

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	CA Surbhi, a partner at S.K. & Associates, is currently halfway through the statutory audit of Vibrant Retail Ltd. for the financial year 2025-26. During a detailed review of the company’s new major investment, she discovers that the investee company is owned by her spouse. This relationship was not disclosed by the client during the initial acceptance process. CA Surbhi realizes that this conflict of interest would have caused the firm to decline the engagement had the information been available earlier. In light of SQC 1, discuss the considerations the firm should evaluate regarding the continuance of this engagement and the professional or legal steps required to address this situation.
	Ans.: Considerations as to Continuance of an engagement in case of conflict of interest: In the given case, a conflict of interest has emerged during the course of the audit which, if known earlier, would have led S.K. & Associates to decline the engagement. According to SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", the firm must follow established policies and procedures regarding the continuance of the engagement. The firm should evaluate the following considerations as per the requirements of SQC 1: • Professional and Legal Responsibilities: The firm must determine the professional and legal responsibilities applicable to the current circumstances. This includes assessing whether there is a mandatory requirement to report the situation to the person(s) who made the appointment (e.g., shareholders in an AGM) or, in certain instances, to the relevant regulatory authorities. • Withdrawal Considerations: The firm must consider the possibility of withdrawing from the specific audit engagement or, if necessary, from both the engagement and the entire client relationship. Conclusion: S.K. & Associates should immediately discuss the matter with the appropriate level of management and those charged with governance. If withdrawal is deemed appropriate, the firm must communicate the reasons for withdrawal and ensure that all significant issues, consultations, and the basis for the conclusions are thoroughly documented.
Q.2	M/s KM & Associates, a firm of Chartered Accountants, has been experiencing rapid growth in its client base over the past three years. To manage the increased workload, the firm has been assigning complex audit engagements of technical sectors to junior staff members who lack the necessary industry-specific experience. Furthermore, the firm’s management has not established a formal process for periodic performance evaluation or career development, leading to a decline in the commitment to ethical principles among the staff. In light of the relevant Standards on Quality Control, discuss the firm's obligations regarding its personnel and the specific requirements it should implement to ensure the appropriateness of the reports issued.

Ans.: Quality Control Policies w.r.t. Human Resources:

- In the given case, the firm's practices indicate a significant **failure in the Human Resources element of quality control** as envisaged under 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 it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances. Such policies and procedures should address relevant HR issues including recruitment, compensation, training, career development, performance evaluation etc. There should be emphasis on the continuing professional development of the firm's personnel.
- The firm should assign responsibility for each engagement to an engagement partner. The firm should establish policies and procedures requiring that:
 - (a) The identity and role of the engagement partner are communicated to key members of the client's management and those charged with governance;
 - (b) The engagement partner has the appropriate capabilities, competence, authority and time to perform the role; and
 - (c) The responsibilities of the engagement partner are clearly defined and communicated to that partner.
- Each engagement team should be able to carry out its responsibilities with necessary competence and skill. Therefore, the firm should ensure suitable people are available and groom them for their role. The firm should assess the performance of their partners and team members keeping in mind their commitment towards quality.

Conclusion: M/s KM & Associates must realign its HR policies to ensure that engagements are not merely accepted based on commercial growth but are supported by capable personnel.

To comply with SQC 1, the firm must promptly implement structured training and performance evaluations to ensure that engagement teams possess the industry-specific competence required for their assignments.

- Q.3** **M/s SV & Associates is conducting the statutory audit of Solar-Tech Ltd., a company involved in the complex business of manufacturing high-efficiency solar cells. During the audit, the engagement team encounters a highly contentious matter regarding the recognition of government research grants received under a newly introduced "Green Incentive Scheme," which involves complex performance obligations. The firm, being a mid-sized practice, does not have an internal technical cell to deal with such specialized Ind AS interpretations. CA Varun, the engagement partner, decides to take a final stand based on his own experience to avoid delays, as he believes external consultation would undermine the firm's professional image.**
- In light of SQC 1, evaluate CA Varun's approach and discuss the firm's obligations regarding consultations in difficult or contentious matters, including the resources available and documentation requirements.**

Ans.: Consultation in difficult or contentious matters:

- 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 must establish policies to ensure that appropriate consultation takes place on difficult or contentious matters.
- Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter. It helps to promote quality and improves the application of professional judgment. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or outside the firm) on significant technical, ethical and other matters and appropriate documentation and implementation of conclusions resulting from consultations.
- A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by other firms or professional and regulatory bodies. Complete and proper documentation should be maintained on issues involved and results of consultation.
- In the given case, CA Varun's approach of avoiding consultation on a complex and contentious matter to save time or protect the firm's image is inappropriate and violates the principles of quality control.

Conclusion: CA Varun must seek consultation since the matter of government grants involves significant technical complexity and falls under "difficult or contentious matters". By not consulting, the firm fails to implement a rigorous audit process. The firm should either consult a larger firm or use the advisory services of professional bodies like ICAI, and must ensure that the issue and the resulting conclusions are thoroughly documented to support the audit quality.

