

CA INTER

AUDITING AND ETHICS

Question Bank Book

JAN 25



PROF. ROHIT SHROFF



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1

NATURE, SCOPE AND OBJECTIVES OF AUDIT



Question 1:

An audit is independent examination of financial information of any entity, whether profit oriented or not and irrespective of its legal size or form, when such an examination is conducted with a view to expressing an opinion thereon. Explain how the person conducting this task should care to ensure that FS would **not mislead**.



Answer: Meaning + Analysis of Definition

Question 2:

The person conducting audit should care to ensure that FS would not **mislead** anybody. Explain stating clearly the meaning of audit.



Answer: Meaning + Analysis of Definition

Question 3:

Explain clearly meaning of Auditing. How would you as an auditor perform the audit.



Answer: Meaning + Analysis of Definition

Question 4:

Both accounting and auditing are closely related



Answer: Relationship between accounting and auditing.

Question 5:

State the objectives of Audit according to SA 200



Answer: Relationship between accounting and auditing.

Question 6:

CA Ramesh is the auditor of Reddy Ltd. The auditor expressed his opinion on the FS without ascertaining as to whether the FS as a whole are free from material misstatements or not. In your opinion, whether CA N has complied with the objectives of audit considering the applicability of relevant SA?



Answer:

Objectives of auditor

+ CA Pushpa did not comply with the objectives

Question 7:

Lalji Bhai has purchased shares of a company listed on NSE. The audited FS of the company provide picture of healthy financial performance having robust turnover, low debt and good profits. On above basis, he is absolutely satisfied that money invested by him is safe and there is no chance of losing his money. Do audited results and audit reports of companies provide such assurance to investors like Lalji Bhai? Is thinking of Lalji Bhai correct?



Answer:

An audit does not provide assurance to investor in shares regarding safety of his money. Share prices of securities are affected by range of factors. An audit only provides reasonable assurance that financial statements are free from material misstatement whether due to fraud or error. Hence, thinking of Lalji Bhai is not correct.

+ CA Pushpa did not comply with the objectives

Question 8:

Good deeds Limited is engaged in business of recycling of wastes from dumping grounds of municipal corporation of Indore to usable manure. It is, in this way, also, helping to make the city clean.

During course of audit by Zoha & Zoha, a firm of auditors, it is observed by auditors that company has received a notice from Central Bench of National Green Tribunal for not following certain environmental regulations involving imposition of hefty monetary penalty on the company. The company is yet to reply to the notice. The auditors point out that same is not stated in notes to accounts in financial statements. The company points out that auditors are going beyond scope of their work. Does such a matter fall within scope of audit?



Answer: What is included in scope of audit + Proper disc

Question 9:

A huge fire broke out in NOIDA plant of KT Limited. Plant assets comprising building, machinery and inventories were insured from branch of a public sector insurance company. Apart from an insurance surveyor who was deputed for assessing loss, the regional office of insurance PSU also appointed a CA for verification of books of accounts/ financial

records of the company and circumstances surrounding the loss. He was also requested to submit an early report. Would the report be CA in nature of audit report?



Answer:

Appointment of CA for verification of books of accounts/financial records and circumstances surrounding the loss is for a specific objective to determine genuineness of loss and any issue affecting liability of insurance company. It is an investigation and not in nature of audit report.

Question 10:

“Choosing of appropriate accounting policies in relation to accounting issues is responsibility of management”. Do you agree? Discuss duty of auditor, if any, in relation to accounting policies.



Answer: Scope of audit.

Question 11:

- “Zeeba Products is a partnership firm engaged in trading of designer dresses. The firm has appointed JJ & Co, Chartered accountants to audit their accounts for a year. The auditors were satisfied with control systems of firm, carried out required procedures and necessary verifications. In particular, they carried out sample checking of purchases, traced purchase bills to GST portal and also made confirmations from suppliers. They were satisfied with audit evidence obtained by them as part of audit exercise. An audit report was submitted to the firm giving an opinion that financial statements reflected true and fair view of state of affairs of the firm.
- However, later on, it was discovered that purchase manager responsible for procuring dresses from one location was also booking fake purchases of small values by colluding with unethical dealers.
- Payments to these dealers were also made in connivance with accountant through banking channel.
- The partners of firm blame auditors for futile audit exercise. Are partners of firm correct in their view point? Imagine any probable reason for such a situation.



Answer:

It is example of failure of internal controls of the firm. The internal control has not operated due to collusion between employees which is a limitation of internal control itself. The auditor has relied upon internal controls. It is very nature of financial reporting that management is responsible for devising suitable internal controls. This is an inherent limitation of audit.

Question 12:

An audit is distinct from investigation. However, it is quite possible that sometimes investigation results from the prima facie findings of the auditor. Discuss

 **Answer:** Audit vs Investigation.

Question 13:

MNO Ltd requested the auditor CA P to provide for absolute assurance in respect of its ten branches scattered in Delhi and confirm that the financial statements are free from material misstatement due to fraud or error. Advise.

 **Answer:** Inherent Limitations.

Question 14:

DEF & Co. Chartered Accountants successfully carried out the audit of Shree Garments for the Fy. 2015. After the completion of audit, there were found material misstatements due to fraud in the financial statements which were not noticed and reported by the auditor. Management alleges that it is failure on the part of auditor. Comment

 **Answer:** Inherent Limitations.

Question 15:

“There are practical and legal limitations on the auditor’s ability to obtain audit evidence. Explain with examples.

 **Answer:** Inherent Limitations – Nature of audit procedures

Question 16:

The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. Explain.

 **Answer:** Inherent limitations-Only Timeliness

Question 17:

“There are practical and legal limitations on the auditor’s ability to obtain audit evidence. Explain with examples. Also explain the difference between audit and investigation

 **Answer:** Inherent Limitations

- Nature of audit procedure
- Difference between audit and investigation

Question 18:

A Chartered Accountant is specifically asked to check accounts whether fraud exists. State with reasons whether it is an example of reasonable assurance engagement.



Answer: It is not a reasonable assurance engagement. It is in nature of investigation.

Question 19:

An audit does not provide absolute assurance. Discuss how nature of audit procedures itself is one of the reasons due to which audit cannot provide absolute assurance.



Answer: Inherent Limitations – Nature of audit procedure

Question 20:

In case of certain subject matters, limitations on the auditor's ability to detect material misstatements are particularly significant. Explain such assertions or subject matters



Answer:

- Fraud, particularly fraud involving **senior management or collusion**.
- The existence and completeness of **related party relationships and transactions**.
- The occurrence of **non-compliance with laws and regulations**.
- Future events or conditions that may cause an entity to cease to continue as a **going concern**.

Question 21:

RAGA is proprietorship firm engaged in the manufacturing of textile and handloom products. It sells its finished products both in the domestic as well as in the international market. The company is making total t/o of 30 crores. It has also availed cash credit limit of 5 crores from Canara Bank. In the year 2023-2024, proprietor of the firm is worried about the financial position of the company and is under the impression that since he is out of India, therefore firm might run into losses. He approaches a CA about advantages of getting his accounts audited throughout the year so that he may not suffer due to accounting weaknesses. Advise regarding advantages of getting accounts audited.



Answer: Advantages of Audit

Question 22:

The chief utility of audit lies in reliable financial statements on the basis of which the state of affairs may be easy to understand. Apart from this obvious utility, there are other advantages of audit. Some or all of these are of considerable value even to those enterprises and organizations where audit is not compulsory. Explain



Answer: Advantages of Audit

Question 23:

An assurance engagement involves a three party relationship. Discuss meaning of three parties in such an engagement



Answer: 3 parties

Question 24:

Explain the qualities of an auditor



Answer: Qualities

Question 25:

Assurance engagements are not restricted to audit of financial statements alone. Discuss.



Answer: Types of engagement

Question 26:

Standards on Auditing (SAs) apply in “audit of historical financial information” whereas Standards on Review Engagements (SREs) apply in “review of historical financial information.” Explain in detail giving examples.



Answer: Audit vs Review


2

AUDIT STRATEGY, AUDIT PLANNING
AND AUDIT PROGRAMME

Question 1:

The auditor T of Hand Fab Ltd is worried as to management of **key resources** to be employed to conduct audit.

Required: How the audit strategy would be helpful to the auditor?

 **Answer:** Refer - **Establishing the overall audit strategy- Assistance for the auditor for solution**

Question 2:

MG & Co, a firm of auditors, having a standing of 30 years is appointed as a statutory auditor of company engaged in manufacturing of defence equipment. Due to opening of defence sector by government to private players in recent times, many new companies have entered the fray to manufacture sophisticated defence equipment. Considering technical and complex nature of operations, the auditors recognize that involvement of experts in the audit is required. Does consideration for involvement of experts by auditors fall in the domain of planning audit?

 **Answer:**

Consideration for involvement of experts by auditors falls within domain of planning. While planning an audit, auditor would have to consider whether involvement of experts is necessary. In the stated case, company is involved in technical and complex operations. Therefore, while planning an audit, auditors would have to consider whether involvement of expert is necessary.

Question 3:

CA Kartik is planning for audit of a company engaged in manufacturing of cosmetics. Considering nature of operations of the company, he had planned to include **testing of controls** of the company over purchases, sales and inventories.


One fine day, he reaches the corporate office and asks for **manuals and required documentation to ensure surprise element in testing**. He had never shared with management his intention to carry out above procedures. Is approach of CA Kartik proper?

 Answer:

In the case, CA Kartik has reached office of the company without sharing with management his intention to test the controls. The auditor may decide to discuss elements of planning with the entity's management to facilitate the conduct and management of the audit engagement without **compromising effectiveness of audit**. Sharing details of visit to test controls **does not compromise effectiveness of audit**. It is for the better facilitation and conduct of audit. Therefore, approach of CA Kartik is not proper.


Question 4:

W, the auditor of SKM Ltd. asks its finance and audit head to prepare audit strategy for conducting audit of SKM Ltd. W also insists him to draw detailed audit procedures. On the request of auditor W completes audit strategy as well as audit procedures as prepared by finance head of the company. Subsequently, auditor realizes that effectiveness of the audit is compromised and it was his responsibility to prepare the overall audit strategy. Comment.

 Answer: Refer - Overall audit strategy and the audit plan- The auditor's responsibility - Accordingly, approach of W was wrong and he should have prepared overall audit strategy and detailed audit procedures.

Question 5:

CA Mary, while planning audit of a company, feels that she would **inquire from inhouse legal counsel** of the company status of pending litigation matters against the company to identify and **assess risks of material misstatements**. Considering above description, are you able to identify said procedures? Where these **identified procedures are included** in planning in accordance with SA-300?

 Answer: These are planned **risk assessment procedures** to identify and assess risk of material misstatement. The objective of planned inquiry of inhouse legal counsel is to identify and assess risk of material misstatement. Such planned risk assessment procedures are included in audit plan in accordance with SA-300.

Question 6:

CA Shubhendu is statutory auditor of a social media company. Due to change in information technology regulations by government, it has become mandatory for such companies to constitute "**grievance redressal mechanism**" for users of social media platform of the company. Failure to comply with regulations can potentially lead to **civil and criminal liabilities** against the company. Is above factor to be considered by auditor while framing audit strategy?



Answer:

Changes in laws and regulations affecting the company is a factor to be considered while establishing overall audit strategy. There has been change in information technology regulations applicable to the company. Noncompliance of the same can have implications in form of civil and criminal liabilities. Such an important matter concerning changes in laws and regulations is to be considered by auditor while establishing overall audit strategy.

Question 7:

Rohit, undergoing practical training, is part of an engagement team conducting audit of a company engaged in manufacturing of paints. He has been provided with audit programme **pertaining to sales**. It lists out various items to be checked and verified by him including **invoices**, **rate lists**, posting in **debtors accounts**, correlation of invoices with e-way bills on sample basis etc.

During verification, he notices that many **e-way bills** have been **cancelled by** the company within **24 hours** of their generation in month of March. There is no specific instruction in audit programme in this regard. He keeps mum. Is attitude of Rohit proper?



Answer:

Attitude of Rohit is not proper. The assistants should observe matters objectively and bring significant matters to the notice of supervisor/principal.

Reasons for cancellation of many e-way bills in month of March need to be looked into. Matter should be informed to engagement partner.

Question 8:

Discuss how performing preliminary engagement activities as part of planning an audit assists auditor.



Answer:

Performing preliminary engagement activities assists the auditor in identifying and evaluating events or circumstances that may affect auditor's ability to plan and perform audit engagement.

Question 9:

Discuss how an engagement partner ensures that firm complies with **relevant ethical requirements including** independence in relation to client.



Answer: Refer to point on evaluating compliance with ethical requirements including independence.

Question 10:

“Purported disadvantages of an audit programme can be overcome”. Do you agree?



Answer:

Purported disadvantages of audit programme may be eliminated by imaginative supervision of the work carried on by the assistants; the auditor must have a receptive attitude as regards the assistants; the assistants should be encouraged to observe matters objectively and bring significant matters to the notice of supervisor/principal.

Question 11:

An auditor of a company fails to document audit strategy and audit plan. Briefly outline consequences of such failure.



Answer: Refer to point on documentation

Question 12:

SA 300 states that auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. Discuss few factors affecting such supervision and review of work of engagement team members.



Answer: Refer to point on Planning supervision and review of work of engagement team members

Question 13:

Surya and Chand Ltd is a manufacturing company engaged in the production of miscellaneous electrical goods. Trilochan and Co. has been appointed as the auditors to carry out its audit. Auditor thinks that planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning benefits the audit of financial statements in several ways. Analyse and advise explaining the benefits of adequate planning.



Answer: Usefulness of Careful and Adequate Audit Planning

Question 14:

Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Planning includes the need to consider certain matters prior to the auditor's Identification and assessment of the risks of material misstatement. Explain clearly stating those matters also.



Answer: Planning - a continuous process

Question 15:

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

Discuss stating the process of establishing the overall audit strategy that would assist the auditor to determine key matters



Answer: Process of establishing the overall audit strategy

Question 16:

In establishing overall audit strategy, the auditor shall ascertain the **reporting objectives** of the engagement to plan the timing of the audit and the nature of the communications required. Elucidate those cases by which auditor can ascertain the reporting objectives of the engagement,



Answer: Cases by which auditor can ascertain the reporting objectives of the engagement

Question 17:

You have been appointed as an auditor of MKP Ltd. for the first time. Discuss briefly, the **factors** to be considered by you while establishing overall audit strategy.



Answer: Factor to be considered by you while establishing overall audit strategy.

Question 18:

In establishing the overall audit strategy, the auditor shall identify the **characteristics of** the engagement that define its scope. Explain with example.



Answer: Characteristics of the engagement that define its scope.

Question 19:

As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan. Explain.



Answer: Changes to Planning decisions

Question 20:

The establishment of the overall audit strategy and the detailed audit plan are closely interrelated. Explain.



Answer: Relationship between the Overall Audit Strategy and the Audit Plan

Question 21:

Arpana Hospitals Ltd. having Gross Professional Charges of ₹50 crores is engaged in providing healthcare services. STP & Co., a firm of auditors is appointed as its auditors. Advise what special points to be kept in mind for the purpose of construction of an Audit programme. Explain.



Answer: Points to be considered in constructing Audit Programme

Question 22:

Evolving one audit programme applicable to all audit engagements under all circumstances is not practicable. Explain



Answer: Evolving one audit programme

Question 23:

"The utility of the audit programme can be retained and enhanced only by keeping the programme and also the client's operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed". Explain,



Answer: Periodic Review of The Audit Programme

Question 24:

"TP & Co., a firm of Chartered Accountants, is auditor of KSR Ltd. for many years. KSR Ltd. has versified their business into newer areas during the last year. The senior member of the audit am handed over the standard audit programme of earlier years to the audit assistants and structed them to follow the same. The assistants are conducting the audit accordingly. Whether e attitude of the audit assistants is justified or they are required to keep an open mind? Guide



Answer: Assistant Engaged - be encouraged to keep an open mind

Question 25:

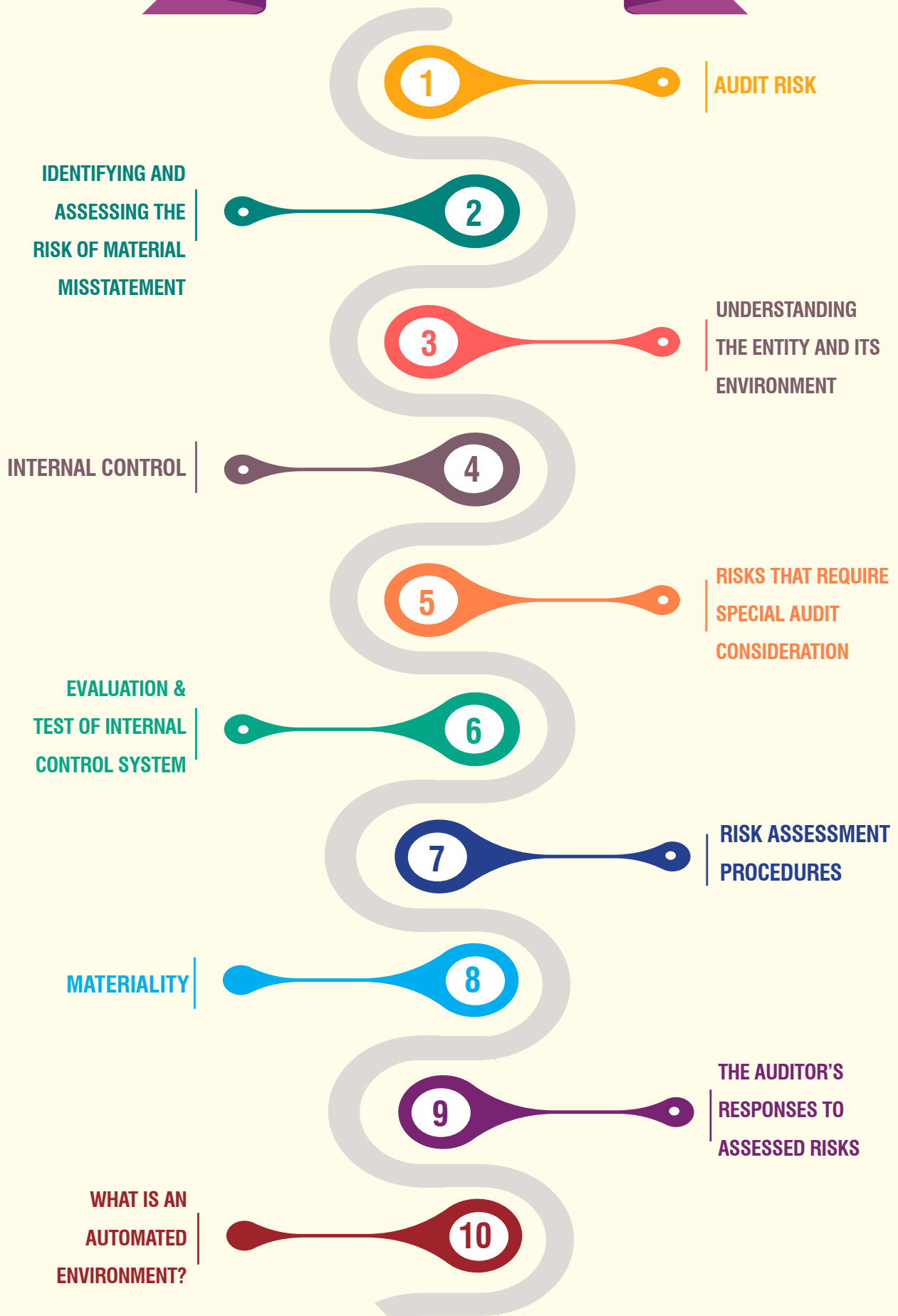
CA Vikas Jain discussed with his audit team about advantages and disadvantages of audit programme. He explained to his team that - "work may become mechanical" as disadvantage of the audit programme. Discuss explaining the disadvantages of an audit programme.



Answer: Disadvantages of an audit programme

CHAPTER 3

RISK ASSESSMENT & INTERNAL CONTROL



**Question 1:**

XYZ Ltd is engaged in the business and running several stores dealing in variety of items such as ready made garments for all seasons, shoes, gift Items, watches etc. There are security tags on each and every item. Moreover, Inventory records are physically verified on monthly basis. Discuss the types of Inherent, control and detection risks as perceived by the auditor.

**Answer:**

Inherent, control and detection risks.

- (a) Inherent Risk. Because items may have been misappropriated by employees, therefore, risk to the auditor is that inventory records would be inaccurate.
- (b) Control Risk: There is a security tag on each item displayed. Moreover, inventory records are physically verified on monthly basis. Despite various controls being implemented at the stores, still **collusion among employees** may be there and risk to auditor would again be that inventory records would be inaccurate.
- (c) Detection Risk: Auditor checks the efficiency and effectiveness of various control systems in place. He would do that by making observation, inspection, enquiry, etc. In addition to these, the auditor would also **employ sampling techniques** to check few sales transactions from beginning to end. However, despite all these procedures, the auditor may not detect the items which have been stolen or misappropriated.

Question 2:

A Partnership Firm of Chartered Accountants HT and Associates was appointed to audit the books of accounts of Wind and Ice Limited for the financial year 2023-24. There was a risk that HT and Associates would give an Inappropriate audit opinion if the financial statements of Wind and Ice Limited are materially misstated. State the Risk mentioned in the question.

**Answer:** Audit risk

Question 3:

Wear & Tear Private Limited is a "start-up" engaged in providing holistic solutions to problem of paddy stubble burning mainly catering to needs of farmers of North western India. Due to Importance given by governments to this issue, companies have entered in the market in past few years. Many of these companies have not been successful and have gone bust. As an auditor of the company, can you spot the component of risks of material misstatement involved in above?

 Answer:

Component of RoMM: Facts given in the question highlights that many companies engaged in providing holistic solutions to problem of stubble burning have not been successful. It shows that line of activity is inherently risky. Therefore, there is a greater possibility of misstatements. Conclusion: Component of RoMM involved is "inherent risk."

Question 4:

A company has devised a control that its Inventory of perishable goods is stored in appropriate conditions in a controlled environment to prevent any damages to inventory. Responsibility is fixed on two persons to monitor environment using sensors and to report on deviations. Identify the component of risks of material misstatement involved as an auditor of the company.

 Answer:

Component of RoMM: Facts given in the question highlights that inventory of perishable goods is stored in appropriate conditions and responsibility is fixed on two persons to monitor environment using sensors and to report on deviations. There is a possibility that persons given responsibility do not perform their work and report deviations. Conclusion: Component of RoMM involved is "control risk".

Question 5:

Shree Foods Private Limited is engaged in manufacturing of garlic bread. The auditors of company have planned audit procedures in respect of recognition of revenues of the company. Despite that, there is a possibility that misstatements in revenue recognition are not identified by planned audit procedures. Which risk is being alluded to?

 Answer:

Detection Risk: Facts given in the question highlights that there is a possibility that planned audit procedures may not achieve desired result and fail to detect misstatements in revenue recognition. Conclusion: The risk alluded to it is "detection risk."

Question 6:

Jojo Limited is planning to list on Bombay Stock Exchange next year. As an auditor of Jojo Limited, Identify any one reason of increased audit risk due to listing of the company next year.

 Answer:

Reason of increased audit risk due to listing.

Based on the facts given in the question, there is a greater chance of misstatements in the financial statements due to planned listing next year. There could be a possibility of intentional manipulation of F.S. so that good response is received to proposed issue.

Conclusion: There is Increased audit risk i.e., risk of expressing inappropriate opinion by the auditor when financial statements are materially misstated.

