Ch 01 PARAM

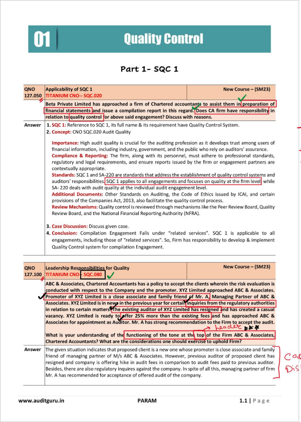
Tuesday, 5 March 2024 7:04 PM

Ch 01 PARAM

Very Important to understand

- Line to Line Cramming ☒ ✓
- Seperate Cramming for each answer ☒ ✓
- Identify which concepts are discussed ✓ ✓
- Key points of that concept as per concept book ✓ ✓
- Logical/Conceptual Retention ✓ ✓
- Multiple Revision ✓ ✓
- Answer 80% same as suggested ✓ ✓
- Will it help in new Question, MCQ ✓ ✓
- Output of line to line Cramming → Disaster ☒ ✓
- Smart students know how much to remember ✓ ✓

- Don't try to make Taj mahal → Time × → Resources × ✓
- Simple & Elegant Home ✓ ✓



01 Quality Control

Part 1- SQC 1

QNO 127.050	Applicability of SQC 1 TITANIUM CNO-- SQC.020	New Course – (SM23)

Beta Private Limited has approached a firm of Chartered accountants to assist them in preparation of financial statements and issue a compilation report in this regard. Does CA firm have responsibility in relation to quality control for above said engagement? Discuss with reasons.

Answer

1. **SQC 1:** Reference to SQC 1, its full name & its requirement have Quality Control System.
2. **Concept:** CNO SQC.020 Audit Quality

   Importance: High audit quality is crucial for the auditing profession as it develops trust among users of financial information, including industry, government, and the public who rely on auditors' assurance.
   Compliance & Reporting: The firm, along with its personnel, must adhere to professional standards, regulatory and legal requirements, and ensure reports issued by the firm or engagement partners are contextually appropriate.
   Standards: SQC 1 and SA-220 are standards that address the establishment of quality control systems and auditors' responsibilities. SQC 1 applies to all engagements and focuses on quality at the firm level while SA- 220 deals with audit quality at the individual audit engagement level.
   Additional Documents: Other Standards on Auditing, the Code of Ethics issued by ICAI, and certain provisions of the Companies Act, 2013, also facilitate the quality control process.
   Review Mechanisms: Quality control is reviewed through mechanisms like the Peer Review Board, Quality Review Board, and the National Financial Reporting Authority (NFRA).

3. **Case Discussion:** Discuss given case.
4. **Conclusion:** Compilation Engagement Falls under "related services". SQC 1 is applicable to all engagements, including those of "related services". So, Firm has responsibility to develop & implement Quality Control system for compilation Engagement.

- Reference of SQC1, full name & SA220 of Std, 1-2 lines about it ✓
- Quality & Its importance ✓
- Role & Applicability of SQC1 & SA220 ✓
- Role of Co-Act, Code of Ethics & Other Stds ✓
- Role of Review mechanism ✓
- Case Discussion ✓
- Conclusion
  ↳ yes follow Quality control Policies & Procedures ✓

(i) Reference ✓

(ii) Content ✓ [- Quality - Role of 3 Things.]

(iii) Case Discussion

(iv) Conclusion

QNO 127.100	Leadership Responsibilities for Quality TITANIUM CNO-- SQC.080 ✓	New Course – (SM23)

ABC & Associates, Chartered Accountants has a policy to accept the clients wherein the risk evaluation is conducted with respect to the Company and the promoter. XYZ Limited approached ABC & Associates. Promoter of XYZ Limited is a close associate and family friend of Mr. A, Managing Partner of ABC & Associates. XYZ Limited is in news in the previous year for certain inquiries from the regulatory authorities in relation to certain matters. The existing auditor of XYZ Limited has resigned and has created a casual vacancy. XYZ Limited is ready to offer 25% more than the existing fees and has approached ABC & Associates for appointment as Auditor. Mr. A has strong recommendation to the Firm to accept the audit.

Leader ★★★

What is your understanding of the functioning of the tone at the top of the Firm ABC & Associates, Chartered Accountants? What are the considerations one should exercise to uphold Firm?

Answer

The given situation indicates that proposed client is a new one whose promoter is close associate and family friend of managing partner of M/s ABC & Associates. However, previous auditor of proposed client has resigned and company is offering hike in audit fees in comparison to audit fees paid to previous auditor. Besides, there are also regulatory inquires against the company. In spite of all this, managing partner of firm Mr. A has recommended for acceptance of offered audit of the company.

