1 Quality Control

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 **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.2 **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. 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.3 **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 2026-27 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 firm's independence in relation to 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.4 **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 2026-27, 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); MTP-Sep. 24]**

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 firm to report withdrawal from engagement, or from both engagement and client relationship, together with reasons for withdrawal, to regulatory authorities.

(d) Documenting significant issues, consultations, conclusions and the basis for the conclusions.

Q.5	**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 7 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 (5 Marks)]**
	Ans.: Factors to be considered for monitoring the quality control of engagements: (i) Deciding whether QC system of the firm has been appropriately designed and effectively implemented. (ii) Examining whether new developments in the professional standards, legal and regulatory requirements have been reflected in the QC policies. (iii) Conducting monitoring by entrusting responsibility of monitoring process to a partner or other persons with sufficient and appropriate experience and authority in the firm. (iv) Dealing with complaints and allegations against the firm or any employees of it of non-compliance with professional standards or appropriate regulatory requirements by a person within or outside the firm. (v) Taking appropriate remedial actions against the personnel who did not conform to QC policies. (vi) Taking action when deficiencies in the design or operation of the firm's QC policies and procedures, or non-compliance with the firm's system of QC are identified.
Q.6	**XYZ and Associates, Chartered Accountants, is an audit firm, giving services to the various types of clients in the field of auditing, taxation and management consultancy. It has been doing statutory audit of B Ltd., a listed entity since last seven years. CA X who has been the engagement partner for the company since beginning has a complete idea about the strengths and weaknesses of the internal controls of the company. He maintains good relations with the management and those charged with the governance. Every year audit is completed in a cordial and healthy manner. During current year the quality control reviewer insisted to change the engagement partner for the company saying that continuation of same engagement partner poses certain audit risk and threats to the organization and advises to review the firm's policies and procedures in relation to the engagement partner. The management of the company does not wish to change the engagement partner. How do you view the above situation from the viewpoint of quality control system in audit firm in terms of requirements of SQC 1? Guide the firm in establishing the policies and procedures in respect of an engagement partner. [May 25 (5 Marks)]**
	Ans.: Quality control system in an audit firm (SQC 1): • SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," lays special emphasis on familiarity threat. Using the same senior personnel on assurance engagements over a prolonged period may impair the quality of performance of the engagement. Therefore, the firm should establish criteria for determining the need for safeguards to address this threat.

- In determining appropriate criteria, the firm considers such matters as
  - (i) nature of the engagement, including the extent to which it involves a matter of public interest, and
  - (ii) length of service of the senior personnel on the engagement.
- 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 seven years (except in cases where audit of listed entities is conducted by a sole practitioner). However, to ensure quality control exists in such firms and appropriate reports are issued, there is a process for mandatory peer review of such firms.
- In the given situation, XYZ and Associates, CAs, has been conducting the statutory audit of B Ltd., a listed company, for the past 7 years. CA X served as the engagement partner throughout this period. CA X has developed an in-depth understanding of the company's internal controls and maintains a strong, cordial relationship with the management and those charged with governance. However, during the current year, the firm's quality control reviewer raised concerns about the continued involvement of CA X, citing the continuation of the same engagement partner poses certain audit risk and threats to the organisation, and advised reviewing the firm's policies regarding engagement partner rotation.
- In view of SQC 1, the continued involvement of the same engagement partner, CA. X with a listed entity for an extended period, i.e., more than 7 years, poses a familiarity threat, potentially impairing audit quality and independence. Therefore, the firm should implement a policy of mandatory partner rotation and review its quality control procedures to ensure compliance with professional standards and maintain the integrity of the audit process.

Policies and Procedures in respect of Engagement partner: The firm should establish policies and procedures requiring that:

(i) The identity and role of the engagement partner are communicated to key members of the client's management and those charged with governance;

(ii) The engagement partner has the appropriate capabilities, competence, authority, and time to perform the role; and

(iii) Responsibilities of engagement partner are clearly defined and communicated to that partner.