Question 7:

The SAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risks of material misstatement". Explain.

 Answer: Combined Assessment of RoMM.

Question 8:

The assessment of risks is a matter of professional judgment. Explain stating clearly what is not included in Audit Risk?

 Answer: Note 2 + 3

Question 9:

You are appointed as an auditor of Gama Ltd. Your audit assistant wants to understand the meaning of Audit Risk. Explain him the meaning of Audit Risk with example. Also guide him as to what is not included in Audit Risk.

 Answer: Audit Risk + Note 2

2 IDENTIFYING & ASSESSING THE RISK OF MATERIAL MISSTATEMENT

Question 1:

The risks of material misstatement may exist at the financial statement level and asset level. Explain the two levels.

 **Answer:** The risks of material misstatement may exist at two levels.

Question 2:

For the purpose of Identifying and assessing the risks of material misstatement, the auditor shall identify risks throughout the process of obtaining an understanding of the entity and its environment. Explain in detail along with other relevant points.

Or

Discuss the steps to be taken by the auditor for the purpose of Identifying and assessing the risks of material misstatement as per SA 315.

 **Answer:** Refer to Q.2

3 UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT

Question 1:

The auditor of ABC Textiles Ltd chalks out an audit plan without understanding the entity's business. Since he has carried out many audits of textile companies, there is no need to understand the nature of business of ABC Ltd. Advise the auditor how he should proceed.



Answer:

ROMAN: 'Obtaining an understanding of the entity and its environment, including the entity's internal control is a continuous, dynamic process of gathering, updating and analysing information throughout the audit. Hence, auditor should proceed accordingly.

Question 2:

While auditing the books of accounts of Heavy Material Limited for the financial year 2023-24, a team member of the auditor of Heavy Material Limited showed no inclination towards understanding the business and the business environment of the above mentioned company, is the approach of team member of the auditor of Heavy Material Limited correct or incorrect? Also give reason for your answer.



Answer:

Approach of team member of the auditor of Heavy Material Limited is incorrect because understanding the business and the business environment of company whose audit is to be conducted is very important, as it helps in planning the audit and identifying areas requiring special attention during the course of audit of that company.

Question 3:

Prince Blankets is engaged in business of blankets. Its major portion of sales is taking place through Internet. Advise the auditor how he would proceed in this regard as to understanding the entity and its environment.



Answer:

While understanding entity and its environment, internet sales is being perceived as risky area by the auditor and thereby would be spending substantial time and extensive audit procedures on this particular area.

Question 4:

Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous, dynamic process of gathering, updating and analysing information throughout the audit. Analyse and explain giving examples.

 **Answer:** Understanding of the Entity - a continuous process.

Question 5:

CA D has been appointed as an auditor of LMP Ltd. Before developing an overall audit plan, CA D wants to get an understanding and knowledge of the Client's business including applicable financial reporting framework. Guide CA D in understanding of the same with reference to the relevant Standard on Auditing.

 **Answer:** Knowledge of Client's Business: ROMAN

Question 6:

Knowledge of the Client's business is one of the important principles in developing an overall audit plan. In fact without adequate knowledge of client's business, a proper audit is not possible. As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment", the auditor shall obtain an understanding of the relevant industry, regulatory and other external factors including the applicable financial reporting framework. Substantiate with the help of examples.

 **Answer:** ROMAN

4 INTERNAL CONTROL

Question 1:

Auditor GR and Associates, appointed for audit of PNG Ltd, a manufacturing company engaged in manufacturing of various food items. While planning an audit, the auditor does not think that it would be necessary to understand internal controls. Advise the auditor in this regard.

 **Answer:**

Understanding Internal Controls:

Auditor shall obtain an understanding of internal control **relevant to the audit**. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit.

Question 2:

The team member of the auditor of Simple and Easy Limited was of the view that understanding the internal control of the company would not help them in any manner in relation to audit procedures to be applied while conducting the audit.

 **Answer:**

Understanding Internal Controls: The view of the team member of the auditor is incorrect because understanding the internal control of the company would help the auditor and his team members in designing the nature, timing and extent of audit procedures to be applied while conducting the audit of the company.

Question 3:

CA Smriti is auditor of a company. As part of audit, she is going through company policies and practices regarding **employee recruitment**, training, orientation and related matters. She seems to be very much interested in finding out whether company hires best candidates from applicant pool. Identify what she is trying to do? How gaining knowledge about this aspect is useful to her as an auditor?

 Answer:

Understanding Internal Controls: The study of company policies and practices regarding employee recruitment, training, orientation and related matters including hiring of best candidates is part of understanding HR function of the company. It, in turn, helps in understanding **control environment of the company**. By gaining such a knowledge, she can better understand internal control of the company.

Question 4:

During the audit of same company, CA Smriti is keen to find out whether there exists a proper system of **segregation of duties** in the company. She wants to be sure that a person responsible for recording a transaction is different from the person authorising it. Discuss what she is trying to do and how its understanding is significant to her as an auditor.

 Answer:

Understanding Internal Controls: She is keen to find out whether there exists a proper system of **segregation of duties** in the company. She is gaining an understanding of internal control of the company.

In particular, she is understanding "**control activities**"; When a person recording a transaction is different from one authorizing it, she gains confidence that there exists a system for preventing misstatements. It helps her in gaining insight into the internal control system of the company.

Question 5:

The auditor shall obtain an understanding of the major activities that the entity uses to **monitor** internal control over financial reporting. Explain.

 Answer: Activities used to monitor **internal control over financial reporting**.

Question 6:

The auditor of XYZ Ltd., engaged in FMCG (Fast Moving Consumable Goods) obtains an understanding of the **control environment**. As part of obtaining this understanding, the auditor evaluates whether

- (I) Management has **created and maintained** a culture of honesty and ethical behaviour, and
- (II) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control. Advise what is **included** in control environment. Also explain the **elements** of control environment.

 Answer: Elements of Control Environment.

Question 7:

A satisfactory control environment may help reduce the risk of fraud but is not an absolute deterrent for fraud", Explain

 **Answer:** Impact of Satisfactory Control Environment

Question 8:

Briefly discuss the limitations of internal control.

 **Answer:** Inherent Limitations of Internal Control

Question 9:

Internal control over **safeguarding of assets against** unauthorised acquisition, use, or disposition may include controls relating to both **financial reporting and operations objectives**. Explain stating clearly the objectives of Internal Control.

 **Answer:** Internal control over safeguarding of assets.

Question 10:

The division of internal control into five components provides a useful framework for auditors to consider how different aspects of an entity's Internal control may affect the audit. Mention those components of Internal control.

 **Answer:** Components of Internal Control.

Question 11:

The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting Discuss "Monitoring of control" as a component of internal control.

 **Answer:** Monitoring of Controls.

Question 12:

Auditor GR and Associates have been appointed to conduct audit of PNG Ltd., a manufacturing company engaged in manufacturing of various food items. While planning an audit, the auditors do not think that it would be necessary to understand internal controls. Advise the auditor in this regard explaining clearly the **benefits of understanding the internal control**.

 **Answer:** Benefits of understanding of Internal Control

Question 13:

Factors relevant to the auditor's judgment about whether a control, Individually or in combination with others, is **relevant to the audit** may include such matters as materiality, the significance of the related risk etc. Explain in detail.

 **Answer:** Factors relevant to the auditor's judgment about whether a control

Question 14:

The auditor shall obtain an understanding of the **Information system**, including the related business processes, relevant to financial reporting, including the classes of transactions in the entity's operations that are significant to the financial statements, controls surrounding Journal entries etc. Explain the other considerations in this regard.

 **Answer:** Understating of Information Systems.

Question 15:

The auditor shall obtain an understanding of **control activities relevant** to the audit, which the auditor considers necessary to assess the risks of material misstatement. Explain in detail stating clearly the meaning of control activities and also discuss control activities that are relevant to the audit.

 **Answer:** Control Activities

Question 16:

Define Monitoring of Controls and respect of monitoring of controls, answer the following questions:

- (i) How monitoring of controls would be helpful in assessing the effectiveness of controls?
- (ii) How can management accomplish monitoring of controls?
- (ii) What is included in the Management's monitoring activities?

 **Answer:** Monitoring of controls.

Question 17:

Z Ltd. is a manufacturer of ready-made garments. During the year 2022-23, they have opened two new branches and there is a substantial increase in their sales. The management has appointed CA R to review the Internal control system of the company as they feel that there are lapses in the control environment of the company. **What is Included in the control environment** and what will the **auditor evaluate in order to obtain an understanding** of the control environment?

Answer: Elements of Control Environment & Evaluation of Control environment by auditor.

Question 18:

Mr. Y, one of the team member of the auditors of What and Where Limited was very keen in knowing whether the internal control of the company would safeguard the company's assets. Advise Mr. Y.



Answer:

Review of Internal Controls: Review of internal controls will enable the auditors to know whether the controls adequately safeguard the assets.

5 RISKS THAT REQUIRE SPECIAL AUDIT CONSIDERATION

Question 1:

What is understood by "non-routine transactions? Briefly outline why risks of material misstatement is greater for such transactions.



Answer: Non-routine transactions

Question 2:

Significant risks often relate to significant **non-routine transactions or judgmental matters**. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur Infrequently. Judgemental matters may include the development of accounting Estimates for which there is significant measurement uncertainty. In context of significant risk, explain the factors to be considered by the auditor in exercising Judgment as to which risks are significant risks.



Answer: Identification of Significant Risks.

Question 3:

Risks of material misstatement may be greater for significant non-routine transactions arising from matters such as complex calculations. Also, risks of material misstatement may be greater for significant judgmental matters that require the development of accounting estimates, arising from matters such as accounting principles for accounting estimates may be subject to differing Interpretation etc. Explain in detail.



Answer: Risks of Material Misstatement - Greater for Significant Non-Routine Transactions.

Risks of material misstatement - Greater for Significant Judgmental Matters.

Question 4:

Auditor or Sunshine Ltd. is of the view that due to greater management intervention to specify accounting treatment, the risk of material misstatement is greater for non-routine transactions, is the view of the auditor correct? Specify the other matters due to which the risk of material, misstatement is greater for significant non-routine transactions.



Answer: Risks of Material Misstatement - Greater for Significant Non-Routine Transactions.

6 EVALUATION & TESTING OF INTERNAL CONTROL SYSTEM

Question 1:

Mr. H, a team member of the auditor of There and Here Limited was of the view that evaluation of internal control of the company would help in identifying the areas where internal control is weak Advise.



Answer:

Review of Internal Controls: Review of internal controls will enable the auditor to know what are the areas where control is **weak and where it is excessive**.

Question 2:

In order to evaluate the Internal Control of Your and My Limited, a team member of the auditors used a method according to which, number of questions relating to **internal control** of the company were required to be **answered by the employees of the company**. After obtaining the answers there was a discussion relating to those answers between team member of the auditor and employees of the company for a clear picture. State the method of evaluation of internal control as discussed above



Answer:

The method of evaluation of internal control used in the above question is known as **Internal Control Questionnaire** because in questionnaire method, a number of questions relating to internal control of a company are required to be answered by employees of that company and when answers to the questions are obtained, there is a discussion relating to those answers between team members of the auditors and employees of that company for a clear picture.

Question 3:

Healthy and Useful Limited is into small manufacturing as well as trading business. For the purpose of evaluating the Internal control of Healthy and Useful Limited, a team member of the auditors of the company used a method according to which the whole **description** of internal control that was operating in the said company was to **be recorded**. Identify the method of evaluation of internal control as mentioned above.

 Answer:

The method of evaluation of internal control referred above is known as **Narrative Record** because in Narrative Record method, a whole description of internal control operating in an entity is recorded. Narrative Record method is also appropriate for small manufacturing as well as trading business as is mentioned in the question above case

Question 4:

Zomba Products Private limited is a small company. The control systems in the company are insignificant. How, you as an auditor of the company, would proceed to evaluate Internal control of the company?

 Answer:

In a small company, control systems are basic and not formalized. Therefore, auditor should proceed to evaluate internal control using **narrative record**.

Question 5:

A **Flow Chart** is a graphic presentation of each part of the company's system of internal control Explain elaborating each and every aspect about flow chart.

 Answer: Flow Charts

Question 6:

So far as the auditor is concerned, the examination and evaluation of the internal control system is an indispensable part of the overall audit programme. The auditor needs reasonable assurance that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded. Internal control normally contributes to such assurance, Explain stating clearly **the benefits of evaluation of internal control to the auditor**.

Or

The review of Internal controls will enable the auditor to know the areas where control is weak. Explain stating clearly the benefits of evaluation of internal control to the auditor.

 Answer: Benefits of Evaluation of Internal Control to Auditor.

7 RISK ASSESSMENT PROCEDURES

Question 1:

On perusing financial statements of Jojo Limited put up for audit, it is observed by the auditor that **current ratio** has improved from **1.20:1** (In preceding year) to **1.75:1** (In current year). Identify what kind of risk assessment procedures are being performed by auditor? Has it any relation with listing of the company next year on Bombay Stock Exchange?



Answer:

Risk Assessment Procedure: Facts given in the question highlights that current ratio has improved from 1.20:1 (in preceding year) to 1.75:1 (In current year). The auditor is using "**analytical procedures**" as risk assessment procedures. Current ratio has improved from previous year. There could be a possibility of misstatement in current assets and current liabilities. It is possible that improvement in current ratio is **artificial due to** misstatements and has been done to secure good response to the proposed issue of company next year. Conclusion: Auditor is using "analytical procedures."

Question 2:

Discuss how "analytical procedures" performed as "risk assessment procedures" can be useful to an auditor.



Answer: Use of Analytical Procedures as Risk Assessment procedures.

Question 3:

Discuss what is included in risk assessment procedures to obtain audit evidence about the design and Implementation of relevant controls.



Answer: What is included in RAP.

Question 4:

Much of the Information obtained by the **auditor's inquiries** is obtained from management and those responsible for financial reporting. However, the auditor may also obtain information, or a different perspective in Identifying risks of material misstatement,

through **Inquiries of others within the entity and other employees with** different levels of authority. Explain with the help of examples.

Or

The risk assessment procedures shall include the Inquiries of management and of others within the entity who in the auditor's Judgment may have information that is likely to assist in Identifying risks of material misstatement due to fraud or error, Explain giving at least three examples.



Answer: Inquiries of management, and of others within the entity.

Question 5:

Analytical procedures performed as risk assessment procedures may identify aspects of the entity of which the auditor was unaware and may assist in assessing the risks of material misstatement in order to provide a basis for designing and Implementing responses to the assessed risks, Explain in detail.



Answer: Use of Analytical Procedures as Risk Assessment Procedures.

Question 6:

CA L is in the process of finalizing his Risk Assessment Procedures of Effluent Limited which include **observation and inspection** that may support inquiries of management and others. Discuss few examples of audit procedures which include observation or inspection of the entity's operations.




Answer: Examples of audit procedures which include observation or inspection of entity's operations.

8 MATERIALITY


Question 1:

One of the team members of auditors of Highly Capable Limited was of the view that Materiality and Audit Risk are only considered at planning stage of an audit. Comment as an auditor.

 **Answer:** Concept of materiality is applied by the auditor both in **planning** and **performing** the audit, and in **evaluating the effect of identified misstatements** on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Question 2:

CA. Raja is auditor of Build Well Forgings Private Limited having a revenue of ₹25 crore. The company has been sanctioned a term loan of ₹50 lacs from a bank. However, as at end of the year, only ₹1 lac was availed due to delay in procurement of asset. The financial statements of the company do not disclose **nature of security against** which loan has been taken. Schedule III of Companies Act, 2013 requires disclosure in this respect. Discuss, whether, non-disclosure of nature of security is material for auditor.

 **Answer:** If there is any statutory requirement of disclosure, it is to be considered material. Schedule III mandates disclosure of nature of security in relation to loan. **The amount involved is irrelevant.**

Question 3:

While conducting the audit of Smart TV Ltd., engagement team of HTR & Co., has considered materiality and audit risk throughout the audit. Discuss explaining the meaning of audit risk.

 **Answer:** Audit Risk and Materiality

Question 4:

Materiality for the financial statements as a whole may need to be revised as a result of a change in circumstances that occurred during the audit. Explain with the help of example.

 **Answer:** Revision as the Audit Progresses

Question 5:

You are being appointed as the auditor of Track Ltd. for the first time. You want to determine the materiality level and for that you have applied percentage to choose benchmark as a starting point in determining materiality for the financial statements as a whole. What are the factors that may affect the Identification of an appropriate benchmark?

 **Answer:** Factors affecting identification of appropriate benchmark as per SA 320.

Question 6:

The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, explain the auditor's assumptions about users of the financial statements.

 **Answer:** Auditor's assumptions about users of the financial statements.

Question 7:

Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Explain.

 **Answer:** Concept of materiality in the context of the preparation and presentation of F.S.

Question 8:

What could be considered material for all situations cannot be defined precisely and an amount or transaction material in one situation may not be material in other situation. Explain.

 **Answer:**

- SA 320 "Materiality in Planning and Performing an Audit" requires the auditor to consider **materiality** and its relationship **with audit risk** while conducting an audit. When planning the audit, the auditor considers what would make the financial information materially misstated.
- The auditor's preliminary assessment of materiality related to specific account balances and classes of transactions helps the auditor decide such questions as what items to examine and whether to **use sampling** and **analytical procedures**. This enables the auditor to select **audit procedures that**, in combination, can be expected to support the audit opinion at an acceptably low degree of audit risk.
- It may be noted that the auditor's assessment of **materiality** and **audit risk** may be different at the time of **Initially planning** of the audit as against at the time of

evaluating the results of audit procedures. At the planning stage, the auditor needs to consider the materiality for the financial statements as a whole. The auditor has to carry out a preliminary identification of significant components and material classes of transactions, account balances and disclosure which he plans to examine.

- What could be considered material for all situations cannot be defined precisely and an amount or transaction material in one situation may not be material in other situation. For example, ₹5,000 may be material for a small entity, but even ₹5,00,000 may not be material for a large entity.

9 THE AUDITOR'S RESPONSES TO ASSESSED RISKS

Question 1:

A Chartered accountant during course of audit of a company finds that cash is not deposited into bank frequently although concerned staff of company was required to do so. Further, the official responsible for ensuring performance of above function, has also not paid any attention to it. Discuss what does it represent from auditor's perspective.



Answer:

Facts of the question highlights that cash is not deposited into bank frequently, although, concerned staff of company was required to do so.

Further, the official responsible for ensuring performance of above function, has also not paid any attention to it. It means that control is not working as planned. It would not be able to prevent misstatement and very purpose of control is defeated.

It represents a "control deficiency"

Question 2:

A higher level of assurance may be sought about the operating effectiveness of controls when the approach adopted consists primarily of tests of controls, in particular where it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Explain



Answer: Refer Q.4

Question 3:

Irrespective of the assessed risks of material misstatement, the auditor shall design and perform **substantive procedures** for each material class of transactions, account balance, and disclosure. Analyse and explain. **OR**

"A multinational co. wants to appoint you to carry the statutory audit." Discuss with reference to SA 330 the substantive procedures to be performed.



Answer:

Substantive procedures are audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:

- (i) **Tests of details** (of classes of transactions, account balances, and disclosures); and
- (ii) **Substantive analytical procedures.**

SA 3.30 "Responses to Assessed Risks" deals with the auditor's responsibility to design and impales responses to the risks of material misstatements identified and assessed by the auditor in accordance with SA 315. Accordingly,

- Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.
- Depending on the circumstances, the auditor may determine that:
 - (i) Performing only substantive analytical procedures will be sufficient to reduce audit risk to an acceptably low level. For example, where the auditor's assessment of risk is supported by audit evidence from tests of controls.
 - (ii) Only tests of details are appropriate.
 - (iii) A combination of substantive analytical procedures and tests of details are most responsive to the assessed risks.
- Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time,
- Because the assessment of the risk of material misstatement takes account of internal control, the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory. However, increasing the extent of an audit procedure is appropriate only if the audit procedure itself is relevant to the specific risk.
- In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size.

Question 4:

XYZ & Associates, Chartered Accountants, while evaluating the operating effectiveness of internal controls, detects deviation from controls. In such a situation, state the specific inquiries to be made by an auditor to understand these matters and their potential consequences.

 **Answer:** Specific inquiries by auditor when deviations from controls are detected

Question 5:

Discuss the various points which auditor needs to consider in determining whether it is appropriate to use audit evidence about operating effectiveness of controls obtained in previous audit, and if so, the length of the time period that may elapsed before retesting



Answer:

Using audit evidence about operating effectiveness of controls obtained in previous audit.

Question 6:

When more persuasive audit evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control as well as the degree of reliance on controls. Discuss the matters the auditor may consider in determining the extent of test of controls.



Answer: Matters to be considered in determining the extent of test of controls.

10

WHAT IS AN AUTOMATED ENVIRONMENT?

Question 1:

Discuss relationship between "General IT controls" and "application controls" in an automated environment.



Answer: General IT controls and Application controls

Question 2:

The auditor should understand and consider the risks that may arise from the use of information technology (IT)



Answer: Risk to internal control imposed by IT

Question 3:

The fundamental principle of an automated environment is the ability to carry out business with less manual intervention. Explain.



Answer: Key features of automated environment

Question 4:

List the points that an auditor should consider to obtain an understanding of the company's automated environment.



Answer: Understanding of the Company's Automated Environment

Question 5:

Generally, applying Inquiry in combination with inspection gives the most effective and efficient audit evidence. However, which audit test to use, when and in what combination is a matter of professional Judgment. Discuss stating the different ways testing is performed in an automated environment



Answer: Testing Methods used while auditing in an Automated Environment.

Question 6:

Analyse how risks in the IT system, if not mitigated, could have an Impact on the audit.



Answer: Impact of IT Related Risks

Question 7:

Objective of Data Center and Network Operations is to ensure that production systems are processed to meet financial reporting objectives. Discuss the activities performed by **Data Center and Network operations**. Also explain the meaning of General IT Controls in detail.



Answer: Data Center & Network operations

Question 8:

When the company is working in an automated environment, It is not necessary for its auditor **to understand its** automated environment and depends upon the professional judgment of the auditor as to whether gaining knowledge of company's IT systems is required or not. Do you agree with this statement?



Answer: Understanding and Documenting Automated Environment

Question 9:

Explain the objective and enlist the activities Involved in the General IT Controls over **"Program Change"**.



Answer: Objective and activities involved in the General IT Controls over "Program Change"

Question 10:

In an automated environment, **General IT controls** are policies and procedures that relate to many applications and support the effective functioning of application controls. One such area is **access security**. What is the objective of access security and what are the activities Included in it?



Answer: Objectives of Access Security

Question 11:

Manual elements in internal control may **be less reliable** than automated elements because they can be more easily bypassed, Ignored, or overridden and they are also more prone to simple errors and mistakes. Give examples of circumstances in which **manual control elements may** be less suitable.



Answer: Circumstances in which Manual Elements are less suitable

Question 12:

Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz, IDEA and ACL to perform check

completeness of data and population that is used in either test of controls or substantive audit tests. Explain in detail stating all the relevant points.

 **Answer:** Data Analytics

Question 13:

A company functions in an automated environment. Discuss in what areas data analytics can be useful for auditor of the company.

 **Answer:** Data Analytics.

Question 14:

Explain the meaning of internal financial controls as per the Companies Act, 2013. Also explain its objectives.

 **Answer:** Meaning and Objectives of Internal Financial Controls.

Question 15:

Explain the meaning of Internal Financial Controls clearly stating reporting requirement (with reference to audit) on adequacy of internal financial controls. Also discuss about its (reporting requirement on adequacy of internal financial controls) applicability on various types of Companies.