Case Discussion

✓ (i) Reference of SQC1 & SA220 & Related things

★★★ (ii) Content Leadership Responsibilities ✓

✓ ① Policies & Procedures for Quality [culture]

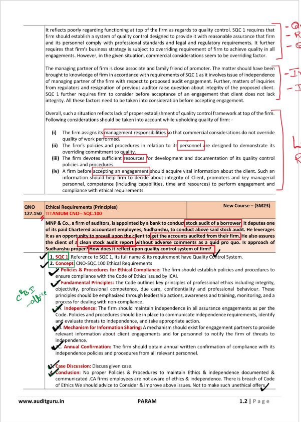
✓ ② Responsibility → Ultimate → operational

✓ ③ Approach → Priority of Quality over commercial aspect ✓
→ Management & Personnel Responsibilities & Policies ✓
→ Resource Allocation ✓

✓ ★★★ Content of Acceptance & continuance → Integrity ✓ → Competence ✓ → Ethical & Independent ✓ → Significant matters ✓

(iii) Case Discussion → Integrity Issues ✓ → Ethics & Independence Issues ✓ → Commercial v/s Quality ✓

(iv) Conclusion → Consider, If not resolved don't accept ✓



It reflects poorly regarding functioning at top of the firm as regards to quality control. SQC 1 requires that firm should establish a system of quality control designed to provide it with reasonable assurance that firm and its personnel comply with professional standards and legal and regulatory requirements. It further requires that firm's business strategy is subject to overriding requirement of firm to achieve quality in all engagements. However, in the given situation, commercial considerations seem to be overriding factor.

- Quality & Its Importance
- Role of SQC1
- Quality over Commercial Interest

The managing partner of firm is close associate and family friend of promoter. The matter should have been brought to knowledge of firm in accordance with requirements of SQC 1 as it involves issue of independence of managing partner of the firm with respect to proposed audit engagement. Further, matters of inquiries from regulators and resignation of previous auditor raise question about integrity of the proposed client. SQC 1 further requires firm to consider before acceptance of an engagement that client does not lack integrity. All these factors need to be taken into consideration before accepting engagement.

- Independence Issue
- Integrity Issues

Overall, such a situation reflects lack of proper establishment of quality control framework at top of the firm. Following considerations should be taken into account while upholding quality of firm: -

(i) The firm assigns its management responsibilities so that commercial considerations do not override quality of work performed.
(ii) The firm's policies and procedures in relation to its personnel are designed to demonstrate its overriding commitment to quality.
(iii) The firm devotes sufficient resources for development and documentation of its quality control policies and procedures.
(iv) A firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about integrity of Client, promoters and key managerial personnel, competence (including capabilities, time and resources) to perform engagement and compliance with ethical requirements.

Leadership Responsibilities

QNO 127.150	Ethical Requirements (Principles) TITANIUM CNO-- SQC.100	New Course – (SM23)

MNP & Co., a firm of auditors, is appointed by a bank to conduct stock audit of a borrower. It deputes one of its paid Chartered accountant employees, Sudhanshu, to conduct above said stock audit. He leverages it as an opportunity to prevail upon the client to get the accounts audited from their firm. He also assures the client of a clean stock audit report without adverse comments as a quid pro quo. Is approach of Sudhanshu proper? How does it reflect upon quality control system of firm?

1. **SQC 1** Reference to SQC 1, its full name & its requirement have Quality Control System.
2. **Concept:** CNO-SQC.100 Ethical Requirements
   1. **Policies & Procedures for Ethical Compliance:** The firm should establish policies and procedures to ensure compliance with the Code of Ethics issued by ICAI.
   2. **Fundamental Principles:** The Code outlines key principles of professional ethics including integrity, objectivity, professional competence, due care, confidentiality and professional behaviour. These principles should be emphasized through leadership actions, awareness and training, monitoring, and a process for dealing with non-compliance.

   CBI -office

   3A. **Independence:** The firm should maintain independence in all assurance engagements as per the Code. Policies and procedures should be in place to communicate independence requirements, identify and evaluate threats to independence, and take appropriate action.
   3B. **Mechanism for Information Sharing:** A mechanism should exist for engagement partners to provide relevant information about client engagements and for personnel to notify the firm of threats to independence.
   3C. **Annual Confirmation:** The firm should obtain annual written confirmation of compliance with its independence policies and procedures from all relevant personnel.
3. **Case Discussion:** Discuss given case.
4. **Conclusion:** No proper Policies & Procedures to maintain Ethics & independence documented & communicated .CA firms employees are not aware of ethics & independence. There is breach of Code of Ethics We should advice to Consider & improve above issues. Not to make such unethical offers.

✓ (i) Reference of SQC1 & SA220 & Related things

QNO 127.450	Consultation with EQCR Reviewer TITANIUM CNO-- SQC.340	New Course – (SM23)

PQR & Associates are statutory auditors of a listed company. There arose an issue during the course of audit relating to related party transactions. The engagement partner wants to consult engagement quality control reviewer on this matter during the course of audit process itself. Can he consult with engagement quality control reviewer? Discuss.

1. **SQC 1:** Reference to SQC 1, its full name & its requirement have Quality Control System.
2. **Concept:** CNO SQC.340 Who can become Engagement Quality Control Reviewer?

   Not a Team Member & No Participation:
   The engagement quality control reviewer should be a qualified external individual, such as a partner or employee who is a member of ICAI, or someone from another firm with a similar background.

   The reviewer must maintain objectivity and should not participate in the engagement or make decisions for the engagement team.
   Consultation: The engagement partner can consult the reviewer during the engagement, provided it does not compromise the reviewer's objectivity and eligibility.
   Substitution: If the consultations become significant and objectivity cannot be maintained, another individual within the firm or a qualified external person should be appointed as either the engagement quality control reviewer or the person to be consulted on the engagement.
   The firm's policies should include provisions for replacing the engagement quality control reviewer if their ability to perform an objective review is compromised.

