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	**MNP & Co., a firm of auditors, is appointed by a bank to conduct stock audit of a borrower. It deputes one of its paid Chartered accountant employees, Sudhanshu, to conduct above said stock audit. He leverages it as an opportunity to prevail upon the client to get the accounts audited from their firm. He also assures 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?**
	HINT: 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.
Q.2	**CA M is introduced to a prospective client in a social function. He assures to visit office of CA M very soon in relation to professional work. During discussions over a cup of coffee next week, it transpires that there was a search by Enforcement Directorate in his premises about a month back resulting in recovery of huge sum of cash. The income tax department had also searched his premises in relation to bogus capital gains on penny stocks. Lamenting poor quality of services provided by his present auditor, he offers appointment as tax auditor of his five family-owned firms to CA M in lieu of handsome fees. What are the factors to be evaluated by CA M if he wants to take up the engagement?**
	HINT: As per 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. The above coupled with actions of 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.
Q.3	**Beta Private Limited has approached a firm of Chartered accountants to assist them in preparation of financial statements and issue a compilation report in this regard. Does CA firm have responsibility in relation to quality control for above said engagement? Discuss with reasons.**
	HINT: 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".
Q.4	**You are an audit senior working for the firm Bohra & Company. You are currently carrying out the audit of Wisdom Ltd., a manufacturer of waste paper bins. You are unhappy with Wisdom Ltd.'s inventory valuation policy and have raised the issue several times with the audit manager. He has dealt with the client for a number of years and does not see what you are making an objection about. He has refused to meet you on site to discuss those issues.** **As the audit manager had dealt with Wisdom Ltd. for so many years, other partners have decided to leave the audit of Wisdom Ltd. in his capable hands. Comment on the situation outlined above.**

Ans.: Quality Control Issues in an engagement:

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

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

Q.5 **M/s. NK & Co., Chartered Accountants were appointed as Statutory Auditors of Fresh Juice Limited for the FY 2026-27. 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.*, 2025-26 were incorrectly brought forward. It was found that M/s NK & Co. did not apply any audit procedures to ensure that correct opening balances have been brought forward to the current period. Accordingly, a complaint was filed against NK & Co. in relation to this matter.**

You are required to inform what policies are required to be implemented by NK & Co. for dealing with such complaints and allegations as required by Standard on Quality Control (SQC).

[Jan. 21 (5 Marks), MTP-March 22]

Ans.: Complaints and Allegations:

- As required by SQC-1 "Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements" the firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
  (a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and
  (b) Allegations of non-compliance with the firm's system of quality control.
- Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the firm. They may be made by firm personnel, clients or other third parties. They may be received by engagement team members or other firm personnel.
- As part of this process, the firm establishes clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.

- The firm investigates such complaints and allegations in accordance with established policies and procedures. The investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement, and includes involving legal counsel as necessary. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation. Complaints, allegations and the responses to them are documented.
- Where the results of the investigations indicate deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control by an individual or individuals, the firm shall take appropriate action.

Q.6 **HK & Co. Chartered Accountants have been auditors of SAT Ltd (a listed entity) for the last 8 financial years. CA H, partner of the firm, has been handling the audit assignment very well since the appointment. The audit work of CA H and her team is reviewed by a senior partner CA K to assure that audit is performed in accordance with professional standards and regulatory and legal requirements. CA K was out of India for some personal reasons, so this year CA G has been asked to review the audit work. In your opinion, what areas CA G should consider at the time of review. List any four areas and also comment whether firm is complying with Standard on Quality Control or not.** **[July 21 (5 Marks), MTP-Oct. 22]**

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

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

Reviewers consider whether:

(a) The work has been performed in accordance with professional standards and regulatory and legal requirements;

(b) Significant matters have been raised for further consideration;

(c) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;

(d) There is a need to revise the nature, timing and extent of work performed;

(e) The work performed supports the conclusions reached and is appropriately documented;

(f) The evidence obtained is sufficient and appropriate to support the report; and

(g) The objectives of the engagement procedures have been achieved.

