

**6. AUDITING AND ETHICS**

DEAR STUDENTS, HERE ARE THE INSTRUCTIONS ON HOW TO UNDERSTAND AND PREPARE GUESS QUESTIONS GIVEN IN THIS DOCUMENT.

- 1) IN PUBLIC EXAM, YOU MAY GET FOLLOWING TYPES OF QUESTIONS:
  - a) STRAIGHT THEORY QUESTIONS (STQ),
  - b) SCENARIO BASED THEORY QUESTIONS (SBQ),
  - c) PRACTICAL QUESTIONS (PQ),
  - d) CONCEPT QUESTIONS (CQ)
  - e) MULTIPLE CHOICE QUESTIONS (MCQ)
- 2) STQs & SBQs ARE PREDICTABLE BUT REMAINING TYPES OF QUESTIONS ARE UNPREDICTABLE. HENCE IT IS NOT POSSIBLE TO LIST OUT THE EXACT QUESTIONS. WE CAN ONLY PREDICT SOME CONCEPTS FROM WHICH EXAMINER MAY POSE ANY OF THE ABOVE STATED TYPES OF QUESTIONS.
- 3) YOU CAN PREPARE THESE CONCEPTS IN ANY OF THE MATERIALS.
- 4) TRY TO GAIN SPECIALISED KNOWLEDGE (360 DEGREE) ON ALL OF THE CONCEPTS STATED HERE.
- 5) IRRESPECTIVE OF WHAT IS STATED IN THIS DOCUMENT, YOU SHALL READ THE FOLLOWING ARE THOROUGHLY.
  - a) ALL CONCEPT QUESTIONS (CRD & SS) GIVEN IN MM MATERIAL ESPECIALLY STUDY MATERIAL EXAMPLES WHICH ARE INDICATED AS (OLD-EX, NEW-EX).
  - b) ALL TYK QUESTIONS (CRD & SS) GIVEN IN MM MATERIAL ESPECIALLY TYK QUESTIONS OF STUDY MATERIAL WHICH ARE INDICATED AS (OLD-TYK, NEW-TYK).

**CH.1: FUNDAMENTALS, NATURE, OBJECTIVE & SCOPE OF AUDIT- SA 200**

- 1) Inherent Limitations of Audit
- 2) Independence and its safeguards,
- 3) Threats to Independence
- 4) Professional Skepticism
- 5) Assurance Engagement - its essential elements and types
- 6) Change In Terms of Engagement
- 7) Recurring Audit
- 8) Audit vs Review
- 9) Duties in relation to engagement and quality control standards

**CH.2: ETHICS AND TERMS OF AUDIT ENGAGEMENT - SQC 1, SA 210, SA 220 (ETHICS PART NEWLY ADDED)**

- 1) Meaning & Need for Ethics
- 2) Principle Based Approach vs Rules based Approach
- 3) The Audit Firm shall perform acceptance & continuance procedures before they accept an engagement. Explain
- 4) Leadership Responsibilities for Quality in an Audit of Financial Statements?
- 5) Key considerations for auditors regarding acceptance and continuation of audit engagements SA 220
- 6) Monitoring Quality Control Policies

- 11) Factors That Effect Form/Content/Extent Of Audit Documentation.
- 12) Audit Completion Memorandum or Audit Documentation Summary (Documentation of Significant Matters and Related Significant Professional Judgements)
- 13) Verify the existence of related party relationships and transactions.

### **CH.7: ANALYTICAL PROCEDURES AND AUDIT SAMPLING (SA 520 AND SA 530)**

#### **UNIT 1: ANALYTICAL PROCEDURES- SA 520,**

- 1) Analytical Procedures - Meaning & Examples as Per SA 520
- 2) Substantive Analytical Procedures & Factors in Determining their Usage
- 3) Techniques available as Substantive Analytical Procedure
- 4) Factors To Be Considered in Determining the reliability of data for substantive analytical Procedure?