 **Answer:** Meaning of Internal Financial Control + Applicability of reporting reg of IFC

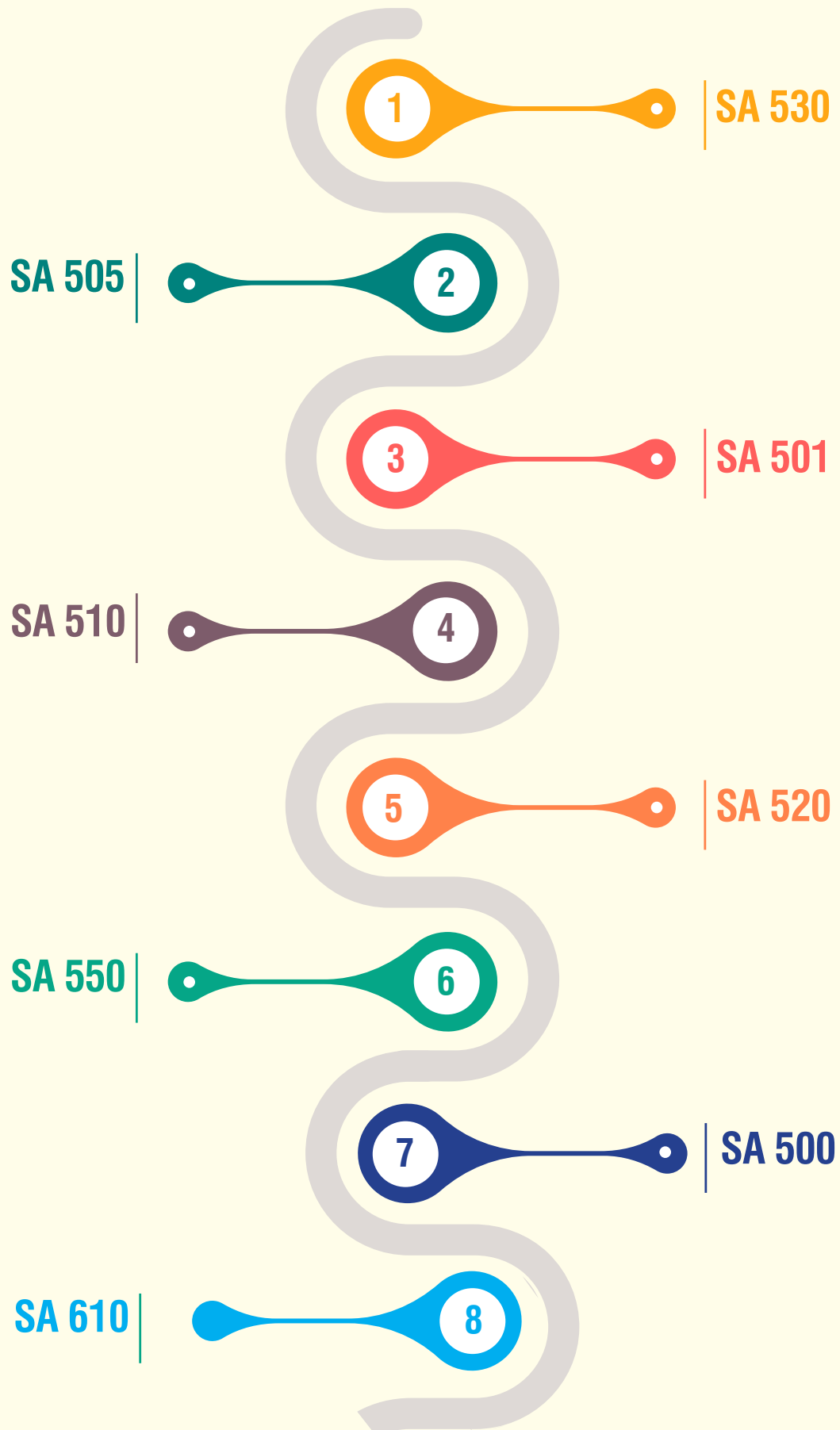
Question 16:

Foreceful Limited is a company dealing In mobile spare parts and having its showrooms in almost all the states in the country. For FY 2022-23, the company transferred its accounts from manual to computerized system (SAP). PQR & Co., Chartered Accountants have specialization in the system audit and have been appointed as the system auditor. PQR & Co., at the end of the audit concludes that there are certain findings or exceptions in IT environment and IT controls of the company which needs to be assessed and reported. Mention those points of consideration

 **Answer:** Assess and report Audit Findings in audit in Automated Environment.

CHAPTER 4

AUDIT EVIDENCE



**Question 1:**

What is the meaning of Sampling? Also discuss the methods of Sampling. Explain in the light of SA 530 "Audit Sampling".

 **Answer:** Refer Q.no

Question 2:

With reference to Standard on Auditing 530, state the requirements relating to audit sampling, sample design, sample size and selection of items for testing.

 **Answer:** Refer Q.no 9

Question 3:

While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind?

 **Answer:** Refer Q.no 5

Question 4:

Write short notes on the following:

- Advantages of Statistical sampling in Auditing.
- Stratified sampling

 **Answer:** Statistical and stratified

Question 5:

What precautions should be taken by the auditor while applying test check techniques?

 **Answer:** Precautions

Question 6:

Explain the factors to be considered while determining the extent of checking on a sampling plan.

 **Answer:** SIA DT

Question 7:

Whatever maybe the approach, non-statistical or statistical sampling, the sample must be representative. Discuss non-statistical and statistical sampling approaches.

 **Answer:** Statistical and Non-Statistical Sampling.

Question 8:

There is a growing realisation that the traditional approach to audit is economically wasteful because all efforts are directed to check all transactions without exception. Explain.

 **Answer:**

Limitations of Traditional Approach:

- There is a growing realisation that the traditional approach to audit is economically wasteful because all efforts are directed to check all transactions without exception.
- Traditional Approach: In traditional approach, more emphasis put on routine checking, which often is not necessary considering the time and the cost involved. In routine checking auditor considers detailed checking and vouching of all entries.
- With the passage of time, formal internal controls are being introduced in the management of affairs of organisations, due to which the possibilities of routine errors and frauds have greatly diminished and auditors often find extensive routine checking as nothing more than a ritual because it rarely reveals anything material.
- Risk Based approach: Audit approach, now a days, has undergone considerable changes and the extent of checking are undergoing a progressive change in favour of more attention towards the questions of principles and controls with a curtailment of non-consequential routine checking.

Question 9:

The extent of the checking to be undertaken is primarily a matter of judgment of the auditor. It is in the interest of the auditor that if he decides to form his opinion on the basis of a part checking, he should adopt standards and techniques which are widely followed. Explain.

 **Answer:**

Adopting Standards while using Sampling:

- Auditor is required to express his opinion on the true and fair view of financial statements. For this purpose, auditor is required to decide the extent of checking to be performed. The extent of checking to be undertaken is primarily a matter of judgment of the auditor, there is nothing statutorily stated anywhere which specifies what work is to be done, how it is to be done and to what extent.

- It is also not obligatory that the auditor must adopt the sampling technique.
- To ensure good and reasonable standard of work, auditor should adopt standards and techniques that can lead him to an informed professional opinion. On a consideration of this fact, it can be said that it is in the interest of the auditor that if he decides to form his opinion on the basis of a part checking, he should adopt standards and techniques which are widely followed and which have a recognised basis.
- Since statistical theory of sampling is based on a scientific law, it can be relied upon to a greater extent than any arbitrary technique which lacks in basis and acceptability.

Question 10:

Explain the sampling method which involves selection of a block (s) of contiguous items from within the population. Also give example.

 **Answer:** Block Selection

Question 11:

Sampling risk is the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk leads to erroneous conclusions. Explain in detail distinguishing it from non-sampling risk with examples.

 **Answer:** Sampling & Non-Sampling Risk

Question 12:

Explain the following terms with reference to Audit Sampling:

1. Stratification
2. Tolerable misstatement
3. Tolerable rate of deviation

 **Answer:** Define all 3

Question 13:

With reference to altering the sample size, state the following factors that the auditor may consider when determining the sample size for the Test of Details –

- i) The desired level of assurance
- ii) Stratification of the population.

 **Answer:**

Factors influencing Sample Size for Test of Details:

Desired Level of Assurance

Stratification of population

Question 14:

ABC Ltd, is a Large Company with huge purchase and sales transactions. Which sampling approach is recommended in such a company? Explain giving features of such sampling approach along with example.



Answer: Statistical Sampling + Advantages

Question 15:

The approach to audit and extent of checking are undergoing a progressive change in favour of more attention towards the questions of principle and controls with a curtailment of non-consequential routine checking. Discuss the given statement.



Answer: Traditional sampling vs risk based

Question 16:

Random selection ensures that all items in the population or within each stratum have a known chance of selection. Random sampling includes two very popular methods. Explain.



Answer: Random Sampling

Question 17:

XYZ Ltd. Is engaged in trading of electronic goods and having huge accounts receivables. For analyzing the whole accounts receivables, the auditor wanted to use sampling technique. In considering the characteristics of the population from which sample will be draw, the auditor determines that stratification or value weighted selection technique is appropriate. SA 530 provides guidance to the auditor on use of stratification & value weighted sampling techniques. Advice the auditor.



Answer: stratification & value weighted sampling

Question 18:

The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be. Explain stating the examples of factors that the auditor may consider when determining the sample size for tests of controls.



Answer: Examples of factors determining the sample size for TOC

Question 19:

The auditor shall evaluate the results of the sample and whether the use of sample has provided a reasonable basis for conclusions about the population that has been tested.

Explain.



Answer: Evaluation

Question 20:

The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment. When circumstances are similar, the effect on sample size of factors will be similar regardless of whether a statistical or non-statistical approach is chosen.

Explain stating the examples of factors that the auditor may consider when determining the sample size for TOC



Answer: Examples of factors determining the sample size for TOC

Question 21:

The extent of the checking to be undertaken is primarily a matter of judgment of the auditor.

It is in the interest of the auditor that if he decides to form his opinion on the basis of a part checking, he should adopt standards and techniques which are widely followed.

Explain



Answer: Why Sampling

Question 22:

The auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement. Explain



Answer: Projection

Question 23:

An auditor, while conducting audit of an entity, has selected samples based upon his personal experience and knowledge. Later on, it turns out that selected samples were not representative and it has led to faulty selection of samples. The auditor contends that samples were selected based upon his personal experience and knowledge. Can auditor escape from his responsibility in this regard?

**Question 1:**

Write short notes on: External Confirmations in Audit

 **Answer:** Definition

Question 2:

M Z. Who is appointed as an auditor of Elite co .Ltd wants to use confirmation request as audit evidence during the course of audit. What are the factors to be considered by Mr. Z when designing a confirmation request? Also state the effect of using positive external confirmation request by M.Z

 **Answer:** Positive confirmation

Question 3:

The management of SLTd. Request you not to seek confirmation from its debtor. As the auditor of S LTD., What can be appropriate response?

OR

Never Permit Limited refused to allow you to get direct confirmation of the outstanding balances of trade receivables. You want to ensure on grounds of materiality that atleast outstanding Above a threshold limits to be to be confirmed and reconciliation is to be carried out before Finalizing audit. If the company does not relent, how will you respond.

 **Answer:** PIE

Question 4:

During the financial year 2022-23, the auditor of Healthy and Wealthy Limited asked a Trade Receivable to respond directly to the auditor whether or not the amount they were required to pay to Healthy and Wealthy Limited was ₹ ,23,000. That trade receivable confirmed to the auditor of Healthy and Wealthy Limited, that they were required to pay an amount of ₹ ,23,000 to Healthy and Wealthy Limited. State and explain the type of Confirmation Request as required by the auditor.

 **Answer:** Positive confirmation

Question 5:

CA Jignesh Desai is in midst of audit of a company. The company is fairly large one and has a well -functioning internal audit department. While considering sending out external confirmation requests to trade receivables outstanding as on date of financial statements, he has delegated the process of choosing trade receivables, designing requests and receiving responses from customers to internal audit department. The responses are also received on the mail id of internal audit department. Is approach of CA Jignesh Desai proper?

**Answer:**

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

- Determining the information to be confirmed or requested;
- Selecting the appropriate confirming party;
- Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
- Sending the requests, including follow-up requests when applicable, to the confirming party.
- In the given case, it appears that external auditor has delegated entire work of sending out external confirmation requests to internal audit department over which he has no control. Further, responses to external confirmation requests are received on mail id of internal audit department. All these acts are not in line with requirements under SA 505.

Question 6:

On reviewing schedule of trade receivables of a company, CA Mary finds that in respect of one outstanding balance, the CFO of the company is not willing to allow her to send external confirmation request due to the reason that sending out such request could spoil precariously placed business relations with the customer. On further inquiry, she finds out that there is a dispute going on with the company relating to some quality issues of goods sent to the customer and matter is sub judice. Efforts are also being made by the company for out of court settlement. Reviewing correspondence with the customer, she finds that issue is near resolution and no fraud risk factors exist. Is unwillingness of CFO justifiable?

**Answer:**

- In terms of requirements of SA 505, if management refuses to allow the auditor to send a confirmation request, the auditor shall inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness.

- A common reason advanced is the existence of a legal dispute or ongoing negotiation with the intended confirming party, the resolution of which may be affected by an untimely confirmation request. Further, fraud risk factors do not exist. Keeping in view, unwillingness of CFO is justifiable.

Question 7:

The auditor of H LTD. Wanted to obtain a confirmation from its creditors. But the management made a request to the auditor not to seek Confirmation from certain creditors citing disputes. Can the auditor of H LTD. Accede to this Request? OR

The accountant of C LTD, Has requested you, not to send balance confirmation to a particular group of trade receivable since the said balances are under dispute and matters is pending in the court. As a statutory Auditor, how would you deal?

 **Answer:** PIE

Question 8:

During the course of audit of Star Limited the auditor received some of the confirmation of the balances of trade payables outstanding in the balance sheet through external confirmation by negative confirmation request. In the list of trade payables, there are number of trade payables of small balances except one, old outstanding of 5 Lacs, of whom, no confirmation on the credit balance received. Comment with respect to Standard of Auditing.

 **Answer:** Where negative confirmations can be used

Question 9:

M/s ABC & Co., LLP are appointed auditors of Sharp Company Ltd. for the year ended 31st March, 2019. As part of the audit process, they want to use confirmation procedures as audit evidence during the course of audit. In view of the fact that positive confirmations are not responded favorably, the firm also intends to use negative confirmation requests. What are the factors to be considered for the same?

 **Answer:** Where negative confirmations can be used

Question 10:

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests including sending the requests, including follow-up requests when applicable, to the confirming party. Explain the other points as to when using external confirmation procedures, the auditor would be required to maintain control over external confirmation requests.

 **Answer:** Controls over preparations

SA 501

AUDIT EVIDENCE - SPECIFIC
CONSIDERATIONS FOR
SELECTED ITEMS

Question 1:

JK Exports Ltd is a manufacturer exporter having its own production capacity and also gets the job work done through various job workers. The auditor of JK Exports Ltd. Considers that inventory held with job workers is material to the financial statements.

Required :Suggest the audit procedures in the given case

 **Answer:** Case 4


Question 2:

Parag India Ltd is a manufacturer of various FMCG (fast moving consumable goods) range of products. The company is having several cases of litigation pending in courts. The auditor wanted to identify litigation and claims resulting to risk of material misstatements.

 **Answer:** Inq IMP

Question 3:

The audit procedures performed so far by auditor of a company indicate that there is a possibility that company has not disclosed all material litigation cases involving the company. Does such a situation warrant direct communication by auditor with external lawyer of the company?

 **Answer:**

As per requirements of SA-50, If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, seek direct communication with the entity's external legal counsel. The above situation warrants direct communication with company's standing external lawyer.

Question 4:

LMN Ltd. supplies navy uniforms across the country. The company has 4 warehouses at different locations throughout the India and 5 warehouses at the borders. The major stocks are generally supplied from the borders. LMN Ltd. appointed M/S OPQ & Co. to

conduct its audit for the financial year 209-20. Mr. O partner of M/S OPQ & Co., attended all the physical inventory counting conducted throughout the India but could not attend the same at borders due to some unavoidable reason.

- You are required to advise M/s OPQ & Co..
- How sufficient appropriate audit evidence regarding the existence and condition of inventory may be obtained?
- How an auditor is supposed to deal when attendance at physical inventory counting is impracticable?

Question 5:

Crush Ltd. is a dealer in fast moving consumer goods, The Company has warehouses throughout the country where the stocks are stored. The Auditor of the Company normally conduct physical verification of stocks along with the Management at the end of the financial year. However, the Auditor could not be physically present during stock-tacking at two places on account of certain disturbances in the region. In the light of the above facts. How sufficient appropriate audit evidence regarding the condition and existence of inventory may be obtained?

How an Auditor is supposed to deal when attendance at physical inventory counting is impracticable?



Answer:

(A) Case (B) Case 3

Question 6:

You are the auditor of Easy Communications Ltd. for the year 208-9. The inventory as at the end of the year i.e. 3.3.9 was RS 2.25 crores. Due to unavoidable circumstances, you could not be present at the time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order?



Answer: Case 2

Question 7:

"If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence of inventory by attending the physical inventory counting unless impracticable." Disuses.



Answer: Case 3

Question 8:

Your firm has been appointed as the statutory auditors of GBM Private Limited for the financial year 208-9. While verification of company's inventories as on 31st March 209, you found that the significant amount of inventories belonging to the company are held by other parties. However, the company has kept all the records of the inventories maintained by other parties. What is your duty as an auditor in order to ensure that third parties are not such with whom the stock should not be held and the stock as disclosed in company's records actually belongs to them?

 **Answer:** Case 4

Question 9:

Moon Ltd. is a dealer in electronic appliances. The Company has a centralised warehouse at the outskirts of Mumbai. The Auditors of the company M/s. IK Associates normally attend the physical verification of stocks carried out by the Management at the end of the financial year. However, on account of certain disturbances in the region, the physical inventory counting could not be carried out at the year end. The stock taking is decided to be done by management at some other date subsequently, after a month. Enumerate the audit procedures to be considered by M/s. JK Associates, if physical inventory counting is conducted at a date other than the date of the financial statements with reference to the relevant Standard on Auditing.

 **Answer:** Case 2

Question 10:

GHK Associates, Chartered Accountants, conducting the audit of PBS Ltd., a listed company for the year ended 31.03.2023 is concerned with the presentation and disclosure of segment information included in Company's Annual Report. GHK Associates want to ensure that methods adopted by management for determining segment information have resulted in disclosure in accordance with the applicable financial reporting framework. Guide GHK Associates with Examples of Matters that may be relevant when obtaining an understanding of the methods used by the management with reference to the relevant Standards on Auditing

 **Answer:** Refer Segment Reporting

Question 11:

The Engagement Partner of the audit team of High Inventory Limited assessed that the inventory is material with respect to the audit of the financial statement for the current

period. Upon inquiring with the management, the Engagement Partner identified that the management will be performing an annual physical inventory count at all the warehouses where the entity stores and maintains its inventory. Moreover, management confirmed in its written representation that they will be performing a 100% physical count of inventory for the current period. As a result, the engagement Partner decided not to perform any physical count of inventory as will be a duplication of the work. Moreover, he decided that the written representation from management stating "the inventory exists and is in appropriate physical condition" will be sufficient and appropriate with respect to audit evidence to conclude that the inventory balance in the financial statement is free from any material misstatement.



Answer: WR not SAAE

Inventory counting should be performed

Question 12:

CA Prabhjot has planned observing the physical count of inventories at the plant of a company located in remote area in the state of Uttarakhand as part of a statutory audit exercise as at close of year ending 31st March 2023. He has already informed the management of his intention to reach the plant site by evening of 29th March 2023. He plans to inspect inventories, observe the counting process and perform test counts among other matters. However, an agitation in Himalayan hills has started on 28th March 2023 for the promulgation of a strict law relating to the conversion of agricultural land for commercial use. Many civil society groups are participating in the agitation. NH-7 leading to the plant site is blocked by protestors. The plant is not accessible through any other mode. The blockade is lifted after one month when state government announced the formation of a committee to look into protestors' demands.

Does the above case highlight to a situation of "impracticability of attendance" at inventory counting in terms of requirements of SA 50?



Answer:

SA 50 states that if the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date and perform audit procedures on intervening transactions. Therefore, the audit should attend to the physical inventory count after the blockade is lifted and perform audit procedures on intervening transactions.

Question 13:

On reviewing legal expenses account of Zed Ltd., CA. Sunitha, auditor of company, finds that legal fees amounting to Rs. 0 lac was paid to B. George, a reputed lawyer, during the year 2022- 23. On inquiry with management regarding the purpose of such expenditure, evasive reply was received from management stating that a lot of work is performed by the said lawyer on behalf of the company. However, no specific details were provided. She finds it proper to correspond directly with the lawyer. She obtains the address and mail id of the lawyer from his professional services bill. She shoots off an inquiry letter asking for the nature and status of litigation claims against the company on her letterhead. Is her approach proper? Irrespective of the merits of the approach followed by her, what she is trying to achieve by corresponding with lawyer of the company?

**Answer:**

SA 50 states that when audit procedures performed indicate that material litigation or claims may exist, the auditor shall seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of inquiry prepared by management and sent by the auditor, requesting The entity's external legal counsel to communicate directly with the auditor. Therefore, her approach in communicating with an external lawyer is wrong. She has to make management aware of her intention to communicate directly with the lawyer. The letter of enquiry has to be prepared by management and sent by her.

Question 14:

On going through financial statements and records of "TS Ltd., during the course of statutory audit, CA Tanmaya finds that substantial inventories of the company consisting of mast lighting poles remain with "Super Industries* for certain finishing works. While planning audit procedures, he had planned about seeking confirmation from "Super Industries* regarding existence and condition of such mast lighting poles belonging to TS Ltd. lying with them as on 3s March, 2023.

However, the premises of "Super Industries* were raided by DGGI officials (Director General of GST Intelligence) in connection with the busting of a fake billing scam. The proprietor of the firm was arrested in November 2022 and came out on bail in the month of March 2023. The details of proprietor and his firm were flashed prominently in local newspapers of the city where company is located. CA. Tanmaya also belongs to the same place. Discuss how he should proceed in the above matter as auditor of TS Ltd.

**Answer:**

In the given crse, the integrity of the third party appears to be doubtful in view of DGGI raids and his possible involvement in a fake billing scam. He has already been behind bars.

Keeping in view above, besides obtaining confirmation from such party, he may attend a third party's physical counting or ask some other auditor to attend physical counting as on reporting date, depending upon practical considerations. He can also inspect the record of goods sent and received back from such party by tracing it to challans, e-ways bills etc. and correlate the above information.

Question 15:

TRM Ltd. is a company engaged in manufacture of beauty products. It has hair care segment, skin care segment and kids' beauty products. The auditor wants to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework. Suggest the audit procedures in the given case.



Answer:

Audit procedures to obtain evidences regarding presentation and disclosure of segment information

Question 16:

SPR Ltd. has been into the media business since 990. During the FY 2023-24 many notices were received by the company for hurting public sentiments and financial claims were filed against the company. As an auditor of the company, you requested the management for arranging the meeting with company's external legal counsel. Management is of the view that such meetings are necessary in some certain circumstances only. Can you list down those certain circumstances?