Compliance with SQC:

The firm should establish policies and procedures:

(i) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and

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

The familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the engagement partner should be rotated after a pre-defined period, normally not more than 7 years.

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

Q.7 **CA Ragini is offered appointment to act as Engagement Quality Control Reviewer (EQCR) for the audit of financial year 2026-27 of XPM Limited, a listed company operating from a small town. She is also based in the same town and was not engaged previously to conduct audit of a listed entity. She accepts the appointment to act as EQCR. She performs the review by ticking a "Yes / No" checklist and signing on some of working papers prepared by engagement team. The audit file does not contain any material which shows that the work of EQCR is separate from the work of the engagement team. Do you agree with the approach adopted by EQCR? By commenting on issues involved in the above situation, discuss whether she can be held guilty of professional misconduct.**

[MTP-Sep. 23, Oct. 23]

Ans: Engagement Quality Control Review (EQCR):

- SQC 1 states that EQC reviewer is a partner, other person in firm (member of ICAI), a suitably qualified external person, or a team made up of such individuals with sufficient and appropriate experience and authority to evaluate objectively, before report is issued, significant judgments the engagement team made and the conclusions they reached in formulating the report.
- It also states that EQC reviewer for an audit of the F.S. 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, work of EQC Reviewer involves objective evaluation of the significant judgments made by engagement team and ensuring that the conclusions reached by the team in formulating audit reports are appropriate. It is necessary for EQC Reviewer to have requisite technical expertise and experience to enable her to perform the assigned role of evaluating the work of the 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 an appointment as ECQ Reviewer for the listed entity.
- Further, SA 220 states that EQC 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, there are no working papers to show that EQCR has done an evaluation on conclusions reached by the engagement team. Mere ticking of a Yes/No checklist and signing on some working papers of the engagement team shows that EQCR has made no such evaluation and review of work performed by the engagement team.

Conclusion: Approach of CA Ragini was not proper in performing the work of EQC Reviewer.

Professional Misconduct:

- CA Ragini has allowed the issuance of an audit report of the company without carrying out due procedures as discussed above; hence she is guilty of professional misconduct under clauses 8 & 9 of Part I of the Second Schedule to Chartered Accountants Act, 1949.
- Under Clause 8, a CA is held guilty of professional misconduct in case of failure to obtain sufficient information which is necessary for the expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion.

- Clause 9 is applicable in case of failure to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

  Conclusion: CA Ragini is guilty of professional misconduct, as discussed above.

Q.8 **TPX & Co., Chartered Accountants is a large audit firm. It 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 - March 24, Feb. 25]**

Or

RBC & Co., Chartered Accountants, is a large audit firm engaged in audits and assurance services across various sectors. The firm currently maintains audit documentation in both electronic and physical (hard copy) formats. However, during audit it was observed that physical files are neither scanned and incorporated into the electronic files nor cross-referenced with them. As a result, the documentation remains scattered with no integrated or centralised audit file for the engagement. Additionally, several audit working papers lack clarity on whether the information was obtained from the client or prepared internally by the engagement team. This ambiguity raises concerns regarding the reliability and origin of audit evidence. How do you view the above situation from the point of view of quality control system in audit firm? Analyse. [RTP-Jan. 26]

Ans: Engagement Documentation:

- In accordance with 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 maintain confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.
- In the given situation, the physical files are neither scanned and incorporated in the electronic files nor cross-referenced to the electronic files. Inability to do so shows that firm has not established policies and procedures to maintain integrity of engagement documentation. Lack of ensuring the same makes it difficult to demonstrate completeness of audit files and whether these were assembled within 60 days timeframe stipulated in SQC 1.
- Where engagement documentation is in paper, electronic, or other media, the 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, or if it could be permanently lost or damaged. One of the reasons for designing and implementing appropriate controls for engagement documentation in this regard is the protection of the integrity of information at all stages of engagement.
- 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.

- It has also been stated that there are many instances where audit working papers do not contain details as to whether information was obtained from client or prepared by the engagement 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.

Q.9 M/s KRM & Associates, Chartered Accountants, is the statutory auditor of Velocity Engineering & Projects Ltd., a listed company engaged in execution of large-scale infrastructure projects under Engineering, Procurement and Construction (EPC) contracts across India and overseas.