Q.7 **XYZ & Co, a mid-sized audit firm, has recently expanded its operations and taken on several large clients. To manage the growing workload, the firm's CEO has delegated operational responsibilities for the firm's quality control system to two senior partners. However, certain concerns have been raised:**

(1) One of the partners, though commercially successful in bringing in new clients, has limited experience in audit quality oversight.

(2) The firm's new incentive system heavily rewards partners and staff based on revenue generation and client acquisition, with little emphasis on audit quality or compliance with professional standards.

(3) Due to rapid expansion, the firm has allocated most of its resources towards marketing and client development.

The aforesaid concerns reflect on which element of quality control within the firm as per SQC 1? What are the considerations one should exercise to achieve quality in all the engagements that the firm performs? [Jan. 26 (4 Marks)]

Ans.: Leadership Responsibilities for Quality within the Firm:

- SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," requires firms to establish policies and procedures designed to promote an internal culture based on the recognition that quality is essential in performing engagements. Such policies and procedures should require the firm's chief executive officer or the firm's managing partners to assume ultimate responsibility for the firm's system of quality control. The example set by firm's leadership encourages an inner culture that recognizes high quality audit work.
- It has been laid down clearly that the firm's business strategy is subject to the overriding requirement for the firm to achieve quality in all the engagements that the firm performs. Essentially, it implies that audit quality is paramount in all engagements. It is non-negotiable.
- In the given situation, XYZ & Co., a mid-sized audit firm, has recently undergone rapid expansion and taken several large clients. In order to manage the increased workload, the firm's CEO has delegated operational responsibilities for the firm's system of quality control to two senior partners. However, concerns have emerged regarding the competence of the personnel entrusted with quality oversight, the firm's incentive structure being heavily revenue-oriented, and the disproportionate allocation of resources towards marketing activities. These issues raise questions about the firm's commitment to audit quality and compliance with professional standards and primarily reflect **weaknesses in the "Leadership responsibilities for quality within the firm"** element of quality control as per SQC 1.
- Overall, such a situation reflects lack of proper establishment of quality control framework at top of the firm. Following considerations should be taken into account while upholding quality of firm:
  - (i) The firm **assigns its management responsibilities so that commercial considerations do not override the quality of work** performed.
  - (ii) The firm's policies and procedures **addressing performance evaluation, compensation, and promotion (including incentive systems) with regard to its personnel** are designed to demonstrate the firm's overriding commitment to quality and
  - (iii) The firm **devotes sufficient resources for the development, documentation and support of its quality control policies** and procedures.

Q.8 **Loyal & Co., a Chartered Accountant firm, has recently experienced significant growth and started auditing several large corporate entities. During a periodic internal assessment of the firm's quality control system, the following observations were made:**

- **Loyal & Co. often accept new audit engagements based on referrals from existing clients, without conducting a proper evaluation of the client's reputation, integrity of management, or potential risks associated with the engagement.**
- **The firm is following the same quality control policies for several years without updating them for recent changes in professional standards and regulatory requirements.**

Identify the elements of the system of quality control under SQC 1 that are affected in the above situation and briefly explain how these elements contribute to ensuring quality in audit engagements performed by the firm. **[MTP-March 26]**

Ans.: Elements of the system of quality control

- 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 establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports issued by the firm or engagement partners are appropriate in the circumstances.
- In the given situation, the following specific elements of quality control are affected:

  (i) **Acceptance and continuance of client relationships and specific engagements**: A firm before accepting an engagement should acquire vital information about the client. Such an information should help firm to decide about:

  (a) Integrity of Client, promoters and key managerial personnel.

  (b) Competence (including capabilities, time and resources) to perform engagement.

  (c) Compliance with ethical requirements.

  In the present case, Loyal & Co. often accepts new engagements based solely on referrals without proper evaluation, which is a clear deficiency in this element.