3. **Case Discussion:** Discuss given case.
4. **Conclusion:** It is necessary to maintain objectivity of reviewer. Participation in engagement or making decisions for the engagement team should be avoided. Engagement partner may consult engagement quality control reviewer during the engagement without compromising objectivity.

✓ (ii) Content – Who can become Reviewer?
✓ ① Qualification → CA
→ Partner or Employee
→ Within or outside
✓ ② Involvement → Not Team Member
→ No Participation
✓ ③ Consultation → Allowed → No Compromise with eligibility & Objectivity
→ ✓ Significant → Cannot maintain eligibility & objectivity
↓
Substitution → Either
- Reviewer
- Consultant

✓ (iii) Case Discussion

✓ (iv) Conclusion → Consultation Allowed Subject to eligibility & objectivity

QNO 127.500	Examples of the matters to be considered with regard to the integrity of a client by the firm as per the requirements of SQC 1 TITANIUM CNO— SQC.160	Old Course – (M19R, N19E) ✓

CA M is introduced to a prospective client in a social function. He assures to visit office of CA M very soon in relation to professional work. During discussions over a cup of coffee next week, it transpires that there was a search by Enforcement Directorate in his premises about a month back resulting in recovery of huge sum of cash. The income tax department had also searched his premises in relation to bogus capital gains on penny stocks. Lamenting poor quality of services provided by his present auditor, he offers appointment as tax auditor of his five family-owned firms to CA M in lieu of handsome fees. What are the factors to be evaluated by CA M if he wants to take up the engagement?

Answer

Part I -- Relevant Standards & Laws

- SQC 1

Part II -- Requirements of Relevant Standards & Laws

➢ As per SQC 1, the firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

- Acceptance & Continuance Procedures
- Document Issues

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

- The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance
- The nature of the client's operations, including its business practices.
- Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible

Factors Evaluating Integrity

✓ (i) Reference of SQC-1 & SA220
✓ (ii) Content
✓ - Acceptance & Continuance Procedures & Documentation of Issues
✓ - Factors Evaluating Integrity

SAR ki Integrity

✓ S → Scope & Legality → Limitation in Scope ✓
→ Illegal Activities ✓ (money laundering & Criminal Activities)
✓ A → Accounting Attitude & Fees concern ✓
✓ R → Reason ✓
ki
✓ I → Identity & operation → Promoters, Owners, KMP ✓
→ Governance ✓
→ Nature of Operations & Business Practices ✓

✓ (iii) Case Discussion

✓ (iv) Conclusion → ✓ Possible involvement in money laundering → ✓ Don't Accept Assignment

---

- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities
- The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.

The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

QNO 127.550	Competence Issues During Audit TITANIUM CNO -- SQC.180	Old Course – (N22E)

AP & Associates, Chartered Accountants, are Statutory Auditors of XP Limited for the last four years. XP Limited is engaged in the manufacture and marketing of FMCG Goods in India. During 2021-22, the Company has diversified and commenced providing software solutions in the area of "e-commerce" in India as well as in certain European countries. AP & Associates, while carrying out the audit for the current financial year, came to know that the company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise and infrastructure to carry out the audit of this diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw.

Acceptance and Continuance of Client Relationships and Specific Engagements: As per SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements", the firm should establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it is competent to perform the engagement and has the capabilities, time and resources to do so.

In the given case, AP & Associates, Chartered Accountants, statutory auditors of XP Limited for the last four years, came to know that the company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise for the same, therefore, AP & Associates wish to withdraw from the engagement and client relationship. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship **address issues that include the following:**

- Discussing with the appropriate level of the client's management and those charged with its governance regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- Considering whether there is a professional, regulatory or legal requirement for the firm to remain in place, or for the firm to report the withdrawal from the engagement, or from both the engagement and the client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- Documenting significant issues, consultations, conclusions and the basis for the conclusions.

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

QNO 127.600	Review (Procedures) & Rotation of Partner as per SQC-1 TITANIUM CNO -- SQC.120	Old Course – (M21E,N22M)

HK & Co. Chartered Accountants have been auditors of SAT Ltd (a listed entity) for the Last 8 financial years. CA. H, partner of the firm, has been handling the audit assignment very well since the appointment. The audit work of CA. H and her team is reviewed by a senior partner CA. K to assure that audit is performed in accordance with professional standards and regulatory and legal requirements. CA. K was out of India for some personal reasons, so this year CA. G has been asked to review the audit work. In your opinion,

---

what areas CA. G should consider at the time of review. List any four areas and also comment whether firm is complying with Standard on Quality Control or not.

Answer As per SQC 1, an engagement quality control review for audits of financial statements of listed entities includes considering the following:

- **(i)** The work has been performed in accordance with professional standards and regulatory and legal requirements;
- **(ii)** Significant matters have been raised for further consideration;
- **(iii)** Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- **(iv)** There is a need to revise the nature, timing and extent of work performed;
- **(v)** The work performed supports the conclusions reached and is appropriately documented;
- **(vi)** The evidence obtained is sufficient and appropriate to support the report; and
- **(vii)** The objectives of the engagement procedures have been achieved.