Q.4 M/s K.R. & Associates is the statutory auditor of Z-Tech Ltd. for the financial year 2025-26. The statutory audit report was signed and dated 15th May 2026. During a subsequent internal quality review, the following observations were noted:

- The engagement team completed the assembly and archival of the final statutory audit file on 25th July 2026, citing excessive workload during the peak tax season.**
- The firm had also issued a separate auditor's report on 30th April 2026 regarding the same financial information of Z-Tech Ltd. to be used by its foreign parent for group consolidation purposes. The team did not maintain a separate archival timeline for this report, arguing that since the subject matter was identical to the statutory audit, a single archival process following the statutory report was sufficient.**
- A major shareholder of company has requested the firm to provide detailed extracts of audit working papers relating to "Inventory Valuation" to understand auditor's basis for conclusion. Engagement partner is considering sharing these extracts to maintain good client relations.**

In light of the requirements of SQC 1, evaluate the appropriateness of the firm's actions regarding the assembly of engagement files and the request for access to audit documentation.

Ans.: Engagement Documentation:

- 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 for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalized. For audit engagements, the assembly of the final engagement file should ordinarily be completed in not more than 60 days after the date of the auditor's report.

	- Where two or more different reports are issued in respect of the same subject matter information of an entity, the firm's policies and procedures relating to time limits for the assembly of final engagement files should be considered for each report as if it were for a separate engagement. - Unless otherwise specified by law or regulation, engagement documentation is the property of the firm. The firm may, at its discretion, make portions of, or extracts from, engagement documentation available to clients, provided such disclosure does not undermine the validity of the work performed, or, in the case of assurance engagements, the independence of the firm or its personnel. - Furthermore, policies and procedures on documentation of the engagement quality control review should require documentation that: (a) The procedures required by the firm's policies on engagement quality control review have been performed. (b) The engagement quality control review has been completed before the report is issued. (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. - In the given case, the archival of the statutory audit file on 25th July 2026 exceeds the 60-day limit from the report date of 15th May 2026, which expired on 14th July 2026. Similarly, the report issued on 30th April 2026 for group consolidation must be treated as a separate engagement, and its specific archival period cannot be merged with the statutory audit archival. The engagement team has failed to comply with the mandatory 60-day archival period for both the statutory audit and the group consolidation report. Excessive workload is not a valid reason for non-compliance with quality control standards. - Regarding the request for working papers, while the documentation is the property of M/s K.R. & Associates, any disclosure to the shareholder must be evaluated to ensure it does not undermine the validity of the audit or the independence of the firm.
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1.2 - SA 220 "Quality Control for an Audit of Financial Statements"

Q.5	M/s G.S. & Associates is the statutory auditor of Sky-High Aviation Ltd., a listed entity. For the financial year 2025-26, CA Aman was appointed as the Engagement Quality Control Reviewer (EQCR). The engagement team, led by the engagement partner, has completed the audit fieldwork and drafted an unmodified opinion. CA Aman is now preparing to conduct his review. The engagement partner suggests that since he has already reviewed all working papers, CA Aman only needs to have a brief discussion with him and sign off on the drafted report to save time before the upcoming Board meeting. Discuss the mandatory procedures that CA Aman, as the EQCR, must perform to ensure an objective evaluation of the significant judgments and conclusions reached by the engagement team.
	Ans.: Objective evaluation of the significant judgments and conclusions by EQCR: As per SA 220, "Quality Control for an Audit of Financial Statements", the engagement quality control reviewer is required to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor's report. This evaluation is a formal process and shall involve the following mandatory procedures:

	(a) Discussion of significant matters with the engagement partner; (b) Review of the financial statements and the proposed auditor's report; (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and (d) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. In the given case, the engagement partner's suggestion to limit the review to a "brief discussion" is insufficient and does not comply with the requirements of SA 220. CA Aman must independently review the selected audit documentation and the financial statements to satisfy himself that the judgments made by the team are supported by sufficient appropriate evidence. The auditor's report should not be dated until the completion of this engagement quality control review.
Q.6	M/s D.K. & Associates is the statutory auditor of Sky-High Aviation Ltd., a listed entity. For the financial year 2024-25, CA Aman was appointed as the Engagement Quality Control Reviewer (EQCR). The engagement team, led by the engagement partner, has completed the audit fieldwork and drafted an unmodified opinion. During the documentation phase, the engagement partner is unsure about the specific records required to demonstrate compliance with ethical requirements and the EQCR process. In light of SA 220, discuss the documentation requirements for engagement partner and the specific matters the Engagement Quality Control Reviewer must document before the audit report is issued. Ans.: Documentation requirements: As per SA 220, "Quality Control for an Audit of Financial Statements", documentation is essential to provide evidence of the implementation of quality control procedures at the engagement level. Documentation by the Engagement Partner: The engagement partner should document the following matters pertaining to an audit engagement: (a) Issues identified with respect to 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 these 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. Documentation by the Engagement Quality Control Reviewer (EQCR): The engagement quality control reviewer shall document, for the audit engagement reviewed, that: (a) The procedures required by the firm's policies on engagement quality control review have been performed. (b) The engagement quality control review 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.

Proper documentation serves as the primary evidence that the audit was performed in accordance with professional standards and the firm's quality control policies.

CA Aman must ensure his review is finalized and documented before or on the date of the audit report, while the engagement partner must ensure all ethical and consultation matters are meticulously recorded to support the audit's integrity.

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