  (ii) **Monitoring**: The firm should ensure that policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements. In this case, the firm has been following the same quality control policies for several years without updating them for changes in professional standards and regulatory requirements, indicating a lapse in monitoring.

  Therefore, accepting engagements without properly assessing client integrity and continuing with outdated quality control policies by Loyal & Co. highlights deficiencies in the acceptance and continuance of client relationships and monitoring elements of SQC 1. These elements are crucial to ensure that the firm undertakes only appropriate engagements and its quality control framework remains updated, effective, and compliant with professional and regulatory standards. Strengthening these areas will help the firm in maintaining consistent audit quality, especially in view of its recent growth and engagement with large corporate clients.

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

Q.9 **OP & Associates are statutory auditors of BB Ltd. BB Ltd is a listed company & started its operations 5 years back. Field work during the audit of the financial statements of the company for the year ended on March 31, 2026 got completed on July 1, 2026. The auditor's report was dated July 12, 2026. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on July 15, 2026. Engagement partner had completed his reviews in entirety by July 10, 2026. Comment. [MTP-March 19, April 24; RTP-May 25; MTP-Dec. 25]**

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 F.S. 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.
- 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 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, 2026 got completed on July 1, 2026. The auditor's report was dated July 12, 2026. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on July 15, 2026.

Conclusion: Signing of auditor's report *i.e.* on July 12, 2026 which is before the completion of review engagement quality control review *i.e.* July 15, 2026, is not in order.

Q.10 **SS Ltd. is a company listed in India. The Company has appointed M/s Z & Co. as auditors. Mr. Q a CA has recently joined the firm and has been appointed as the engagement partner for the first time. He understands that it is necessary to ensure the compliance of independence for the audit team as per standard audit practices. But he could not find as such, any policies and procedures available with the firm in documented form.**

Why do you think that the firm should have policies and procedures to ensure the independence of the firm in every assignment? How does an engagement partner ensure the compliance of independence? Discuss with reference to relevant SAs. [Nov. 23 (5 Marks); MTP-July 25]

Or

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 SAs. [MTP-March 25]

Ans: Requirement of having policies and procedures to ensure independence of firm:

- SQC 1 "Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements" requires that 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:
  - (a) Communicate its independence requirements to its personnel
  - (b) 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.

Ensuring compliance 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 firm's independence policies & 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.

Q.11 **PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to re-appointment of auditors in AGM, 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 FY, 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 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 24 (5 Marks); MTP-April 25]**

Ans.: **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 client. Such information help firm to decide:

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

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 F.S.", EP 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.

Conclusion: In view of the above, PQR Associates should:

- Follow their firm's policies and procedures for client acceptance and continuance. This includes evaluating integrity of client, assessing potential risks associated with engagement, and ensuring that firm has 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.
- Maintain 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.
- 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 income-tax search, changes in client management, or potential conflicts of interest.
- Ensure that 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.

Q.12 **CA Giri is a senior partner of M/s TSV Associates. M/s TSV Associates is a reputed firm of Chartered Accountants which has been in practice for more than five decades. The firm undertakes statutory audits of large listed companies across various industry sectors and has more than fifty qualified experienced professionals. CA Giri has been assigned as an Engagement Quality Control Reviewer for an audit engagement of a listed company. What are the aspects, which would be looked into by CA Giri as an EQCR in relation to the engagement?**

Upon completion of the review, CA Giri has identified certain issues, with respect to revenue recognition and adequacy of provisions relating to onerous contracts. The views of CA Giri are not accepted by the Engagement Partner. Suggest the ways of resolving the differences of opinion between CA Giri and the engagement partner. [May 24 (5 Marks); MTP-Nov. 25]

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

As per SA 220, "Quality Control for an Audit of Financial Statements", for audits of financial statements of listed entities, CA. Giri, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:

(i) Engagement team's evaluation of the firm's independence in relation to the audit engagement;

(ii) 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;

(iii) Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

As per SQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”, there might be difference of opinion within ET, with those consulted and between EP and EQC reviewer. The report should only be issued after resolution of such differences. In case, recommendations of engagement quality control reviewer are not accepted by engagement 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.