#### **UNIT 2: AUDIT SAMPLING - SA 530]**

- 1) Meaning of population and its characteristics
- 2) Differences / Characteristics of Statistical Sampling & Non - Statistical Sampling (Types of sampling)
- 3) Sample Size & the factors influencing the extent of Checking
- 4) Sample Selection Methods
- 5) Requirements Relating to Sample Design, Sample Size and Selection of Items for Testing? (Scope of SA 530).
- 6) Advantages of statistical sampling?

### **CH.8: COMPLETION & REVIEW SA 260, 265, 450, 560, 570 & 580 (NEWLY ADDED)**

- 1) Management's Responsibility for assessment of the entity's ability to continue as a going concern
- 2) Implications on the auditor's report, the auditor's conclusion on Entity's usage of Going Concern.
- 3) Examples of Events or Conditions that may cast Significant Doubt on the Entities Ability to Continue a going Concern
- 4) Special Considerations to be carried out in case of audit by joint auditors
- 5) Cases where joint Auditors are Jointly Responsible As per SA 299.
- 6) key Factors in Management Judgments on going Concern Assessment?

### **CH.9: AUDIT STRATEGY, AUDIT PLANNING AND AUDIT PROGRAMME**

- 1) An adequate Audit planning Benefits the Audit of financial statements. Explain
- 2) Developing an Effective audit Key Components and Steps.
- 3) Benefits of Overall Audit Strategy in developing detailed Audit Plan
- 4) Relationship between Audit Strategy and Audit plan & Auditor's responsibility regarding the same.
- 5) A Well-designed Audit plan need not be changed during audit. Comment
- 6) Planning Supervision and review of Work of Engagement team Members.
- 7) Audit programme Designed to Provide Audit Evidence.
- 8) Documentation of audit Strategy and Audit Plan
- 9) How assistants to be encouraged to keep an open Mind During audit?

## CH.5: RISK ASSESSMENT & INTERNAL CONTROL - SA 315, 320 & 330

### UNIT 1: RISK ASSESSMENT, INTERNAL CONTROLS, MATERIALITY & RESPONDING TO ASSESSED RISK

- 1) Audit Risk
- 2) Risks of material misstatement and its levels
- 3) Components of Risks of material misstatements at assertion level
- 4) Detection Risk
- 5) Materiality in Planning and performing an audit is auditor's responsibility
- 6) Performance Materiality & Factors Indicate Misstatement even less than materiality will influence Economic decisions
- 7) Need for a modification in overall Audit Strategy and Audit Plan
- 8) Meaning Objectives & benefits of Internal Controls As per SA 315
- 9) Inherent Limitations of Internal Control
- 10) Significant deficiency in internal control
- 11) Examples of indicators of Some significant deficiencies in internal control
- 12) Factors in designing the further audit procedures for identified Risk
- 13) Benefits of Evaluation of Internal Control to the Auditor
- 14) control activities as a component of Internal Control

### UNIT 2: DIGITAL AUDIT (AUTOMATED ENVIRONMENT)

- 1) Automated Environment & Its Key Features?
- 2) Risks & Impact of Use of IT systems on Audit
- 3) Data analytics for audit
- 4) Audit trail / Audit logs & its uses
- 5) documentation of risks related to an Automated Environment

## CH.6: AUDIT EVIDENCE AND AUDIT DOCUMENTATION

- 1) Different types of Audit Evidence
- 2) Factors that Affect Sufficient & Appropriate Audit Evidence
- 3) Principles useful in assessing the reliability of audit evidence
- 4) Objectives of SA 610
- 5) In Which Areas and to What Extent Internal Auditors Can Be/Can't be Used to Provide Assistance
- 6) Audit Procedures for Checking the Existence & Condition of Inventory
- 7) Matters Relevant in Planning Attendance at Physical Inventory Counting
- 8) Negative Confirmation Request: Meaning & Uses
- 9) Nature And Understanding Related Party Transactions
- 10) Considerations specific to smaller entities by the auditor under SA 550

**CH.3: COMPANY AUDIT**

- 1) Disqualifications Of a Company Auditor
- 2) Sec. 144 Prohibited Services
- 3) Ceiling Limit on Audit
- 4) Sec139(8) Casual Vacancy
- 5) Rotation of Auditors in case of Individual and Firm
- 6) Fraud Reporting U/S 143(12)
- 7) Functions of Audit Committee
- 8) Penal Provisions U/S 147