The firm has an experienced partner designated as Engagement Quality Control Reviewer for listed entity audits.

During the audit for the year ended 31st March 2027, the engagement team noticed the following matters:

- **Revenue of ₹ 1,250 crores recognised under long-term EPC contracts using percentage of completion method based on cost-to-cost input method under Ind AS 115. Significant variation claims and escalation clauses were included in transaction price based on management's assessment of "high probability of recovery".**
- **Impairment testing of investments in step-down foreign subsidiaries executing overseas EPC contracts, where cash flow projections were based on aggressive assumptions about future contract awards.**
- **Disagreement between the senior member of the audit team and the engagement partner regarding inclusion of variation claims as part of transaction price, with the senior member recommending external technical consultation.**
- **The firm did not have internal infrastructure specialists. However, external consultation was obtained, and the matter was resolved without formal documentation of consultation process.**
- **The Engagement Quality Control Reviewer was informed about the audit but:**
  - **(a) The review was conducted only at a summary level.**
  - **(b) Detailed evaluation of significant judgments relating to revenue recognition and impairment was not performed.**
  - **(c) The audit report was signed before completion of formal EQCR documentation.**
  - **(d) Differences of opinion, if any, were not formally documented or resolved.**
- **The working papers contain general review notes but no detailed documentation evidencing depth of consultation or completion of objective EQCR procedures prior to issuance of the audit report.**

You are required to examine compliance with requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review as per SQC 1. [RTP-May 26]

Ans.: Consultation and Engagement Quality Control Review as per SQC 1:

In the given case, the auditor is required to examine compliance with requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review as per SQC 1," Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements" as follows:

- **Engagement Performance:** Consistency in quality of engagement performance is achieved through briefing of engagement teams of their objectives, processes for complying with engagement standards, processes of engagement supervision and training, methods of reviewing performance of work, appropriate documentation of work performed.

In the given case, though complex and high-risk areas such as revenue recognition under long-term EPC contracts and impairment of overseas investments were involved, adequate documentation and supervision procedures are not evidenced.

- **Consultation** should take place in difficult or contentious matters pertaining to an engagement. 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, disagreement existed within the engagement team regarding inclusion of variation claims, and the firm lacked internal infrastructure specialists. In the absence of above, external consultation was obtained to resolve the matter. Though matter got resolved, no documentation for consultation process was maintained. This indicates non-compliance with consultation requirements.

- **Engagement Quality Control Review (EQCR):** Significant judgments made in an engagement should be reviewed by an engagement quality control reviewer for taking an objective view before the report is issued.

  The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.

  Engagement quality control review is mandatory for all audits of financial statements of listed entities. In respect of other engagements, firm should devise criteria to determine cases requiring performance of engagement quality control review.

  In the present case, although the firm had an Engagement Quality Control Reviewer, the review was not adequately performed, significant judgments were not objectively evaluated in depth, and the audit report was issued before completion of proper EQCR procedures. This indicates non-compliance with the requirements relating to Engagement Quality Control Review.

Conclusion: In the given case, the audit involved significant judgments relating to revenue recognition under long-term EPC contracts and impairment of foreign investments, which constitute difficult and contentious matters requiring consultation at an appropriate professional level. Failure to document such consultation indicates non-compliance with engagement performance requirements.

Further, since Velocity Engineering & Projects Ltd. is a listed entity, Engagement Quality Control Review was mandatory. Though an Engagement Quality Control Reviewer existed in the firm, the review was not properly performed and was not completed before issuance of the audit report. Hence, the firm has failed to comply with the requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review.

