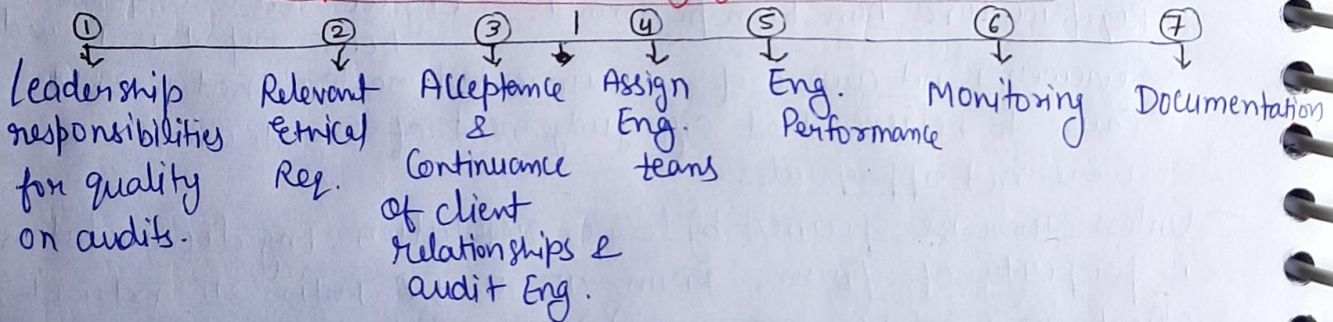
Eng. team have responsibility to implement QC procedures that are applicable to audit engagement and provide firm with relevant info. relating to independence.

Eng. teams are entitled to rely on firm's system of QC Unless info. provided by firm or other parties suggests otherwise.

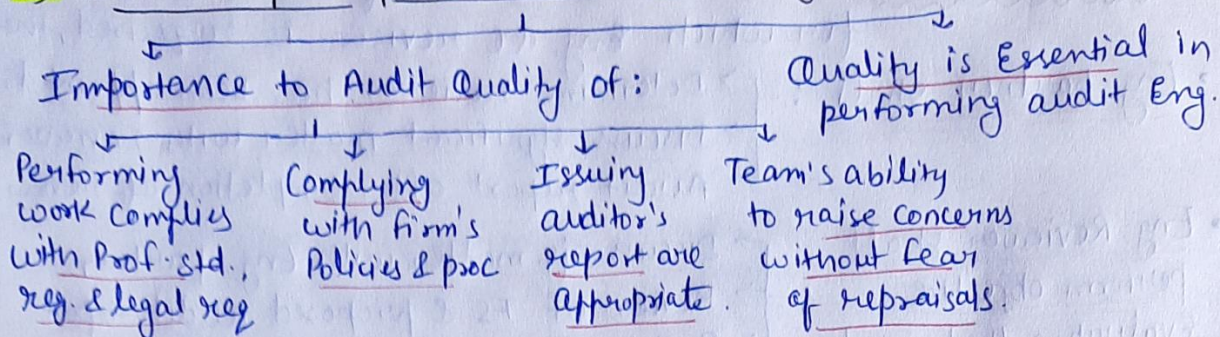
Objective of SA 220 : Obj. is to implement QC procedures that provide auditor with reasonable assurance

- Audit Complies with prof. Std., regulatory & Legal Req. AND
- Auditor's report issued is appropriate.

Concept 4 Responsibilities of Engagement Partner



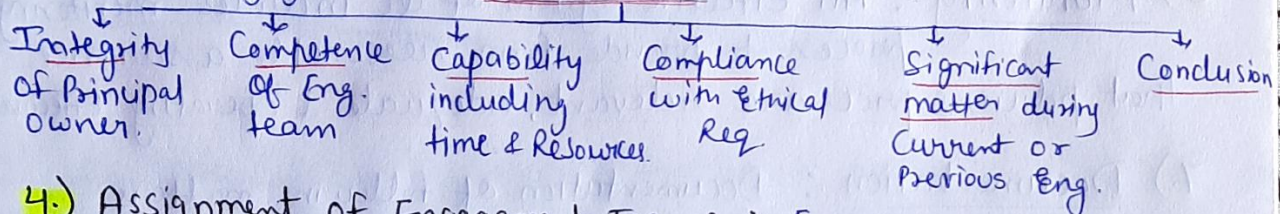
1.) Leadership responsibilities for quality on audits



2.) Relevant Ethical Requirement: Responsibilities of an Eng. partner in relation to ethical req. in an audit Eng. are as under