**CH.4: AUDIT CONCLUSION & REPORTING - SA 700, 701, 705, 706, 710, 299, 600, 610 & 510 AND SEC. 143.**

- 1) Auditors Conclusions While Forming Opinion.
- 2) Different Types of Audit Opinion.
- 3) Management Imposes Limitation on Audit Consequences
- 4) Key Audit Matters- Meaning & Objectives
- 5) KAM-Applicability & Manner of Reporting
- 6) Factors to Be Considered in Determination of KAM
- 7) Comparative Information Audit Procedures to Be Performed
- 8) Corresponding Figures- Meaning & Reference in Audit Report.
- 9) Matters To Be Reported U/S 143(3)(i)
- 10) CARO 2020 (Company Auditor Report Order) Applicability
- 11) **Matters To Be Communicated as Per CARO 2020**
  - a) Property, Plant and Equipment
  - b) Inventories
  - c) Deposits
  - d) Statutory Dues
  - e) Application Of Funds
  - f) Reporting Of Frauds
  - g) Ability To Meet Liabilities
  - h) Corporate social responsibility
- 12) Auditor Responsibilities when there exists a doubt as to the reliability of Written representations or Requested Written representations not provided.
- 13) Audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report.
- 14) Audit procedures relating facts which become known to the auditor after the date of the auditor's report but before the date the FS are issued.
- 15) Audit Evidence Regarding Opening Balances

**CH.10. AUDIT OF BANKS**

- 1) General types of Audit Reports to be issued by Bank Auditor
- 2) Engagement team Discussions & Matters include therein
- 3) Other reports that can be relied on by an Auditor
- 4) Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
- 5) Reversal of Income
- 6) Short note on partial Recoveries in NPAs & Memorandum
- 7) Understanding of Risk Management Process
- 8) Audit approach and Procedure for Interest Expense?
- 9) Advantages of Engagement Team Discussions
- 10) Audit Approach for the Audit of Operating Expenses

**CH.11; AUDIT OF ITEMS OF FINANCIAL STATEMENTS**

- 1) Audit procedure for verification of Sales
- 2) Audit procedure for Employee Benefit expenses
- 3) Vouching of Payment of Taxes
- 4) Audit of Borrowings
- 5) Verification of Trade receivables?
- 6) Audit of Trade Receivables
- 7) Disclosure requirements regarding the following items in the financial statements
  - a) Details of Benami Property held
  - b) Relationship with Struck off Companies
  - c) Financial ratios
- 8) Audit procedure of Depreciation and Amortization
- 9) Audit of Fixed Assets.
- 10) Audit Procedure for Intangible assets
- 11) Audit of Inventory
- 12) Disclosure requirements of IND AS compliant Schedule III to Companies Act, 2013 for each component of "Other Equity."

**CH.12: SPECIAL FEATURES OF AUDIT OF DIFFERENT TYPES OF ENTITIES**

- 1) GOVT Expenditure Audit
- 2) Meaning of Local Bodies & Different Classifications
- 3) Objectives of Audit of Local bodies
- 4) Points that Should be Kept in Mind While Auditing Co-Operative Societies
- 5) Special features of Audit of Co-Operative Society
- 6) Qualification, Appointment, and Powers & Duties of auditor of Cooperative Society
- 7) Powers of Central government to direct Special Audit in Certain Cases
- 8) Inquiry by Central Registrar Under Section 78

- 9) Areas that auditor need to concentrate While planning the audit of NGOs.
- 10) LLP - Books of Accounts & Audit
- 11) Audit of Charitable Organizations
- 12) Important points which an auditor will consider while conducting the audit of a school.
- 13) Audit programme for local Bodies.
- 14) Advantages of Audit of Partnership Firms.
- 15) Various Steps involved in Audit of Cinema
- 16) Audit of Clubs
- 17) GOVT Expenditure Audit.
- 18) Role of C&AG In government Company Audit

**THE END**

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