

Jan 2026 & Onwards



CA FINAL

ADVANCED AUDITING, ASSURANCE, AND PROFESSIONAL ETHICS

- ▶ All the Questions of ICAI SM / RTP / MTP /PYP & Old course are covered
- ▶ Properly linked with the Question given in the Main book
- ▶ Keywords are highlighted & Bold
- ▶ Additional topics, which are Comparatively less important, Are also given here

Question Bank

(Including Additional Topics)

CA Hemant Somani

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CHAPTER 1: Quality Control (SQC-1 & SA 220)

QUESTION SECTION – For Which Hint Covered in Main Book:

Q1. → (SKIP)

Beta Pvt Ltd has approached a firm of CA to assist them in preparation of FS and issue a compilation report in this regard. Does CA firm have responsibility i.r.t QC for above said engagement? (SM)

Answer: Such kind of services fall in category of "related services". SQC 1 is applicable to all type of engagements including engagement pertaining to "related services".

Q2. → (OT - SKIP)

Q. XYZ Ltd approached ABC & Associates CA Firm. Promoter of XYZ Ltd is a close associate & family friend of Mr. A, Managing Partner of ABC & Associates. XYZ Ltd is in news in the previous year for certain inquiries from the regulatory authorities i.r.t certain matters. Existing auditor of XYZ Ltd has resigned & has created a casual vacancy. XYZ Ltd is ready to offer 25% more than the existing fees. Mr A has strong recommendation to accept the audit. What is your understanding of the functioning of the tone at the top of the Firm ABC & Associates, CA.? What are the considerations one should exercise to uphold Quality of the Firm? (SM)

Answer: In Given situation, proposed client is close associate and family friend of managing partner, Previous auditor resigned, company offering hike fees, also regulatory inquires against company → Auditor is ready to accept engt.

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:

- 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.

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: -

[Trick: client ko jaano .. fir "Fees" quote karo, uss hisaab se "Salary" wale person "devote" karo]

- 1) Firm before accepting an engagement should acquire vital information about the client. Such an info. should help firm to decide about integrity of Client, promoters and KMP, competence (including capabilities, time and resources) to perform engagement and compliance with ethical requirements (independence)
- 2) Firm assigns its management responsibilities so that commercial considerations (Money) do not override the quality of work performed.
- 3) Firm policies & procedures addressing performance evaluation, compensation & promotion (including incentive systems) w.r.t its personnel are designed to demonstrate the firm's overriding commitment to quality
- 4) Firm devotes sufficient resources for development, documentation and support of its QC policies & procedr.

Q3. → (SKIP)

CA Sudhanshu is appointed by a bank to conduct stock audit of a borrower. 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? (SM)

Answer:

Approach of Sudhanshu is not proper. Such practices blatantly violate code of ethics and its spirit. It reflects poorly upon quality control system of firm envisaged in **SQC 1** which requires that quality control policies and procedures should be documented and communicated to the firm's personnel. It shows that firm's personnel are not properly sensitized regarding requirements of SQC 1.

Q4. → (OT - SKIP)

HK & Co. CA have been auditors of SAT Ltd (a listed entity) for the last 8 years. CA. H, partner of the firm, has been handling the audit assignment very well since appointment. Audit work of CA. H and her team is reviewed by a senior partner CA. K. 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 4 areas & also comment whether firm is complying with Standard on Quality Control or not [Old]

Answer:

(a) Compliance with Standard on Quality Control on **review of audit work** -

As per SQC 1, an engagement quality control review for audits of financial statements of listed entities includes considering the following: (**R-SOCCER**)

- (i) The **work has been performed** as per professional standards & **Regulatory & legal requirements**;
- (ii) **Significant matters** have been raised for further consideration;
- (iii) The **Objectives of the engagement** procedures have been **achieved**
- (iv) **Appropriate Consultations** have taken place & the resulting conclusions is documented & implemented;
- (v) The **work performed supports the Conclusions** reached and is appropriately **documented**;
- (vi) The **Evidence obtained is sufficient and appropriate** to support the report;
- (vii) There is a need to **Revise the nature, timing** and extent of work performed;

(b) 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
- (ii) For all audits of FS of listed entities, **requiring the rotation of engagement partner** after a specified period in compliance with the Code.