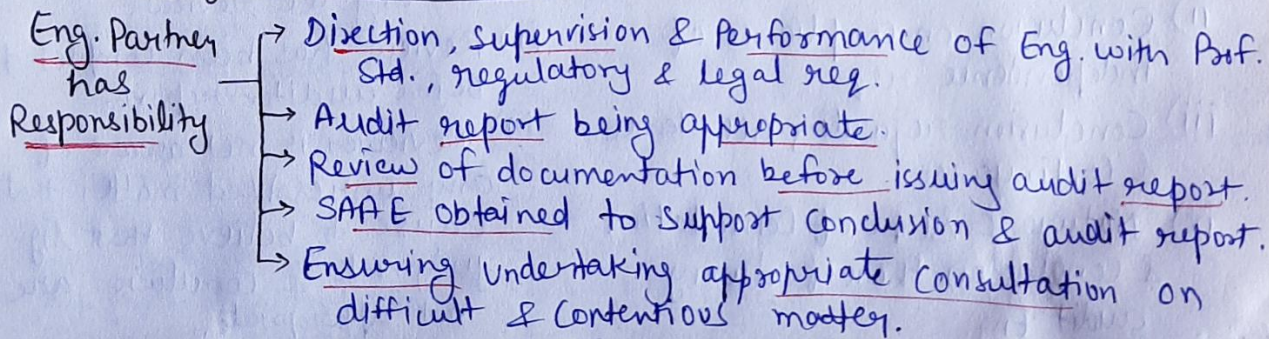
- Identify threat to independence where safeguards may not be able to eliminate or reduce.
- Reporting by Eng. partner for appropriate action like eliminating activity or interest that create threats or withdrawal if legally permitted.

3.) Accepting and Continuance of client relationship and Audit Engagement: Responsibility of Eng. partner is on lines of SQC-1 which require firm to obtain info. before accepting an engagement. Information like:



4.) Assignment of Engagement Teams: Eng. team and any auditor's expert (who are not part of Eng. team), collectively have appropriate competence & capabilities to perform Eng. with Prof. std., reg. & legal req.

5.) Engagement Performance:



* Eng. QC Review : For audit of FS of listed entities, for which Eng. QC review is required, then

- Eng. partner shall :
 - Determine reviewer has been appointed.
 - Discuss significant matter with reviewer.
 - Audit report after completion of review.
- Eng. Reviewer shall perform objective Evaluation that involve :
 - Discuss sig. matter with Eng. partner.
 - Review of FS & proposed audit report.
 - Review of selected documentation of sig. judgements & conclusions of Eng. team.
 - Evaluation of conclusions in formulating audit report is appropriate.
- Eng. Reviewer shall also consider the following :
 - Eng. team's Evaluation of firm's independence.
 - Appropriate Consultation on diff. of opinion & conclusions.
 - Review of selected doc. reflect work perform.

* Differences of opinion : The Eng. team shall follow firm's policies & procedures for dealing with and resolving differences of opinion.

6.) Monitoring : An effective system of QC includes monitoring process to provide firm reasonable assurance that policies & proc. are relevant, adequate & operating effectively.

7.) Documentation : Documentation of following matters

↓
By Engagement Partner

- i) Issues identified related to compliance and how they were resolved.
- ii) Conclusion on compliance of Independence req.
- iii) Conclusion regarding acceptance & continuance.
- iv) Nature & Scope of Consultation & conclusion thereof during audit Eng.

↓
By Engagement QC Reviewer

- i) Procedures have been performed which req. by firm's policies on Eng. QC review.
- ii) Review has been completed before auditor report.
- iii) Reviewer is not aware of any unresolved matter that cause to believe that sig. judgements & conclusion are not appropriate.

(जो काम Partner & Reviewer ने किपे है उन सबको document करना है।)

Concept 5 / SQC 1 VS. SA 220 - Key Differences in Nature Scope & Applicability

S.No.	SQC-1	SA 220
1.	It applies to Entire firm. Responsibility of firm to be assumed by CEO or managing partners.	It applies to particular audit Engagements. Engagement partner takes responsibility of the same.
2.	Applicable to audits, review of historical is fin. info. & other assurance and related service Engagements.	Applicable to audit Engagements only.
3.	Setting up a Quality Control System for firm as a whole consisting of policies & proced.	Responsibilities of Eng. team to implement QC procedures that are applicable to audit Engagements.
4.	System of QC → Provide reasonable assurance that <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="text-align: center;"> <p>↙</p> <p>Firm & its personnel Comply Prof. std., regulatory & legal req.</p> </div> <div style="text-align: center;"> <p>↘</p> <p>Report issued by firm & Eng. partners appropriate</p> </div> </div>	It is premised on basis that firm is subject to SQC-1. It is within overall context of firm's system of QC.

Concept 6 / Mechanisms for Review of Quality Control

Peer Review Board	Quality Review Board	National Fin. Rep. Auth. (NFRA)
<ul style="list-style-type: none"> → Constituted by Council of ICAI. → <u>Objective</u> is to ensure that <ul style="list-style-type: none"> • Tech., Prof. & Ethical std. Complied • Proper system include documentation for quality of assurance services. in carrying out assurance assignments. → Peer review meant for enhancing quality of prof. work resulting in more reliable audit reports. 	<ul style="list-style-type: none"> → Set up by Central government. → Consist members nominated by Cn & Council of ICAI. → <u>Function of QRB</u> :- <ul style="list-style-type: none"> • To make recommendation to council regarding quality of service provided by members. • To Review quality of services by members including audit service. • To guide members to improve quality of services. 	<ul style="list-style-type: none"> → Constituted in terms of Sec. 132(1) of Co. Act, 2013. → <u>Duties of NFRA</u> : <ul style="list-style-type: none"> • Monitor & Enforce compliance with a/cing std. std. & auditing std. • Oversee quality of services of professionals & suggest measure for improvement. → It includes oversee quality of audit service of listed entities also.