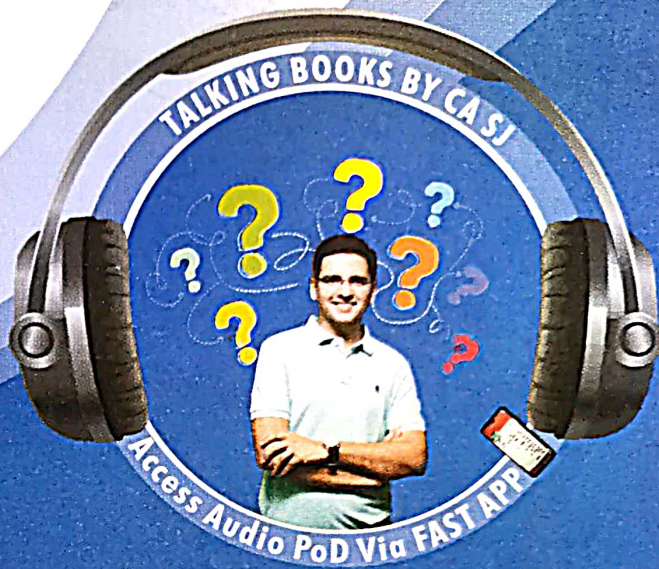


CA FINAL
ADVANCED
AUDITING,
ASSURANCE AND
PROFESSIONAL
ETHICS



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Author
CA. Sarthak Niraj Jain

SPECIAL FEATURES OF BOOK

Chapter 19	Professional Ethics & Liabilities of Auditors		
	Topics	Unique Qs	Total Qs
	19.1 - Introduction (The IESBA Code)	4	5
	19.2 - Important Provisions of Chartered Accountant, 1949		
	Section-2(2) - Members Deemed to be in Practice	3	5
	Section-6 - Certificate of Practice	2	2
	Section-8 - Disabilities to become a Member	1	1
	Section-21 - Disciplinary Action & Other Misconduct	2	3
	Section-27 - Maintenance of Branch Offices	7	8

Questions
sorted
topic-wise
in every
chapter

3. Reference of all sources given

Responsibilities of EP and EQCR in relation to Assessment of Independence

During the audit of FMP Ltd., a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the 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-2022)(Study Material)
(MTP-Nov-2019)(RTP-May-2019)

4. Answers
as per ICAI
language
with
key words
made bold,
formatted
in paragraphs.
Provision,
Interpretation
and Conclusion
para
highlighted.

- (i) As per SA 220 - Quality control for an Audit of Financial Statements:-
The Engagement Partner shall from a conclusion on compliance with independence requirements that apply to the audit engagement. In doing so, the Engagement Partner shall:
- Obtain relevant information from the firm and, where applicable, network firms, to identify and evaluate circumstances and relationships that create threats to independence;
 - 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
 - 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.
- (ii) 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.
- (iii) Conclusion:- In the given case, the Engagement Partner is not right. The independence assessment documentation should also be given to Engagement Quality Control Reviewer for his review.

Verifying Compliance with Laws and Regulations (Additional Topic)

You are appointed as an auditor of BHK Ltd., a company engaged in export of agricultural equipment. During the course of audit, your audit team informed you regarding non-deduction of TDS on huge payments made to legal counsel of BHK Ltd. You want to alert your team on the possibility of non-compliance with Laws and Regulations by BHK Ltd. Help your audit team in identifying any other indications of non-compliance with Laws and Regulations particularly related to payments made by the company.

OR

As an auditor of TRP Ltd., you are suspicious that there might be non-compliance with Laws and Regulations to which the company is subject to. Indicate the possible areas or aspects where you may have to look out for forming an opinion as to whether your suspicion has some base to further inquire.

(MTP-May-2023)(Dec-2021)
(May-2018) (MTP-Dec-2021)

5. Similar questions
clubbed with
latest on Top

CA FINAL ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

Question Bank

CA. Sarthak Niraj Jain

Index

1	Quality Control	21	1.1-1.12
2	General Auditing Principles and Auditor's Responsibilities	34	2.1-2.22
3	Audit Planning, Strategy & Execution	52	3.1-3.28
4	Materiality, Risk Assessment and Internal Control	39	4.1-4.24
5	Audit Evidence	45	5.1-5.26
6	Completion and Review	22	6.1-6.20
7	Reporting	122	7.1-7.80
8	Specialised Areas	10	8.1-8.2
9	Audit - Related Services	7	9.1-9.2
10	Review of Financial Information	8	10.1-10.4
11	Prospective Financial Information and Other Assurance Services	7	11.1 - 11.2
12	Digital Auditing and Assurance	13	12.1-12.2
13	Group Audits	31	13.1-13.22
14	A- Special Features of Audit of Bank	47	14.1-14.24
14	B- Special Features of Non – Banking Financial Companies (NBFCs)	22	14.25-14.40
15	Audit of Public Sector Undertakings	27	15.1-15.16
16	Internal Audit	18	16.1-16.10
17	Due Diligence, Investigation & Forensic Accounting	28	17.1-17.12
18	Sustainable Development Goals (SDG) & Environment, Social & Governance (ESG) Assurance	8	18.1-18.2
19	Professional Ethics & Liabilities of Auditors	216	19.1-19.108