The familiarity threat is particularly relevant in the context of FS audits of listed entities. For these audits, the engagement partner should be rotated after a pre-defined 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

Q5. → (OT - SKIP)

Rishikumar & Co. auditor of PK Ltd. for the FY 2016 -17. CA. Kumar, one of the partners of M/s Rishikumar & Co., completed entire routine audit work by 29th May, 2017. Unfortunately, while roving towards office of PK Ltd. to sign final audit report, he **met with a road accident and died**. CA. Rishi, another partner of M/s Rishikumar & Co., therefore, signed the accounts of PK Ltd., without reviewing the work performed by CA. Kumar. Advise, whether CA. Rishi is right in expressing an opinion on FS audit of which is performed by another auditor.

(OLD & May'25 RTP)

Answer:

Relying on Work Performed by Another Auditor: As per **SA 220** "Quality Control for an Audit of Financial Statements", an engagement partner taking over an audit during the engagement may apply the **review procedures**. The **work has been performed** as per professional standards & Regulatory & legal requirements, Significant matters have been raised for further consideration, The **Objectives of the engagement procedures** have been achieved, Appropriate **Consultations** have taken place and the resulting conclusions have been documented and implemented, The work performed supports the **Conclusions** reached and is appropriately documented, The **Evidence** obtained is sufficient and appropriate to support the report, There is a need to Revise the nature, timing and extent of work performed

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. **However, he will be entitled 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.

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. In the given case, all the auditing procedures before the moment of signing of final report have been performed by CA. Kumar. However, the report could not be signed by him due to his unfortunate death. Later on, CA. Rishi signed the report relying on the work performed by CA. Kumar. Here, CA. Rishi is allowed to sign the audit report, though, will be responsible for expressing the opinion. **He may rely on the work performed by CA. Kumar provided he further exercises adequate skill and due care and review** the work performed by him as required in compliance with SA 220.

Q6. →

SA's which information assists the engagements partner in determining whether the conclusions reached regarding the acceptance & continuance of client relationships and audit engagements are appropriate or not? **[Hint: Matters to consider by audit firm before acceptance and continuance of client relationships and audit engagements] (SM)**

Answer: Acceptance & Continuance of Client Relationships and Audit Engagements : As per **SA 220**, "Quality Control for an Audit of FS", **SQC 1**, Obtain information considered necessary in circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement **Before accepting an engagement should acquire vital information about the client:**

- 1) **Integrity of Client**, promoters and key managerial personnel.
- 2) **Competence** (including capabilities, time and resources) **to perform engagement**
- 3) Compliance with **ethical requirements**.

Obtain info to accept engmt & to continue existing one → **if issues identified & still accept/ continue engmt** → it should **document how the issues were resolved**.

Q7. →

AP & Associates, CA, are Auditors of XP Ltd for last 4 years. Company has diversified and commenced providing software solutions in the area of "e-commerce" European countries. AP & Associates does not possess necessary expertise to carry out the audit of this diversified business & wishes to withdraw from engagement & client relationship. Discuss issues that need to be addressed before deciding to withdraw. (SM)

Hint:

- **Acceptance and Continuance of Client Relationships and Specific Engagements:** As per **SQC 1**, the firm should establish P&P for acceptance & 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.
- **"Now explain the Given Case issue"** (exactly same as mentioned in Qn i.e, New diversified business, Not have

necessary expertise to carry out audit etc.)

- Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship **address issues that include the following:**

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 appropriate level of **client's mngt & TCWG** regarding the **appropriate action**
- b) **If firm determines that it is appropriate to withdraw** → Discussing with appropriate level of client's mngt and TCWG withdrawal from the engmt or from engagement + client relationship, and the reasons of withdrawal.
- c) **Report to L&R** → Whether there is professional, regulatory or legal requirement for firm to
 - Remain in place, or
 - If Withdraw possible → report the withdrawal from engt, or from both engmt + client relationship, together with the reasons for the withdrawal, to regulatory authorities.
- d) **Documenting** significant issues, consultations, conclusions and the basis for the conclusions.

