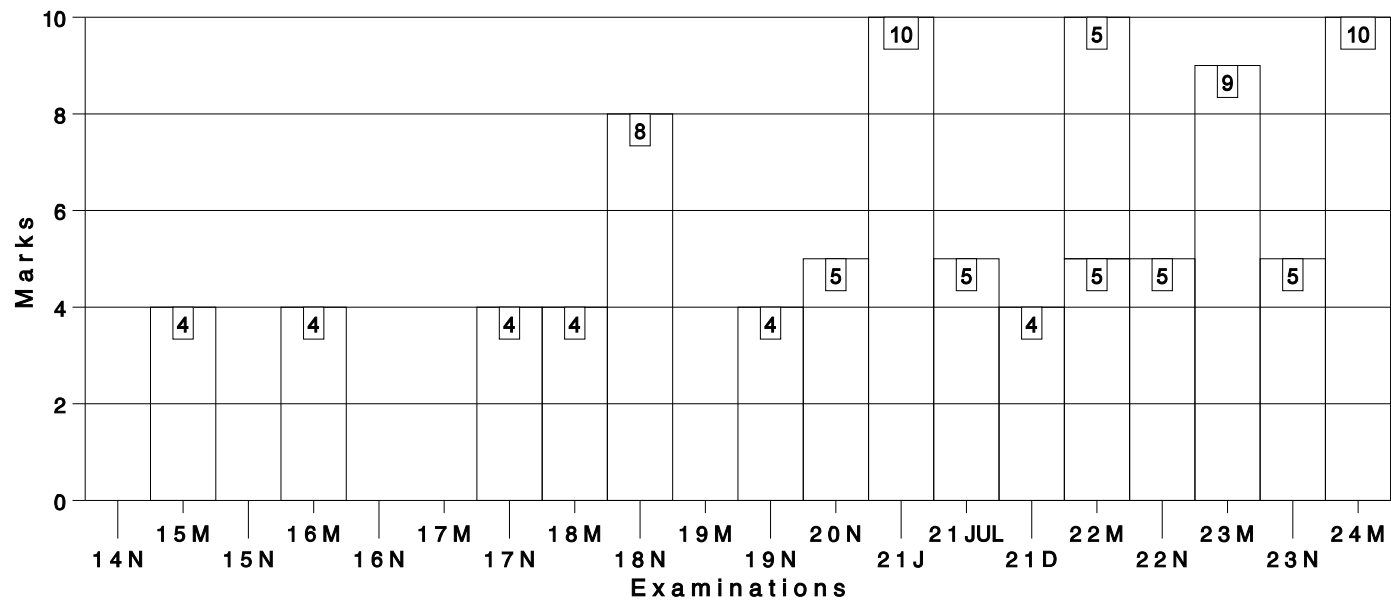
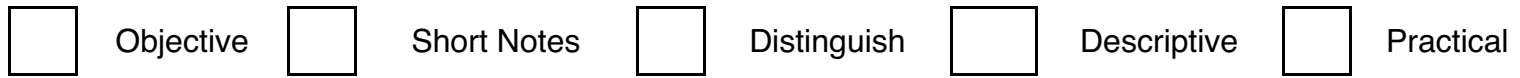


### Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

#### Legend



3.17

<b>CHAPTER</b>	<b>Quality Control</b>
<b>1</b>	
<b>THIS CHAPTER COMPRISES OF</b>	

- |  |  |
|--|--|
| 1. Audit Quality   | 6. Peer Review Board                             |
| 2. SQC 1   | 7. Quality Review Board                          |
| 3. Elements System of Quality Control                                  | 8. National Financial Reporting Authority (NFRA) |
| 4. SA 220 Quality Control for an Audit of Financial Statements         |  |
| 5. SQC 1 Vs. SA 220 Key Differences in Nature, Scope and Applicability |  |

### **SHORT NOTES**

---

**2013 - May [7]** Write short note on the following:

- (b) Technical, ethical and professional standards as per statement on peer review. (4 marks)

**Answer:**

**Technical, Professional and Ethical Standards means:**

1. Accounting Standards issued by ICAI and /or prescribed and notified by the Central Government of India;
2. Standards issued by the Institute of Chartered Accountants of India including
  - (i) Engagement standards
  - (ii) Statements
  - (iii) Guidance notes
  - (iv) Standards on Internal Audit
  - (v) Statements on Quality Control
  - (vi) Notifications/Directions/Announcements/Guidelines/Pronouncements/Professional standards issued from time to time by the Council or any of its committees.

3. Framework for the Preparation and presentation of financial statements,
  - Framework of statements and Standard on Auditing,
  - Standard on Assurance Engagements,
  - Standards on Quality Control and Guidance Notes on related services issued by ICAI.
4. Provisions of the various relevant statutes and/or regulations which are applicable in the context of the specific engagements being Reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in the scope of assurance engagements.

**Note: Assurance services shall not include:**

1. Management Consultancy Engagements
2. Representation before various Authorities
3. Engagements to prepare tax returns or advising clients in taxation matters
4. Engagements for the compilation of financial statements
5. Engagements solely to assist the client in preparing, compiling or collating information other than financial statements
6. Testifying as an expert witness
7. Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client; and
8. Engagement for Due Diligence.