**Chapter
1**
Quality Control
SQC-1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements
&
SA -220 Quality Control for an Audit of Financial Statements
1. Information assist in Accepting and Continuing of relationship with Client

Ace Limited (manufacturer of textile goods) got an order of manufacturing of PPE kits in December 2020. But there was shortage of machinery and manpower to accomplish the ordered requirement of PPE kits. Ace Ltd. 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 on Auditing what type of information assists the engagements partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate or not? (Dec-2021)

OR

Mention any four information which assists the auditor in accepting and continuing of relationship with the client as per SA 220

Ans. Acceptance and Continuance of Client Relationships and Audit Engagements :


As per SA 220 - "Quality Control for an Audit of Financial Statements" & SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements"

- The auditor should obtain information considered 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 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 those charged with governance 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 the 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.

2. Considerations as to Integrity of Clients

MB & Associates is a partnership firm of the Chartered Accountants which was established seven years back. The firm is getting new clients and has also been offered new engagement services with existing clients. The firm is concerned about obtaining such information as it considers necessary in the circumstances before accepting an engagement with a new client and acceptance of a new engagement with an existing client. The firm is looking to work with only select clients to adhere to the Quality Control Standards. Guide MB & Associates about the matters to be considered with regard to the integrity of a client, as per the requirements of SQC 1. (Study Material)(Nov-2019)

OR

BSS & Associates is a partnership firm of Chartered Accountants which was established five years back. The firm was offering only advisory services at the beginning, however, after audit rotation and advent of GST, firm sees lot of potential in these areas also and started looking for opportunities in these areas also. These services being assurance in nature, the firm required some internal restructuring and set up some policies and procedures for compliance year on year.

The firm started getting new clients for these new services and is now looking to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified and the firm decides to accept or continue the client relationship or a specific engagement, it has been setting up a process to document how the issues were resolved.

The firm is now looking to work with only select clients which are in line with the policies of the firm. The firm understands that the extent of knowledge it will have regarding the integrity of a client will grow within the context of an ongoing relationship with that client. With regard to the integrity of a client, you are required to give some examples of the matters to be considered by the firm as per the requirements of SQC1.

(RTP-May-2019)

Ans.



As per SQC 1, the firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.

Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it should document how the issues were resolved.

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

- The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
- The nature of the client's operations, including its business practices.
- 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.
- Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- Indications of an inappropriate limitation in the scope of work.
- Indications that the client might be involved in money laundering or other criminal activities.
- 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.

3. Relying on Work Performed by Another Partner

M/s Suresh Chandra & Co. has been appointed as an auditor of SC Ltd. for the financial year 2021-22. CA Suresh, one of the partners of M/s Suresh Chandra & Co., completed entire routine audit work by 29 th May, 2022. Unfortunately, on the 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 Suresh Chandra & 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-May-2018)

Ans.

- (i) 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.

(ii) **Using work performed by other**

- When the 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 financial statements.
- 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.
- The auditor should carefully **direct, supervise and review work delegated** to assistants.
- He **should obtain reasonable assurance** that work performed by other auditors/experts and assistants is adequate for his purpose.

(iii) **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.

(iv) **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.

4. **Determination of Review Responsibility of EP**

J.A.C.K. & Co., a Chartered Accountant firm was appointed as the statutory auditor of Falcon Ltd. after ensuring the compliance with relevant provisions of the Companies Act, 2013. Mr. Jay was the engagement partner for the aforesaid audit and prior to commencement of the audit, Mr. Jay had called for a meeting of the engagement team in order to direct them and assign them their responsibilities. At the end of meeting, Mr. Jay assigned review responsibilities to two of the engagement team members who were the most experienced amongst all, for reviewing the work performed by the less experienced team members. While reviewing the work performed by the less experienced members of the engagement team, what shall be the considerations of the reviewers? (MTP-May-2021)

Ans.

(i) **As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements":**

- **Review responsibilities** are determined on the basis that **more experienced team members**, including the **engagement partner**, review work performed by **less experienced team members**.

(ii) **In the given situation:-** Mr. Jay, engagement partner assigned review responsibilities to two of the engagement team members who were the most experienced team members.

