

1. “Quality Control”

PART- I DESCRIPTIVE QUESTIONS

1.1 -SQC 1 “Quality Control for Firms that perform Audits & Reviews of Historical Financial Information and Other Assurance and Related Services Engagements”

Q.1. M/s. NK & Co., Chartered Accountants were appointed as Statutory Auditors of Fresh Juice Limited for the FY 2023-24. 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., 2022-23 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). [Jan. 21 (5 Marks), MTP-March 22]

Ans: Complaints and Allegations:

- As required by SQC-1 “Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements” the firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
 - (a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and
 - (b) Allegations of non-compliance with the firm’s system of quality control.
- Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the firm. They may be made by firm personnel, clients or other third parties. They may be received by engagement team members or other firm personnel.
- As part of this process, the firm establishes clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.
- The firm investigates such complaints and allegations in accordance with established policies and procedures. The investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement, and includes involving legal counsel as necessary. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation. Complaints, allegations and the responses to them are documented.
- Where the results of the investigations indicate deficiencies in the design or operation of the firm’s quality control policies and procedures, or non-compliance with the firm’s system of quality control by an individual or individuals, the firm shall take appropriate action.

Q.2. 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 2023-24, 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. [Nov. 22 (5 Marks)]

Ans: Issues to be addressed before withdrawing from audit engagement:

As per SQC 1, “Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements”, firm should establish the policies w.r.t. withdrawal from engagement and communication requirements, if circumstances warrant. Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

- (a) Discussing with the appropriate level of mngt. & TCWG regarding the appropriate action that the firm might take based on the relevant facts and circumstances.
- (b) If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client’s management and TCWG withdrawal from the engagement or from both the engagement and the client relationship, and the reasons for the withdrawal.
- (c) 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.
- (d) Documenting significant issues, consultations, conclusions and the basis for the conclusions.

Q.3. BSS & Associates is a partnership firm of Chartered Accountants which was established five years back. The firm was offering only advisory services at the beginning, however, after audit rotation and advent of GST, firm sees lot of potential in these areas also and started looking for opportunities in these areas. These services being assurance in nature, the firm required some internal restructuring and set up some policies and procedures for compliance year on year.

The firm started getting new clients for these new services and is now looking to obtain such Information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it has been setting up a process to document how the issues were resolved.

The firm is now looking to work with only select clients which are in line with the policies of the firm. The firm understands that the extent of knowledge it will have regarding the integrity of a client will grow within the context of an ongoing relationship with that client. With regard to the integrity of a client, you are required to give some examples of the matters to be considered by the firm as per the requirements of SQC 1. [RTP-May 19]

Or

MB & Associates is a partnership firm of the Chartered Accountants which was established seven years back. The firm is getting new clients and has also been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it

considers necessary in the circumstances before accepting an engagement with a new client and acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. Guide MB & Associates about the matters to be considered with regard to the integrity of a client, as per the requirements of SQC 1. [Nov. 19 (4 Marks)]

Ans: Considerations as to integrity of clients:

As per SQC-1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”, a firm 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.

Considerations as to integrity of clients:

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

1. The identity and business reputation of the client’s principal owners, key management, related parties and those charged with its governance.
2. The nature of the client’s operations, including its business practices.
3. 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.
4. Whether the client is aggressively concerned with maintaining the firm’s fees as low as possible.
5. Indications of an inappropriate limitation in the scope of work.
6. Indications that the client might be involved in money laundering or other criminal activities.
7. 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.

Q.4. J.A.C.K. & Co., a Chartered Accountant firm was appointed as the statutory auditor of Falcon Ltd. after ensuring the compliance with relevant provisions of the Companies Act, 2013. Mr. Jay was the engagement partner for the aforesaid audit and prior to commencement of the audit, Mr. Jay had called for a meeting of the engagement team in order to direct them and assign them their responsibilities. At the end of meeting, Mr. Jay assigned review responsibilities to two of the engagement team members who were the most experienced amongst all, for reviewing the work performed by the less experienced team members. While reviewing the work performed by the less experienced members of the engagement team, what shall be the considerations of the reviewers? [MTP-March 21]

Ans: Consideration to be given while reviewing the work:

- As per SQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements”, review responsibilities are determined on the basis that more experienced team members, including the engagement partner, review work performed by less experienced team members.

- While reviewing the work performed by less experienced members of the engagement team, the reviewers should consider whether:
 - (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.

Q.5. PQR & Associates Chartered Accountants, is partnership 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 2023-24 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? [May 22 (5 Marks)]

Ans: Engagement Quality Control Review (EQCR):

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.