Answer:

Circumstances requiring meeting with External Legal Counsel:

In certain circumstances, the auditor also may judge it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the litigation or claims. This may be the case, for example, where:

- (i) The auditor determines that the matter is a significant risk.
- (ii) The matter is complex.
- (iii) There is disagreement between management and the entity's external legal counsel. Ordinarily, such meetings require management's permission and are held with management in attendance. Ordinarily, such meetings require management's permission and are held with a representative of management in attendance.

**Question 1:**

You have been appointed as the auditor of good Health Ltd. for 204-205 which was audited by C A Trustworthy in 203-4. As the Auditor of the company state the steps you would take to ensure that the closing Balances of 203-4 have been brought to account in 204-5. As Opening balances and the Opening Balances do not contain misstatements.

 **Answer:** Refer Q. no 2

Question 2:

M/s Pankaj & Associates, Chartered Accountants, have been appointed as an auditor of ABC Limited. CA Pankaj did not apply any audit procedures regarding opening balances. He argued that since financial statements were audited by the predecessor auditor therefore he is not required to verify them. Is CA Pankaj correct in his approach

 **Answer:** Refer Q. no 2

Question 3:

M/s PQR and associates are the statutory auditors of TUV Ltd. for the FY 2022-23-. They have been appointed as statutory auditors of TUV Ltd. for the first time. What is the objective of the engagement partner in terms of SA 50?

 **Answer:** Refer objectives

Question 5:

An auditor is appointed for the first time for audit of accounts of an entity. The accounts of previous year were unaudited. He is unable to obtain sufficient appropriate audit evidence regarding the opening balances. What is his responsibility in this regard

 **Answer:** Reporting Case 3

Question 6:

What are initial Audit Engagements.?

 **Answer:** Refer Q. no 1

Question 7:

In an initial audit engagement the auditor will have to satisfy about the sufficiency and appropriateness of opening balance to ensure that may are free from misstatements, which may materially affects the current FS .Lay down the audit procedure, you will follow in cases

- (i) when the FS are audited for the preceding period by another auditor; and
- (ii) when FS are audited for the first time.

 **Answer:** NOTE AND 2

Question 8:

If , after performing the procedure, you are not satisfied about the correctness of Opening balances ; what approach you will adopt in drafting your audit report .

 **Answer:** Refer Q. no 4

Question 9:

In an initial audit engagement the auditor will have to satisfy about the sufficiency and appropriateness of ' Opening balances' to ensure that they free from misstatements, which may materially affect the current financial statements . Lay down the audit procedure, you will follow, when financial statements are audited for the first time. If, after performing the procedure , you are not satisfied about the correctness of ' Opening Balances' what approach you will adopt in drafting your report.?

 **Answer:** Refer Q. no 2

Question 10:

CA. Jack a recently qualified practicing Chartered Accountant got his first audit assignment of Futura (P) L TD. For the financial year 2024-25. He obtained all the relavant appropriate audit evidence for the items related to statement of profit and Loss. However, while auditing the Balance Sheet items, CA. Jack left out obtaining appropriate audit evidence, say, confirmations, from the outstanding Accounts Receivable amounting Rs 50 Lakhs, continued as it is from the last year , on the affirmation of the management that there is not receipts and further credits during the year . CA Jack therefore, excluded from the audit programme , the audit of the accounts receivable on the understanding that it pertains to the preceding year which was already audited by predecessor auditor, Comment.?

 **Answer:** Refer Q. no 2

Question 11:

Auditors of M/s Tender India (P.) Ltd. were changed for the accounting year 2023-24. The closing inventory of the company as on 3.3.2023 amounting to ₹ 00 lakhs continued as it is and became A closing inventory as on 3.3.2024. The auditors of the company propose to exclude from their audit programme the audit of closing inventory of ₹ 00 lakhs on the understanding that it pertains to the preceding year which was audited by another auditor.



Answer:

Verification of Inventory:

The contention of the management that the inventory has not undergone any change cannot be accepted, it forms part of normal duties of auditor to ensure that the figures on which he is expressing opinion are correct and properly valued. Moreover, it is also quite likely that the inventory lying as it is might have deteriorated and the same need to be examined. The auditor is advised not to exclude the audit of closing inventory from his audit programme.

**Question 1:**

Define Analytical Procedures

 **Answer:** Definition

Question 2:

What are the factors that determine the **extent of reliance** that the auditor places on results of analytical procedures? Explain with reference to SA-520 on “Analytical procedures”.

 **Answer:** NSC


Question 3:

The statutory auditor of MNO Ltd., CA Kishore identifies certain **inconsistencies** while applying analytical procedures to the financial and non financial data of MNO Ltd. What should CA Kishore do in this case with reference to SA 520 on “Analytical Procedures”?

 **Answer:** Investigation

Question 4:

While applying the Substantive Analytical Procedures what techniques can be used by the statutory auditor of a company to obtain sufficient and appropriate audit evidence?

 **Answer:** Techniques

Question 5:

Explain how a statutory auditor of a company can apply analytical procedures at the planning phase of audit.

 **Answer:** Ap at planning phase

Question 6:

Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts. An individual balance sheet account is difficult to predict on its own, but its relationship to another account is often more predictable (e.g., the

trade receivables balance related to sales). Explain stating the techniques available as substantive analytical procedures.



Answer: Techniques

Question 7:

The **reliability of data** is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, explain the factors that are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures.



Answer: NSC

Question 8:

Routine checks cannot be depended upon to disclose all the mistakes or manipulation that may exist in accounts, certain other procedures also have to be applied like trend and ratio analysis. Analyse and Explain stating clearly the meaning of analytical procedures.



Answer: techniques

Question 9:

If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, explain how would the auditor investigate such differences.



Answer: Inv

Question 10:

Explain the commonly used technique in the comparison of current data with the prior period balance or with a trend in two or more prior period balances.



Answer: (Trend Analysis only)

Question 11:

When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall determine the **suitability of particular substantive** analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions. Explain the other relevant points in this context.



Answer: Suitability

Question 12:

An auditor of a company intends to apply analytical procedures for verifying revenue. Discuss any two analytical procedures which may be performed by auditor relating to revenues



Answer: Methods (all 4)

**Question 1:**

Elaborate how the Statutory Auditor can verify the existence of related parties for the purpose of reporting under Accounting Standard 8.

 **Answer:** SIR RILS TOPIC

Question 2:

Many related party transactions are in the normal course of business. However, the nature of related party relationships and transactions may, in some circumstances, give rise to **higher risks of material misstatement of the financial** statements than transactions with unrelated parties. Give few examples of such areas.

OR

The nature of related party relationships and transactions may, in some circumstances, give rise to **higher risks of material misstatement of the financial** statements than transactions with unrelated parties. Explain with the help of at least three examples.

 **Answer:**

Nature of Related Party Relationships & Transactions:

Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties.

Question 3:

How can an auditor verify the **existence of related party** relationships and transactions?

OR

The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions or balances.

During the audit, the auditor should maintain alertness for related party information while reviewing records and documents. He may inspect the records or documents that may provide information about related party relationships and transactions. Explain in detail with examples.



Answer:

Inspection of Records or documents to obtain information about related party relationship and transactions.

Question 6:

P Ltd. is a company from a business group "ABCD" and is engaged in trading of garments. The promoters of the company are promoters and directors of some other group companies also. You have been appointed as an auditor of P Ltd. P Ltd. has entered into various inter company transactions (within group companies) during the year which are outside its normal course of business. What will be **your duties as an auditor in relation to those transactions?**



Answer: Duties of Auditor in identifying Significant Related Party Transactions

**Question 1:**

The auditor of JPJ Limited explained to the audit team members about the relationship between Audit Evidence and Opinion of Auditor. Explain what relationship exists between Audit Evidence and Opinion of Auditor.


 **Answer:**

There exists a **very important relationship between** Audit Evidence and opinion of the Auditor. While conducting an audit of a company, the auditor obtains audit evidence and with the help of that audit evidence obtained, the auditor forms an audit opinion on the financial statements of that company.

Question 2:

An audit team member of the auditors of Genuine Limited was of the view that audit evidence obtained internally from within the company under audit are more appropriate from the reliability point of view as compared to audit evidence obtained externally as evidence obtained internally are obtained from the company whose audit is being conducted.

Give your views as auditor of Genuine Limited.

 **Answer:**

Audit evidence obtained **externally is more appropriate from reliability** point of view as compared to those which are obtained internally. The reason that audit evidence obtained externally is more appropriate from the point of view of reliability is that **there is a very low risk that they can be altered or changed.**

Question 3:

There was a Partnership Firm of Chartered Accountants VM and Associates. Mr. M, one of the partners of VM and Associates, while explaining to his audit team members about importance of audit evidence informed them about sufficiency and appropriateness of audit evidence. Mr. A, one of the members of audit team of VM and Associates was of the view that sufficiency of audit evidence means simplicity of audit evidence and

appropriateness of audit evidence means ease of obtaining audit evidence. Explain whether sufficiency and appropriateness of audit evidence mean simplicity and ease of obtaining audit evidence.

 **Answer:**

Sufficiency and Appropriateness of audit evidence does not mean simplicity and ease of obtaining audit evidence rather sufficiency of audit evidence is related to the **quantity** of audit evidence and appropriateness of audit evidence is related to **quality** of audit evidence.

Question 4:


While auditing the books of accounts of AB Limited for the financial year 2022-23, the auditor of the company used an audit procedure according to **which complete documents and records of the company were checked** in detail in order to obtain audit evidence. Explain the audit procedure used by the auditor of Extremely Distinct Limited.

 **Answer:**

The audit procedure used by auditor of AB Limited is known as **Inspection** because inspection is an audit procedure in which complete documents and records of a company are checked in detail for the purpose of obtaining audit evidence.

Question 5:

On perusal of financial statements of a company, auditor of company finds that notes to accounts contain aging of trade payables in accordance with requirements of Schedule III of Companies Act, 203. The accountant of company is responsible for ensuring proper aging of trade payables included in notes to accounts. The auditor wants to verify whether aging of trade payables made in financial statements is proper or not. Identify what he is trying to do.

 **Answer:**

The auditor is verifying aging of trade payables. He is **“reperforming”** the control which was mandated by the management.

Question 6:

CA Sooryagaythri is conducting audit of an entity. During the course of audit, she has **made oral inquiries** from head accountant regarding preparing of bank reconciliations every month as has been laid down by the management. Discuss, whether **inquiries** as stated above would provide satisfaction to her that **controls** in respect of **preparing bank reconciliations** statements have operated effectively.

 **Answer:**

Inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the **operating effectiveness** of controls. Mere inquiry does not lead to obtaining of sufficient appropriate audit evidence. In the instant case, CA Sooryagaythri should verify whether proper bank reconciliations have been carried out monthly as stipulated by management. Only then, she can be **satisfied about operating** effectiveness of controls in this regard.

Question 7:

A company has stipulated a control that reconciliations of its records showing quantitative details of its property, plant and equipment are carried out at **regular intervals** with physical verification of such items. The auditor has found that such reconciliations are being carried out as stipulated. Discuss, whether above factor, increases **reliability** of other **internally generated** evidence within the company relating to existence of such items.

Question 8:

Maintaining accounts using accounting software having a feature of recording audit trail can be useful for an auditor. Discuss some of the advantages for such a feature in accounting software for auditors.

 **Answer:** Advantages of Using Audit Trail feature in Accounting Software**Question 9:**

Auditing is a logical process. An audit is called upon to assess the actualities of the situation, review the statements of account and give an expert opinion about the truth and fairness of such account. This he cannot do unless he has examined the financial statements objectively. He needs evidence to obtain information for arriving at his judgement. Discuss explaining clearly the detailed meaning of audit evidence.

 **Answer:** Meaning of Audit Evidence**Question 10:** Name the assertion for the following audit procedures:

- (1) Year-end inventory verification.
- (2) Depreciation has been properly charged on all assets
- (3) The title deeds of the lands disclosed in the balance sheet are held in the name of the company
- (4) All liabilities are properly recorded in the financial statements
- (5) Related party transaction are shown properly.

 **Answer:**

Assertions for Audit Procedures :

(i) Year-end inventory verification	Existence
(ii) Depreciation has been properly charged on all assets	Valuation
(iii) Title deed of lands disclosed in the Balance Sheet are held in the name of the Company	Rights & Obligations
(iv) All liabilities are properly recorded in the financial statements	Completeness
(v) Related party transactions are shown properly	Presentation & disclosure

Question 11:

Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the **risks of misstatement** and also by the quality of such audit evidence. Obtaining more audit evidence, however, may not compensate for its poor quality. Explain also stating the factors affecting auditor's judgement as to sufficiency of audit evidence.

 **Answer:** Sufficiency of Audit Evidence**Question 12:**

In the course of audit of SMP Limited for the financial year ended 31st March, 2024 you have observed as an auditor that the company has provided sum of ₹ 20 Lakhs in the books of account as Gratuity payable to employees based on certificate obtained from an actuary. Give your comments with reference to the Standard on Auditing.

 **Answer:** Evaluation of appropriateness of work of Management's Expert:**Question 13:**

What are the obvious assertions in the following items appearing in the Financial Statements?

(i) Statement of Profit and Loss

Travelling Expenditure ₹ 50,000

(ii) Balance Sheet

Trade receivable ₹ 2,00,000

 **Answer:****Travelling Expenditure:**

- Expenditure has been incurred for the purpose of travelling
- Travelling has been undertaken during the year under audit.
- Total expenditure incurred was ₹ 50,000 during the year.
- It is classified as revenue expenditure and charged to statement Profit and Loss.

Trade Receivable

- These include all sales transition occurred during the year.
- These have been recorded properly and occurred during the year.
- These constitute assets of the entity.
- These have been shown at proper value, i.e after showing the deduction on account of provision for bad and doubtful debts.

Question 14:

“The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain point or periods in time”. Explain.

 **Answer:**

Factors affecting nature and timing of Audit Procedure:

- Nature affecting nature and timing of Audit Procedure:
 - (a) Availability of audit evidence in electronic form only.
 - (b) Availability of audit evidence at certain points / periods in time.

Example:

Source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce, or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference.

- Certain electronic information may not be retrievable after a specified period of time.

Example:

If files are changed and if backup files do not exist. Accordingly, the auditor may find it necessary as a result of an entity's data retention policies to request retention of some information for the auditor's review or to perform audit procedures at a time when the information is available.

Question 15:

CA K audited the books of account of E Ltd. for the financial year 2023-24. The auditor used an audit procedure accounting to which **all the documents and records maintained by the company were checked in detail** to obtain audit evidence. Explain the audit procedure used by the auditor and its reliability.

 **Answer:**

Audit Procedure: Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an

asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.

Question 16:

The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source, its nature and the circumstances under which it is obtained. Explain and elucidate the guiding principles which are useful in assessing the reliability of audit evidence.

 **Answer:** Importance of inquiry

Question 17:

While conducting the audit of Pummy Limited the statutory auditors collected written representations from the Management. The audit was finalized in addition to other audit procedures but, without making any inquiries, as the statutory auditors, were short of time. In the light of this information, state the importance of inquiry as one of the methods of collecting Audit Evidence.

 **Answer:** Reliability of audit Evidence.

Question 18:

Manya Textiles is manufacturer of bed sheets, curtain cloths, other handloom items etc. having its plant at Panipat. Auditors SJ & Co. is having doubts over the reliability of information given to him as audit evidence. Also, auditors observed inconsistent information while conducting audit. Guide the auditor as to how they should proceed in the given situation.

 **Answer:** Inconsistency in or Doubts over Reliability of Audit Evidence

SA 610 USING THE WORK OF INTERNAL AUDITORS

Question 1:

A company has stipulated a control through its automated software that interest @ 2% p.a. is charged in case of those customers who fail to make payment within a month of a sales transaction. The internal auditor of the company finds that during a certain period, software has failed to charge interest due to certain technical glitches. Does reporting of above situation fall in domain of internal auditor's work?

 **Answer:** Scope of Internal Auditor's Work

Question 2:

CA Sukesh is external auditor of an entity. He comes to know that there is also an internal auditor in the entity. However, he finds that internal auditor is not reporting directly to higher echelons of the management. CA Sukesh has also assessed risk of material misstatement to be high. Discuss, whether it would be proper for CA Sukesh to rely upon work of internal auditor extensively in above situation.

 **Answer:** Relying upon work of Internal Auditors

Question 3:

Moon Ltd. of which you are the statutory auditor, have an internal audit being conducted by outside agency. State the factors that weigh considerations in opting to make use of direct assistance of the internal auditors for the purpose of statutory audit.

 **Answer:** Using direct assistance of internal auditor

Question 4:

CA X, a practicing CA has been appointed as an internal auditor of Textile Ltd. He conducted the physical verification of the inventory at the year-end and handed over the report of such verification to CA Y, the statutory auditor of the Company, for his view and reporting. Can CA Y rely on such report?

 **Answer:** Evaluation of Internal Audit function so as to rely on work of Internal Auditor

Question 5:

Saburi Textile Ltd. is an established player in the textile manufacturing sector. It has developed strong internal controls in almost every area. It has appointed you as an Internal Audit team head. Internal audit has a very strong relation with internal control of the company. Internal Audit analyses the effectiveness with which the internal control of the company is operating and also makes suggestions for improvement in that internal control. Explain stating clearly activities relating to Internal Control

 **Answer:** Objective and Scope of Internal Audit Function as per SA 60 w.r.t. Internal Control

Question 6:

Explain how Internal Financial Control and internal controls over financial reporting differ?

 **Answer:** Difference between IFC and ICOFR

Question 7:

An auditor, while conducting audit of an entity, has selected samples based upon his personal experience and knowledge. Later on, it turns out that selected samples were not representative and it has led to faulty selection of samples. The auditor contends that samples were selected based upon his personal experience and knowledge. Can auditor escape from his responsibility in this regard?

 **Answer:**

Auditor's responsibility in relation to audit sampling:

- In the provided situation, the auditor has selected samples based upon his personal experience and knowledge. It, is a case of non-statistical sampling approach adopted by the auditor.
- Whatever may be the approach nonstatistical or statistical sampling, the sample must be representative. This means that it must be closely similar to the whole population although not necessarily exactly the same.
- The auditor cannot escape his responsibility in this regard.

Question 8:

What is the meaning of Sampling? Also discuss the methods of Sampling. Explain in the light of SA 530 "Audit Sampling".

 **Answer:**

Meaning of Audit Sampling:

"Audit Sampling" means the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of

selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Samples Selection methods:

1. **Random selection:** This method of sampling ensures that all items within a population stand an equal chance of selection by the use of random number tables or random number generators. The sampling units could be physical items, such as sales invoices or monetary units.
2. **Systematic selection:** The number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected.
3. **Monetary unit sampling:** It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.
4. **Haphazard selection:** Samples are selected without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability. Haphazard selection is not appropriate when using statistical sampling.
5. **Block selection:** It involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population.

6

AUDIT DOCUMENTATION

Question 1:

A new team member of the auditors of Extremely Vibrant Limited was of the view that Audit Documentation does not help in planning the audit of any company.

Explain whether Audit Documentation has any relation with regard to planning the audit of a company.



Answer:

Audit Documentation helps in planning the audit of a company in a proper manner and also helps in conducting the audit of that company in a more effective way.

Question 2:

While auditing the books of accounts of Very Careful Limited for the financial year 2020-21, a team member of the auditors of Very Careful Limited was of the view that with regard to audit of the company, no relation exists between Audit File and Audit Documentation. Explain the relationship between Audit File and Audit Documentation.



Answer:

Audit file may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

Question 3:

A director of Very Different Limited was of the view that Audit Documentation of a company is the property of that company. Comment on the contention of the director regarding the audit documentation of the company.



Answer:

Audit Documentation of a company is not the property of the company rather Audit Documentation is the property of Auditor of that company.

Question 4:

During the course of audit of a company, an issue arose relating to treatment of interest costs of company on its restructured loans taken from a bank. This important matter was discussed with CFO of the company and was properly resolved. Is it necessary for the auditor to include in its working papers?

 Answer:

The auditor shall document discussions of significant matters with **management**, those **charged with** governance, and others, including the nature of the **significant matters** discussed and **when** and with **whom** the discussions took place.

In the instant case, an important matter regarding treatment of interest costs of company on its restructured loans taken from a bank directly impacting profits of the company was discussed. Although issue was **resolved**, it is necessary to **document** the same by including **detail of** the person with **whom discussions** took place along with date.

Question 5:

CA Sonali Morarka has completed audit of a **listed company**. The audit report dated 15th July, 2022 has been issued. However, audit working papers including record of discussions with management, details of audit procedures performed to obtain audit evidence and conclusions reached by her have not been properly assembled.

More than **six months** have elapsed after **issue of audit report**. Subsequently, she has received a letter from regulator in connection with audit of the company requesting her to **share copy of audit file**.

The letter has woken up her from deep slumber. She hurriedly assembled audit file and inserted some more papers which were necessary. However, she put **current date** on these inserted papers and the copy of audit file was sent to regulator.

Discuss, the issues involved, in context of “audit documentation”.

 Answer:

An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more **than 60 days** after the date of the auditor’s report.

Further, preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the **quality of the audit and facilitates** the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor’s report is finalized. Documentation prepared **after the audit work** has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

In the given case, even after passage of more than six months, she has not assembled

audit file. Besides, she has put in some papers with **current** date which is not **permissible** at all. It shows that part of audit documentation has been **prepared afterwards** putting a question mark on quality of audit.

Question 6:

The form, content and extent of audit documentation depends upon **number of factors**. List out any four such factors.

 **Answer:** Refer to “Form, content and extent of audit documentation”

Question 7:

Discuss any two purposes of audit documentation.

 **Answer:** Refer to heading “Purpose of audit documentation”

Question 8:

Define audit documentation. Also give some examples.

 **Answer:**

Audit Documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (terms such as “working papers” or “work papers” are also sometimes used.) Refer – Examples of Audit Documentation

Question 9:

“Audit documentation **summary** may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits”. Explain.

 **Answer:** Refer Heading – Completion Memorandum or Audit Documentation Summary

Question 10:

What do you mean by **Audit** Documentation? Also explain **the nature and purpose** of audit documentation.

 **Answer:** Meaning of Audit Documentation: + Nature + Purpose

Question 11:

M/s Samar Amar & Associates are the statutory auditors of Ganga Ltd. for FY 2023-24. CA Samar is the engagement partner for such assignment. While discussing with the engagement team, CA Samar briefed his team that “the auditor shall **assemble** the audit documentation in an audit file and complete the administrative process of **assembling** the **final audit file** on

a timely basis after the date of the auditor's report. SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation." Explain.

 **Answer:** Assembly of Final Audit File

Question 12:

Judging the significance of a matter requires an objective analysis of the facts and circumstances. Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment. Explain with the help of examples.

 **Answer:**

Documentation of Significant Matters and Related Significant Professional Judgments

Question 13:

The working papers of the branch auditor are also the property of the Principal Auditor and the Management of the Company, as they have right to access them. State the relevant SA and comment

 **Answer:** Ownership of Working Papers

Question 14:

While documenting the nature, timing and extent of audit procedures performed in case of audit of PQR Ltd., explain the important matters its auditor should record.

 **Answer:**

Matters to be recorded while documenting NTE of Audit procedures performed:

In documenting the nature, timing and extent of audit procedures performed, the auditor of PQR Ltd. shall record:

- (i) The identifying characteristics of the specific items or matters tested;
- (ii) Who performed the audit work and the date such work was completed; and
- (iii) Who reviewed the audit work performed and the date and extent of such review.