**2013 - Nov [7]** Write short note on the following:

(a) Scope of peer review

(4 marks)

**Answer:**

**Scope of Peer Review:** The Statement on Peer Review lays down the scope of review to be conducted. The peer review process is directed at the assurance services of a practice unit :

1. When a practice unit is selected for review, its attestation engagement records pertaining to the immediately preceding 3 completed financial years shall be subjected to review.
2. **The Review shall focus on :**

- (i) Compliance with Technical Standards
- (ii) Compliance with Ethical Standards.
- (iii) Compliance with Professional Standards.
- (iv) Quality of Reporting.
- (v) Systems and procedures with regard to compliance of assurance services.
- (vi) Training Programs for staff (including Articled and Audit Assistants) concerned with assurance functions, including appropriate infrastructure.
- (vii) Compliance with directions and/or guidelines issued by the Council to the Members, including Fees to be charged, Number of audits undertaken, register for Assurance Engagements conducted during the year and such other related records.
- (viii) Compliance with directions and/or guidelines issued by the Council in relating to article assistants and/or audit assistants, including attendance register, work diaries, stipend payments, and such other related records.

**2016 - May [7]** Write short note on the following:

- (e) Areas to be reviewed in the assessment of independence of the practicing unit, while conducting peer review. (4 marks)

**Answer:**

**Following Areas to be reviewed in the assessment of independence of the practicing unit:**

1. Does the practice unit have a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
2. Does the practice unit communicate these policies and the expected standards of professional behaviour of all staff?
3. Does the practice unit monitor compliance with policies and procedures relating to independence?
4. Does the practice unit periodically review the practice unit's association with clients to ensure objectivity and independence?

**2017 - Nov [7]** Write short note on the following:

(b) Areas not to be examined in Peer Review

(4 marks)

**Answer:**

*Please refer 2014 - May [6] (d) on page no. 21*

### **DESCRIPTIVE QUESTIONS**

---

**2014 - May [6]** (d) What are the areas excluded from the scope of peer reviewer? (3 marks)

**Answer :**

**Areas excluded from scope of Peer Reviewer are:**

1. Management Consultancy Engagements;
2. Representation before various Authorities;
3. Engagements to prepare tax returns or advising clients in taxation matters;
4. Engagements for the compilation of financial statements;
5. Engagements solely to assist the client in preparing, compiling or collating information other than financial statements;
6. Testifying as an expert witness;
7. Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client; and
8. Engagement for Due diligence.

**2015 - May [6]** (c) Explain the stepwise approach adopted by the Peer reviewer. (4 marks)

**Answer:**

1. The reviewer should gain an under standing of the engagement letter since an assurance engagement or for that matter any other kind of engagement should begin with an engagement letter. Engagement letter is an important document as it defines the nature and scope of the assurance engagement, practice unit's responsibilities with regard to the engagement. This understanding would help him in planning the review

of documentation. The reviewer should focus the review primarily on the key engagement matters. The reviewer should also consider the materiality of the matter while planning the review.

2. The number of assurance engagements to be selected requires the exercise of judgement by the reviewer based on the evaluation of replies given in the questionnaire and the size of the practice unit. The objective is to obtain a reasonable cross-section of the practice unit's clients although greater weight may be given to large clients.
3. The practice unit may have policies and procedures for accepting a particular engagement. These policies and procedures may not exist in the form of records in each practice unit. In such a case the reviewer should consider enquiring from the concerned persons about such policies and procedures. The reviewer should, wherever possible, examine that the policies and procedures for acceptance of audit have been complied with necessary documentation with regard to the same exists.
4. The reviewer may follow a combination of compliance procedures and substantive procedures throughout the peer review process. The mix of Compliance and Substantive procedures depends upon the professional judgment of the reviewer.

**2018 - May [4]** (e) The elements of skill, experience and independence of reviewers are ensured before initiating them in Peer Review process. In the above light, state few eligibility criteria fixed for a person to be empanelled and also for being appointed as a Peer Reviewer. (4 marks)

**Answer:**

- The elements of skill, experience and independence of reviewers are ensured before initiating them in Peer Review Process. Because of this it is important to determine eligibility criteria fixed for a person to be empanelled and appointed as a Peer Reviewer. The following are the eligibility criteria:
- **The Peer Review Shall:**
  - (a) Be a member with at least 7 years of experience in practice.
  - (b) Is in practice as per the Chartered Accountants Act, 1949.

- (c) Should have undergone the requisite training as prescribed by the Board.
- (d) Should furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review Appointment.
- (e) Should have signed the Declaration of Confidentiality as prescribed by the Board.
- (f) Should have Conducted audit of Level I Entities for at least 7 years to be eligible for conducting Peer Review of Level I Entities as referred to in Para II of this Statement.
- **For being a Reviewer a member should not have:**
  - (i) Disciplinary action / proceedings pending against him.
  - (ii) Been found guilty by Council or the Disciplinary Board or Committee at any time.
  - (iii) Been convicted by a Competent Court whether within or outside India, of an offence involving moral turpitude and punishable with transportation or imprisonment.
  - (iv) Any obligation or Conflict of interest in the Practice unit or its Partners / Personnel.
- A Reviewer shall not accept any Professional assignment from the Practice Unit for a period two years from the date of appointment.

**2018 - Nov [6]** (e) What are the objectives of Peer Review? (4 marks)

**Answer:**

**Objectives of Peer Review**

The objective of Peer Review is to ensure that in carrying out the assurance service assignments, the members of the Institute

- comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and
- have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services.

Thus, the primary objective of peer review is not to find out deficiencies but to improve the quality of services rendered by members of the profession. The Statement of Peer Review also makes it clear that the peer review, “does not seek to redefine the scope and authority of the

Technical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards”.