(iii) **While reviewing the work performed by less experienced members** of the engagement team, **both the more experienced Reviewers** should consider 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. There is a need to revise the **nature, timing and extent** of work performed.
5. The work performed **supports the conclusions reached** and is appropriately documented.
6. The evidence obtained is **sufficient and appropriate to support the report**; and
7. The **objectives of the engagement procedures** have been achieved.

5. **Difference of Opinion/Limitation on Auditor:**

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, the other partners have decided to leave the audit of Wisdom Ltd. in his capable hands. Comment on the situation outlines above.

Ans.



- (i) **Provision:- 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.
- (ii) **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.
- (iii) **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.
- (iv) **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 SQC1.

6. **Date of Signing of Audit Report**

OP & Associates are the statutory auditors of BB Ltd. BB Ltd is a listed company and started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2022 got completed on May 1, 2022. The auditor's report was dated May 12, 2022. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2022. Engagement partner had completed his reviews in entirety by May 10, 2022 and signed the report on May 12, 2022. Comment. (MTP-Nov-2018)

Ans.

- (i) **As per SA 220, "Quality Control for an Audit of Financial Statements"**
- The engagement partner shall take **responsibility for reviews being performed** in accordance with the **firm's review policies and procedures**.

- For audits of financial statements of listed entities, the engagement partner shall:
 - (a) Determine that an engagement quality control reviewer has been appointed;
 - (b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
 - (c) Not date the auditor's report until the completion of the engagement quality control review.
- (ii) SA 700, "Forming an Opinion and Reporting on Financial Statements", requires:
 - The auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements
- (iii) In the present case:- OP & Associates are the statutory auditors of a listed company which started its operations 5 years back. The field work during the audit of the financial statements of the company for the year ended March 31, 2022 got completed on May 1, 2022. The auditor's report was dated May 12, 2022. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on May 15, 2022.
- (iv) Conclusion:- Signing of auditor's report i.e. on May 12, 2022 which is before the completion of review engagement quality control review i.e. May 15, 2022, is not in order.

7. Engagement Quality Control Review

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-2021)

Ans.

- (a) As per SQC 1, an engagement quality control review for audits of financial statements of listed entities includes considering the following:
 - (i) The work has been performed in accordance with professional standards and regulatory and legal requirements;
 - (ii) Significant matters have been raised for further consideration;
 - (iii) Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
 - (iv) There is a need to revise the nature, timing and extent of work performed;
 - (v) The work performed supports the conclusions reached and is appropriately documented;
 - (vi) The evidence obtained is sufficient and appropriate to support the report; and
 - (vii) The objectives of the engagement procedures have been achieved.
- (b) The firm should establish policies and procedures:
 - (i) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period 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 predefined period, normally not more than seven years.

- (c) **Conclusion:-** From the facts given in the question and from the above stated paras of SQC 1, it can be concluded that firm is not complying with SQC 1 as Engagement Partner H is continuing for more than 7 years.

8. Engagement Quality Control Review

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 ABC Limited ?

(May-2022)

Ans.



As per SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements", the review does not reduce the responsibilities of the engagement partner. Hence, contention of CA. P that after engagement quality control review by CA. R, his responsibility will be reduced, is not correct.

However, CA. R needs to consider the following aspect while performing Engagement Quality Control Review for audit of financial statements of a listed entity ABC Ltd.:

1. The engagement team's evaluation of the firm's independence in relation to the specific engagement.
2. Significant risks identified during the engagement and the responses to those risks.
3. Judgments made, particularly with respect to materiality and significant risks.
4. Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
5. The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
6. The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies.
7. Whether working papers selected for review reflect the work performed in relation to the significant judgments and support the conclusions reached.
8. The appropriateness of the report to be issued.

Engagement quality control reviews for engagements other than audits of financial statements of listed entities may, depending on the circumstances, include some or all of these considerations.

9.

Responsibilities of EP and EQCR in relation to Assessment of Independence

During the audit of FMP Ltd, a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the 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-2022)(Study Material)(MTP-Nov-2019)(RTP-May-2019)

Ans.

(i) 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.
- (ii) **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.
- (iii) **Conclusion:-** In the given case, the **Engagement Partner is not right**. The **independence assessment documentation** should also be given to Engagement Quality Control Reviewer for his review.

10. SQC-1 : Complaints & Allegations

M/s NK & Co., Chartered Accountants were appointed as Statutory Auditors of Fresh Juice Limited for the F.Y 2021-2022. 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., 2020-21 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).

(MTP-May-2022)(Jan-2021)

Ans.

- (i) **In the given question:-** NK & Co. **did not apply audit procedures** to ensure that **opening balances had been correctly brought forward**. A complaint was **filed against the auditors** in this context.
- (ii) **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",
- 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.