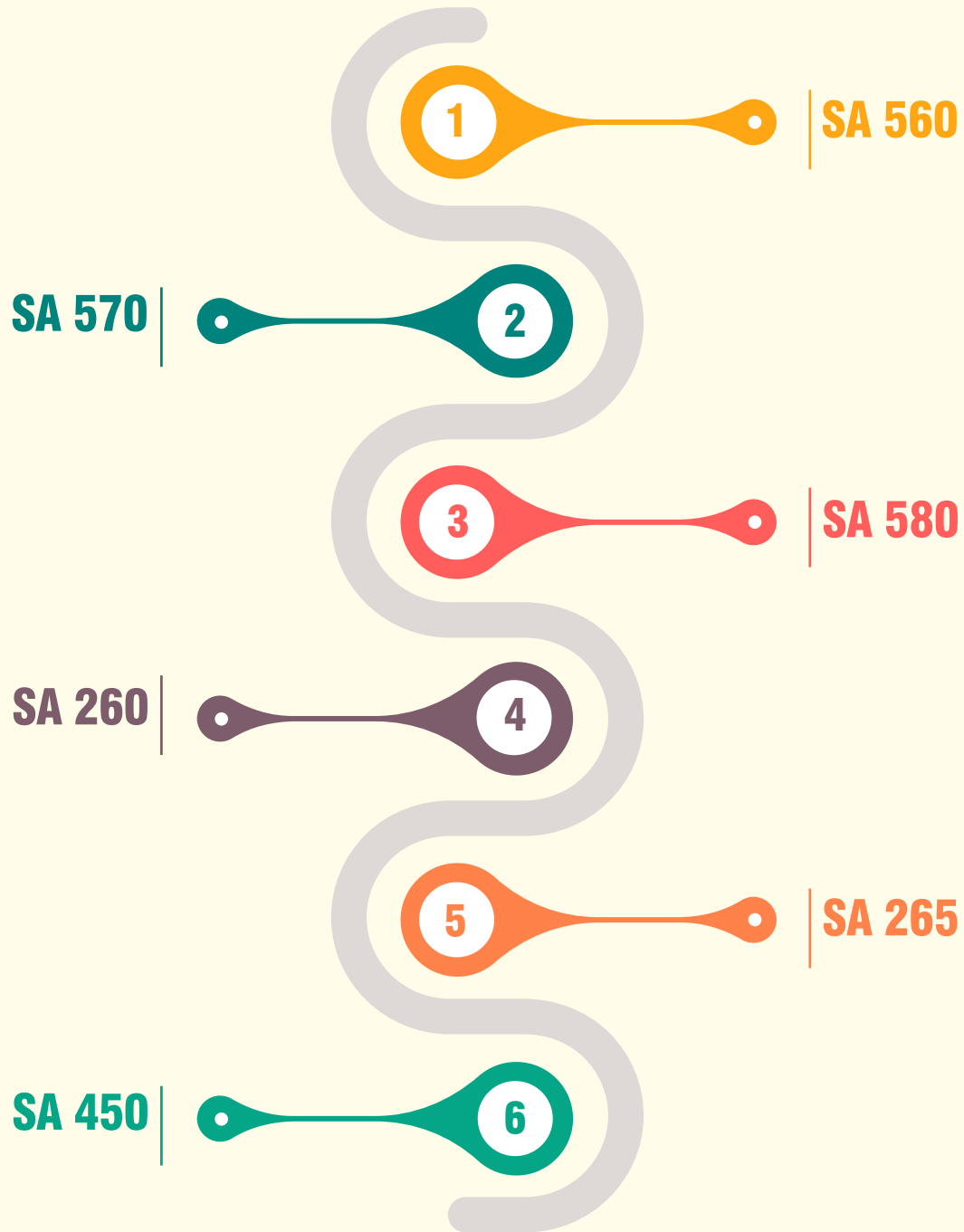
Question 15:

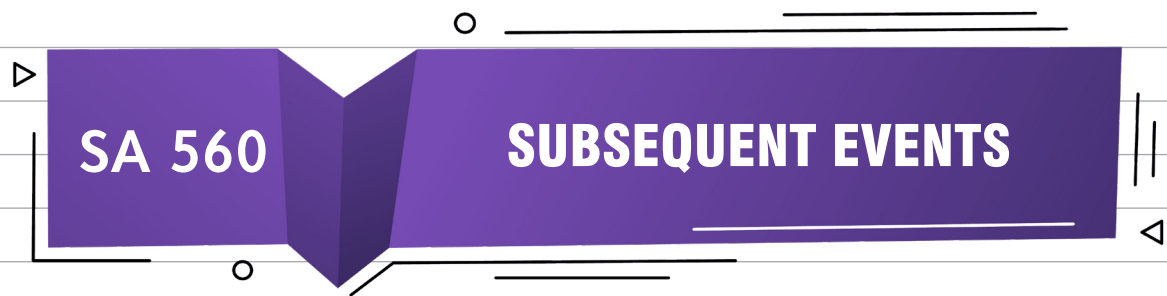
The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor to understand significant matters arising during the audit. Explain the above statement and also give examples of significant matters.

 **Answer:** Objectives of Auditor as per SA 230

CHAPTER 7

COMPLETION AND REVIEW



**Question 1:**

CA PK Jacob is conducting audit of a company for year 2022-23. The company is engaged in export of ethnic rugs to buyers in Europe. The audit is nearing completion in month of July 2023. However, It becomes known to the auditor that one of overseas buyers has made a legal claim against the company on 1st June 2023 for injury caused to a customer of one European buyer due to sub- standard dyes used in rugs of one lot of order shipped in August, 2022. The management of company has decided to agree to an out of court settlement of `5 crore to protect its reputation. The financial statements of the company are silent on this issue.

Discuss, how, CA PK Jacob should proceed to deal with above issue.

**Answer:**

Subsequent Events:

- In the given case, the auditor has come to know of legal claim against the company before issue of audit report. It has also come to his knowledge that management of company has agreed to an out of court settlement of `5 crore.
- It is an example of subsequent event between the date of the financial statements and the date of the auditor's report. It provides evidence of conditions that existed at the date of the financial statements and requires adjustment in financial statements.
- He should ask company management to make necessary adjustment to the financial statements.
- If adjustment is not made by management, auditor should consider impact on auditor's report.

Question 2:

CA Chandni Khanna is going to complete audit of a company within next few days. She has performed necessary audit procedures like inquiry of management personnel, reading minutes of meetings held after date of financial statements, going through books of accounts after date of financial statements to make sure that all subsequent events before signing audit report have been considered by her. Still, she wants to be certain that

no such events have been left out. What she should do in such a situation? Also, discuss the rationale of doing so.



Answer:

Rationale of performing audit procedures for Subsequent Events:

- Auditor has already performed necessary audit procedures like inquiry of management personnel, reading minutes of meetings after date of financial statements and going through books after date of financial statements.
- Now, she should request management and, where appropriate, TCWG, to provide a written representation in accordance with SA 580, "Written Representations" that all events occurring subsequent to the date of the financial statements and for which the applicable FRF requires adjustment or disclosure have been adjusted or disclosed.
- Rationale of obtaining written representations is that even after performing abovesaid procedures, she may not come to know all subsequent events. Therefore, it is necessary from an on and Review auditor's point of view to obtain acknowledgment from management in the form of Written representations that all such events for which the applicable FRF requires adjustment or disclosure have been adjusted or disclosed.

Question 3:

Discuss meaning of "Date the financial statements are issued" under SA 560.



Answer: Meaning of "Date the financial statements are issued"

Question 4:

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report, that requires adjustment of, or disclosure in, the financial statements have been Identified. With reference to SA 560, what are the audit procedures included in the auditor's risk assessment?




Answer: Audit procedures - Ing. IMP

Question 5:

The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's

report, may have caused the auditor to amend the auditor's report. Explain the auditor's obligation in the above situation.

 **Answer:** Audit Procedures regarding facts which become known to the auditor after the date of the auditor's report but before the date the F.S. are issued.

Question 6:

SA 560, "Subsequent Events" deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Explain those As 4 and also define subsequent events.

 **Answer:** Subsequent Events. AS 4

**Question 1:**

During course of audit of a company, CA. Varun Aggarwal notices that company is facing significant skilled labour shortages resulting in hampering of operations of company. The company's manufacturing is dependent upon skilled labour coming from villages in certain districts of Eastern UP. However, due to job opportunities available near villages now, many are not interested in going out from their native villages.

Such a situation has led to company not being able to keep its commitments, losing out on orders and fall in its revenues. Fixed costs of the company remain at a high level. As a result, company is facing a liquidity crunch and is not able to pay its creditors on time. The bankers of company are also not willing to help the company to tide over liquidity crisis. The auditor is having doubts over going concern status of the company.

How should management of the company try to address auditor's concerns? What audit procedures may be performed by auditor in such a situation?

**Answer:**

Audit Procedures in case of Doubt overgoing Concern Status:

- Significant shortage of skilled labour, inability to pay creditors on time and overall liquidity crisis faced by the company are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
- In such a situation, management should try to address auditor's concerns by preparing its future plan of action including preparation of cash flow forecast showing inflow and outflow of cash. Such a cash flow forecast should address auditor's concerns regarding liquidity crisis being faced by the company.
- Auditor should perform audit procedures to evaluate the reliability of the underlying data to prepare the forecast and determining whether there is adequate support for the assumptions underlying the forecast.
- Auditor should also consider whether any additional facts or information have become available since the date on which management made its assessment.

Question 2:

The auditor of a company is having concerns about following of going concern basis of accounting followed by management for preparation of financial statements. It asks the management to justify preparation of financial statements. However, management is not willing to make its assessment and share with auditor. What are implications for auditor's report in such a scenario?

 **Answer:** Management Unwilling to Make or Extend Its Assessment:


Question 3:

When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. Explain stating also the objective of the auditor regarding going concern.

 **Answer:** Objectives of the auditor

Question 4:

Give examples of financial events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

 **Answer:** Financial Indicators to be considered for evaluation of Going Concern Assumption

Question 5:

Management's assessment of the entity's ability to continue as a going concern involves making a Judgment about inherently uncertain future outcomes of events or conditions.

What are relevant **factors to that judgment?**

 **Answer:** Management Assessment of Going Concern

Question 6:

When performing risk assessment procedures as required by SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor has determined that management of XYZ Ltd. has already performed a preliminary assessment of the entity's ability to continue as a going concern. Explain how would auditor of XYZ Ltd proceed in the above case. Also explain how would the auditor proceed if such an assessment has not yet been performed by the management.

 **Answer:** Risk Assessment procedure.

Question 7:

As described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. Explain stating the auditor's responsibilities with regard to going concern.



Answer:

Auditor's responsibilities with regard to going concern:

The auditor's responsibilities with regard to going concern are:

- (1) to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and
- (2) to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

However, as described in SA 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Question 8:

While doing audit of ABC Pvt. Ltd., on the basis of sufficient and appropriate evidence, auditor comes to a conclusion that use of the Going Concern Basis of Accounting is appropriate, but a material uncertainty exists. Discuss the implications for auditor's report if:

- (a) Adequate Disclosure of a Material Uncertainty is Made in the Financial Statements.
- (b) Adequate Disclosure of a Material Uncertainty is Not Made in the Financial Statements.




Answer:

Use of the Going Concern Basis of Accounting is Appropriate but a Material Uncertainty Exists



Question 1:

CA R Gurumurthy is about to complete audit of a company. Before completion, he asks management to provide him a written representation confirming that management has fulfilled its responsibilities regarding preparation of financial statements. He also wants management to confirm in writing about providing of all the necessary information and completeness of transactions to him. The management feels that auditor is seeking irrelevant documents near the completion of audit. Why view of management is not proper? What possible Implications it may lead to?

 **Answer:**

Requirement of Management Representations:

- View of management is not proper. Audit evidence obtained during the audit that management has fulfilled its responsibilities regarding preparation of financial statements and about information provided and completeness of transactions is not sufficient without obtaining confirmation from management that it believes that it has fulfilled those responsibilities.
- This is because the auditor is not able to judge solely on other audit evidence whether management has prepared and presented the financial statements and provided information to the auditor on the basis of the agreed acknowledgement and understanding of its responsibilities.
- In case of refusal of management to provide such a confirmation, it may lead to disclaimer of opinion by the auditor.

Question 2:

The auditor P of PAR and Co., a firm of Chartered Accountants is conducting audit of AB Industries Ltd. The auditor requests management to provide **Banker's certificate in support** of Fixed deposits whereas management provides only **written representation on the matter**.

Analyse how would you deal as an auditor.

 **Answer:** Reliability of WR

Question 3:

Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. Explain stating clearly **objectives of the auditor** regarding written representation.

**Answer:**

Objectives of Auditor regarding Written representation

Question 4:

CA K is re-appointed as the auditor of B Ltd. He wants to re-confirm certain matters and has asked the management to give written representations for the same. Under what circumstances can an auditor management to **reconfirm** its acknowledgement and understanding of responsibilities in written representation?

**Answer:** Refer Q.6

Question 5:

Akash & Associates are the statutory auditors of Deluxe Ltd. for the FY 2023-24. During the course of audit, CA Akash, the engagement partner requested the management of the company to provide written representation with respect to valuation of a transaction. The management, however does not provide the same to CA Akash. What course of action should CA Akash follow in such situation?

**Answer:**

Auditor's duties when requested WRs not provided

**Question 1:**

In what ways an effective two-way communication between auditor and those charged with governance is important?

 **Answer:** Effective two way communication

Question 2:

"The auditors should communicate audit matters of governance interest arising from the audit of financial statements with those charged with the governance of an entity". Briefly state the matters to be included in such Communication.

 **Answer:** Communicating Significant Finding to TCWG.



SA 265

COMMUNICATION DEFICIENCIES IN INTERNAL CONTROL TO TCWG & MANAGEMENT

Question 1:

On reviewing internal control over Inventories as part of statutory audit of a company, auditor finds that physical verification is not being conducted at regular intervals as stipulated by the management. The auditor finds it to be significant deficiency in internal control over Inventories.

He points it out to the management in a one-liner as under:

"Physical verification of inventories is not being conducted at regular intervals as stipulated by management." Is above communication by auditor proper? Ignore statutory reporting requirements, if any in this regard.



Answer:

Communicating Deficiencies in Internal Control:

- While pointing out significant deficiencies in internal control, auditor has not only to communicate significant deficiencies giving their description but also explain the potential effects and sufficient information to TCWG and management to understand context of communication. Therefore, the above communication is not proper.
- Not only significant deficiency has to be communicated, it should also be explained to management the potential effects of not carrying out physical verification of inventories at regular intervals as stipulated by management. It should explain that such a significant deficiency can lead to misstatement of inventories impacting profits of the company.
- Highlighting importance of such a control, it should be stated that responsibility be fixed for concerned persons for adhering to such an important control.

Question 2:

List out some matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a "significant deficiency".



Answer:

Matters that auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency.

Question 3:

Write short note on: Contents of written communication of significant deficiencies In Internal control.

 **Answer:** Contents of written communication of significant deficiencies in internal control.

SA 450 EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

Question 1:

You are nearing completion of audit of a company. On going through your working papers, it is noticed that finished goods inventory was overvalued by ₹ 2 crore. It has also been noticed that freight of ₹ 10 lacs paid on import of machinery was charged to statement of profit and loss. Discuss, how you should proceed and communicate in above situation before signing audit report.



Answer:

Evaluation of Misstatements identified during the audit:

- Instances highlighted in given situation are examples of misstatements identified during the audit. Over-valuation of inventory of finished goods by ₹ 2 crore and wrongly charging freight of ₹ 10 lacs paid on machinery to statement of profit and loss instead of capitalizing are examples of misstatements.
- Auditor should communicate above identified misstatements to TCWG and request for correction of these misstatements. In case, these are not corrected, understand the reasons for not making the corrections and reassess materiality.
- It should also be considered whether uncorrected statements are material individually or in aggregate. Effect of uncorrected misstatements on the opinion in auditor's report should be communicated to TCWG.

Question 2:

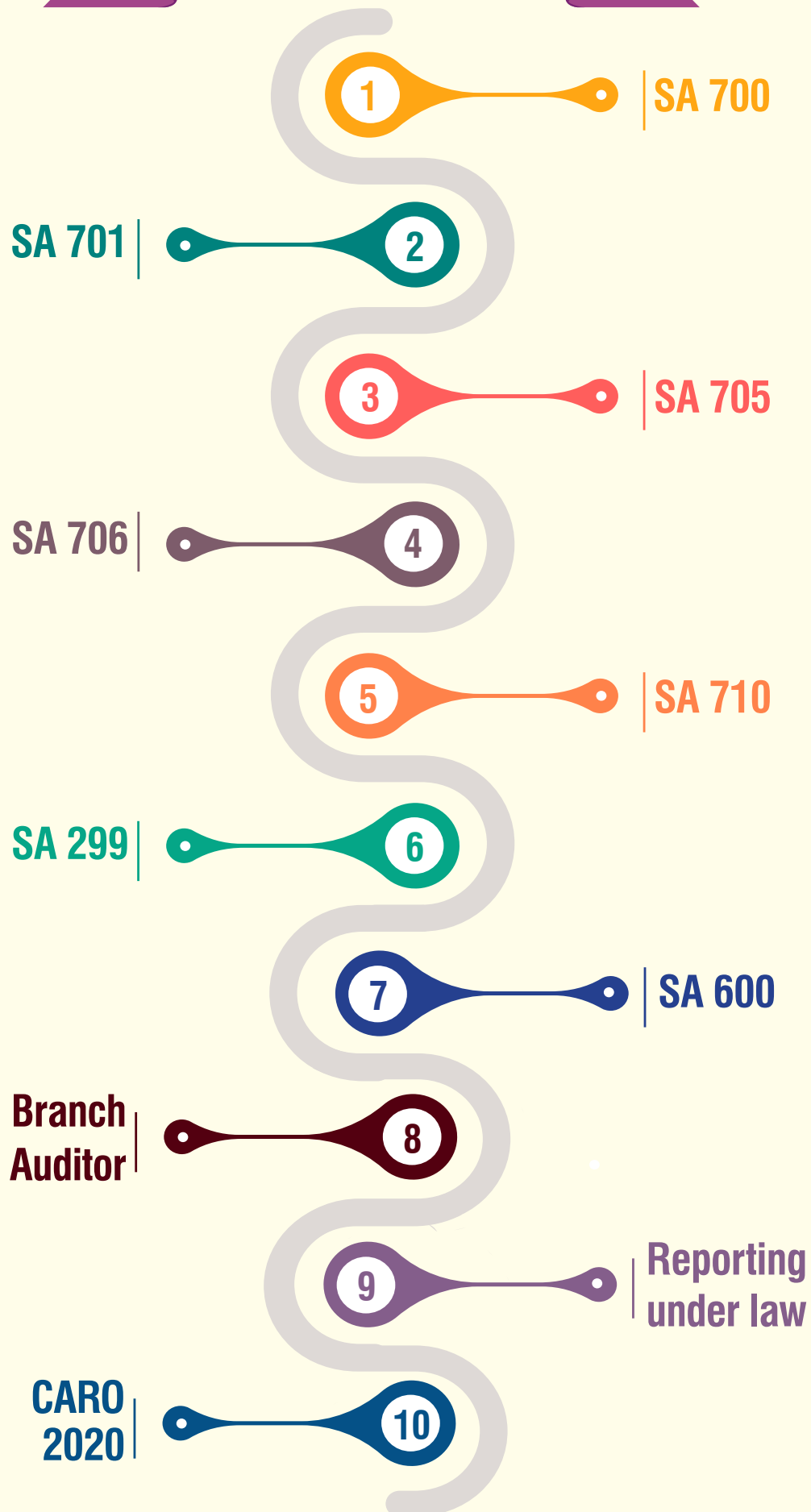
Discuss documentation requirements for an auditor regarding misstatements identified during audit under SA 450.



Answer: Documentation

CHAPTER 8

AUDIT REPORT



SA 700 FORMING AN OPINION & REPORTING ON FS

Question 1:

M/s Smart & Associates are the statutory auditors of Hotmeals Ltd. for the FY 2021-22. How will the auditor address the audit report issued on the financial statements for the FY 2021-22? Also give a title to the report

 Answer:

- INDEPENDENT AUDITOR'S REPORT • To the Members of Hotmeals Ltd.

Question 2:

Richa International is a partnership firm dealing in export of blankets. The partners of the firm are Richa and Ashish. Explain how the statutory auditor of the firm will address the auditor's report

 Answer:

- INDEPENDENT AUDITOR'S REPORT • To the Partners of Richa International

Question 3:

M/s Amitabh & Associates are the statutory auditors of Ringston Ltd. which is a company engaged in the business of manufacture of pen drives. The auditor has started drafting the audit report for the FY 2021-22. CA Amitabh, the engagement partner is of the view that the financial statements of Ringston Ltd. represent a true and fair view. Give the draft of the opinion paragraph of the audit report.

 Answer:

- We have audited the FS of Ringston Limited which comprise the Balance Sheet as at 31.03.2022 and the statement of P&L and the notes to the FS, including a summary of significant accounting policies and other explanatory information.
- In our opinion and to the best of our information and according to the explanations given to us, the aforesaid FS give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the company as at 31.03.2022 and the P&L for the year ending on that date.

Question 4:

M/s Kite Rite & Associates are the statutory auditors of Prime Deluxe Limited, for the FY 2021-22. At the time of finalising the audit report, one of the engagement team members, Mr. Robin, asked the engagement partner, CA Kite as to what all should be included in the Basis of Opinion Paragraph. The engagement partner CA Kite, explained the team in detail and asked Mr. Robin to draft such section for the auditor's report of Prime Deluxe Limited. Help Mr. Robin to draft the Basis for opinion section.



Answer:

We conducted our audit in accordance with the **Standards on Auditing** (SAs) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the **Auditor's Responsibilities** for the Audit of the FS section of our report. We are **independent** of the Company in accordance with the Code of Ethics issued by the ICAI together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Companies Act, 2013 and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Question 5:

Diamond Shine Ltd. is a company engaged in the manufacture of detergent. M/s Bright & Associates are the statutory auditors of the company. Explain how the paragraph related to the **management's responsibility** will come in the auditor's report.



Answer: Management responsibility

Question 6:

M/s Ajay Vijay & Associates are the statutory auditors of Sarovar Ltd. for the FY 2021-22. The company is engaged in the business of manufacture of water bottles. At the time of finalising the auditor's report, one of the audit team members asked CA Ajay, the engagement partner to advise as to how the auditor's responsibilities can be shown in an appendix to the auditor's report. Draft the **auditor's responsibility** paragraph so as to advise the audit team member.



Answer:

- Auditors responsibility
- Para 1

Question 7:

M/s TUV & Associates are the statutory auditors of Venus Ltd. for the FY 2021-22. At the time of finalising the auditor's report, one of the audit team members asked the engagement partner, CA Tarun, to explain as to how the auditor's report will be signed. Help CA Tarun in explaining the same



Answer:

The following is the correct way of signing an audit report.

M/s TUV & Associates
Chartered Accountants
(Firm's Registration No.)

Signature
(Name of the Member Signing the Audit Report)

(Designation)

(Membership No. XXXXX)

Place of Signature:

UDIN: 20037320AAAAAH1111

Date:

Question 8:

Maithili Thakur, a CA student, was perusing audit report of a company. Her eyes fell on an 18-digit alpha numeric number stated at end of audit report below the signatures of auditor and membership number. Make her understand objective and significance of such a randomly generated number. Is it required to be stated in case of audit reports only?



Answer:

The 18-digit alpha numeric number noticed by her at end of audit report is (UDIN). It is a system generated unique number. Its basic objective is to curb the malpractices of non-CAs impersonating themselves as CAs. It helps in securing reports and documents issued by practicing CAs.