Q8. → (SKIP)

[How to Evaluate integrity of Client] CA firm getting new clients & is now looking to obtain info. necessary before accepting / continue an existing engagement. The firm is now looking to work with only select clients which are in line with the policies of the firm. 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.

Answer:

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.

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

- (i) The identity and **business reputation** of the client's principal owners, key management, related parties and those charged with its governance.
- (ii) The **nature of the client's operations**, including its business practices.
- (iii) Indications that client might be involved in **money laundering** or other criminal activities.
- (iv) Whether client is aggressively concerned with **maintaining firm's fees as low** as possible.
- (v) Indications of an **inappropriate limitation** in the scope of work.
- (vi) The reasons for proposed appointment of firm and **non-reappointment** of previous firm.
- (vii) Information concerning the attitude of the client's principal owners, key management and TCWG towards such matters as **aggressive interpretation of accounting standards** and the IC environment.
- (viii) 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.

Q9. → (SKIP)

XYZ Ltd approached CA Firm to appoint it as TAX Auditor. On XYZ Ltd a search by Enforcement Directorate in his premises resulting in **recovery of huge cash**. Income tax Dept had also searched his premises for bogus capital gains on penny stocks. **What factors to evaluated by "CA" to take up this audit.**

Answer:

SQC 1, before accepting a new engagement, **integrity of client** should be considered including matters that indicate involvement in money laundering or criminal activities. There has been search of ED on the said party leading to recovery of huge amount of cash. income tax department relating to bogus capital gains on penny stocks indicates that client **might be involved in money laundering activities**. Therefore, offer should **not be accepted**.

[Note: if Qn is of higher marks: then also discuss "Factors to be consider to evaluate Integrity of Qns"]

Q10. → (READ FULL)

PQR Asso. are the statutory auditors of a large un-listed company, which is engaged manufacturing of auto components. Subsequent to reappointment of auditors in the Annual General Meeting, the Company shared the appointment letter with PQR Associates, seeking acknowledgement and acceptance letter. CA. R is the engagement partner and is planning to issue the acceptance letter. During the current financial year, there was a **search by the Income-tax Authorities on the company**, and certain accounting records were seized for verification. Based on the information available on social media, CA. R noted that the **promoters' brother**, is **contemplating to contest in the ensuing elections, under the banner of a political party**.

One of the current senior engagement team manager, who has been doing the audit engagement till last year, has **left PQR Associates** and is planning to provide some accounting services to one of the associate companies. PQR Associates are **yet to recruit another senior manager having adequate experience** in the audits of clients engaged in automotive sector.

Elaborate the matters to be considered by PQR Associates with respect to **acceptance & continuance of client relationships** considering the above issues. (May 2024, MTP'25 & SM)

Answer:

Acceptance and Continuance of Client Relationships: 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 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.
- **Compliance with ethical requirements**

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.

Further, 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 obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence

In view of the above, PQR Associates should:

- ✓ follow their firm's policies and procedures for client acceptance and continuance. This includes evaluating the **integrity of the client**, assessing potential risks associated with the engagement, and ensuring the firm has the **necessary resources and expertise** to perform the engagement effectively. The engagement team, should assess, whether the company is **involved in any funding activities**, to the **political parties**, and if so enquire and assess the risks related to such transactions.
- ✓ **communicate clearly with the client regarding the scope of the engagement, the responsibilities** of both parties, and any limitations on the services to be provided. This helps manage expectations and ensures alignment between the firm and the client.
- ✓ **independence and objectivity** throughout the engagement. Any **potential threats to independence**, such as relationships with the client's affiliates or involvement in **political activities by related parties**, should be evaluated and mitigated appropriately. Since the **senior manager** who was on this engagement is **providing certain accounting services**, to one of the group companies, the engagement partner, should assess, whether it would have any impact on the audit and examine the relevant ethical/independence requirements.
- ✓ continually monitor the client relationship for any **changes or developments that may impact** the firm's ability to provide services effectively. This includes staying informed about significant events such as the

income-tax search, changes in client management, or potential conflicts of interest. Since there was an income-tax raid on the organisation, the engagement partner should evaluate the risks of material misstatements, and non-disclosure of tax disputes and liabilities.