1.2 - SA 220 "Quality Control for an Audit of Financial Statements"	
Q.10	**GVN & Associates are auditors of a listed company involved in "fin-tech" sector. The engagement team is stuck up with some issue pertaining to a particular Ind-AS applicable to the company. They have framed a query and sent to ICAI for expert opinion on the matter. The issue was resolved upon receipt of expert opinion. Since expert opinion was provided by ICAI, engagement team was of the view that appointment of engagement quality control reviewer has lost its relevance. Do you agree?**
	HINT: Engagement quality control review 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 companies.
Q.11	**RST & Co., a firm of Chartered accountants, are auditors of a listed company engaged in manufacturing of heavy machinery components. The audit report for year 2026-27 also included report on matters listed in CARO, 2020. While reporting under clause vii(a) of the said order relating to regularity of undisputed statutory dues by the company, the auditors have commented that company is "generally regular" in depositing statutory dues to appropriate authorities. Is above reporting qualitative and in line with requirements of SA-220?**
	HINT: Such type of reporting is not qualitative. It is not in accordance with SA 220. One of the objectives of the auditor, as per SA 220, is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and regulatory and legal requirements. The reporting under CARO, 2020 is not proper. Hence, the audit does not comply with regulatory and legal requirements.
Q.12	**PQR & Associates are statutory auditors of a listed company. There arose an issue during the course of audit relating to related party transactions. The engagement partner wants to consult engagement quality control reviewer on this matter during the course of audit process itself. Can he consult with engagement quality control reviewer? Discuss.**
	HINT: It is necessary to maintain objectivity of reviewer. Therefore, participation in engagement or making decisions for engagement team is to be avoided at all costs. However, engagement partner may consult EQC Reviewer during the engagement so as not to compromise his objectivity and eligibility to perform the role.
Q.13	**BNE & Co. are in midst of audit process of a listed company. During the course of audit, an issue arose relating to revenues from contracts with customers in terms of Ind AS 115. The engagement partner took a certain stand. However, engagement quality control reviewer recommended otherwise after review. The engagement partner is not willing to accept recommendations of reviewer. How can the stalemate be ended?**
	HINT: In case, recommendations of EQC 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. The audit report should be issued only after resolution of matter.
Q.14	**During audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews & also ensured compliance with independence requirements that apply to audit engagement. Engagement files were also reviewed by Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220. [RTP-May 19, May 22; MTP-Oct. 19]**

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

- As per SA 220 "Quality control for an Audit of Financial Statements" the engagement partner shall form a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the engagement partner shall:
  (a) Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
  (b) Evaluate information on identified breaches, if any, of the firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement; and
  (c) Take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, to withdraw from the audit engagement, where withdrawal is permitted by law or regulation. The engagement partner shall promptly report to the firm any inability to resolve the matter for appropriate action.
- For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider among other things, the engagement team's evaluation of the firm's independence in relation to the audit engagement.

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

Q.15 **M/s Sureshchandra & Co. has been appointed as an auditor of SC Ltd. for the FY 2026-27. CA Suresh, one of the partners of M/s Sureshchandra & Co., completed entire routine audit work by 29th May, 2027. Unfortunately, on very next morning, while roving towards office of SC Ltd. to sign final audit report, he met with a road accident and died. CA Chandra, another partner of M/s Sureshchandra & Co., therefore, signed the accounts of SC Ltd., without reviewing the work performed by CA Suresh.**

State with reasons whether CA Chandra is right in expressing an opinion on financial statements the audit of which is performed by another auditor. [MTP-April 18, April 26; RTP-May 25]

Ans.: Review of Work performed by others:

- As per SA 220, "Quality Control for an Audit of Financial Statements", the engagement partner shall take responsibility for reviews being performed in accordance with the firm's review policies and procedures. Review procedures consists of the considerations, whether:
  1. the work has been performed in accordance with professional standards and regulatory and legal requirements;
  2. significant matters have been raised for further consideration;
  3. appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
  4. the work performed supports the conclusions reached and is appropriately documented;
  5. the evidence obtained is sufficient and appropriate to support the auditor's report; and
  6. the objectives of the engagement procedures have been achieved.
- Further, as per Code of Ethics, it is the auditor's responsibility and should be complied with that when auditor delegates work to assistants or uses work performed by other auditors/experts, he will continue to be responsible for forming and expressing his opinion on the F.S. However, he will be entitled to rely on the work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied.