Aspects to be considered while performing EQCR for audit of F.S.:

CA. R needs to consider the following aspect while performing EQCR for audit of F.S. of 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.

Q.6. 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.

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 Quality of the Firm?

Ans: Implementation of Quality Control Procedures:

- 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. It reflects poorly regarding functioning at top of the firm as regards to quality control.
- 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.

Conclusion: Overall, such a situation reflects lack of proper establishment of quality control framework at top of the firm.

Considerations to be taken into account while upholding quality of firm:

- (i) Firm assigns its management responsibilities so that commercial considerations do not override quality of work performed.
- (ii) Firm's policies and procedures in relation to its personnel are designed to demonstrate its overriding commitment to quality.
- (iii) Firm devotes sufficient resources for development and documentation of its quality control policies and procedures.
- (iv) 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.

Q.7. 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 outlined above.

Ans: Quality Control Issues in an engagement:

- SQC 1 “Quality Control for Firms that perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements” requires a firm to establish the policies & procedures for dealing/resolving differences of opinion with in engagement team.
- An engagement partner is usually appointed to each audit engagement undertaken by the firm, to take responsibility for the engagement on behalf of the firm. Assigning the audit to an experienced audit manager is not sufficient.
- SA 220 “Quality Control for an Audit of Financial Statement”, requires that the audit engagement partner takes responsibility for settling disputes in accordance with the firm’s policy in respect of resolution of difference of opinion required by SQC 1.
- In the present case, partners of the firm have decided to leave the audit in the hands of Audit manager and no engagement partner has been assigned. The lack of an audit engagement partner also means that several of the requirements of SA 220, about ensuring that engagements in relation to independence and directing, supervising and reviewing the audit are not in place.
- Further, the audit manager and senior have conflicting views about the valuation of inventory. This does not appear to have been handled well, with the manager refusing to discuss the issue with the senior.

Conclusion: Failure to resolve the difference of opinion is a breach of the firm’s policy under SQC 1. It indicates that the firm does not have a suitable policy concerning such disputes required by SQC 1.

Q.8. 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. [July 21 (5 Marks), MTP-Oct. 22]

Ans: Areas to be considered in review of audit work:

As per SQC 1, review responsibilities are determined on the basis that more experienced engagement team members, including the engagement partner, review work performed by less experienced team members.

Reviewers consider whether:

- (a) The work has been performed in accordance with professional standards and regulatory and legal requirements;
- (b) Significant matters have been raised for further consideration;
- (c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- (d) There is a need to revise the nature, timing and extent of work performed;

- (e) The work performed supports the conclusions reached and is appropriately documented;
- (f) The evidence obtained is sufficient and appropriate to support the report; and
- (g) The objectives of the engagement procedures have been achieved.

Compliance with SQC:

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 pre-defined period, normally not more than 7 years.

Conclusion: Firm is not complying with SQC 1 as Engagement Partner H is continuing for more than 7 years.

1.2 - SA 220 “Quality Control for an Audit of Financial Statements”

Q.9. 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 on March 31, 2023 got completed on July 1, 2023. The auditor’s report was dated July 12, 2023. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on July 15, 2023. Engagement partner had completed his reviews in entirety by July 10, 2023. Comment.

[MTP-Oct. 18, March 19]

Ans: Review by 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:
 - (a) Determine that an engagement quality control reviewer has been appointed;
 - (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
 - (c) Not date the auditor’s report until the completion of the engagement quality control review.
- Further, SA 700, “Forming an Opinion and Reporting on Financial Statements”, requires the auditor’s report to be dated not 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 the present case, OP & Associates are the statutory auditors of a listed company which started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended on March 31, 2023 got completed on July 1, 2023. The auditor’s report was dated July 12, 2023. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on July 15, 2023.

Conclusion: Signing of auditor's report i.e. on July 12, 2023 which is before the completion of review engagement quality control review i.e. July 15, 2023, is not in order.

Q.10. M/s Sureshchandra & Co. has been appointed as an auditor of SC Ltd. for the financial year 2022-23. CA Suresh, one of the partners of M/s Sureshchandra & Co., completed entire routine audit work by 29th May, 2023. 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 Sureshchandra & 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. [MTP-April 18]

Ans: Review of Work performed by others:

- 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. Review procedures consists of the considerations, whether:
 1. the work has been performed in accordance with professional standards and regulatory and legal requirements;
 2. significant matters have been raised for further consideration;
 3. appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
 4. the work performed supports the conclusions reached and is appropriately documented;
 5. the evidence obtained is sufficient and appropriate to support the auditor's report; and
 6. the objectives of the engagement procedures have been achieved.
- When the auditor delegates work to assistants or uses work performed by other auditors/experts he will continue to be responsible for forming and expressing his opinion on the financial statements. However, he will be entitled to rely on the work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied.
- The auditor should carefully direct, supervise and review work delegated to assistants. He should obtain reasonable assurance that work performed by other auditors/experts and assistants is adequate for his purpose.
- In the instant case, Mr. Suresh, a partner of the firm had completed routine audit work and died before signing audit report. Mr. Chandra another partner of the firm has signed the accounts of SC Ltd, relying on the work performed by Mr. Suresh.