✓ ensure that their **engagement team possesses the necessary competence and capabilities** to perform the audit effectively. The departure of a senior manager and the need to recruit a replacement with specific industry experience should be addressed promptly to maintain audit quality. Since one of the **senior engagement team members has left PQR Associates**, the engagement partner should assess, whether he would be in a position to devote adequate time on the engagement or whether to recruit another resource, before commencement of the audit.

Q11. → (SKIP)

During audit, an issue arose relating to revenues. EQCR recommended some other view. **Engagement partner is not willing to accept recommendations of reviewer?**

- Between Engmnt Team or those consulted & Engmnt partner & EQCR → **report should only be issued after resolution** of such differences
- In case, recommendations of EQCR are not accepted by engmnt partner and matter is not resolved to reviewer's satisfaction, the **matter should be resolved by following established procedures of firm** like by consulting with another practitioner or firm, or a professional or regulatory body

Q12. → (SKIP)

Auditor of Listed company → 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 aspects need to be considered by CA R as EQCR **[Hint: Matters Evaluated by EQCR]**

Answer:

- SQC 1 → **review does not reduce the responsibilities** of engagement partner. Hence, **CA. P is not correct**.
- However, **CA. R needs to consider following aspect while performing Engagement Quality Control Review:**

[Trick: ha me "independent" hu, "Risk" mili to mera "judgement" bhi lagaya, dusro se "consultation" bhi lii > "Misstatement" "mngt ko communicate" kara > "working paper" k hisaab se "report" issue kar dii ...]

- 1) Engmnt team's evaluation of firm's **independence** i.r.t specific engmnt
- 2) **Significant risks** identified during the engmnt & responses to those risks.
- 3) **Judgments** made, particularly w.r.t 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 mngt and TCWG &, where applicable, other parties such as regulatory bodies.
- 7) Whether **working papers** selected for review reflect the work performed i.r.t the significant judgments and support the conclusions reached
- 8) The appropriateness of the **report** to be issued.

Q13. → (SKIP)

An issue arose during audit relating to related party transactions. **Engagement partner wants to consult engagement QC reviewer** on this matter. **Can he consult with engagement QC reviewer?** Discuss.

Answer: It is necessary to **maintain objectivity** of reviewer. Therefore, **participation in engmnt or making decisions for engmnt team is to be avoided at all costs**. However, engnt partner may consult engagement QC reviewer during the engagement so as not to compromise **his objectivity** and eligibility to perform the role.

Q14. → (SKIP)

Ramanujan feels that **engmnt file in audit engagement should be ready prior to issue of audit report**.

Answer: The firm should establish P&P for Engmnt teams to complete the assembly of final engagement files on a

timely basis after the enmgmt reports have been finalized. Engmnt files should be completed in not more than 60 days after date of auditor's report in case of audit engagements. Thus, view of Ramanujam is not in order.

Q15. → (SKIP)

TPX & Co., CA Firm maintains audit documentation both electronically and in physical form (hard files). The physical files are neither scanned and incorporated into electronic files nor cross-referenced to the electronic files. Further, there are many instances where audit working papers do not contain details as to whether information was obtained from client or prepared by engagement team. How do you view above situation from point of view of quality control system in audit firm? Analyse (MTP'2024 & SM)

Answer: SQC 1 → establish P&P designed to maintain **confidentiality, safe custody, integrity**, accessibility and retrievability of engagement documentation.

In Given case → physical files neither Scanned / nor-cross check with electronic files → lacs of above P&P to protect integrity of information → so become difficult to evaluate whether A.File assembled within 60 days or not.