- The peer review is directed towards maintenance as well as enhancement of quality of assurance services and to provide guidance to members to improve their performance and adherence to various statutory and other regulatory requirements. Such an objective of the peer review process makes it amply clear that the reviewer is not going to sit on the judgement of the practice unit while rendering assurance services but to evaluate the procedure followed by the practice unit in rendering such a service.
- Accordingly, where a practice unit is not following technical standards, the reviewers are expected to recommend measures to improve the procedures. To elaborate further, the key objective of peer review exercise is not to identify isolated cases of engagement failure, but to identify weaknesses that are pervasive and chronic in nature. For instance, absence of formal planning of an audit represents a serious deficiency that needs to be remedied by the practice unit.
- An instance of the auditor not carrying out physical verification of furniture and fixture may not attract the same comment. However, certain items of assets are best verified through the physical verification process and not adopting the same procedure may rightly be viewed as a systemic failure.
- The conclusion, therefore, is that the peer review seeks to identify and address patterns of non-compliance with quality control standards.

**2018 - Nov [6] (Or) (e) What are the inherent limitations of Peer Review?**

(4 marks)

**Answer:**

**Inherent Limitations of Peer Review:**

The reviewer conducts the review in accordance with the statement on Peer Review. The review would not necessarily disclose all weaknesses in compliance of technical standards and maintenance of quality of assurance services since it would be based on selective tests.



As there are inherent limitations in the effectiveness of any system of quality control which happens to be subject-matter of review, departure from the system may occur and may not be detected.

**2021 - Dec [6] (Or)** (c) CA. Manoj has been appointed as Peer Reviewer of M/s UV Associates, a Chartered Accountant firm consisting of 18 partners. As a Practicing unit what are the obligations that are to be complied by M/s UV associates in addition to furnishing the questionnaire, statements and such other particulars as the Board may deem fit? (4 marks)

**Answer:**

- M/s. UV Associates, as a practice unit, in addition to the prescribed information to be furnished including the questionnaire, statements and such other particulars as the Board may deem fit, shall comply with the following.
- (i) Produce to the Reviewer or allow access to, any record, document or prescribed register maintained by the practice unit or any other record or document which is of a class or description so specified, and which is in the possession or under the control of the practice unit.
  - (ii) Provide to the Reviewer such explanation or further particulars/ information in respect of anything produced in compliance with a requirement under sub clause (2) above, as the Reviewer shall specify.
  - (iii) Provide to the Reviewer all assistance in connection with Peer Review.
  - (iv) Where any information or matter relevant to a practice unit is recorded otherwise than in a legible form, the Practice Unit shall provide and present to the Reviewer a reproduction of any such information or matter, or of the relevant part of it in a legible form, with a translation in English or Hindi if the matter is in any other language, and if such translation is requested for by the Reviewer.

The Practice Unit shall be responsible and accountable for the accuracy and truthfulness of the translation so provided.

**2022 - May [5]** (b) In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A read with Section 28C and Sub-section (1) of Section 28D of the Chartered Accountants Act, 1949 (38 of 1949), the Central Government has made 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. Elucidate the powers of Quality Review Board in discharging its functions. How the Quality Review Board would proceed in case it does not receive the information called for by it from any Company? (5 marks)

**Answer:**

The Government of India has, in exercise of the power conferred by clauses (f) and (g) of sub section (2) of section 29A read with section 28C and sub-section (1) of section 28D of the Chartered Accountants Act, 1949 (38 of 1949), the Central Government has made 'Chartered Accountants (Procedures of Meetings of Quality Review Board) Rules, 2006'.

To Facilitate the discharge of its functions, Rule 6 of aforesaid rules provides:

- (a) On its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;
- (b) Lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;
- (c) Call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons of organizations, in such form and manner as it may decide, any may also give hearing to them;
  - Provided that where the Board does not receive the information called for by it from any Member of the Institute, the Board may request the Institute to obtain the information from the member and furnish the same to the Board.
  - Provided further that where the Board does not receive the information called for by it from any company registered under the

Companies Act, 1956 (now Companies Act, 2013), the Board may request the Central Government in the Ministry of Corporate Affairs for assistance in obtaining the information.

- (d) Invite experts to provide expert / technical advice or opinion or analysis on any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;
- (e) Make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirement and other matters related thereto.

## PRACTICAL QUESTIONS

---

**2012 - Nov [7]** Answer the following :

- (a) Goodluck Limited grants 180 share options to each of its 690 employees. Each grant containing condition on the employees working for Goodluck Ltd. over the next 4 years. Goodluck Ltd. has November 2, 2012 estimated that the fair value option is ₹ 15. Goodluck Ltd. also estimated that 30% of employees will leave during four year period and hence forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognised during vesting period? (4 marks)

**Answer:**

**Expense to be recognized during 4 years' vesting period**

Year	Calculation	Expenses for the period (₹)	Cumulative expenses (₹)
1	690 employees x 180 options x 70% x ₹ 15 x 1/4	3,26,025	3,26,025

2	[690 employees x 180 options x 70% x ₹ 15 x 2/4 years] - ₹ 3,26,025	3,26,025	6,52,050
3	[690 employees x 180 options x 70% x ₹ 15 x 3/4 years] - ₹ 6,52,050	3,26,025	9,78,075
4	[690 employees x 180 options x 70% x ₹ 15 x 4/4 years] - ₹ 9,78,075	3,26,025	13,04,100

Total amount of the expenses to be recognized during 4 years' vesting period will be ₹ 13,04,100.

**2019 - Nov [1] {C}** (c) MB & Associates is a partnership firm of 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. (4 marks)

**Answer:**

MB & Associates 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 selected clients to adhere to the Quality Control Standards. As per the requirements of SQC1, following matters to be considered with regard to the integrity of a client :

- (i) The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
- (ii) The nature of the client's operations, including its business practices.
- (iii) 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.