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

Q.11. Ace Limited (manufacturer of textile goods) got an order of manufacturing of PPE kits in December 2023. But there was shortage of machinery and manpower to accomplish the ordered requirement of PPE kits. Ace Limited approached another manufacturing unit Jack Limited for purchase of the unit. Jack Limited was interested in the sale of unit, so the deal

went through and Ace Limited acquired ninety five percent shares of Jack Limited. The new management of Jack Limited proposed and appointed NKB Associates, Chartered Accountants, (already auditors of Ace Limited) as new auditors of Jack Limited. NKB 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 of Auditing what type of information assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate or not?
[Dec. 21 (5 Marks); MTP-Sep. 22]

Ans: Information assisting auditor in accepting and continuing of relationship with the client:

- SA 220, “Quality Control for an Audit of F.S.” and 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.
- 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 TCWG 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.

Q.12. During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.
[RTP-May 19, May 22; MTP-Oct. 19]

Ans: Responsibilities of EP and EQCR in relation to assessment of independence:

- As per SA 220 “Quality control for an Audit of Financial Statements” the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:
 - (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
 - (b) Evaluate information on identified breaches, if any, of the firm’s independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and

(c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

- For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider among other things, the engagement team's evaluation of the firm's independence in relation to the audit engagement.

Conclusion: View of EP that matters related to independence assessment are the responsibility of the EP and not EQCR is not correct. The independence assessment documentation should also be given to EQCR for his review.

PART- II MULTIPLE CHOICE QUESTIONS

1. PMP Ltd. is an associate of PMP Inc., a company based in Kuwait. PMP Ltd is listed in India having its corporate office at Assam. The company's operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures.

The company's auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2022.

For the financial year ended 31 March 2023, the auditors made some changes in their audit team. While the audit partner remained the same, the field in charge has been replaced, as the field incharge who was engaged in the audit of the financial statements for the year ended 31 March 2022 has left the firm. The audit team has a new person as External Quality Control Reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (Chartered Accountancy) final exams. The changes were made on the basis of the consideration that the firm has enough experience of engagement with this client.

The audit team commenced the work for audit of the year ended 31 March 2023 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understanding of the client and after assessing the comments of the EQCR did not find those relevant.

The audit partner without concurrence of the EQCR finalized the audit and issued the audit report. In the given situation, please advise which one of the following is correct?

- (a) The changes in the audit team were not appropriate except for the field in charge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI).
- (b) The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner.
- (c) The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report.
- (d) EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the

significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR.

2. Ram & Associates, a firm of Chartered Accountants, have been operating for the last 10 years having Its office in Delhi with staff of around 30 persons with 4 Partners.

The firm has been offering statutory audit, risk advisory and tax services to its various clients. The major work of the firm is for taxation services. The audit partners also discussed that the firm needs to work significantly to improve the quality of the services they offer and that would also help the firm to grown its business. Considering this objective, the firm started training programmes for the staff which were made mandatory to be attended.

During one of the training programmes on quality, a topic was discussed regarding the information that should be obtained by the firm 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. It was explained that the following points may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate (as per SA 220):

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

Which of the above-mentioned points are relevant for the topic under discussion?

- (a) (i), (ii), (iv) and (v)
- (b) (ii), (iv), (v) and (vi)
- (c) (iii), (iv), (v) and (vi)
- (d) (i), (iii), (v) and (vi)

[RTP-Nov.19]

Answer Key

1. (a) The changes in the audit team were not appropriate except for the field incharge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI).
2. (d) (i), (iii), (v) and (vi)

CA Mritunjay in statutory auditor of a listed company engaged in providing services relating to “tourism sector”, he is practicing in sole-proprietorship capacity. The audit of abovesaid listed company was conducted by his proprietary firm and report was issued for year 2021-22. Subsequently, audit report was selected by NIRA to oversee quality of service and compliance with Standards. Necessary information was called from auditor towards above objective.

It was required of him to produce audit working papers to show that audit was carried out in accordance with Standards on auditing. Details of the audit plan and details of risk assessment procedures carried out to identify and assess risk of material misstatement in financial statements were called. It was also required to show how response to assessed risks was designed and implemented and communicated with those charged with governance.