Where Engmnt Docs (in paper/electronic/other) → **integrity, accessibility or retrievability** of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge. So appropriate control needed for engmnt documentation to protect integrity of information.

For the practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files. In that case, the firm implements appropriate procedures requiring engagement teams to:

- a) **Generate scanned copies** that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
- b) **Integrate the scanned copies into the engagement files**, including indexing and signing off on the scanned copies as necessary; and
- c) Enable the scanned copies to be **retrieved and printed** as necessary

Further → A.Working paper not contain detail whether it's obtained from client or prepared by engmnt team → It is **important to identify the source of the document and the information used** as audit evidence to ensure its reliability → It could have potential risks of non-compliance with standards on auditing.

Q16. → (SKIP)

STA and Associates, Chartered Accountants, is an upcoming firm and its good professional services are hired by diverse clients for assurance services. With a standing of seven years in practice, the firm has clients in various industries like health care, education, hospitality, manufacturing and many more. With the increasing assignments, changes in regulatory compliances and appointment of new personnel, the senior partner CA T is concerned with the proper functioning of the system of Quality control within the firm. He wants to ensure that policies and procedures relating to the system of quality control of the firm are complied with properly. CA T suggests that a proper monitoring of quality control will be the right approach. Discuss the factors that are to be considered by CA T for monitoring the quality control of engagements to ensure that they comply with SQC. (Nov'24)

Answer:

Factors considered for Monitoring Quality Control Engagements: As per SQC 1, factors to be considered by CA T for **monitoring the quality control of engagements** to ensure that they comply with SQC:

- 1) Decide whether quality control system of firm is **appropriately designed** & effectively implemented
- 2) Conducting monitoring by entrusting **responsibility** of monitoring process to a **partner or other persons with sufficient and appropriate experience** and authority in the firm.
- 3) Dealing with **complaints & allegations against firm** or any employees of non - compliance with professional standards or regulatory requirements by person within or outside firm.
- 4) Examining whether **new developments** in the professional standards, legal and regulatory requirements have been reflected in the quality control policies.
- 5) Taking appropriate **remedial actions against the personnel** who did not conform to quality control policies.

6) Taking action when **deficiencies in the design or operation of firm's quality control policies** and procedures, or non-compliance with the firm's system of quality control are identified.

Q17. → (SKIP)

CA Giri has been assigned as an **EQCR for an audit engmnt of a listed company**. What aspects, which would be looked into by CA Giri as an EQCR in relation to engagement?

Answer:

For audits of FS of listed entities, the EQCR, on performing an engagement quality control review, shall also consider the following:

- The engagement team's evaluation of **independence** i.r.t the audit engagement;
- 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;
- Whether **audit documentation** selected for review reflects the work performed in relation to the **significant judgments** made and **supports the conclusions** reached.

Q18. → (SKIP)

Auditor of a listed company. Audit report also include report on matters listed in CARO, 2020, clause vii(a) regarding undisputed statutory dues by company, auditors have commented that company is "generally regular" in depositing statutory dues. Is above reporting qualitative & in line with SA-220?

Answer: Such type of reporting is **not qualitative**. It is **not in accordance with SA 220**.

One of **objectives of auditor**, as per SA 220, is to implement quality control procedures at Engnt level that provide the auditor with reasonable assurance that audit complies with professional standards & regulatory and legal requirements. **CARO, 2020 reporting is not proper**. → not comply with regulatory & legal requirements.

Q19. → (SKIP)

engagement team of Listed Co. is stuck up with some issue pertaining to a particular Ind-AS applicable to company. They sent this query to ICAI for expert opinion for this. The issue was resolved by ICAI. Since expert opinion received by ICAI, **engmnt team thinks that appointment of EQCR has lost its relevance**.

Answer: **EQCR in listed entities is a mandatory requirement**. Expert opinion of ICAI pertains to issue of interpretation. The appointment of reviewer is a separate and mandatory requirement in audits of listed co.