The firm should establish policies and procedures:

- (i) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
- (ii) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the Code.

The familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the engagement partner should be rotated after a predefined period, normally not more than seven years.

From the facts given in the question and from the above stated paras of SQC 1, it can be concluded that firm is not complying with SQC 1 as Engagement Partner H is continuing for more than 7 years.

QNO 127.650	Responsibility of EP after EQCR & Aspects to be considered by Engagement Quality Control Reviewer TITANIUM CNO -- SA220.160	Old Course – (M22E)

PQR & Associates, Chartered Accountants, is a partnership firm having 3 partners CA P, CA Q and CA R. PQR & Associates are appointed as Statutory Auditors of ABC Limited, a listed entity for the financial year 2021-22 and CA P is appointed as Engagement Partner for the audit of ABC Limited. Before issuing the Audit Report of ABC Limited, CA P asked CA R to perform Engagement Quality Control Review and is of the view that his responsibility will be reduced after review by CA R. Whether the contention of CA P is correct? What are the aspects that need to be considered by CA R while performing Engagement Quality Control Review for audit of financial statements of ABC Limited?

Answer **As per SQC 1,** "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements", the review does not reduce the responsibilities of the engagement partner. Hence, contention of CA. P that after engagement quality control review by CA. R, his responsibility will be reduced, is not correct.
However, CA. R needs to consider the following aspect while performing Engagement Quality Control Review for audit of financial statements of a listed entity ABC Ltd.:

1. The engagement team's evaluation of the firm's independence in relation to the specific engagement.
2. Significant risks identified during the engagement and the responses to those risks.
3. Judgments made, particularly with respect to materiality and significant risks.
4. Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
5. The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
6. The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

7. Whether working papers selected for review 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 financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.

QNO 127.660 **Appropriateness of EQCR Reviewer** **Old Course – (N23M)**
TITANIUM CNO-- SQC.340

CA Ragini is offered appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of financial year 2022-23 of XPM Limited, a listed company operating from a small town. She is also based in the same town and was not engaged previously to conduct audit of a listed entity. She accepts the appointment to act as EQCR. She performs the review by ticking a "Yes / No" checklist and signing on some of working papers prepared by engagement team. The audit file does not contain any material which shows that the work of EQCR is separate from the work of the engagement team. Do you agree with the approach adopted by EQCR? By commenting on issues involved in the above situation, discuss whether she can be held guilty of professional misconduct. ***

Answer

~~SA 330 states that irrespective of the assessed risk of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure. In the given situation, the auditor has assessed the risk of material misstatement to be low. However, despite such assessment, substantive procedures have to be performed.~~

~~SA 330 further states that the auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures. External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties.~~

~~Despite the low assessed risk of material misstatement, substantive procedures have to be performed due to the following reasons: -~~

~~(i) The auditor's assessment of risk is judgmental and so may not identify all risks of material misstatement and~~
~~(ii) there are inherent limitations to internal control, including management override.~~

~~It is also in accordance with the spirit of professional skepticism. Therefore, as discussed above, the approach of CA Y is in accordance with Standards on Auditing.~~

✓ (i) Reference of SQC1 & SA220
✓ (ii) Content/Concept
✓ - Who can be EQCR Reviewer → CA
  → Partner or Emp
  → Within or outside
  → No Involvement **
  → Sufficient & Appropriate Experience & Authority
    → Sig Matter ✓
    → Sig Judgement ✓
    → Review → AR/FST ✓
    → Conclusions ✓
✓ - For listed Co
  ↓
  ✓ • Technical Expertise & Experience
  ✓ • Sufficient & Appropriate Experience & Authority → To Act as Eng Partner
✓ - Documentation → Firm's policies & procedures performed ✓
  → Not aware about unresolved issues ✓
  → Significant Judgements & Conclusions Appropriate ✓
(iii) Discuss Case ✓
(iv) Conclusion → Non Compliance of Above ✓
  • No Technical expertise & experience
  • Not enough to act as EP ✓
  • No Documentation ✓
  • No Proper work ✓
  ↓
  EP & EQCR Reviewer both are at fault. ✓

QNO 127.675 **Assembly of Audit File** **New Course – (SM23)**
TITANIUM CNO-- SQC.380

Ramanujan, a CA final student, feels that engagement file in audit engagement should be ready prior to issue of audit report. Discuss whether Ramanujan's view is in order

✓ 1. **SQC 1:** Reference to SQC 1, its full name & its requirement have Quality Control System.
✓ 2. **Concept:** CNO SQC 380 Engagement Documentation (Explain Engagement document Completion point)

✓ ① Engagement ~~Completion~~ File Finalisation and ~~Report Handling~~ Multiple Reports: The firm should establish policies for engagement teams to finalize engagement files promptly, within 60 days after the auditor's report for audit engagements. If multiple reports are issued for the same subject matter, each report should be treated as a separate engagement for final file assembly.

**FSRO

✓ ② Documentation Security: Policies should ensure the confidentiality, safe storage, integrity, accessibility, and retrievability of engagement documentation.