Conclusion: In the given situation, under completion of review, CA. Giri, Engagement Quality Control Reviewer has identified certain issues. However, the view of CA Giri, the EQCR are not accepted by the Engagement Partner. This difference of opinion among the CA Giri and Engagement Partner should be resolved with abovementioned manner as per SQC 1.

Q.13 **Munir & Co. is a practicing-chartered accountants' firm having its Head Office at Mumbai. Mr. A, a dedicated and capable article assistant associated with Munir & Co. for the past three years, recently qualified as a Chartered Accountant. Recognizing his strong analytical skills, attention to detail, and in-depth understanding of audit, the firm inducted him as a Partner on 1st February, 2026. On joining the firm, he accepted his first assignment to act as an Engagement Quality Control Reviewer (EQCR) for J & J Limited, a listed entity, for the financial year 2025-26. Before finalizing the Balance Sheet of the Company for the year 2025-26, CA A signed on few working papers of the engagement team as a token of review performed by him in terms of firm's policies on engagement quality control review without going through the audit file. He made no further documentation, assuming that the team who performed the audit of the company for the year 2025-26, was the same team who performed the audit of the company for the financial year 2024-25.**

Comment on the act of CA A in accordance with relevant professional standards. [Sep. 25 (5 Marks)]

Ans.: Review of Audited Financial Statements:

- As per SQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”, Engagement quality control (EQC) reviewer is a partner, other person in the firm (who should be member of ICAI), suitably qualified external person, or a team made up of such individuals. In this regard, suitably qualified external person refers to an individual outside the firm with the capabilities and competence to act as an engagement partner, for example a partner or an employee (with appropriate experience) of another firm.
- In addition, the EQC 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 the given case, Munir & Co, admitted Mr. A, who was an articled assistant for 3 years, as a Partner on 1st February 2026 after he qualified as a Chartered Accountant. He was appointed as Engagement Quality Control Reviewer (EQCR) for J & J Limited, a listed company, for FY 2025-26. It may be considered that CA A has recently qualified as a Chartered Accountant and does not possess the competence and capability for the work assigned. Therefore, it was not appropriate for CA A to accept the assignment of Engagement and Quality Control Reviewer.
- Further, the EQC reviewer shall document, for the audit engagement reviewed, that:
  (i) The procedures required by the firm’s policies on EQC review have been performed.

(ii) The engagement quality control review has been completed on or before the date of the auditor's report.

(iii) 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, there are no working papers to show that Engagement quality control reviewer has done an evaluation of conclusion reached by the engagement team. Mere signing on some working papers of the engagement team shows that Engagement and Quality Control Reviewer has made no such evaluation and review of work performed by the engagement team.

Conclusion: In view of above, act of CA A only signing a few working papers is not correct, and he shall maintain documentation in accordance with the Engagement and Quality Control Standards.

Alternative Solution

- As per SA 220, "Quality Control for an audit of financial statements", the engagement quality control (EQC) reviewer shall 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 shall involve:

  (i) Discussion of significant matters with the engagement partner.

  (ii) Review of the financial statements and the proposed auditor's report.

  (iii) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached and

  (iv) Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

- For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

- Further, the EQC reviewer shall document, for the audit engagement reviewed, that:

  (i) The procedures required by the firm's policies on engagement quality control review have been performed.

  (ii) The engagement quality control review has been completed on or before the date of the auditor's report.

  (iii) 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, there are no working papers to show that Engagement quality control reviewer has done an evaluation of conclusion reached by the engagement team. Mere signing on some working papers of the engagement team shows that Engagement and Quality Control Reviewer has made no such evaluation and review of work performed by the engagement team.

Conclusion: In view of above, act of CA A only signing a few working papers is not correct, and he shall maintain documentation in accordance with SA 220.