Question 9:

CA. Maya Memani has conducted audit of a company. She has asked Sana, a CA student undergoing training in her office, to prepare draft audit report. Sana was part of engagement team conducting the audit. She has been further told to prepare draft report expressing unmodified opinion. After drafting para comprising unmodified opinion, Sana feels no need to provide basis for opinion. Discuss why her thinking is not proper.



Answer:

Basis for Opinion” is one of basic elements of an audit report in accordance with SA- 700. Even in cases where unmodified opinion is expressed by auditor, “Basis for opinion” has to be provided by auditor. Basis for opinion section provides context about auditor’s opinion. Therefore, Sana’s thinking is not proper.

Question 10:

"The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements." Discuss stating clearly qualitative aspects of the entity's accounting practices.



Answer: Qualitative aspects

Question 11:

The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable FRF. Explain stating clearly specific evaluations made by the auditor.



Answer: Specific evaluations

Question 12:

The requirements of SA 700 are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally. Explain.



Answer:

- Requirements of SA 700 are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users.
- This SA promotes consistency in the auditor's report but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions.
- Consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global market place by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards.
- It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

Question 13:

In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Explain and analyse the indicators of lack of neutrality with examples, wherever required.



Answer: possible bias in management's judgments



SA 701

COMMUNICATING KEY AUDIT MATTERS

Question 1:

Write a short note on: Purpose of communicating key audit matters

 **Answer:** Purpose

Question 2:

CA. Amar has come across certain key matters while auditing the accounts of PR Ltd. for the financial year 2017-18. He, being the associate of your firm, seeks your advice on "Communicating Key Audit Matters" in the Auditor's Report. Guide him.

 **Answer:** Communicating KAM

Question 3:

Communicating KAM is not substitute for disc in FS rather communicating KAM ins te

 **Answer:** Communicating KAM is not a substitute for

Question 4:

How would an auditor determine KAM?

 **Answer:** Determining KAM

SA 705 MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITORS REPORT

Question 1:

Super Duper Ltd. is a company engaged in the manufacture of office furniture. M/s Young Old & Associates are the statutory auditors of the company for the FY 2020-21. During the year under audit, the engagement partner CA Young noticed that the company has not bifurcated its loans into long term and short term. CA Young understands that such misstatement is not pervasive though the same is material. Explain the type of opinion that should be given by M/s Young Old & Associates in this case.

 **Answer:** QUALIFIED OPINION

Question 2:

M/s Taj Raj & Associates are the statutory auditors of Porex Ltd. engaged in the manufacture of premium watches, for the FY 2020-21. During the course of audit, CA Taj, the engagement partner found that the stocks and debtors of the company constituting about 80% of the total assets of the company are not realisable. Further, the cashier of the company has committed a fraud during the year under audit. Both the facts are not reflected in the financial statements for the year ending 31.03.2021. Accordingly, CA Taj is of the view that the impact of both the situations on the financial statements is material and pervasive and thus, the financial statements represent a distorted view of the state of affairs of the company. Explain the reporting requirements of CA Taj.

 **Answer:** ADVERSE OPINION

Question 3:

Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2020-21 the company transferred its accounts to computerised system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further,

the employees and the management of the company were not supportive in providing the requisite information to the audit team. Explain the kind of audit report that the statutory auditor of the company should issue in this case.



Answer: DISCLAIMER OF OPINION

Question 4:

CA. Sarasbhai Patel, while conducting audit of an entity, feels that there is an atmosphere of non-cooperation all around. He has not been provided with necessary support for attending inventory count process of entity as at year end. Besides, CFO is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality.

He was not able to verify revenues of entity due to lack of complete details. For verifying expenses, he has been asking for bills on a sample basis, but staff has been making lame excuses. The matter was brought to knowledge of higher echelons of management, but of no avail. The auditor feels that there could be misstatements and their possible effects would be material and affecting many aspects of financial statements.

Assuming it is not possible to withdraw from engagement, what type of opinion should be expressed by auditor?



Answer: DISCLAIMER OF OPINION

Question 5:

XYZ Ltd. is a company engaged in the manufacture of cranes. CA Sudhir is the statutory auditor of the company for the FY 2022-23. The company has taken long term funding for fixed capital requirements and short-term funding for its working capital requirements. During the course of audit, CA Sudhir found that the company's financing arrangements are about to expire and the company is unable to renegotiate or obtain the replacement financing, As such the company may be unable to realize its assets and discharge its liabilities in the normal course of business Notes to accounts annexed to the FS discuss the magnitude of financing arrangements, the expiration and the total financing arrangements; however, the FS do not include discussion on the impact or the availability of refinancing. Thus, the FS (and notes thereto) do not fully disclose this fact. What kind of opinion should CA Sudhir issue in case of XYZ Ltd.?



Answer:

CA Sudhir shall express a qualified opinion as the effects are material but not pervasive

Question 6:

MNO Ltd. is a power generating company having its plants in the north eastern states of the country. For the FY 2022 - 23, M/s PRT & Associates are the statutory auditors of the company. During the course of audit, the audit team was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment (in XYZ. Ltd.) that represents over 90% of the entity's net assets. What kind of opinion should the statutory auditor's issue in such case?



Answer: Disclaimer of opinion

Question 7:

ADKS & Co LLP are the newly appointed statutory auditors of PKK Ltd. During the course of audit, the statutory auditors have come across certain significant observations which they believe could lead to material misstatement of FS. Management has a different view and does not concur with the view of the statutory auditors. Considering this the statutory auditors are determining as to how to address these observations in terms of their reporting requirement. Please advise.



Answer: SA 705 chart

Question 8:

Under the applicable Standards on Auditing, in what circumstances does the report of the statutory auditor require modifications? What are the types of modifications possible to the said report?



Answer: SA 705 Chart

Question 9:

M/s Daisy & Associates are the statutory auditors of Zebra Ltd. for the FY 2021-22. CA Daisy, the engagement partner wants to verify the cash in hand as on 31.03.2022. The cash balance of the company as on 31.03.2022 is ₹ 1,00,000/- and the turnover of the company for the year is ₹ 6 crores. The management of the company informs CA Daisy that such cash verification is not possible as the cashier is on leave for his marriage and no other employee of the company is available as all are busy in year ending activities. Explain the relevant provisions to deal with such a situation



Answer: Refer ROSA chart

Question 10:

After accepting the statutory audit of M/s All in One Ltd., a departmental store, you became aware of the fact that management of the company have imposed certain limitations on the scope of your assurance function which may adversely affect and result in your inability to obtain sufficient appropriate audit evidence to discharge your responsibility required by the statute. Indicate the consequences and your response to the limitations imposed by the management on your scope.

 Answer: ROSA chart

Question 11:

XYZ Ltd. which is in the business of trading of automobile components is following Cash Basis of Accounting for sale of spare parts. As Statutory Auditor of XYZ Ltd. explain the reporting requirements, manner of qualification and disclosure, if any, to be made in the auditor's report in line with AS-1 Disclosure of Accounting Policies.

 Answer:

Reporting requirements, Manner of qualification and disclosure to be made in the auditor's report in line with AS 1, "Disclosure of Accounting Policies":

In the case of a company, members should qualify their audit reports in case:

- (a) accounting policies required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013 have not been disclosed, or
- (b) accounts have not been prepared on accrual basis, or
- (c) the fundamental accounting assumption of going concern has not been followed and this fact has not been disclosed in the FS, or
- (d) proper disclosures regarding changes in the accounting policies have not been made.
 - Where a company has been given a specific exemption regarding any of the matters stated above but the fact of such exemption has not been adequately disclosed in the accounts, the member should mention the fact of exemption in his audit report without necessarily making it a subject matter of audit qualification.
 - In view of the above, the auditor will have to consider different circumstances whether the audit report has to be qualified or only disclosures have to be given.
 - In making a qualification/disclosure in the audit report, the auditor should consider the materiality of the relevant item. Thus, the auditor need not make qualification/disclosure in respect of items which, in his judgment, are not material.
 - A disclosure, which is not a subject matter of audit qualification, should be made in the auditor's report in a manner that it is clear to the reader that the disclosure does

not constitute an audit qualification. The paragraph containing the auditor's opinion on true and fair view should not include a reference to the paragraph containing the aforesaid disclosure.

Question 13:

When should an auditor make a disclaimer opinion in his Audit Report?



Answer: Refer chart

Question 14:

CA Guru is in the process of preparing the final audit report of JPA Private Limited and would like to **disclaim his opinion** on the financial statements due to an inability to obtain sufficient appropriate audit evidence. How CA Guru shall **amend the description of the auditor's** responsibilities as required by SA 700?



Answer: Refer SA 705

Question 15:

M/s Sun Moon & Associates are the statutory auditors of Venus Ltd. for the FY 2021-22. Owing to the pervasive nature of material misstatements in the financial statements of the company, CA Moon, the engagement partner decided to give an adverse opinion. Explain the responsibility of CA Moon with respect to communication with those charged with governance.



Answer: Communicate with TCWG

**Question 1:**

Enumerate certain **important matters** which can be included in “Emphasis of Matter Paragraph” in an Auditor’s Report.

 **Answer:** Explains

Question 2:

Give **examples of** Emphasis of Matters which may have an adverse effect on the functioning of the company as well as those which may not affect the functioning of the company.

 **Answer:** LACS

Question 3:

Lomaxe Ltd. is a company engaged in the business of manufacture of candles. CA Kamalnath is the statutory auditor of the company for the FY 2020-21. During the year under audit, there was a fire in the company’s factory as a result of which, some of the company’s plant and machinery was destroyed. The same was disclosed by the company in the notes to accounts annexed to the financial statements for the year ending 31.03.2021. CA Kamalnath decided to communicate this matter in the auditor’s report as he is of the view that **the matter is of such importance that it is fundamental to the user’s understanding of the financial statements**. Help CA Kamalnath to deal with this situation in the auditor’s report

 **Answer:**

In the present case there is a need to add Emphasis on Matter Paragraph in the Auditor’s Report. The draft of the same is as under:

Emphasis of Matter:

We draw attention to **Note Y** of the financial statements, which describes the effects of a fire in the Company’s factory. Our opinion **is not modified in** respect of this matter.

Question 4:

Compare and Explain the following: Audit Qualification and Emphasis of Matter.

 Answer:

- SA 705 "Modifications to the Opinion in the Independent Auditor's Report", deals with the provisions relating to Audit Qualification. **Audit Qualifications** are given when auditor is having reservations on some of the items out of the financial statements.
- It is issued under following circumstances:
 1. Financial statements are **materially misstated** which in the auditor's judgments are **not pervasive**.
 2. Auditor is **unable to obtain SAAE** which in the auditor judgment are not pervasive
- As per 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" EOM is a paragraph which is included in auditor's report to draw users' attention to important matter(s) which are already disclosed in FS and are fundamental to users' for understanding of FS.
- EOM is used when there is an uncertainty relating to future outcome of exceptional litigation, regulatory action, etc; or there is early application (where permitted) of a new accounting standard that has a pervasive effect on the FS in advance of its effective date.

Question 5:

In respect of the audit of BDS Ltd., the statutory auditor of the company noticed some matters. The statutory auditor wants to draw the user's attention towards such matters, though his opinion is not modified in respect of such matters. Draft the relevant paragraphs of the audit report for the following matters

- (1) The company has a plan to **resume its construction activities** with respect to one of its thermal power projects, The activity of such power plant was suspended in the FY 2018-19. The thermal power project comprises of the plant and equipment amounting to \$ 5.95 crores and capital work in progress of t 147.50 crores.
- (2) The FS of 5 branches are included in the Standalone FS of BDS Ltd. whose FS reflect total assets of \$ 90 crores as on 31.03.2023 and total revenue from operations of \$ 40 crores for the year ended on that date. The FS of these branches have been audited by the branch auditors.

 Answer:

- Emphasis of Matter Para and Other Matter Para in Audit Report:

Emphasis of Matter

- We draw attention to the following note of the standalone financial statements:

Note 27 regarding the plans of the Company to resume construction/developmental activities of a thermal power project.

- The carrying amounts related to the project as on 31st March, 2023 comprise of plant and equipment of R 5.95 crores and capital work in progress of \$ 147.50 crores.
- Our opinion is not modified in respect of this matter.

Other Matter

- We did not audit the FS of 5 branches included in the Standalone FS of the company whose FS reflect total assets of 7 90 crores as on 31.03.2023 and total revenue from operations of R 40 crores for the year ended on that date.
- The FS of these branches have been audited by the branch auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts and disclosures included in respect of these branches, is based solely on the report of the branch auditors.
- Our opinion is not modified in respect of this matter.

Question 6:

AKB Associates, a renowned audit firm in the field of CA practice for past two decades. The firm was appointed to conduct statutory audit of Rica Ltd. an unlisted company, which is engaged in the business of paper manufacturing. It decided to commence the audit for the recently concluded financial year. Once after making significant progress in the audit, the auditors made the following observations:

Observation 1: The management had disclosed in the financials that, during the year, one of the warehouses of the Company was affected due to a major flood. As a result of the same, the Company had incurred some losses. But the management was of the view that it was not material.

Observation 2: Due to flood, few records maintained by the Company with respect to a particular transaction was completely destroyed and there was no duplicate record maintained by the Company. However, those details were not pervasive, but material. You are required to advise, whether AKB Associates should report Observations 1 and 2 in its audit report? If so, under which heading should it be reported?



Answer:

Observation 1:

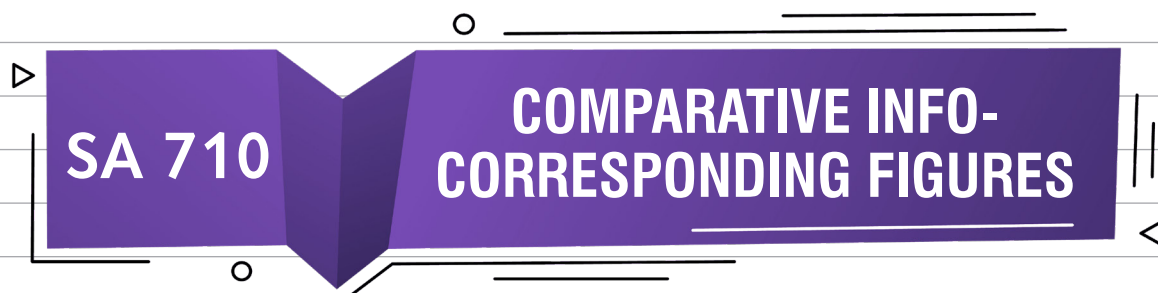
- **Facts of the case:**
- **Relevant provisions:** As per SA 706, "Emphasis of Matter Paragraph & Other Matter

Paragraph in the Independent Auditor's Report", an Emphasis of Matter Paragraph refers to matter appropriately disclosed in the financials, that in the auditor's judgment is of such importance that it is fundamental to users' understanding of the financials.


- **Reporting requirements:** The auditor shall report about the consequences of the flood which affected the Company's warehouse under EOM.

Observation 2:

- **Facts of the case:**
- **Relevant provisions:** As per SA 705, "Modification to Opinion in the Independent Auditor's Report", where the auditor is unable to obtain sufficient and appropriate audit evidence and where such matter is material but not pervasive, the auditor shall issue a qualified opinion.
- **Reporting requirements:** In accordance with SA 705, the auditor is required to issue qualified opinion.

**Question 1:**

When corresponding figures are presented, the auditor shall not refer to the corresponding figures except in some circumstances. the auditor's opinion shall not refer to the corresponding figures

 **Answer:** Q.3

Question 2:

NG Ltd. appointed CA N as the statutory auditor for the F.V. 2023-24. Previous year's auditor gave a qualified opinion on the comparative Financial Statements for the Year ended 31.03.2023. What will reporting responsibility casted on CA N when he forms an opinion and prepares audit report on the Comparative Financial Statements for the F.V. 2023-247

 **Answer:** Matters to be stated in OM

Question 3:

The nature of the comparative information that is presented in an entity's FS depends on the requirements of the AFRE. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. Explain clearly stating the essential audit reporting differences between the approaches. Also define comparative information and audit procedures regarding comparative information.

 **Answer:** Difference between

SA 299

RESPONSIBILITY OF
JOINT AUDITOR

Question 1:

Before the commencement of audit, the joint auditors should discuss and develop a joint audit plan.

Discuss the points to be considered in developing the joint audit plan by joint auditors.

 **Answer:** Discussion among joint Auditors

Question 2:

The practice of appointing CA as joint auditor is quite widespread in big companies and corporations. Explain stating the advantages of the audit

 **Answer:** Advantages

Question 3:

A joint auditor is not bound by the views of majority. Comment

 **Answer:** Reporting

Question 4:

For which work joint auditors are jointly and severally responsible

 **Answer:** Responsibility of JA

SA 600

USING THE WORK OF ANOTHER AUDITOR

Question 1:

CA. Dicky Yadav is auditor of a company having four branches. The four branches are audited by another auditor CA. Yamini Jain. The reports in respect of accounts of branches examined by her have already been sent to company auditor. During the course of audit, CA Dicky Yadav asks the branch auditor to share with her summary of audit procedures and findings in respect of accounts of branches examined. CA. Yamini Jain feels it as encroachment of her domain. Discuss the Issue.

 **Answer:** It is not an encroachment of another auditor's domain

Question 2:

When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole. Explain.


 **Answer:** Whole SA 600

TOPIC 8 : BRANCH AUDITOR - REFER LAW

TOPIC 9: REPORTING UNDER LAW - REFER LAW

**Question 1:**

As an auditor, how would you deal with the following: L Pvt. Ltd. Which has an outstanding loss of more than Rs. 100 lakhs from financial institution defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies Auditor Report Order (CARO) is not applicable.

 **Answer:**

Contention of L Pvt. Ltd is not correct as borrowing from financial institution exceeds Rs. 1 Cr., and auditor is required to report the period and amount of default in repayment of dues under Para 3 (viii) of CARO 2020.

Question 2:

A Pvt. Ltd. Company reports the following position as on 31st March 2019:

- Paid up capital: 60 Lacs
- Revaluation reserves: 20 Lacs
- Capital Reserves: 22 Lacs
- P & LA /C(Dr. balance): 4 Lacs
- The management of the company contends that CARO, 2020 is not applicable to it.

 **Answer:**

CARO is not applicable as paid up capital and reserves does not exceed Rs. 1 Cr. (60 Lacs + 20 Lacs + 22 Lacs – 4 Lacs).

Question 3:

Under CARO 2020, how as a statutory auditor would you comment on the following: X Pvt. Ltd. Is a subsidiary of a listed entity. The management of the company believes that since X Pvt. Ltd. is a private company and satisfies all condition under CARO 2016, reporting under CARO is not applicable.

 **Answer:**

CARO is applicable as extension is not available to a private company which is a subsidiary or holding of a public company.

Question 4:

E-Tech Pvt. Ltd., which has an aggregate outstanding loan of 20 lakhs from Banks and 30 lakhs from Financial Institutions, defaulted in repayment thereof to the extent of 50%. The Company holds that it being a private limited company, the Companies (Auditor's Report Order, 2020 is not applicable)

**Answer:**

CARO, 2020 will not be applicable on it as outstanding loan from banks and financial institution in aggregate does not exceeds 1 Cr.

Question 5:

XLtd. closed its manufacturing operations and sold all its property, plant and equipment relating to manufacturing operations during the current financial year. However, it intends continue its operations as a trading company. In respect of other fixed assets, the company carried out a physical verification as at the end of current financial year and found a material discrepancy to the tune of 1 lac, which was written off and is disclosed separately in the profit and loss account. Kindly incorporate the above in your audit report.

**Answer:**

The property, plant and equipment have been physically verified by the management at reasonable intervals; material discrepancies were noticed on such verification and the same have been properly dealt with in the books of account.

Question 6:

Under CARO, 2020, as a statutory auditor, how would you report: NSP Limited has its factory building, appearing as property, plant and equipment in its financial statements in the name of one of its director who was overlooking the manufacturing activities.

**Answer:** Report under Clause (1)(c) of Para 3 of the CARO, 2020.**Question 7:**


ABC Ltd. owns a piece of Land and Building situated at IP road, Mumbai which was purchased before 30 years. The title deeds for the same are deposited with State Bank of India for obtaining credit facilities by the company.

As the statutory auditor of the company, what are the audit procedures to be followed and what is the reporting under CARO, 2020

**Answer:** Refer under Clause (1) (c) of Para 3 of the CARO.

Question 8:

The Property, Plant and Equipment of Amir Ltd. included ₹ 25.75 crores of earth removing machines of out-dated technology which had been retired from active use and had been kept for disposal after knock down. These assets appeared at residual value and had been last inspected ten years back. As an Auditor, what may be your reporting concern in view of CARO, 2020 on matters specified above?

 **Answer:** Report under Clause (1)(b) of Para 3 of the CARO, 2020

Question 9:

As the statutory auditor of B Ltd. to whom CARO, 2020 is applicable, how would you report in the following situations: Physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources.


 **Answer:**

Procedure of physical verification followed by management is not reasonable and hence the auditor should point out the inadequacies in physical verification procedures, under Para 3(ii) of CARO, 2020.

Question 10:

Mr. Arjun was appointed as the engagement partner on behalf of Bhism & Co., a Chartered Accountant Firm, for conducting statutory audit assignment of Sinwar Ltd., unlisted public company. Mr. Brijesh, one of the senior engagement team members, was given the responsibility to audit the matters as per the requirements of CARO, 2020 and in that connection, he made the following observations, that may be relevant for reporting as per the said Order:

- One of the Plant and Equipment taken on a lease ('right of use' asset) by Sinwar Ltd. was revalued based on the valuation by a registered valuer and the net carrying value of Plant and Equipment in aggregate was changed from 4 crore to 4.45 crore.
- During the year under consideration, cash credit limit of 5.5 crore was sanctioned to Sinwar Ltd. by DMC Bank based on the security of current assets which was reduced to 4.5 crore after 6 months. In this connection, quarterly returns have been filed by the company with the DMC bank which are in agreement with Books of Account. You are required to examine the contention of Mr. Brijesh regarding reporting of the above observations in accordance with CARO, 2020

 **Answer:** Auditor is required to report the amount of change of 45 lakh in accordance with Clause (1)(d) of Para 3 of CARO, 2020. (ii) Reporting required under Clause (ii)(b) of Para 3.

Question 11:

Jam Private Limited was engaged in business of manufacture of Cycles. CA Roy was appointed as a Statutory Auditor of the Company for the financial year 2021-22. During the year under audit, Jam Private Limited obtained working capital facilities from ABC Bank Limited for 10 crore hypothecating the Stock of goods as primary security. On inquiry CA Roy was informed by management that stock statements are furnished periodically to ABC Bank Limited and the details of submission of quarterly stock statement are as follows:

Period of Qtr	Stock value as per books	Stock value as per statement submitted to ABC Bank
Q1	11.5	14
Q2	14.75	17
Q3	11.5	14
Q4	15.25	15.25

The management of Jam Private Limited did not disclose the above variations in Notes to accounts forming part of financial Statements of the Company for the year 2021-22. The management replied that there are no variations as on the Balance sheet date and further they are of the view that stock statement furnished to bank is only a formality and computed arbitrarily only for the purpose of securing higher drawing power and hence statutory auditors need not be bothered. Is the contention of the management valid? As a Statutory Auditor how CA Roy should deal and discuss the disclosure/reporting requirements if any, as per the Companies Act, 2013 and CARO,

**Answer:**

The variations need to be disclosed in the notes to accounts and also reported under CARO 2020.