✓ ③ Documentation Retention: Engagement documentation should be retained long enough to evaluate the firm's compliance with its quality control system, or longer if required by law or regulation. Specifically for audit engagements, the retention period is typically no less than seven years from the date of the auditor's report, or if later, the date of the group auditor's report..

✓ ④ Documentation Ownership: Unless specified by law or regulation, engagement documentation is the firm's property. The firm may share parts of the documentation with clients without compromising the work's validity or the firm's independence.

✓ 3. **Case Discussion:** Discuss given case.
✓ 4. **Conclusion:** Engagement files should be completed within 60 days post date of the auditor's report for audit engagements. So, contention of Ramanujan is Incorrect ✓

QNO 127.685 **Difference of Opinion between EP & EQCR Reviewer** **New Course – (SM23)**
TITANIUM CNO-- SQC.360

BNE & Co. are in midst of audit process of a listed company. During the course of audit, an issue arose relating to revenues from contracts with customers in terms of Ind AS 115. The engagement partner took a certain stand. However, engagement quality control reviewer recommended otherwise after review. The engagement partner is not willing to accept recommendations of reviewer. How can the stalemate be ended?

✓ 1. **SQC 1:** Reference to SQC 1, its full name & its requirement have Quality Control System.
✓ 2. **Concept:** CNO SQC.360 Differences of Opinion

Content

✓ 1. **Differences:** Differences of opinion can occur within the engagement team, with consulted individuals, and between the engagement partner and the engagement quality control reviewer.
✓ 2A. **Report Issuance:** The report should not be issued until all such differences are resolved.
✓ 2B. **Resolution Procedures:** The matter should be addressed following the firm's established procedures. These procedures may involve consulting with another practitioner or firm, or a professional or regulatory body.
✓ 3. **Quality Assurance:** Adherence to these procedures is crucial to ensure the highest quality and accuracy of the engagement process and the resulting report.

3. **Case Discussion:** Discuss given case.
✓ 4. **Conclusion:** Procedures discussed should be followed to resolve difference of opinion. Audit Report should be issued only after difference is resolved.

QNO 127.700 **How to deal with complaints & allegations against CA Firm** **Old Course – (N20E, M22M)**
TITANIUM CNO -- SQC.420

M/s NK & Co., Chartered Accountants were appointed as Statutory Auditors of Fresh Juice Limited for the F.Y 2019-2020. The previous year's audit was conducted by M/s. LP & Associates. After the audit was completed and report submitted, it was found that closing balances of last financial year i.e., 2018-19 were incorrectly brought forward. It was found that M/s NK & Co. did not apply any audit procedures to ensure that correct opening balances have been brought forward to the current period. Accordingly, a complaint was filed against NK & Co. in relation to this matter. You are required to inform what policies are required to be implemented by NK & Co. for dealing with such complaints and allegations as required by Standard on Quality Control (SQC). ✓

Answer

In the given question, NK & Co. did not apply audit procedures to ensure that opening balances had been correctly brought forward. A complaint was filed against the auditors in this context. As per Standard on Quality Control (SQC) 1 "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements",

Policies Procedures

(i) The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with

(a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and

(b) Allegations of non-compliance with the firm's system of quality control.

Source

(ii) Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the firm. They may be made by firm personnel, clients or other third parties. They may be received by engagement team members or other firm personnel.

Channel

(iii) As part of this process, the firm establishes clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.

Investigation

(iv) The firm investigates such complaints and allegations in accordance with established policies and procedures. The investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement, and includes involving legal counsel as necessary. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation. Complaints, allegations and the responses to them are documented.

~~Deficiencies~~ Action

(v) Where the results of the investigations indicate deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control by an individual or individuals, the firm takes appropriate action.

✓ (i) Reference of SQC1 & SA220
✓ (ii) Content
- Complaints & Allegation
  Std Point → Policies & Procedures ✓
  ✓ ① Source → Within
    → Outside
  ✓ ② Channel → Clearly defined Channel → No Fear of Reprisal
  ✓ ③ Investigation → Policies & Procedures ✓
    → Supervision → Partner → Not Involved ✓
    → Legal Councel ✓
    → Small Firm → External Individual or Firm ✓
  ✓ ④ Action → Deficiencies or Non-Compliance
  ✓ ⑤ Documentation → Complaint & Allegation + Response
✓ (iii) Case Discussion
✓ (iv) Conclusion → Firm should make & implement above policies ✓

QNO 127.750	Relevance of EQCR TITANIUM CNO-- SQC.300	New Course – (SM23)

GVN & Associates are auditors of a listed company involved in "fin-tech" sector. The engagement team is stuck up with some issue pertaining to a particular Ind AS applicable to the company. They have framed a query and sent to ICAI for expert opinion on the matter. The issue was resolved upon receipt of expert opinion. Since expert opinion was provided by ICAI, engagement team was of the view that appointment of engagement quality control reviewer has lost its relevance. Do you agree?

Answer

1. **SQC 1:** Reference to SQC 1, its full name & its requirement have Quality Control System.
2. **Concept:** CNO SQC.300 Engagement quality control review

1A. Purpose: Engagement quality control review is a critical part of the audit process, ensuring significant judgments are objectively examined to minimize the risk of issuing an inappropriate report.

1B. Extent: The complexity of the engagement and the potential risk of an inappropriate report determine the extent of the review. More complex and higher-risk engagements require a more comprehensive review.