- (iv) Whether the client is aggressively concerned with maintaining the firms's fees as low as possible.
- (v) Indications of an appropriate limitation in the scope of work.
- (vi) Indications that the client might be involved in money laundering or other criminal activities.
- (vii) The reasons for the proposed appointment of the firm and non-reappointment of the previous firm.
  - The extent of knowledge a firm will have regarding the integrity of a client will generally grow within the context of an ongoing relationship with that client.

**2020 - Nov [2]** (b) M/s PC & Co., Chartered Accountants are the statutory auditors of various categories of companies and bodies corporate. In exercise of the powers conferred under sub-sections (2) and (4) of section 132, of the Companies Act, 2013 the Central Government made the National Financial Reporting Authority Rules, 2018 (NFRA Rules) (MCA Notification dated 13 November 2018). The audit firm seeks your guidance on the applicability of those categories of companies and bodies corporate which are covered by NFRA Rules. (5 marks)

**Answer:**

**As per NFRA rules, NFRA** shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service under sub- section (2) of section 132 or undertake investigation under sub-section (4) of such section of the auditors of the following class of companies and bodies corporate:

- (a) companies whose securities are listed on any stock exchange in India or outside India;
- (b) unlisted public companies having paid-up capital of not less than rupees five hundred crores or having annual turnover of not less than rupees one thousand crores or having, in aggregate, outstanding loans, debentures and deposits of not less than rupees five hundred crores as on the 31<sup>st</sup> March of immediately preceding financial year;
- (c) insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act

in accordance with clauses (b), (c), (d), (e) and (f) of section 1 (4) of the Companies Act, 2013;

- (d) any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the NFRA by the Central Government in public interest; and
- (e) a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d) above, if the income or net-worth of such subsidiary or associate company exceeds 20% of the consolidated income or consolidated net-worth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d) above.

**2021 - Jan [1] {C}** (a) M/s NK & Co., Chartered Accountants were appointed as Statutory Auditors of Fresh Juice Limited for the F.Y. 2019-2020. The previous year's audit was conducted by M/s. LP & Associates. After the audit was completed and report submitted, it was found that closing balances of last financial year i.e., 2018-19 were incorrectly brought forward. It was found that M/s NK & Co. did not apply any audit procedures to ensure that correct opening balances have been brought forward to the current period. Accordingly, a complaint was filed against NK & Co. in relation to this matter. You are required to inform what policies are required to be implemented by NK & Co. for dealing with such complaints and allegations as required by Standard on Quality Control (SQC). (5 marks)

**Answer:**

As per Standard on Quality Control (SQC) 1 “**Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements**”.

- (i) The firm should establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
  - (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.

- (ii) Complaints and allegations (which do not include those that are clearly frivolous) may originate from within or outside the firm. They may be made by firm personnel, clients or other third parties. They may be received by engagement team members or other firm personnel.
- (iii) As part of this process, the firm establishes clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.
- (iv) The firm investigates such complaints and allegations in accordance with established policies and procedures. The investigation is supervised by a partner with sufficient and appropriate experience and authority within the firm but who is not otherwise involved in the engagement, and includes involving legal counsel as necessary. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation. Complaints, allegations and the responses to them are documented.
- (v) Where the results of the investigations indicate deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control by an individual or individuals, the firm takes appropriate action.

**2021 - Jan [6]** (b) CA S has been appointed as peer reviewer of Shivam & Co. LLP. Shivam & Co. LLP submitted a list of its assurance and due diligence services for the peer review. CA S is in the process of deciding as to how many assurance services should be reviewed. Guide CA S in deciding the number of assurance services engagement to be reviewed.

(5 marks)

**Answer:**

**The number of assurance service engagements to be reviewed shall depend upon:**

1. Standard of quality controls generally prevailing;
2. The size and nature of assurance service engagements undertaken by the Practice Unit.
3. The methodology generally adopted by the Practice Unit in providing assurance services.

4. The number of partners / members involved in assurance service engagements in the Practice Unit;
5. The number of locations / branch offices of the practice Unit;
6. The Fees charged / received / service tax paid by the Practice unit.

**2021 - July [5]** (b) 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. (5 marks)

**Answer:**

- **As per SQC 1 the engagement quality control reviewer shall evaluate the following:**
  - (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 documentations relating to the significant judgements 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.
- For audits of financial statements of listed entities, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:
  - (a) The engagement team's evaluation of the firm's independence in relation to the audit engagement;
  - (b) 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: and



- (c) Whether audit documentation selected for review reflects the work performed in relation to the significant judgements made and supports the conclusions reached.
- In the given case the review is done by CAG who is another partner at Hk & Co., assuming he reviewed all the required areas and documentations as per SQC 1, the firm is complying with the standard on Quality Control.

**2022 - May [1] {C}** (a) PQR & Associates, Chartered Accountants, is a partnership firm 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 2021-22 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? (5 marks)

**Answer:**

In this case, PQR & Associates, Chartered Accountant, which are having 3 partners P, Q & R are appointed as statutory Auditors of ABC Ltd, a listed company for the financial year 2021 - 22. CA. P is appointed as Engagement Partner for the audit. Before issuing audit report CA. P asked CA. R to perform Engagement Quality Control Review. CA. P is of the view that his responsibility will be reduced after review by CA. R. In this case, contention of CA. P is not correct, he is still be responsible for the audit.

The following are the aspects that need to be considered by CA. R, Engagement Quality Control Reviewer, while performing Engagement Quality Control Review for the audit of financial statements of ABC Ltd.