Audit working papers sent by him through email included procedures on how some balances in financial statements were verified. Also included in working papers were procedures performed by him relating to verification of inventories, trade receivables and trade payables.

The working papers sent by him to the authority did not include details on audit plan and manner of identifying and assessing risks of material misstatement. On being asked to respond, it was reasoned by him that audit was properly planned and required procedures were carried out in relation to material items on test check basis.

It has been further clarified by him to the authority that audit was carried out in accordance with Standards and it was practically not feasible for a firm of small size to make a detailed audit plan. It was also put on record with authority that he had assessed risk of material misstatement to be low based upon his understanding of the company. He has further reasoned that assessing risks is a matter of professional judgment. Representation has also been made by him stating that communications as necessary were made orally with those charged with governance.

It was also pointed out to him that engagement quality control review was not carried out. He has answered that no contentious matter arose during the course of audit and therefore, no need was felt to carry out this exercise.

Attention was also drawn to the fact that financial statements of company were required to be prepared on basis of Ind-AS. However, at some places in notes to accounts, reference is made to accounting standards which are not applicable to the company. These errors have been attributed to data feeding entry errors by Junior staff.

Based upon above, answer the following questions:

- Q.1.** It has been contended by auditor that audit was properly planned. He has further stated that it was practically not feasible for firms of small size to prepare a detailed audit plan. Which of the following views is most appropriate in this regard?
- (a) Audit was, in fact, planned as evidenced by auditor’s submissions.
 - (b) Although auditor has no record of audit plan, it does not affect compliance with SA 220.
 - (c) Since auditor has no record of audit plan, it goes on to show non-compliance with SA 220.
 - (d) Audit was, in fact, planned as evidenced by auditor’s submissions. However, there is an exemption for small CA firms doing away with cumbersome documentation in relation to audit plan.
- Q.2.** The auditor has reasoned that risk of material misstatement has been assessed to be low based upon his understanding of the company and it is a matter of professional judgment. Identify

the most appropriate statement from below in this regard.

- (a) Assessing risks of material statement is a matter of professional judgment. It cannot be demanded from him how his judgment was arrived at.
- (b) Although auditor has not submitted record of how risk of material misstatement was arrived at, it does not affect compliance with SA 220.
- (c) Since auditor has no record of how risk of material misstatement was arrived at, it goes on to show non-compliance with SA 220.
- (d) Such a query, itself, is outside the mandate of authority.

Q.3. Considering auditor's point of view regarding engagement quality control review, identify the most appropriate statement from below:

- (a) Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220.
- (b) Engagement quality control review is optional in such type of engagement. Therefore, question of not following SA 220 does not arise.
- (c) No contentious matter arose during the course of engagement. Therefore, question of not following SA 220 does not arise in respect of engagement quality control review.
- (d) Engagement quality control review is dependent upon benchmarks established under SQC 1. If those bench marks are satisfied, such a review is necessary.

Q.4. Considering auditor's reply regarding errors in data feeding entry by junior staff in relation to accounting standards, which of the following statements is proper?

- (a) Such are examples of clerical errors encountered during preparation of reports. There is no question of non-compliance with SA 220.
- (b) Such are examples of clerical errors encountered during preparation of reports. There is no effect on auditor's opinion and consequently question of non-compliance with SA 220 does not arise.
- (c) Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.
- (d) Such are examples of serious lapses on part of auditor. However, these are not related to compliance with SA 220.

Q.5. On your overall reading of the case study, which of the following statements appears to be true?

- (a) The firm has an effective system of quality control described in SQC 1. Audit engagement has also been performed in accordance with SA-220.
- (b) The firm does not have effective system of quality control described in SQC 1. Audit engagement has as not been performed in accordance with SA 220.
- (c) SQC 1 is not applicable in the case. Audit engagement has not been performed in accordance with SA 220.
- (d) SQC 1 is not applicable in the case. Audit engagement has been performed in accordance with SA 220.

Answer Key

- 1. (c) Since auditor has no record of audit plan, it goes on to show non-compliance with SA 220.

2. (c) Since auditor has no record of how risk of material misstatement was arrived at it goes on to show non-compliance with SA 220.
3. (a) Engagement quality control review is mandatory in such type of engagement. It was not proper for auditor to bypass such review. He has violated mandatory requirement of SA 220.
4. (c) Such are examples of serious lapses on part of auditor showing non-compliance with SA 220.
5. (b) The firm does not have effective system of quality control described in SQC 1. Audit engagement has also not been performed in accordance with SA 220.