- Auditor should carefully direct, supervise & review work delegated to assistants. He should obtain reasonable assurance that work performed by other auditors/experts and assistants is adequate for his purpose.
- In the instant case, Mr. Suresh, a partner of the firm had completed routine audit work and died before signing audit report. Mr. Chandra another partner of the firm has signed the accounts of SC Ltd, relying on the work performed by Mr. Suresh.

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

Q.16 **Ace Limited (manufacturer of textile goods) got an order of manufacturing of PPE kits in December 2026. But there was shortage of machinery and manpower to accomplish the ordered requirement of PPE kits. Ace Limited approached another manufacturing unit Jack Limited for purchase of the unit. Jack Limited was interested in the sale of unit, so the deal went through and Ace Limited acquired ninety five percent shares of Jack Limited. The new management of Jack Limited proposed and appointed NKB Associates, Chartered Accountants, (already auditors of Ace Limited) as new auditors of Jack Limited. NKB Associates accepted the assignment without considering information whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate.**

Comment with respect to appropriate Standard of Auditing what type of information assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate or not?

[Dec. 21 (5 Marks); MTP-Sep. 22]

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

- SA 220, "Quality Control for an Audit of F.S." and SQC 1, "Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", requires the firm to obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement & when considering acceptance of a new engagement with an existing client.
- Information such as the following assists the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:
  - (i) The integrity of the principal owners, key management and TCWG of the entity;
  - (ii) Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources.
  - (iii) Whether the firm and engagement team can comply with relevant ethical requirements; and
  - (iv) Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship.

Q.17 **SDC & Associates, a medium-sized audit firm, is appointed as an auditor of Neuronix Ltd., a listed pharmaceutical company engaged in extensive R&D with complex global operations. CA Rashi an engagement partner of SDC & Associates is leading the audit team for the audit of the same. Neuronix Ltd. was earlier audited by a Big 4 firm that withdrew from the engagement citing scope limitations. During the audit planning, CA Rashi realises that while her team is skilled in standard manufacturing audits, they lack experience in pharma R&D and associated regulatory frameworks.**

The firm is under pressure to complete the audit in time to meet the listing obligations of Neuronix Ltd. The Managing Partner insists on continuing the audit and advises CA Rashi to rely on the firm's standard procedures to ensure timely delivery.

In light of SQC 1 and SA 220, analyse the quality control considerations CA Rashi must evaluate before continuing with the engagement. What actions should she take to uphold audit quality and professional standards? [RTP-Sep. 25]

Ans: Quality Control considerations to be evaluated before continuing with the engagement:

As per SQC 1, "Quality Control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements", CA Rashi, as the engagement partner, is required to evaluate whether the firm has the capabilities, competence, time and resources to undertake an engagement, following matters have to be taken into consideration:

(1) Firm personnel have knowledge of relevant industries or subject matters;

(2) Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;

(3) The firm has sufficient personnel with the necessary capabilities and competence;

(4) Experts are available, if needed;

(5) Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and

(6) The firm would be able to complete the engagement within the reporting deadline.

Under SA 220, "Quality Control for an audit of financial statements", the responsibility of an engagement partner in this regard in an audit engagement is on lines of SQC 1 which requires 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.

Information like integrity of principal owners, competence of engagement team and consideration of necessary capabilities including time and resources, compliance with relevant ethical requirements and significant matters arisen during current or previous audit engagement and their implications assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate.

In the given case:

- SDC & Associates lacks experience in pharmaceutical R&D audits, a highly regulated and technical field.
- Previous auditor's withdrawal citing scope limitations is a warning sign that must be evaluated.
- The engagement team lacks relevant expertise, and there is pressure from the managing partner to proceed regardless.
- Proceeding without addressing these issues would violate the requirements of SQC 1 and SA 220.

Conclusion:

CA Rashi should not proceed with the engagement unless satisfied that all conditions under SQC 1 and SA 220 are met. She should:

- Assess the firm's capability and consider engaging external experts.
- Understand the reason for previous auditor's withdrawal.

	• Ensure that a qualified EQCR reviewer is appointed and review is completed before issuing the audit report. This will help maintain audit quality, ensure compliance with professional standards, and protect the firm from regulatory repercussions.

NOTES