2A. Mandatory: Engagement quality control review is compulsory for all audits of financial statements of listed entities, ensuring a higher level of scrutiny and oversight for publicly traded companies.

2B. Criteria: For engagements other than audits of financial statements for listed entities, the firm must establish criteria.
to determine which cases necessitate the performance of an engagement quality control review.

3. Responsibility: The engagement quality control review does not reduce the responsibilities of the engagement partner, who remains accountable for the overall quality and accuracy of the engagement.

3. **Case Discussion:** Discuss given case.
4. **Conclusion:** Expert's Opinion is Related to an issue of interpretation. Engagement quality control review is mandatory for listed entities. The appointment of an engagement quality control reviewer is a separate and compulsory requirement in audits of listed companies

(i) ✓ Reference of SQC1 & SA220
(ii) Content
- EQCR → ✓ Purpose & Extent → Evaluate significant Judgements of Audit to reduce Audit Risk to acceptable level
  ↳ Depends on → Complexity & Risk
→ ✓ Applicability → Mandatory → Listed Co ✓
& Criteria Based → Firm Policy
→ ✓ Responsibility → EP
✓ (iii) Case Discussion
✓ (iv) Conclusion → Team's view not appropriate

Part 2 - SA 220

QNO 3.080	Client Relationships and Audit Engagements (Acceptance & Continuance) TITANIUM CNO--SA220.100	Old Course- (N22M)

NEMI Limited (manufacturer of textile goods) got an order of manufacturing of PPE kits in December 2021. But there was shortage of machinery and manpower to accomplish the ordered requirement of PPE kits. NEMI Limited approached another manufacturing unit Rathnemi Limited for purchase of the unit. Rathnemi Limited was interested in the sale of unit, so the deal went through, and NEMI Limited acquired ninety five percent shares of Rathnemi Limited. The new management of Rathnemi Limited proposed and appointed Mani Associates, Chartered Accountants, (already auditors of NEMI Limited) as new auditors of Rathnemi Limited. Mani Associates accepted the assignment without considering information whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. Comment with respect to appropriate Standard on Auditing what type of information assists the engagements partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate or not?

Answer

Acceptance and Continuance of Client Relationships and Audit Engagements : As per SA 220, "Quality Control for an Audit of Financial Statements" , SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.

- Reference
- A&C Procedures

Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

(i) The integrity of the principal owners, key management and those charged with governance of the entity.
(ii) Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources.
(iii) Whether the firm and the engagement team can comply with relevant ethical requirements; and
(iv) Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

Information

(i) Reference of SQC1 & SA220 & related details ✓
(ii) Content
- A&C Procedures ✓
  - Mandatory to perform it
  - Information → Client Related → Integrity ✓
    → Auditor Related → Competence ✓
    ↳ Ethical & Independence Requirement ✓
    → Significant matters → Previous & Current year ✓
✓ (iii) Case Discussion
✓ (iv) Conclusion → Non Compliance of SQC1 & SA220

QNO 4.000	Responsibility of Engagement Partner & Resolving Difference of Opinion TITANIUM CNO -- SA220.180	Old Course - (N11R, N16R)

You are an audit senior working for the firm Bohra & Company You are currently carrying out the audit of Wisdom Ltd, a manufacturer of waste paper bins You are unhappy **with Wisdom Ltd.'s** inventory valuation policy and have raised the issue several times with the audit manager **He has dealt with the client for a number of years and does** not see what you are making an objection **about He has refused to meet you on site to discuss those issues As the audit manager had dealt with Wisdom Ltd for so many years, the** other partners have decided to leave the audit of Wisdom Ltd in his capable hands **Comment on the situation outlines above.**

Answer

Part I -- Relevant Standards & Laws

- SQC 1, Quality Control for Firms that perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements
- SA 220, Quality Control over Audit of Financial Statements

Part II -- Requirements of Relevant Standards & Laws

➢ **Engagement Partner- Should take Responsibility / If he is not involved then other requirements like independence, directing, supervision, review are also compromised / Just Assigning audit to experienced staff not sufficient:**

An engagement partner is usually appointed to each audit engagement undertaken by the firm, to take responsibility for the engagement on behalf of the firm. Assigning the audit to an experienced audit manager is not sufficient. The lack of an audit engagement partner also means that several of the requirements of SA 220 on "Quality Control for an Audit of Financial Statement", about ensuring that engagements in relation to independence and directing, supervising and reviewing the audit are not in place.

➢ **Conflicting Views / Difference of Opinion ---- There should be policy for dispute resolution / EP supposed to resolve dispute using firm's policy**

SA 220 on "Quality Control for an Audit of Financial Statement", requires that the audit engagement partner takes responsibility for setting disputes in accordance with the firm's policy in respect of resolution of difference of opinion required by SQC 1" Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements".

Part III -- Facts

➢ **EP not involved / Conflicting Views Exist / Refusal to Discuss**

In this scenario the audit manager and senior have conflicting views about the valuation of inventory. This does not appear to have been handled well, with the manager refusing to discuss the issue with the senior.