Question 12:

In the course of audit of Y Ltd., as the auditor of the company you observe the following: The company has advanced a loan to a firm in which a director was interested at a rate lower than the prevailing market rate as well as there was no agreement on terms of repayment. How auditor will report in CARO, 2020?

**Answer:**

Reporting required under Para 3(iii) of CARO, 2020. Auditor should also ensure compliance of disclosure requirements of AS 18 and perform procedures as prescribed under SA 550.

Question 13:

H Ltd. granted unsecured loan of 1 crore @ 15% p.a. to two of its subsidiaries during the current financial year. Before the year end both the companies repaid the loan. The management of H Ltd. is of the opinion that since no balance is outstanding as at the end of financial year, these loans are not required to be reported in CARO, 2020. Comment and draft a suitable report.

**Answer:**

Draft Report: "The Company has granted loan of 1 Crore @ 15% p.a. to 2 of its subsidiaries during the current Financial Year. The maximum amount involved during the year was 1 crore and the year-end balance of such loans was Nil"

Question 14:

As a company auditor you noticed that there is an intercorporate loan granted by the company. State the reporting requirements.

**Answer:**

Reporting required under Para 3 (iii) &(iv) of CARO, 2020.

Question 15:

During the course of the audit of M/S CT Ltd, it has noticed that Rs. 2 lakh of employee contribution and Rs. 9.5 Lakh of employer contribution towards ESIC have been accounted in the books in the respective heads. Whereas it is found that only Rs. 4 lakh have been deposited with the ESIC dept during the year. The Finance Manager informed that auditor that due to financial crunch they have not deposited the amount due, but will deposit the amount overdue along with interest as and when financial improves. Comment as a statutory auditor.

**Answer:** Reporting required under Para 3(vii)(a) of CARO, 2020.**Question 16:**

Is the company regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Customs duty, Excise duty, Value added Tax, Cess and any other statutory dues with the appropriate authorities and if not, the extent of arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable shall be indicated by the auditor.

**Answer:** Reporting required under Para 3(vii)(a) of CARO, 2020.

Question 17:

Big and Small Ltd. received a show cause notice from GST department intending to levy a demand of 25 lakhs in December 2022. The company replied to the above notice in January 2023 contending that it is not liable for the levy. No further action was initiated by the GST department upto the finalization of the audit for the year ended on 31st March, 2023. As the auditor of the company, what is your role in this?

 **Answer:** Reporting required under Para 3(vii) of CARO, 2020.

Question 18:

As an auditor, how will you report under CARO in each of the following situation:

1. Since more than seven months, payment of electricity bills to company established under statute is outstanding.
2. The company had imported goods 5 years back and were placed in bonded warehouse till the end of financial year under Audit. The company has not paid import duty as goods have not been removed from such warehouse. The company has also not paid rent and interest expenditure payable on the amount of customs duty.
3. The company has received income tax assessment order along with demand notice from Assessing Officer. The company has not paid dues payable as the same is not acceptable to the company. The company has neither preferred appeal against the order nor an application for rectification of mistake has been made. The company has just merely represented to the Assessing Officer.
4. The company in view of voluminous pay-roll data consistently follows the method of making lump sum deposit of estimated amount of ESI collections and adjust the excess or deficit against next following months' deposit and the difference of the said amount always remains insignificant.

 **Answer:**

1. Reporting not required as dues has arisen on account of contract of supply of goods or services between the parties
2. Reporting not required for customs duty as it is not yet due; Interest and rent that are required to be incurred u/s 61 of the Customs Act, 1962 would come under other statutory dues and the auditor would have to examine and comment upon the regularity of the company in depositing such interest and rent.
3. Auditor is required to check whether time limit for filing the appeal or application for rectification of mistake has expired or not and report accordingly.
4. Reporting not required

Question 19:

R Ltd. as on 31st March 2023 defaulted in the repayment of interest and principal due to a financial institution. The due date was 28th Feb. 2023. However, the defaulted amount was paid on 5th April 2023. The company's management is of the opinion that since the default is set right before the audit completion these need not be reported in CARO, 2020. Comment & draft a suitable report.

**Answer:**

Draft Report: "The company has defaulted in repayment of principal and interest to the financial institution amounted to, that become due on XX. Also the period of default is xx days".

Question 20:

Under CARO how, as a statutory auditor how would you comment on the following: A Term Loan was obtained from a bank for 75 lakhs for acquiring R&D equipment, out of which 12 lakhs were used to buy a car for use of the concerned director, who was overlooking the R&D activities

**Answer:**

As per requirement of Para 3(ix) of CARO, 2020, auditor is required to report the fact that out of the term loan obtained for R & D equipment, 12 Lacs was not utilized for the purpose of acquiring the R & D equipment.

Question 21:

As a Statutory Auditor, how would you deal with the following: LM Ltd. had obtained a Term Loan of 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in shortterm deposits.

**Answer:**

Auditor is required to report the fact that the pending utilisation of term loan, the funds are temporarily invested in short term deposits, in his audit report as per requirement of Para 3(ix) of CARO

Question 22:

During the financial year ended on 31.03.2023, LM Private Limited had borrowed from a Nationalized Bank, a term loan of 120 lakhs consisting of 100 lakhs for purchase of a machinery for the new plant and 20 lakhs for erection expenses. As on the date of 31st March 2023, the total of capital and free reserves of the Company was 50 lakhs and

turnover for the year 2022-23 was 750 lakhs. The Bank paid * 100 lakhs to the vendor of the Company for the supply of machinery on 31.12.2022. The machinery had reached the yard of the Company. On 28.02.2023, the Company had drawn the balance of loan viz. * 20 lakhs to the credit of its current account maintained with the Bank and utilized the full amount for renovating its administrative office building. The machinery had been kept as capital stock under construction. Comment as to reporting issues, if any, that the Auditor should be concerned with for the financial year ended on 31.03.2023, in this respect.



Answer:

As per requirement of Para 3(ix) of CARO, 2020, auditor is required to report the fact that for the term loan obtained for machinery purchase and erection, 20 Lacs was not utilized for the purpose of erection of machinery.

Question 23:

Gautam Limited had borrowed 1,000 crore from XYZ Bank, the principal of which was repayable after 5 years and interest was payable at the end of each year. For 4 years, Gautam Limited paid the interest amount on time. Gautam Limited defaulted the 5th instalment of interest payment and principal which was due on June 30, 2022. On Dec. 31, 2022, Gautam Limited approached XY bank and MNO bank to restructure the existing liability. As a result, the existing principal and outstanding and overdue interest was restructured into a new loan amounting to 1,100 crore. The management did not provide any disclosure for the default on the loan on the belief that the old loan ceased to exist and the new loan has maturity after 5 years.



Answer: Report under ix of para 3

Question 24:

ABC Pvt. Ltd. is a manufacturer of jewellery. A senior employee of the Company informed you that the Company does not properly disclose the purity of gold used on the jewellery.



Answer:

From the view point of reporting on frauds under CARO, 2020, there is no implication for misstatement in the financial statements. Hence, no reporting is necessary for improper disclosure of purity of gold on the jewellery.

Question 25:

What are the reporting requirements in the audit report under the Companies Act, 2013/CARO, 2020 for the following situations?

(a) A fraud has been committed against the company by an officer of the company.

- (b) A fraud has been committed against the company by a vendor of the company.
- (c) The company has committed a major fraud on its customer and the case is pending in the court.
- (d) A fraud has been reported in the cost audit report but not noticed by statutory auditors in his audit



Answer:

Refer Sec. 143(12) read with Rule 13 of Companies (Audit & Auditor's) Rules, 2014 and Para 3(xi) of CARO, 2020.

Question 26:

In the course of audit of MM Ltd., your audit team has identified the following matter: All amount of 4 Lakh per month for the marketing services rendered is paid to M/s. MG Associates, a partnership firm in which Director of MM Ltd. is also a managing partner, with a profit sharing ratio of 30%. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by 1.50 Lakh per month. Whilst the transaction was accounted in the financial statements based on the amounts paid, no separate disclosure has been made in the notes forming part of the accounts. Give your comments.



Answer: Refer Para 3(xiii) of CARO, 2020

Question 27:

You are appointed as the Auditor of XMP Pvt. Ltd. for financial year 2022-23 after the resignation of RS & Co. Chartered Accountants, as statutory auditor of the company. RS & Co., had certain concerns on the accounting matters of the company, leading to change of auditors. All compliance u/s 139 & 140 are made by the company with regard to resignation appointment. During the course of audit, it came to your notice that a survey has been conducted on December 7, 2022 by the Income Tax Department and department has unearthed unrecorded sales 5 lakhs which had been made in cash in different dates during the year 2021-22 XMP Pvt. Ltd. purchased from such collections and these transactions are not recorded. Company surrendered and disclosed these transactions before the assessing officer and paid taxes thereon. However, company has not recorded those transactions in books of account even after surrender before Income Tax authorities. Comment.



Answer: Report as per CARO clause (xviii) of para 3

9

SPECIAL FEATURES OF AUDIT OF DIFFERENT TYPES OF ENTITIES

PART 1 - DIFFERENT ENTITIES

Question 1:

CA Akash Virmani is auditor of a partnership firm consisting of 4 partners. During the year, one of the partners has retired and another partner has joined the next day. Discuss, any one point, which shall be considered by you to ensure that financial statements of firm are not misstated due to change of constitution of firm.

 **Answer:**

Considerations in case of change in constitution of firm:

- Auditor shall consider provisions of retirement deed/partnership deed for date of retiring and joining of partners. It should be ensured that profits are appropriately distributed up to date of retirement
- Further, profits after retirement should have been distributed among partners as per terms of new partnership deed.

Question 2:

What are the advantages of the audit of the accounts of partnership firm.

 **Answer:** Advantages of Audit of Partnership Firms

Question 3:

Mention Important points which auditors will consider while conducting audit of accounts of a partnership firm.

Or

There are certain points which are required to be considered specially in the audit of accounts of a partnership. Discuss any three points briefly.

 **Answer:** Points to be considered in Audit of Partnership Firms

Question 4:

Tomo Construction Engineering LLP approached CA K to understand various returns to be maintained and filed by them, Guide/Discuss the various returns to be maintained and filed by them.



Answer: Returns to be maintained and filed by an LLP.

Question 5:

Ban I.L.P is formed during the year 2023-24. They are not sure about the type of books of account to be maintained. What are the books of account that the LIP is required to maintain?



Answer: Books of account to be maintained by LLP

Question 6:

Mention the special point to be examined by the auditor in the audit of a charitable institution running hostel for students pursuing the Chartered Accountancy Course and which charges INR 500 per month from a student for their lodging / boarding.



Answer: Point to be examined in audit of a Charitable Institution.

Question 7:

In the case of audit of a charitable institution, what attentions should be paid by auditor regarding audit of expenditure items?

OR

CA B is appointed as the auditor of a Public Charitable Trust. Guide him the focus area of attention relating to the vouching and verification of expenditure of charitable institution.



Answer: Audit of Expenditure items in case of Charitable Institution

Question 8:

How will you vouch/verify the following: Investments income in the case of charitable institution.



Answer: Investment Income in the case of Charitable Institution.

Question 9:

How will you vouch/verify the following: Investments income in the case of charitable institution.



Answer: Investment Income in the case of Charitable Institution.

Question 10:

CA A is appointed as the auditor of a charitable Institutions. Discuss the audit procedure undertaken by him while auditing the Subscription and Donation received by the charitable institution.



Answer: Audit Procedure in audit of Subscriptions & donations.

Question 11:

M/s T & Co. Chartered Accountants, a partnership firm, is appointed as an auditor of Treatment Hospital run by Smile Foundation, a charitable trust. Over and above the receipts of treatment of patients. During the year trust has received donations from various donors to treat COVID-19 patients and also incurred some capital expenditure for further development of the hospital. On some of the investment income, income tax has been deducted. What are the special points to be considered by M/s T & Co. while auditing such transactions of Treatment Hospital?



Answer:

Audit of Charitable trust:

- (a) Donations
- (b) Capital Expenditure
- (c) Tax deducted on Investment Income

Question 12:

You are auditor of a school operating in your city. During audit of a year, it is noticed that fees concessions to students have been provided in substantial number of cases. Discuss, how, you as an auditor, would proceed to verify the same?



Answer:

Audit procedure in case of a School w.r.t. Fees Concessions:

- Fees concessions have to be under proper authority of school management. Auditor would verify internal controls in this regard.
- Besides, detailed checking of few cases needs to be undertaken to ensure genuineness of fees concessions and proper management approvals

Question 13:

Mention the eight Important points which an auditor will consider while conducting the audit of educational institutions. Or

What are the special steps involved in conducting the audit of an Educational Institution?



Answer: Points in audit of Educational Institutions (School).

Question 14:

GSR & Co. has been appointed as an auditor of Tagore School. Engagement team wants to verify Fees from students in detail. Advise the audit procedure to be followed by the engagement team.

 **Answer:** Audit procedure for verify fee from students.

Question 15:


You have been appointed as an auditor of VJM Schools. Discuss the points which merit your consideration as an auditor while verifying assets and Liabilities of VJM Schools.

 **Answer:** Verifying Assets & Liabilities of an Educational Institution.

Question 16:

Explain and also state the role of auditor with respect to the following in case of a school:

- (i) The fees from the students.
- (ii) Other Receipts/Grants & Donations.

 **Answer:**

Role of Auditor with respect to audit of School:

- (i) Fee from Students
- (ii) Other receipts/Grants & Donations

Question 17:

A multi-speciality hospital has come up in your city. You are appointed as auditor for first year. Discuss, any four, broad areas to be kept in mind while conducting audit of accounts of such a newly opened multi-speciality hospital.

Or

The general transactions of a hospital include patient treatment, collection of receipts, donations, capital expenditures. You are required to mention special points of consideration while auditing such transactions of a hospital?

Or

Mention any 8 special points which you as an auditor would look into while auditing the books of account of Hospital.

Or

You have been appointed auditor of M/s. Divine Children Hospital. Discuss any four important points that would attract your attention while audit.

 **Answer:** Points in Audit of books of account of Hospital.

Question 18:

You have been appointed as internal auditor of 'City Club' in Delhi. The receipts of the club were 50 lakhs during the previous year ending 2023-24. You are required to mention special points of consideration while auditing such receipts of the club.

Or

State the points which merit consideration in the audit of a CLUB w.r.t its members.

 **Answer:**

Points which merit consideration in the audit of a CLUB w.r.t its members.

Question 19:

Cine Screen Multiplex Ltd. is operating cinemas in different locations in Mumbai and has appointed you as an internal auditor. What are the areas that need to be verified in relation to receipts from sale of Tickets?

 **Answer:** Verification points in receipts from sale of tickets.

Question 20:

M/s PQ & Co., Chartered Accountants have been appointed as statutory auditor of CBD Multiplex Cinema Ltd. The audit team started the audit and verified the ledger and other books of account for the F.Y 2023-24. However, one of the team members is of the view that the internal control mechanism of the company should also be verified. Can you guide the audit team about the areas that will be covered in verifying the internal control mechanism?

 **Answer:** Internal control mechanism of a multiplex.

Question 21:

As an auditor, how will you verify the hire purchase transaction in the case of an entity engaged in the business of hire purchase?

 **Answer:** Verification of Hire-purchase transactions.

Question 22:

Define the different types of lease agreements as per Accounting Standard/Ind-AS.

 **Answer:** Different Types of Lease Agreements.

Question 23:

Explain and also state the role of auditor with respect to the following in case of a hotel:

- (i) Pilfering is one of the greatest problems in any hotel and the importance of internal control cannot be undermined.

- (ii) The inventories in any hotel are both readily portable and saleable. Areas where large quantities of inventory are held should be kept locked.



Answer: (i) Internal control (ii) Inventories

Question 24:

You have been appointed as an auditor of ABC Hotel, a three star hotel, for Financial Year 2023-24. As an auditor what are the special points that need to be considered in verifying the Inventories in the nature of food and beverages?



Answer: Verification of inventories in the nature of food and beverages.

Question 25:

Explain and also state the role of auditor with respect to the following in case of a hotel:

- (i) Inventories
- (ii) Travel agents & shops.



Answer:

- Verification of Inventories
- Verification of Travel agents & shops

Question 26:

As an auditor, explain the areas of consideration while auditing the element of ROOM SALES during the audit of a 5-Star Hotel.



Answer: Areas of consideration while auditing ROOM SALES during the audit of a Hotel.

Question 27:

An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations.



Answer:

- Audit of Donation Receipts.
- Remittance of Donations to Different NGOS.

Question 28:

You have been appointed as an auditor of an NGO, briefly state the points on which you would concentrate while planning the audit of such an organisation?

Or

While planning the audit of an NGO, the auditor may focus on Knowledge of the NGO's work, Its mission and vision, Updating knowledge of relevant statutes especially with regard to recent amendments, circulars etc. Explain the other relevant points the auditor needs to focus while planning the audit of NGO.



Answer: Points to be concentrated while planning an audit of an NGO.

Question 29:

As an Auditor of NGO, how do you check/verify atleast four receipts of income during the year?



Answer: Examination of Receipts of Income of NGO.

Question 30:

The audit programme of NGO should include in a sequential order all assets, liabilities, income and expenditure ensuring that no material item is omitted. Explain.



Answer: Audit programme of NGO.

PART 2 - AUDIT OF CO-OPERATIVE SOCIETIES**Question 1:**

A society has been formed by pan India employees of a public sector bank. The purpose of society is to promote savings habits of members and to grant loan to them up to a small specified amount. Small savings are promoted amongst members by way of compulsory contribution from monthly salary. Identify type of society and also discuss nature of books of accounts to be maintained by such a society.



Answer: Maintenance of books

Question 2:

Discuss, In what circumstances, Central Registrar can hold an inquiry into working and financial condition of a multi-state cooperative society.



Answer: Circumstances when inquiry may be hold or ordered

Question 3:

Multi-State Co-operative Societies Act, 2002 states that a person who is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949 can only be appointed as auditor of multi-state co-operative society. Explain stating also the persons who are not eligible for appointment as auditors of a multi-state co-operative society.



Answer: Qualifications of Auditors of Multi-State Co-operative Societies.

Question 4:

Briefly explain the provisions for qualification and appointment of Auditors under the Multi-State Co-operative Societies Act, 2002.



Answer:

Qualifications of Auditors of Multi-State Co-operative Societies.

Question 5:

Central Govt. hold 55% of the paid-up share Capital in Kisan Credit Co-operative Society, which is Incurring huge losses. Advise when the Central Government can direct Special Audit under Section 77 of the Multi State Co-operative Society Act.



Answer: Circumstances requiring Special Audit.

Question 6:

As per Multi-state Co-operative Societies Act, 2002, the auditor shall make a report to the members of the Multi-state co-operative society on the accounts examined by him and on every balance-sheet and profit and loss account and on every other document required to be part of or annexed to the balance-sheet or profit and loss account. Explain

 **Answer:** Auditor's Duties on Reporting of accounts and financial statements.

Question 7:

You are appointed as an auditor of co-operative society. State the special features of the co operative audit to be borne in mind by the auditor, concerning:

- (i) Audit classification of society.
- (ii) Discussion of draft audit report with the managing committee.

 **Answer:**

Audit of Co-operative Society:

- (1) Audit classification of society.
- (2) Discussion of draft audit report with managing committee.

Question 8:

No inspection under Section 79 of Multi-State Co-operative Societies Act, 2002 shall be made unless a notice has been given to the multi-state co-operative society. Explain stating clearly when and how such Inspection can be made. Also state the powers available with the Central Registrar in this regard along with provisions relating to communication of the inspection report under the said section.

 **Answer:** Inspection of Multi-State Co-operative societies u/s 79.

Question 9:

CA, Z, a Chartered Accountant is the Senior manager of a Multi State Co-operative society in Mumbai. He is proposed to be appointed as an auditor of the said Multi-State Co-operative society. Analyse the provisions of the Multi-State Co-operative Societies Act, 2002 and comment on validity of proposed appointment.

 **Answer:** Appointment of Auditor in co-operative Society.

PART 3 - (A) GOVERNMENT AUDIT**Question 1:**

It is the duty of Comptroller and Auditor General of India to audit and report on all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it. Discuss, in above context, what is understood by "Consolidated Fund of India"? What is its importance?

**Answer:**

Consolidated Fund of India and its importance:

- Consolidated Fund of India consists of all the revenue received from direct and indirect taxes, all the loans taken by the Govt. of India and all the amount of repayment of loans received by the Govt. of India.
- Its importance lies in the fact that all government expenditure is incurred from this fund. No moneys out of the Consolidated Fund of India shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution.

Question 2:

Define Government Audit and explain its objectives.



Answer: Government Audit and its objectives.

Question 3:

Explain in detail the duties of Comptroller and General of India.



Answer: Government Audit and its objectives.

Question 4:

Discuss the power of C&AG in Government audit.



Answer: Powers of C & AG in connection with the performance of his duties

Question 5:

The Comptroller and Auditor General shall be responsible for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit

and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such account. Explain.

 **Answer:** C & AG responsibility for compiling the accounts of the Union and State;

Question 6:

Write basis standards set for Expenditure Audit of Government.

 **Answer:** Basic Standards for audit of government expenditure.

Question 7:

Audit against the propriety seeks to ensure that expenditure conforms to certain principles. Explain.

 **Answer:** Principles of Propriety Audit.

Question 8:

Audit against rules and orders aims to ensure that the expenditure conforms to the relevant provisions of the Constitution and of the laws and rules made thereunder. The job of audit is to see that these rules, regulations and orders are applied properly by the subordinate authorities. It is, however, not the function of audit to prescribe what such rules, regulations and orders shall be. Analyse and Explain.

 **Answer:** Audit against Rules and orders.

Question 9:

The auditor of a Govt Company has to ensure that each item of expenditure is covered by a sanction, either general or special, of the competent authority. Explain.

 **Answer:** Audit of Sanctions

Question 10:

"Public moneys should not be utilised for the benefit of a particular person or section of the community". List out the exceptions to this rule while audit against propriety.

 **Answer:** Exceptions to the rule of to audit against propriety:

Question 11:

PQR Ltd., a government company, constructed a building in conformity with rules and regulations for installing a telephone exchange but not used for the same purpose resulting in the infructuous expenditure. Considering the above case, explain the type of expenditure audit to be performed to curb the situation.

Answer: Propriety audit:

Question 12:

Audit against rules and orders aims to ensure that expenditure conforms to the relevant provisions of the Constitution and of the laws and rules made thereunder. These rules, regulations and orders against which regularity audit is conducted fall under various categories. Explain.



Answer: Audit against rules and orders.

Question 13:

SK & Co, a Chartered Accountant firm has been appointed an auditor of Metro Rail project in City A. Since the project is on large scale it involves a high volume of resources (financial, human and physical resources). The appointing authority C&AG requires an objective examination of the financial and operational performance of the Metro Rail project. Explain the nature and scope of audit that SK & Co will undertake.



Answer: Efficiency cum performance audit.

Question 14:

The audit of receipts of government is not as old as audit of expenditure but with the rapid growth of public enterprises audit of receipts tax or non-tax has come to stay. Discuss audit of receipts with respect to Government Audit.



Answer: Audit of Receipts.

Question 15:

In case of Government entities, audit of accounts of stores and inventories has been developed as a part of expenditure audit. Discuss about the duties and responsibilities entrusted to C&AG.



Answer: Audit of Accounts of Stores and Inventories in Government Companies.