- (A) CA. R, shall perform an objective evaluation of the significant judgements made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
1. Discussion of significant matters with the engagement Partner, CA. P;

3.34

Scanner CA Final Group- I Paper - 3 (2023 Syllabus)

2. Review of the financial statements and the proposed' auditor's report;
  3. Review of selected audit documentation relating to the significant judgements the engagement team made and the conclusion it reached; and
  4. Evaluation of the conclusion reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.
- (B) CA. R, shall also require to consider the following:
1. The engagement team's evaluation of the firm's independence in relation to the audit engagement;
  2. 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; and
  3. Whether audit documentation selected for review reflects the work performed in relation to the significant judgments made and supports the conclusions reached.

**2022 - Nov [6]** (b) AB & Co., Chartered Accountants, is a large firm based in Mumbai. AB & Co. is subject to peer review. For the peer review of the financial year ended March 31, 2021 the firm got an intimation on June 30, 2021. X & Co., Chartered Accountants, were appointed to undertake the peer review process. Upon completion of the peer review, X & Co., observed certain ,non-compliance with auditing standards. X & Co., did not share any of observations with AB & Co. and submitted its final report to the Peer Review Board of the Institute of Chartered Accountants. Comment.

(5 marks)

**Answer:**

- (i) After completing the on-site Review, the Peer Reviewer, before making his Report to the Board, shall communicate his findings in the Preliminary Report to the Practice Unit if in his opinion, the systems and procedures are deficient or non-compliant with reference to any matter that has been noticed by him or if there are other matters where he wants to seek clarification.

- (ii) The Practice Unit shall within 5 days after the date of receipt of the findings, make any submissions or representations, in writing to the Reviewer. (i.e. Response to the Preliminary Report).
- (iii) At the end of an on-site Review if the Reviewer is satisfied with the reply received from the Practice Unit, he shall submit a Peer Review Report to the Board along with his initial findings, response by the Practice Unit and the manner in which the responses have been dealt with. A copy of the report shall also be forwarded to the Practice Unit.
- (iv) In case the Reviewer is of the opinion that the response by the Practice Unit is not satisfactory, the Reviewer shall accordingly submit a modified Report to the Board incorporating his reasons for the same. The Reviewer shall also submit initial findings (i.e. Preliminary Report), response by the Practice Unit (Response to Preliminary Report) and the manner in which the responses have been dealt with. A copy of the report shall also be forwarded to the Practice Unit.
- (v) In case of a modified report, The Board shall order for a “Follow On” Review after a period of one year from the date of issue of report as mentioned above. If the Board so decides, the period of one year may be reduced but shall not be less than six months from the date of issue of the report.

**Conclusion:** In the instant case, in view of X & Co. Peer Reviewer, systems and procedures in AB & Co. are deficient; therefore, Peer Reviewer should not submit the report directly to the Board.

**2023 - May [4]** (c) ABC & Co is a firm of Chartered Accountants located at Mumbai with branches at Calcutta and Chennai. During the financial year 2021-22, the firm carried out statutory audits of

- (1) Eighteen listed companies consisting of -
  - (A) Ten companies with turnover exceeding ₹ 1,000 crores – one public sector Listed Company, the rest nine being companies in private sector and
  - (B) Eight companies with turnover exceeding ₹ 500 crores and less than or equal to ₹ 1,000 crores- and
- (2) Twenty four private limited companies.

The firm had subjected itself to Peer Review process during 2020-21 and continues to hold certificate issued by Peer Review Board with validity date unexpired. During the F.Y. 2022-23 it had been decided that the firm be subjected to Quality Review (QR) by QRB of the Institute. Can QR be so conducted for this firm? If yes, can one of the audits of listed companies- viz. audit of public sector Company done by firm in 2021-22 be subjected to QR by QRB, as this is the biggest statutory audit in terms of turnover of the auditee, as well as of complexity of audit issues involved? (4 marks)

**Answer:**

Peer review is a review of the systems and procedures of an audit firm. Peer review is a part of the activities of ICAI aimed at improving the quality of services. Whereas Quality Review Board (QRB) is constituted by the Central Government and is independent of ICAI. As per Section 28A of the Chartered Accountant's Act, the Central Government has the authority to constitute a Quality Review Board. QRB carries out supervisory and disciplinary functions.

Further, Rule 3 (1) of National Financial Reporting Authority Rules, 2018 *inter alia*, provides that the Authority (NFRA) shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service under sub-section (2) of Section 132 or undertake investigation under sub-section (4) of such section of the auditors of the prescribed class of companies and bodies corporate including companies whose securities are listed on any stock exchange in India or outside India.

The Ministry of Corporate Affairs has clarified to the Quality Review Board that in view of Section 132 (2) of the Companies Act, 2013 read with Rule 9(4) of NFRA Rules, 2018, the issue of QRB reviewing audits of the companies/bodies corporate specified under Rule 3 of the NFRA Rules, 2018 will only arise in case a reference is so made to QRB by NFRA, and not otherwise.

In the given situation, ABC & Co., a Chartered Accountant firm, is having unexpired validity date Peer Review Certificate issued by Peer Review Board. It was also decided to have Quality Review of ABC & Co. by Quality Review Board. In view of above, it can be concluded that Peer Review and Quality Review both are separate distinct activities. Therefore, Quality

Review of ABC & Co. can be conducted in respect of twenty-four private limited companies.