Part IV -- Conclusion

➢ **Lack of EP involvement / failure to resolve dispute / indicates no policy for dispute / Non-Compliance of SQC 1 & SA 220**

In this case, the lack of engagement partner may have contributed to this failure to resolve the disputes. In any event, at best, the failure to resolve the difference of opinion is a breach of the firm's policy under SQC1. At worst, it indicates that the firm does not have a suitable policy concerning such disputes required by SQC.1 "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements".

QNO 5.000	Change in Engagement Partner to Review Work TITANIUM CNO -- Unique	Old Course - (N15R,PM17,M18M,M21M)

M/s Suresh Chandra & Co. has been appointed as an auditor of SC Ltd. for the financial year 2014-15. CA Suresh, one of the partners of M/s Suresh Chandra & Co., completed entire routine audit work by 29th May 2015. Unfortunately, on the very next morning, while roving towards office of SC Ltd. to sign final audit report, he met with a road accident and died. CA Chandra, another partner of M/s Suresh Chandra & Co., therefore, signed the accounts of SC Ltd., without reviewing the work performed by CA Suresh. State with reasons whether CA Chandra is right in expressing an opinion on financial statements the audit of which is performed by another auditor.

Answer

Part I -- Relevant Standards & Laws

- SA 220"Quality Control for an Audit of Financial Statements"
- Basic Principle of Auditing on Delegation of Work

Part II -- Requirements of Relevant Standards & Laws

➢ **Takeover, New Partner Should Review Work Done**

Whenever there is takeover of assignment by new engagement partner, new partner should carefully review work of old engagement partner.

➢ **Review Procedures: -**

- **1.Compliance of Law, Regulations, Prof Standards 2.Significant Matters Raised & Considered 3.Appropriate Consultations 4.Conclusions Documented 5.Evidence is Sufficient & Appropriate 6.Objectives Achieved 7.Need to Revise NTE**
  - The work has been performed in accordance **with professional standards and regulatory and legal requirements;***(E.g., Sec 143 / IRDA Regulations / SAs)*

- **Significant matters** have been raised for further consideration;*(E.g., Accounting for demerger)*
- **Appropriate consultations have taken place and the resulting conclusions** have been documented and implemented;(Consult Mr A in firm who has audited many such cases)
- The work performed supports the **conclusions reached and is appropriately documented**; *(E.g., Check whether documents and explanation provide basis for accounting done)*
- The **evidence obtained is sufficient and appropriate** to support the auditor's report; and *(E.g., Check that all areas are appropriately covered)*
- The objectives of the **engagement procedures have been achieved.** (We are able to form opinion with reasonable assurance)
- There is a need to **revise the nature, timing and extent** of work performed; *(E.g., High Court should be obtained, also written representation of CFO on accounting)*

➢ **Basic Principle of Auditing on Delegation of Work**

- **Basic Principle of Delegation of Work Governing Audit ---Auditor can delegate work but not responsibility.**
  Further, one of the basic principles, which govern the auditor's professional responsibilities, and which should be complied with wherever an audit is carried, is that when the auditor delegates work to assistants or uses work performed by other auditor and experts, he will continue to be responsible for forming and expressing his opinion on the financial information.

- **Reliance of Work with Adequate Skill & Care.**
  However, he will be titled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied. This is the fundamental principle which is ethically required as per Code of Ethics.

- **Direct / Supervise / Review Work.**
  However, the auditor should carefully direct, supervise and review work delegated. He should obtain reasonable assurance that work performed by other auditors/experts and assistants is adequate for his purpose.

Part III – Case Discussion

➢ **Report not signed because of death, other ca signed without review just relying on work done by his partner.**

In the given case, all the auditing procedures before the moment of signing of final report have been performed by CA. Suresh. However, the report couldn't be signed by him due to his unfortunate death. Later on, CA. Chandra signed the report relying on the work performed by CA. Suresh.

Part IV – Conclusion

➢ **Non-compliance of SA 220 & no adequate skill and due care exercised.**

Here, CA. Chandra is allowed to sign the audit report, though, will be responsible for expressing the opinion. He may rely on the work performed by CA. Suresh provided he further exercises adequate skill and due care and review the work performed by him.

Author's Note

Second point in part-I which deals with "Basic Principle of Auditing on Delegation of Work" is not given in SA 220, this is taken from Traditional Theory of Audit. It is easy to understand and retain and underlying principles is also same as SA 220. As ICAI has covered this in their recent answer students should also cover

QNO 5.005	Responsibility of EP after EQCR & Aspects to be considered by Engagement Quality Control Reviewer TITANIUM CNO-- SA220.160	Old Course – (M22E)

PQR & Associates, Chartered Accountants, is a partnership firm having 3 partners CA P, CA Q and CA R. PQR & Associates are appointed as Statutory Auditors of ABC Limited, a listed entity for the financial year 2021-22 and CA P is appointed as Engagement Partner for the audit of ABC Limited. Before issuing the Audit Report of ABC Limited, CA P asked CA R to perform Engagement Quality Control Review and is of the view that his responsibility will be reduced after review by CA R. Whether the contention of CA P is correct? What are the aspects that need to be considered by CA R while performing Engagement Quality Control Review for audit of financial statements of ABC Limited?

Answer

As per SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements", the review does not reduce the responsibilities of the engagement partner. Hence, contention of CA. P that after engagement quality control review by CA. R, his responsibility will be reduced, is not correct.