Q20. → (OT Read)

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 **QC review was completed on May 15, 2018**. Engagement partner had completed his reviews in entirety by May 10, 2018. Comment

[MTP May'24 & SM]

Answer:

Review by Engagement Partner: As per SA 220, "Quality Control for an Audit of Financial Statements", the 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 (**EQCR 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.

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.

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

Q21. → (OT Read)

EQCR completed the review of Enmgnt file (except independence assessment). Engmnt Partner is in view that matters related to independence assessment is responsibility of the Engagement Partner and not EQCR.

EQCR objected to this and refused to sign off the documentation. Please advise as per SA 220.

Hint: 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 firm to identify & evaluate circumstances, relationships that create threats to independence;
- Evaluate information on identified breaches, whether they create a threat to independence for audit
- Take appropriate action to eliminate such threats or reduce it to acceptable level (safeguard or withdraw)

SA 220 → EQCR, shall also consider the engmt team's evaluation of the firm's independence i.r.t audit engmt. Given case, Engmnt Partner is Not right → independence assessment documentation also to be review by EQCR

Q22. → (OT Read)

Rajni Ltd., a listed company, has appointed M/s Amit & Co. as its statutory auditor. CA Sunil, who recently joined the firm, has been appointed as the engagement partner for the first time. While preparing for the audit, he realises the importance of ensuring the audit team's independence, as required by standard audit practices. However, when reviewing the firm's framework, he is unable to find any documented policies or procedures addressing independence compliance.

What steps should CA Sunil take to ensure compliance with independence requirements for the audit engagement? Why is it necessary for an audit firm to have well-documented policies and procedures to maintain independence? Discuss with reference to the relevant Standards on Auditing. (MTP'25)

Answer:

As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," the firm should establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including experts contracted by the firm and network firm personnel), maintain independence where required by the Code. Such policies and procedures should enable the firm to:

- Communicate its independence requirements to its personnel and, where applicable, to others subject to them; and
- Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the engagement.

Further, 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:

- (i) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
- (ii) 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
- (iii) 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.

Q23. → (OT Read)

CA Ragini is offered an appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of the 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 an audit of a listed entity.

She accepts the appointment to act as ECQR. She performs the review by ticking a Yes/No checklist and signing on some of the working papers prepared by the engagement team. The audit file does not contain any material misstatement 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? Comment [Old]

Answer:

As per **SQC 1** engagement quality control reviewer can be a partner, other person in the firm (member of **ICAI**), suitably qualified external person, or a team made up of such individuals, with sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report.

It also states that the engagement quality control reviewer for an audit of the financial statements of a listed entity is an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.

In addition, the work of EQCR involves objective evaluation of the significant judgments made by the engagement team and ensuring that the conclusions reached by the team in formulating audit report are appropriate. **It is necessary for EQCR to have the requisite technical expertise and experience** to enable her to perform the assigned role of evaluating the work of engagement team so that any possible misstatement can be avoided. Without ensuring the appropriate technical expertise and experience, the whole purpose of EQCR is defeated. Therefore, it was not appropriate for her to accept appointment as ECQR for listed entity.

Further, SA 220 states that the engagement quality control reviewer shall document, for the audit engagement reviewed, that the procedures required by the firm's policies on engagement quality control review have been performed. It also states that it shall also be documented that the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate.

In the given situation, CA Ragini is offered an appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of the financial year 2022-23 of XPM Limited, a listed company operating from a small town. She has accepted the appointment and performed the review by ticking a Yes / No checklist and signing on some of the working papers prepared by the engagement team.

In the instant case, there are no working papers to show that evaluation has been done by EQCR on conclusions reached by engagement team. **Mere ticking of a Yes/No checklist** and signing on some working papers of engagement team shows that no such evaluation and review of work performed by engagement team has been made by EQCR. Therefore, her approach was not proper in performing work of EQCR.