Further, considering the above, in the case of statutory audits of all 18 listed entities, NFRA has power to oversee quality of services of these audit firms. Therefore, none of the audits of listed companies – viz. audit of public sector company done by firm in 2021-22 can be subjected to Quality Review by Quality Review Board irrespective of the fact that it is biggest statutory audit in terms of turnover of the auditee, as well as of complexity of audit issues involved.

**2023 - May [5]** (b) CA Mohan has been appointed as a Peer Reviewer for M/s TB & Associates. He has asked for all the management consultancy engagements done by the firm and representations before various authorities carried out by the M/s TB Associates for his peer review during the period considered for peer review purposes by the board. He has also sent out a mail to Peer Review Board regarding his selections. Mr. T, the managing partner of the firm believes that these areas are outside the scope of the Peer Reviewer. Is the contention of Mr. T correct or not? (5 marks)

**Answer:**

**Selection of Assurance Service Engagements for Review:** Peer Review Guidelines defines the scope of peer review which revolves around compliance with technical, professional and ethical standards; quality of reporting; systems and procedures for carrying out assurance services; training programmes for staff including articled and audit assistants involved in assurance engagements, self-evaluation under Audit Quality Maturity Model or any other guideline issued by the Centre for Audit Quality, compliance with directions and / or guidelines issued by the Council to its Members, including fees to be charged, number of audits undertaken, register for Assurance Engagements conducted during the year and such other related records and compliance with directions and / or guidelines issued by the Council in relation to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments, and such other related records. The entire peer review process is directed at the assurance services.

Assurance Services means assurance engagements services as specified in the “Framework for Assurance Engagements” issued by the Institute of Chartered Accountants of India and as may be amended from time to time means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Assurance engagements does not include Management Consultancy Engagements; Representation before various authorities, engagements to prepare tax returns or advising clients in taxation matters, engagements for the compilation of financial statements; engagements solely to assist the client in preparing, compiling or collating information other than financial statements, testifying as an expert witness, providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws on the basis of facts provided by the client; and Engagement for Due diligence.

In the given situation, CA. Mohan is appointed as a peer reviewer for M/s TB & Associates, has asked for all the management consultancy engagements done by the firm and representations before various authorities carried out by M/s TB & Associates for peer review. In view of above, Peer Review of management consultancy engagements and representation before various Authorities by CA. Mohan is not correct as management consultancy engagements and representation before various authorities are not covered in the scope of Assurance engagement and Peer Review is directed at assurance engagement only.

**2023 - Nov [5]** (b) CA T was appointed as a Technical Reviewer of M/s. ABC & Co., Chartered Accountants, for the year ending on 31<sup>st</sup> March 2023 by Quality Review Board. CA T has completed the review of M/s. ABC & Co. within the stipulated time.

What matters shall be considered by CA T in deciding on the type of Quality Review Report to be issued to the Quality Review Board for M/s. ABC & Co.? Mention ANY FIVE matters. (5 marks)

**Answer:**

In deciding on the type of report to be issued, a reviewer should consider the evidence obtained and should document the overall conclusions with respect to the year being reviewed with respect of the following matters:

- (1) whether the policies and procedures that constitute the reviewed firm's (AFURs) system of quality control for its attestation services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical standards, other relevant guidance and other relevant laws and regulations.
- (2) whether personnel of the reviewed firm (AFUR) complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards, other relevant guidance, and other relevant laws and regulations.
- (3) whether the audit firm (AFUR) has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- (4) whether the audit firm (AFUR) maintains audit documentation as per the relevant standards.
- (5) whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service in-charge and necessary guidance is provided to assistants.

**2024 - May [4]** (a) 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. (5 marks)

**2024 - May [4]** (b) MNC Limited has engaged CA Lalit to help the company in compilation of the financial information. CA Lalit explained his team members, the scope of work and the responsibilities under this engagement. The team members have done mostly audit engagements and do not have exposure to compilation engagements. Discuss the key issues that CA Lalit should deliberate and guide his team members with respect to this engagement and the manner it differ from assurance engagements. Give your views on the applicability of SQC 1 to this engagement. (5 marks)

### CASE STUDY BASED QUESTIONS

1. HJ & Co., a reputed audit firm, has been engaged by EFG Ltd., a manufacturing company based in Brazil, listed in the UK. EFG Ltd. has seen stable growth and is exploring acquisitions in the renewable energy sector. HJ & Co. has consistently provided clean audit reports for EFG Ltd.

For the financial year ended June 30, 2023, HJ & Co. restructured their audit team due to internal promotions. The lead audit partner remained, but a new audit manager from the renewable energy sector was brought in. A Senior Quality Control Reviewer (SQCR), with significant audit experience in manufacturing but new to renewable energy, was also introduced.

During the audit, the SQCR expressed concerns regarding the valuation of recent acquisitions in the renewable energy sector and the integration of these assets into EFG Ltd.'s financial statements. The lead audit partner, believing in the robustness of EFG Ltd.'s financial protocols, decided to finalize the audit report without incorporating the SQCR's concerns.

Which of the following statements is correct?

- (a) The introduction of an audit manager with renewable energy experience justifies overlooking the SQCR's concerns, as the manager's expertise is assumed to compensate for any oversight.
- (b) The SQCR's concerns are critical given the new acquisitions in the renewable energy sector, and the lead audit partner should have



integrated these concerns into a more comprehensive audit approach.

- (c) The SQCR's inexperience in the renewable energy sector diminishes the relevance of their concerns, allowing the lead audit partner to finalize the audit report without further adjustments.
  - (d) The lead audit partner should have facilitated a collaborative discussion, involving both the new audit manager and the SQCR, to ensure a balanced and informed assessment of the new acquisitions before finalizing the audit report.
2. DEF & Partners have long been the auditors for GHI Industries, a healthcare company with significant operations in Europe and recently listed on the New York Stock Exchange. GHI Industries is known for its stringent compliance standards and robust financial practices.