However, CA. R needs to consider the following aspect while performing Engagement Quality Control Review for audit of financial statements of a listed entity ABC Ltd.:

1. The engagement team's evaluation of the firm's independence in relation to the specific engagement.

2. Significant risks identified during the engagement and the responses to those risks.

3. Judgments made, particularly with respect to materiality and significant risks.

4. Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.

5. The significance and disposition of corrected and uncorrected misstatements identified during the engagement.

6. The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.

7. Whether working papers selected for review 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 financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.

QNO 5.010	Date of Signing, Only After Date of Completion of EQCR TITANIUM CNO -- SA220.160	Old Course-(N18M,M19M)

OP & Associates are the statutory auditors of BB Ltd. BB Ltd is a listed company **and started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2018 got completed on May 1, 2018. The auditor's report was dated May 12, 2018. During the** documentation review of the engagement, **it was** observed that **the** engagement quality control review was completed on May 15, 2018. The engagement partner had completed his reviews in entirety by May 10, 2018. Comment.

Answer

Responsibility of Engagement Partner:

As per SA 220, "Quality Control for an Audit of Financial Statements", the **engagement partner shall take responsibility for reviews being performed** in accordance with the firm's review policies and procedures. For audits of financial statements of **listed entities,** the engagement partner shall:

➢ Determine that an engagement quality control reviewer has been **appointed.**

➢ Discuss **significant matters** arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and

➢ Not date the auditor's report until the completion of the engagement quality control review.

SA 700, "Forming an Opinion and Reporting on Financial Statements", requires

The auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements. In cases of an audit of financial statements of listed entities where the engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.

Significant Matters will be promptly resolved.

Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement **allows significant matters to be promptly resolved** to the engagement quality control reviewer's satisfaction on or before the date of the auditor's report.

Part III – Facts

➢ In the instant case, OP & Associates are the statutory auditors of a listed company BB Ltd. Which started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2018 got completed on May 1, 2018. The auditor's report was dated May 12, 2018. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2018.

➢ Thus, in the given case, signing of auditor's report i.e., on May 12, 2018 which is before the completion of review engagement quality control review i.e., May 15, 2018, is not in order.

QNO 5.020 //	**Independence--Responsibility of Partner and EQCR in listed company** **TITANIUM CNO - SA220.160**	**Old Course-(M19R,N19M,SM20,M22R)** **New Course-(SM23)**

During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. The Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.

Answer

- As per SA 220, Engagement Partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, Engagement Partner shall:
  - Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
  - Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
  - Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation.
  - The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

Engagement Partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures.

As per SA 220, "Quality Control for Audit of Financial Statements", for audits of financial statements of listed entities, **Engagement Quality Control Reviewer** (EQCR), on performing an engagement quality control review, shall also consider the engagement team's evaluation of the firm's independence in relation to the audit engagement.

In the given case, Engagement Partner is not right. The independence assessment documentation should also be given to Engagement Quality Control Reviewer for his review.

QNO 5.050 //	**Not drafting report properly** ~~Unique~~ CNO 220.040	**New Course – (SM23)**

RST & Co., a firm of Chartered accountants, are auditors of a listed company engaged in manufacturing of heavy machinery components. The audit report for year 2021-22 also included report on matters listed in CARO,2020. While reporting under clause vii(a) of the said order relating to regularity of undisputed

✓ (i) Reference of SQC1 & SA220 and related details.

✓ (ii) Content

- Responsibility of EP towards Ethical Requirements & Independence

✓ Obtain relevant information

✓ Evaluate information → Breach of Independence Policies ✓ → Threat over Independence ✓

✓ Take Appropriate action → Eliminate threat ✓ → Reduce threat to acceptable level ✓ → Withdraw (If allowed by law)

✓ Report to Firm if unable to resolve

- EQCR → Additional Responsibilities in case of listed Co → C → Consultation ✓ → I → Independence ✓ → D → Documentation ✓

(iii) Case Discussion ✓

(iv) Conclusion → Contention EP not appropriate ✓

statutory dues by the company, the auditors have commented that company is "generally regular" in depositing statutory dues to appropriate authorities. Is above reporting qualitative and in line with requirements of SA-220? ✓

Answer Such type of reporting is not qualitative. It is not in accordance with SA 220. One of the objectives of the auditor, as per SA 220, is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and regulatory and legal requirements. The reporting under CARO, 2020 is not proper. Hence, the audit does not comply with regulatory and legal requirements.

(No need to explain in exams)

→ CARO Guidance Note
↓
Further Elaboration with reason ✓
- Slight delay in some cases ✓
- Underpayment in some cases
- etc
↓
We assume such things are not there, always assume things which leads to mistake, issue, problem. ✓

✓ (i) Reference of SQC1, SA220 & related details

✓ (ii) Content
↓
Objectives of SA220 → ✓ CNO 220.040 → ✓ WORK → Legal Req → Regul Req → Prof std
→ ✓ Report → Appropriate - Reliable - Relevant

✓ (iii) Discuss Case

✓ (iv) Conclusion → Non Compliance of LR/RR/PS → Guidance note on CARO ✓
→ Report → Not Appropriate ✓

Objectives of SA 220 not achieved. ✓