QUESTION SECTION – Not Covered in Main Book:

Q. (SQC 1) 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 & ALLEGATIONS** as required by Standard on Quality Control (SQC)

(i.e., Complaint & Allegation received when Firm failed to Comply with Professional / Legal Requirement)

[OLD course, Topic is Not in NEW SM]

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",

- (i) The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
 - Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and
 - Allegations of non-compliance with the firm's system of quality control.
- (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.
- (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.
- (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.
- (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.

CONCEPT SECTION:

SQC 1:

Ethical Requirement (not in SM)	<u>Policies & Procedure in case of Breach of Independence Requirements:</u> P&P should include requirements for: <ol style="list-style-type: none"> a) All subject to independence requirements to promptly notify firm of independence breaches b) Firm to promptly communicate identified breaches to: <ol style="list-style-type: none"> 1) EP who, with firm needs to address the breach, &
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	<p>2) Other relevant personnel in firm & other subject to independence who need to take appropriate action</p> <p>c) Prompt communicate by EP & other individuals → to firm of actions taken to resolve the matter, so that firm can determine further action</p>
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SA 220:

Documentation:

Engagement partner should document following matters:

- a) **Issues** identified w.r.t compliance with **relevant ethical requirements** and how they were resolved
- b) Conclusions on compliance with **independence requirements** that apply to the audit engagement, and any relevant discussions with the firm that support the conclusions.
- c) Conclusions reached regarding the **acceptance and continuance** of client relationships and audit engagements.
- d) The nature and scope of, and conclusions resulting from, **consultations** undertaken during the course of the audit engagement.

EQCR shall document, for the audit engagement reviewed, that:

- a) The **procedures** required by the firm's policies on engagement QC review have been performed
- b) The engagement QC has been **completed on or before the date of the auditor's report**.
- c) The reviewer is **not aware of any unresolved matters** that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate

About Faculty

By- CA Hemant Somani | AIR 46

Academics

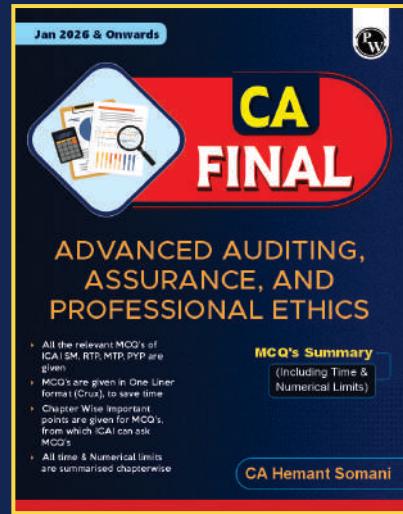
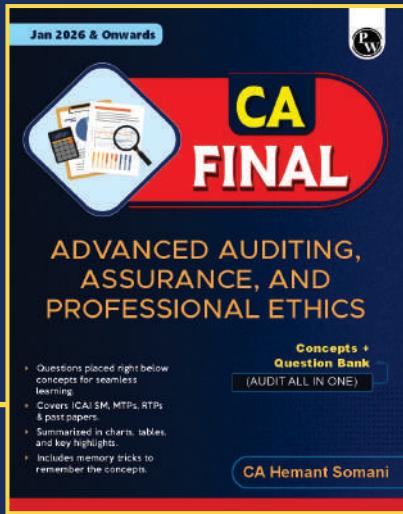
- Secured All India Rank (AIR)- 46 in CA Final Examination
- Top 15 rank in India in CPT
- Exemption in 7 Papers out of 8 Papers (Including Audit)
- All India Ranks in Many Exams (ICAI Wizard, IIT Guwanati talent search etc.)

Professional

- Worked in PwC in the Field of Statutory Audit for 3 Years
- Served at Many MNC's in the field of Finance & Audit
- Served in UAE & Africa in the field of Finance & Audit
- Having exposure of doing Audit in India, Dubai & Africa.

Some of My Students achievements are— AIR4, AIR 6, AIR 10, AIR 14, AIR 14 AIR 15, AIR 16, AIR 18, AIR 20, AIR 27, AIR 29, AIR 29, AIR 41, AIR 47, AIR 48, AIR 50

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