For the financial year ended February 28, 2024, DEF & Partners made strategic changes in their audit team composition. The lead audit partner stayed the same, but due to the international listing, a new audit manager with expertise in US GAAP was introduced. Additionally, a Compliance Quality Control Reviewer (CQCR) with extensive experience in European healthcare regulations was added to the team.

During the audit, the CQCR expressed concerns about certain revenue recognition practices and compliance with newly introduced healthcare regulations. The lead audit partner, believing in the historical accuracy of GHI Industries' financials, finalized the audit report without integrating the CQCR's concerns.

Which of the following statements is correct?

- (a) The lead audit partner's familiarity with GHI Industries justifies the exclusion of the CQCR's concerns, as historical accuracy suggests continued compliance and appropriate revenue practices.
- (b) Given the new international listing and evolving healthcare regulations, the CQCR's concerns are highly relevant and should have been addressed in a detailed and comprehensive manner by the lead audit partner.
- (c) The CQCR's role is advisory in nature, and the final judgment on compliance and revenue recognition rests solely with the lead audit partner, who has the ultimate authority to finalize the audit report.

- (d) The lead audit partner should have ensured a thorough deliberation on the CQCR's concerns, possibly involving discussions with GHI Industries' management and the new audit manager, to ensure a holistic understanding and accurate reporting of compliance and financial matters.
3. MNO & Co. is an established audit firm in Mumbai, having a strong presence for over 15 years with a team of 50 professionals and 5 partners. The firm specializes in statutory audit, internal audit, and tax consultancy. Lately, the firm has noticed a dip in client retention rates. To address this, the partners have decided to focus on enhancing service quality and have started comprehensive training for their staff, emphasizing the importance of due diligence before accepting new clients or continuing with existing ones.
- During a training session, the following points were discussed regarding client acceptance and engagement continuance:
- Assessing the financial stability of the entity.
- Evaluating the integrity of the entity's principal owners and key management.
- Determining the competence and availability of the firm's staff to undertake the audit.
- Understanding the entity's approach towards remuneration of its employees and consultants.
- Ensuring the firm's and the audit team's ability to adhere to relevant ethical standards.
- Reviewing the outcomes and challenges faced in previous audit engagements with the client.
- Which of the points above are most relevant to consider for client acceptance and engagement continuance as per SA 220?
- (a) (1), (2), (4), and (5)  
(b) (2), (3), (5), and (6)  
(c) (3), (4), (5), and (6)  
(d) (1), (3), (5), and (6)
4. JKL Associates, a firm of Chartered Accountants in Bangalore, has a diversified portfolio offering external audit, compliance review, and tax

advisory services. The firm has been operational for 20 years and is known for its rigorous audit practices. In a recent strategic meeting, partners emphasized the need for stringent client screening to enhance service quality and mitigate risks.

The following points were discussed as key considerations before accepting a new client or continuing with an existing one:

The reputation and market standing of the client's business.

The integrity and reputation of the client's top management and board members.

The firm's capacity and technical expertise to effectively handle the audit.

The client's track record in timely payment of fees and remuneration.

Compliance with ethical and professional standards by the firm and engagement team.

Insights and experiences from previous dealings with the client or similar entities.

Which of the points above are essential for consideration according to SA 220 in deciding on client acceptance and engagement continuance?

(a) (1), (2), (4), and (5)

(b) (2), (3), (5), and (6)

(c) (1), (3), (4), and (6)

(d) (2), (3), (5), and (6)

5. CA Aarav is the statutory auditor of Summit Enterprises, a listed company in the logistics industry. Practicing under his sole-proprietorship, Aarav & Associates, he has been auditing Summit Enterprises for the past six years. The audit report for the year 2021-22 was selected for review by the National Audit Standards Authority (NASA) to assess the quality of service and adherence to auditing standards.

NASA requested detailed working papers to ensure compliance with Standards on Auditing. The documents submitted by CA Aarav included various financial statement verifications but lacked an explicit audit plan and a comprehensive risk assessment. CA Aarav explained that due to the small size of his firm, maintaining exhaustive documentation was

impractical, and that he relied on his extensive experience with the company to assess risks and plan the audit. He also mentioned that communication with those charged with governance was conducted orally. Additionally, NASA noted that engagement quality control review was not performed, and there were minor discrepancies in the financial statements regarding the application of Ind-AS, attributed to data entry errors by junior staff.

- 5.1 CA Aarav contends that the audit was properly planned despite the absence of detailed documentation. Which statement is most accurate in light of SA 220?
- (a) The audit was effectively planned as evidenced by Aarav's long-term relationship with the client.
  - (b) The lack of a recorded audit plan does not necessarily imply non-compliance with SA 220 due to the firm's small size.
  - (c) The absence of a documented audit plan indicates non-compliance with SA 220.
  - (d) Aarav's familiarity with the client justifies the lack of detailed documentation, given the small size of his firm.
- 5.2 Regarding Aarav's assessment of risks of material misstatement, which statement is most appropriate?
- (a) Risk assessment is a matter of professional judgment, and Aarav's approach does not require further documentation.
  - (b) The lack of documented risk assessment procedures does not impact compliance with SA 220, given Aarav's knowledge of the client.
  - (c) The absence of documented risk assessment procedures suggests non-compliance with SA 220.
  - (d) Risk assessment is inherently subjective, and Aarav's familiarity with the client negates the need for detailed documentation.
- 5.3 Considering Aarav's stance on engagement quality control review, which statement is most accurate?
- (a) The lack of contentious matters justifies the omission of engagement quality control review.
  - (b) Engagement quality control review is not mandatory for firms of Aarav's size.

- (c) Omitting the engagement quality control review indicates a breach of SA 220 requirements.
  - (d) Engagement quality control review is based on the auditor's discretion and the perceived complexity of the audit.
- 5.4 Regarding the data entry errors noted by NASA, which statement is correct?
- (a) Data entry errors are minor clerical issues and do not imply non-compliance with SA 220.
  - (b) Such errors, while regrettable, do not impact the overall audit opinion and hence are not a concern for SA 220.
  - (c) Data entry errors point to a lapse in audit quality control, indicating non-compliance with SA 220.
  - (d) While the errors are a concern, they do not directly relate to the compliance with SA 220.
- 5.5 Overall, how would you assess the audit engagement performed by Aarav & Associates?
- (a) The firm likely maintains an effective system of quality control as described in SQC 1, and the audit engagement appears to comply with SA 220.
  - (b) The firm does not seem to have an effective system of quality control as described in SQC 1, and the audit engagement does not comply with SA 220.
  - (c) SQC 1 is not applicable in this case, but the audit engagement does not seem to comply with SA 220.
  - (d) SQC 1 is not applicable, and the audit engagement appears to comply with SA 220.
6. CA Ishaan is the statutory auditor of Horizon Enterprises, a publicly-traded company in the renewable energy sector. His practice, Ishaan Audit Firm, has a longstanding relationship with Horizon Enterprises, conducting its audits for several years. The recent audit report for the year 2021-22 was picked for a quality review by the Auditing Standards Review Panel (ASRP).

ASRP asked for comprehensive audit working papers to verify adherence to auditing standards. The documentation provided by CA Ishaan primarily showcased the verification of financial statement line items but lacked a structured audit plan and a detailed risk assessment process. In response, Ishaan argued that his in-depth understanding of Horizon Enterprises allowed for a more intuitive and flexible audit approach. He stated that the smaller scale of his firm made extensive documentation impractical. Further, ASRP identified that no engagement quality control review was conducted, and minor errors in applying Ind-AS were detected in the financial statements.

- 6.1 Considering Ishaan's lack of detailed audit documentation, which statement aligns with the expectations of SA 220?
- (a) The audit was effectively planned and executed, evidenced by Ishaan's experience with the client.
  - (b) The absence of a documented audit plan does not necessarily contradict SA 220, considering the firm's size.
  - (c) Not having a documented audit plan and risk assessment process indicates non-compliance with SA 220.
  - (d) Ishaan's approach is justified by his familiarity with the client and the operational constraints of his firm.
- 6.2 Regarding Ishaan's risk assessment of material misstatement, which statement is most fitting?
- (a) Risk assessment is inherently based on professional judgment, and Ishaan's method is sufficient.
  - (b) The lack of documented risk assessment does not affect compliance with SA 220, given Ishaan's expertise.
  - (c) The absence of a documented process for risk assessment suggests a disregard for SA 220.
  - (d) Risk assessment is subjective, and Ishaan's long-term association with the client supports his approach.
- 6.3 In view of Ishaan's decision to skip the engagement quality control review, which statement is correct?
- (a) The omission of engagement quality control review is acceptable due to the absence of contentious matters.

- (b) For a firm of Ishaan's size, engagement quality control review is not a mandatory practice.
  - (c) Skipping the engagement quality control review is a violation of the mandates set out in SA 220.
  - (d) The necessity of engagement quality control review is determined by the auditor's judgment and the audit's complexity.
- 6.4 In light of the Ind-AS application errors identified by ASRP, which statement is accurate?
- (a) Such errors are minor and do not reflect on the compliance with SA 220.
  - (b) While unfortunate, these errors do not alter the auditor's opinion and thus are not a concern for SA 220.
  - (c) The presence of such errors indicates a lapse in the audit process, implying non-compliance with SA 220.
  - (d) These errors are regrettable but are not directly related to the standards outlined in SA 220.
- 6.5 How would you evaluate the overall quality of the audit engagement conducted by Ishaan Audit Firm?
- (a) The firm appears to uphold an effective quality control system as per SQC 1, and the audit engagement complies with SA 220.
  - (b) The firm likely lacks a proper quality control system as outlined in SQC 1, and the audit engagement does not meet the requirements of SA 220.
  - (c) SQC 1 is not relevant in this context, but the audit engagement does not seem to align with SA 220.
  - (d) Despite the non-applicability of SQC 1, the audit engagement seems to adhere to the guidelines of SA 220.

3.48

Scanner CA Final Group- I Paper - 3 (2023 Syllabus)

<b>ANSWER</b>
---------------

Q. No.	1	2	3	4	5.1	5.2	5.3	5.4	5.5	6.1
Answer	d	d	b	d	c	c	c	d	b	c
Q. No.	6.2	6.3	6.4	6.5						
Answer	c	c	d	b						

3.48

Scanner CA Final Group- I Paper - 3 (2023 Syllabus)

<b>Table Showing Marks of Compulsory Questions</b>										
--	--	--	--	--	--	--	--	--	--	--

Year	19 N	20 N	21 J	21 J	21 D	22 M	22 N	23 M	23 N	24 M
Practical	4		5			5				
Total	4		5			5				



**FOR NOTES**

A large rectangular box with a solid black border. Inside the box, there are 20 horizontal dashed lines spaced evenly, providing a guide for writing notes. The box is empty and occupies most of the page below the header.