PART 3 - (B) AUDIT OF LOCAL BODIES**Question 1:**

Explain the different types of revenue grants which local bodies may receive.

 **Answer:** Different types of revenue grants


Question 2:

The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. Explain stating Important objectives of audit of such bodies.

 **Answer:** Important objectives of local body's audit.

Question 3:

CA Sevak is appointed as an auditor of a Municipal Corporation of a big smart city. He wants to verify various expenditures of the Municipality. Define the term "Municipality" and state what are the heads under which expenditures incurred by the Municipalities and Corporations can be broadly classified?

 **Answer:**
Meaning of Municipality: Heads under which expenditures incurred by the Municipalities and Corporations can be broadly classified.

10

AUDIT OF BANKS

Question 1:

There are different types of banks prevailing in India. Explain giving examples of such banks.

 **Answer:** Different types of banking institutions prevailing in India are as follows.

Question 2:

The functioning of banking industry in India is regulated by the Reserve Bank of India (RBI) which acts as the Central Bank of our country. Explain.

 **Answer:** RBI – Regulating Body.

Question 3:

List out any four points which highlight peculiarities involved in banking operations.

 **Answer:** Peculiarities involved in banking operations.

Question 4:

Your firm of auditors, SRG & Co, has been appointed as Statutory Central Auditors of Reliable Bank Explain the reporting requirements of the Statutory Central Auditors (SCAs) In addition to their main audit report.

 **Answer:**

Reporting requirements of the Statutory Central Auditors (SCAs) in addition to their main audit report.

Question 5:

The financial statements of a bank are prepared in a specified format. Discuss legal provisions in this regard as applicable to financial statements of a nationalized bank.

 **Answer:** Form and Content of F.S.

Question 6:

In the case of a nationalised bank, the auditor is required to make a report to the Central Government. The report of auditors of State Bank of India is also to be made to the Central Government and is almost identical to the auditor's report in the case of a nationalised bank. Explain what would the auditor state in his report.

 **Answer:** Auditor's Report in case of Nationalised Banks.


Question 7:

"If an accounting professional, whether in the course of internal or external audit or in the process of institutional audit finds anything susceptible to be fraud or fraudulent activity or act of excess power or smells any foul play in any transaction, he should refer the matter to the regulator. Any deliberate failure on the part of the auditor should render himself liable for action". Analyse and explain the above RBI Circular regarding liability of accounting and auditing profession.

 **Answer:** Reporting of Fraud to RBI.

Question 8:

Ranjana Ceramic Private Limited is sanctioned a cash credit facility of ₹ 100 lacs from a branch of LMO Bank. Besides, branch has also sanctioned a one-time bank guarantee of ₹10 lacs on behalf of the company in favour of a statutory authority. Discuss, what type of credit facilities have been sanctioned by branch of LMO bank to the company along with probable purpose for each of credit facility.

 **Answer:**

Classification of Advances.

Cash credit facility sanctioned by bank to company is in nature of funded credit facility. Its purpose is to meet working capital requirements of business.

Bank guarantee sanctioned to the company is in nature of non-funded credit facility. Its probable purpose could be requirement of a guarantee by a statutory authority in exchange of company fulfilling some statutory obligations.

Question 9:

In case of a Bank, explain the meaning of Funded loans. Also give examples.

 **Answer:** Funded Loans

Question 10:

Distinguish between Primary Security and Collateral Security with reference to audit of Banks. Also give examples of most common types of securities accepted by the Banks.



Answer: Primary Security and Collateral Security.

Question 11:

Mr. A approaches a bank for financial assistance for his upcoming project. The bank branch manager, after verifying the proposal, is agreeable to financial Mr. A, but asks for the security of be offered to the bank. Discuss the nature of securities required to be offered to the bank.



Answer: Nature of Securities to be offered.

Question 12:

Depending on the nature of the item concerned, creation of security may take the form of a mortgage, pledge, hypothecation, assignment, set-off or lien. Explain with specific reference to Audit of Banks.

OR

Explain hypothecation and assignment as the modes of creation of security with respect to advance granted by a bank.



Answer: Modes of creating securities.

Question 13:

Explain pledge and set off as the modes of creation of security with respect to advance granted by a bank.



Answer: Pledge and set-Off.

Question 14:

There are different provisioning requirements as regards to categories of NPA such as sub-standards assets. Doubtful assets and loss assets. Explain in detail.



Answer: Provisioning Requirements of NPA.

Question 15:

During course of audit of branch of a nationalized bank, you find that system has generated a report marking ten term loan accounts as SMA. Discuss, meaning of SMA accounts and significance of such a classification.

OR

CA. Puranjay is appointed as statutory branch auditor of two branches of a nationalized bank for year 2023-24. While verifying advances of one semi-urban branch, he noticed

substantial number of accounts categorized as SMA (Special Mention Accounts). In this context, explain the nature and significance of SMA

 **Answer:** Special Mention Accounts (SMA)

Question 16:

Account of a borrower availing cash credit facility from branch of a bank has become “Out of order.” Discuss the term “Out of order”.

 **Answer:** Out of Order in relation to Classification of Advances.

Question 17:

“Ramjilal & Co. had been allotted the branch audit of a nationalised bank for the year ended 31st March, 2024. In the audit planning, the partner of Ramjilal & Co. observed that the allotted branches are predominantly based in rural areas and major portion of the advances were for agricultural purpose.” Now be needs your assistance on the following points so as to incorporate them in the audit plan:

- (i) For determine of NPA norms for agricultural advances.
- (ii) For accounts where there is erosion in the value of security/frauds committed by the borrowers.

 **Answer:**

- (i) NPA Norms for agricultural advances.
- (ii) NPA Norms where there is erosion in the value of security/frauds committed by the borrowers.

Question 18:

Explain “Advances under Consortium” in the context of Prudential Norms on Income Recognition, Asset Classification and provisioning pertaining to Advances.

 **Answer:** Advances under Consortium.

Question 19:

N Ltd. has been sanctioned a Cash Credit Facility by XYZ Bank Ltd. for ₹ 1 crore and drawing power as per the Stock Statements furnished for the last quarter is ₹ 80 Lakh. Outstanding balance in the account is ₹ 75 lakh. Interest charged to the account is ₹ 3.5 lakh and total credit into the account for the quarter is ₹ 2.5 Lakh. As an auditor how will you report this account in your report.

 **Answer:** Conclusion : Auditor should report the account as non- performing advance in the report

Question 20:

Explain the categories of Agricultural Advances in case of Banks and related NPA norms.


OR

When is an agricultural advance considered as non-performing as per the RBI guidelines?

 **Answer:** NPA Norms for Agricultural Advances.

Question 21:

CARD Ltd. is into the banking business and handles large amount of loans and advances of different kinds. Non-performing assets are on the rise since last two quarters. The management is concerned with correct provisioning for the same. CA R is appointed to check whether correct provisioning of NPA's is being made by the bank or not. What are the aspects that will be verified by CA R for this purpose?

 **Answer:**

Aspects to be verified by CA R to check correct provisioning of NPAs:

- (a) For audit of Provisions, the auditors should ensure that the compliances for various regulatory requirements for provisioning as contained in the various circulars have been fulfilled.
- (b) The auditor should obtain an understanding as to how the bank computes provision on standard assets and non-performing assets. It will primarily included checking the basis of classification of loans and receivables into standard, sub-standard, doubtful, loss and non-performing assets.
- (c) The auditor may verify the loan classification on a sample basis.
- (d) The auditor should obtain the detailed break up of standard loans, non-performing loans and agree the outstanding balances with the general ledger.

Question 22:

When are following considered as non performing as per the RBI guidelines:

- (i) Government guaranteed advances
- (ii) Advances to staff

 **Answer:** Classification of Advances as NPA

Question 23:

CA P is conducting stock audit of a borrower availing cash credit facility of ₹ 100 lacs from branch of a bank. The cash credit facility is against security of paid stocks and debtors up to 90 days. Margin stipulated is 25% for stock and 40% for debtors.

Followings further information is available as on 31.12.23

Value of stocks	₹ 125 lacs
Value of stocks (fully damaged) included in above	5 lacs
Value of debtors	50 lacs
Value of debtors exceeding 90 days included in above	10 lacs
Value of creditors for goods	50 lacs

Is Drawing Power computed by CA P for ₹ 82.50 lacs proper?

 **Answer:**

Computation of Drawing Power:

Value of stocks as on 31.12.23	125 lacs
Less: value of damaged stocks	5 lacs
	120 lacs
Less: creditors for goods as on 31.12.23	50 lacs
Value of Paid stocks	70.00 lacs
Less: Margin @ 25%	17.50 lacs
Drawing power (A)	52.50 lacs
Value of debtors as on 31.12.23	50 lacs
Less: debtors exceeding 90 days	10 lacs
	40 lacs
Less: Margin @40%	16 lacs
Drawing Power (B)	24 lacs
Drawing Power (A+B)	76.50 lacs

Conclusion: Drawing power calculated by CA P is not proper. Drawing Power comes to ₹76.50 lacs.

Question 24:

In a bank, all accounts should be kept within the drawing power and the sanctioned limit. The accounts which exceed the sanctioned limit or drawing power should be brought to the notice of the management regularly. Analyse the following points to be considered in the computation of drawing power in case of bank audit.

- (i) Bank's Duties
- (ii) Auditor's concern
- (iii) Computation of DP
- (iv) Stock audit

 **Answer:** Drawing Power

Question 25:

Compute the Drawing Power for Cash Credit A/c of S Limited for the month of March 2023 with following information:

	(Amount in ₹)
Stock	50,000
Debtors	45,000
(including Debtor of ₹5,000 for an invoice dated 17.11.2022)	
Sundry creditors	15,000
Sanctioned Limit	45,000
Margin on stock is 20% and on debtors is 50%.	

Note: Debtors older than 3 months are ineligible for calculation of DP.



Answer:

Computation of Drawing Power

	Particulars of Current Assets		Drawing power (₹)
(A)	Stock		
	Stock at realisable value	50,000	
	Less: Unpaid Stock		
	Creditors	15,000	
	Paid for Stocks	35,000	
	Less: Margin @20%	7,000	28,000
(B)	Debtors		
	Total debtors	45,000	
	Less: Ineligible debtors	5,000	
		40,000	
	Less: Margin @ 50%	20,000	20,000
	Total eligible amount	48,000	
	Drawing Power (Cannot exceed sanctioned limit)		45,000

Question 26:

A Ltd. has availed Cash Credit facilities against Stock and Book Debt. Term Loan for machineries and Bank Guarantee from Big Bank Ltd. A Ltd. furnishes stock statements and age wise list of debtors to Big Bank Ltd. on regular basis. Concurrent Auditors of Big Bank Ltd. mentioned about wrong calculation of Drawing Power by the Bank Branch along with sanctioned limit, and balances overdrawn due to wrong calculation of Drawing Power (DP) in the monthly report. Explain the meaning of drawing power and how it differs from sanctioned limit? What is to be ensured while computing Drawing Power (DP)?

 Answer:

Drawing Power

- (a) Meaning
- (b) Drawing Power vs. Sanctioned Limit
- (c) Computation of DP

Question 27:

TEP Industries Private Limited, a company engaged in obtaining rice from paddy, is enjoying a cash credit facility against hypothecation of paid stocks and book debts (eligible up to 90 days only) from LMV Bank for ₹ 4.00 crore. The letter sanctioning the above credit facility stipulates margin 25% on stocks and @ 40% on eligible book debts up to 90 days.

While preparing stock statement as on 30.6.23, accountant of the company calculates value of stocks for ₹ 5 crore (Including ₹ 1 crore of rice which was lying in a low lying godown and was completely damaged during recent floods caused by river Yamuna). Debtors outstanding as on 30.6.23 are ₹ 3 crore (including ₹ 50 lacs outstanding for last 6 months). Trade creditors outstanding as on date are ₹ 2 crore. He calculates DP as on 30.6.23 for ₹ 3.30 crore. Is he correct? Justify with your workings. What does drawing power calculated by you signify to the borrower company?

 Answer:

Computation of Drawing Power: The calculation of DP is as under:

	₹
Value of stocks as on 30.6.23	5.00 crore
Less: value of damaged stocks	1.00 crore
Value of stocks considered as on 30.6.23	4.00 crore
Less: Trade creditors	2.00 crore
Paid stocks	2.00 crore
Less: Margin @ 25%	0.50 crore
Drawing power for stocks [A]	1.50 crore
Value of Trade debtors	3.00 crore
Less: Debtors outstanding for more than 90 days	0.50 crore
	2.50 crore
Less: Margin @ 40%	1.00 crore
Drawing power for Book debts [B]	1.50 crore
Total drawing power [A+ B]	3.00 crore

Accountant's DP calculation is not correct. The drawing power of ₹ 3.00 crore signifies that company can utilize funds to the tune of ₹ 3.00 crore only against sanctioned cash credit limit of ₹ 4.00 crore.

Question 28:

Advances generally constitute the major part of the assets of the bank. There are large number of borrowers to whom variety of advances are granted. The audit of advances requires the major attention from the auditors. In carrying out audit of advances, the auditor is primarily concerned with obtaining evidence about, among other points, the amounts included in balance sheet in respect of advances are outstanding at the date of the balance sheet, Explain.



Answer:

Auditor's considerations while obtaining evidence in carrying out audit of advances.

Question 29:

The auditor can obtain sufficient appropriate audit evidence about advances by study and valuation of internal controls relating to advances. Explain in the context of Audit of Banks.



Answer: Evidences in respect of Advances

Question 30:

"The Auditor should examine the efficacy of various internal controls over advances, to determine the nature, timing and extent of his substantive procedures." Discuss briefly.

OR

The auditor should examine the efficacy of various internal controls over advances in case of Banks to determine the nature, timing and extent of his substantive procedures. Explain what is included in the Internal controls over advances.



Answer: Aspects of Internal Control in the area of loans and advances.

Question 31:

You are verifying interest on deposits paid by branch of a nationalized bank. Discuss, any two "analytical procedures", to verify interest on deposits paid by branch.



Answer:

"Analytical procedures", to verify interest of deposits.

Question 32:

Write a short note on reversal of income under bank audit.

Or

In view of the significant uncertainty regarding ultimate collection of income arising in respect of non-performing assets, the guidelines require that banks should not recognize income on non-performing assets until it is actually realised. When a credit facility is classified as non-performing for the first time, interest accrued and credited to the income account in the corresponding previous year which has not been realized should be reversed or provided for. This will apply to Government guaranteed accounts also. Analyse and explain.

 **Answer:** Reversal of Income

Question 33:

CA. Puranjay is appointed as statutory branch auditor of two branches of a nationalized bank for year 23-24. While verifying Interest income of a mid-corporate branch of an urban centre having advances consisting of only cash credit limits for large borrowers, It was noticed that advances of ₹300 crores were outstanding as on balance sheet date carrying average interest rate @ 8% p.a. One articulated clerk in audit team makes quick back of the envelope calculations of interest income of ₹ 24 crores on advances. However, schedule of profit & loss a/c shows interest income on advances for ₹10 crores. Discuss any two probable reasons for such variation.

 **Answer:**

The probable reasons for difference in interest calculation could be due to following:

- (i) Cash credit accounts, by their very nature, are running accounts and their utilization depends upon needs of business. Further, interest on cash credit account is charged on the extent of funds utilized by the borrower. It could be possible that all cash credit limits were not fully utilized during the year which resulted in lower interest income.
- (ii) Some large accounts may have been sanctioned during later part of the year resulting in lower Interest income on advances for whole year.

Question 34:

In carrying out audit of income, the auditor is primarily concerned with obtaining reasonable assurance that the recorded income arose from transactions, which took place during the relevant period and pertained to the bank, there is no unrecorded income and the income is recorded at appropriate amount. Explain the Audit Approach and Procedures regarding following points in the above context:

- (i) RBI's Directions
- (ii) Materiality
- (iii) Revenue Certainty
- (iv) Revenue Uncertainty



Answer:

Audit Approach and Procedures:

- (i) RBI's Directions
- (ii) Materiality
- (iii) Revenue Certainty
- (iv) Revenue Uncertainty

Question 35:

In carrying out an audit of interest expense, the auditor is primarily concerned with assessing the overall reasonableness of the amount of interest expense. Analyse and explain stating the audit approach and procedure in regard to interest expense.



Answer: Verification of Interest Expenditure.

Question 36:

Discuss outline of audit approach including audit procedures while auditing "provisions and contingencies in financial statements of a bank.

Or

You are appointed as statutory audit of DEF Bank Limited for the year 2023-24. As an auditor how will you verify provision created by DEF Bank Limited?



Answer: Audit Procedure for Verification of Provisions and Contingencies

Question 37:

Explain the following in the context of Bank audit:

- (a) For audit of operating expenses, the auditor should study and evaluate the system of internal control relating to expenses.
- (b) For audit of Provisions and contingencies, the auditor should ensure that the compliances for various regulatory requirements for provisioning as contained in the various circulars have been fulfilled.



Answer:

- (a) Evaluation of system of internal control relating to expenses
- (b) Audit of Provisions and contingencies

Question 38:

As an Auditor of XYZ Bank Limited, how would you assess the Risk of Fraud including Money Laundering in line with SA 240?

 **Answer:** Assessing Risk of Fraud & money laundering.

Question 39:

“The engagement team should hold discussions to gain better understanding of the bank and its environment, including internal control, and also to assess the potential for material misstatements of the financial statements. All these discussions should be appropriately documented for future reference”. Explain.

 **Answer:**

Engagement Team Discussions

Engagement team should hold discussions to gain better understanding of banks and its environment, including internal control, and also to assess the potential for material misstatements of the financial statements. All these discussions should be appropriately documented for future reference. The discussion should be done on the susceptibility of the bank's financial statements to material misstatements. These discussions are ordinarily done at the planning stage of an audit.

Benefits of discussion:

- Specific emphasis should be provided to susceptibility of bank's F.S. to material misstatement due to fraud, that enables the ET to consider an appropriate response to fraud risks, including those related to engagement risk, pervasive risks, and specific risks.
- Enables EP to delegate the work to experienced ET members, and to determine the procedures to be followed when fraud is identified.
- EP may review the need to involve specialists to address the issues relating to fraud.

Matters to be discussed:

- (a) Errors that may be more likely to occur,
- (b) Errors which have been identified in prior years;
- (c) Method by which fraud might be perpetrated by bank personnel or others within particular account balances and/or disclosures;
- (d) Audit responses to Engagement Risk, Pervasive Risks, and Specific Risks;
- (e) Need to maintain professional skepticism throughout the audit engagement;
- (f) Need to alert for information or other conditions that indicates that a material misstatement may have occurred.

Question 40:

Mr. Piyush, the Bank Manager develops controls to aid in managing key business and financial risks. Discuss the various requirements for an effective risk management system in a bank.

OR

What are the general requirements of an effective Risk Management system in Banks?



Answer: Understanding the Risk Management Process

Question 41:

Discuss importance of implementation of KYC norms by a bank from perspective of an auditor of bank.



Answer: Importance of implementation of KYC norms.

11

ETHICS AND TERMS OF
AUDIT ENGAGEMENTS

Question 1:

Briefly outline how principles-based approach differs from rules-based approach to ethics.



Answer: Principles based approach vs rules based approach

Question 2:

Relevant ethical requirements ordinarily comprise the Code of Ethics for Professional Accountants related to an audit of financial statements Discuss with reference to those fundamental principles of professional ethics.



Answer: 5 fundamental principles

Question 3:

CA P. Suryakantam has conducted audit of accounts of an entity for a particular year. ICAI has issued a letter to him relating to certain matters concerning audit. He didn't even bother to reply to the letter despite reminders. Discuss which fundamental principle governing professional ethics is disregarded by him.



Answer: Professional Behaviour

Question 4:

A Chartered accountant in practice issued a certificate showing original cost of plant and machinery installed in premises of a client for Rs. 9 crores to save some regulatory fees for his client. However, original cost of plant and machinery was Rs.15 crore as per records of client. Which fundamental principle governing professional ethics is violated in this case?



Answer: Integrity.

Question 5:


Independence of mind and independence in appearance are interlinked perspectives of independence of auditors.



Answer: Independence in mind vs Appearance

Question 6:

CA Raman Gupta is offered appointment as auditor of a company. One of his distant uncles held some shares in the same company. Holding of such shares, by a distant relative, is not prohibited under provisions of law nor does it affect his independence. Before he could accept appointment, he received unfortunate news of death of his uncle who had died without any children. He came to know that he was nominee of these shares having substantial value. It landed him in a tricky situation. What should be proper course of action for him?

 **Answer:**

He should take steps to eliminate the threat by selling shares immediately before accepting appointment. Holding of shares of the same company for which he is offered appointment as auditor constitutes threat to his independence.

Question 7:


A Chartered accountant receives about 40% of his total audit fees from a single client. Discuss how it could affect independence of Chartered accountant as auditor of this client. What are such types of threats referred to

 **Answer:**

Undue dependence on fees of a client constitutes a threat as there is fear of losing the client. Such threats are referred to as self-interest threats.

Question 8:

CA Murli Madhavan provides accounting and book keeping services to a leading NGO engaged in environmental protection work. He is also offered audit of the accounts of NGO. Identify and discuss what kind of threat to independence may be involved in accepting such an engagement.

 **Answer:**

In this case, Chartered Accountant is already rendering accounting and book keeping services to an NGO. If he accepts audit, he would be involved in reviewing own work. Therefore, the same constitutes “self-review” threat.

Question 9:

Familiarity threats are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests. Explain

 **Answer:** Familiarity threat

Question 10:

The Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats. State the guiding principles in this regard.



Answer: Safeguards to independence

Question 11:

The auditor should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded as being incompatible with integrity and objectivity. Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements may differ and consequently different threats may exist requiring the application of different safeguards. Explain stating clearly the five types of threats



Answer: 5 threats to independence

Question 12:

Chirag, as part of articulated training, is part of an engagement team conducting audit of a company. He has read somewhere that engagement letter issued by auditor to client also includes expected form and content of the auditor's report. He was at a loss to understand how could an auditor include form and content of the report beforehand. Try to help Chirag by making things clear to him.



Answer:

Engagement letter includes reference to expected form and content of audit report. It merely states that auditor would provide opinion in this form. However, engagement letter also includes statement that the form and content of report may need to be amended in the light of audit findings. Therefore, if in light of audit findings, auditor needs to give a modified opinion, he shall do so.

Question 13:

The management of an entity feels that it is not necessary for it to give in writing explicitly to the auditor that it understands its responsibilities for preparation of FS in accordance with AFRF. Discuss, whether, it is necessary for the management to do so. In case management refuses, why should an auditor not accept the proposed engagement?

 **Answer:**

If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement.

Question 14:

R & Co, a firm of Chartered Accountants have not revised the terms of engagement and obtained confirmation from the clients for last 5 years despite change in business and professional environment.

 **Answer:** Recurring Audit.**Question 15:**


“An auditor who before the completion of the engagement is requested to change the engagement to one which provides a lower level of assurance should consider the appropriateness of doing so.” Discuss.

 **Answer:** Change in TOE**Question 16:**

CA S is requested to accept the appointment as an auditor of Luck Ltd. With reference to SA 210, what should the auditor determine in order to establish whether the preconditions for an audit are present?

 **Answer:** Preconditions**Question 17:**

On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. The auditor may decide not to send a new audit engagement letter or other written agreement each period. Explain the factors an auditor considers to be appropriate to revise the terms of the audit engagement or to remind the entity of existing terms.

 **Answer:** MORONS**Question 18:**

CA P is appointed as an auditor of XYZ Limited for the FY 2022-23. The management of XYZ Limited has requested the auditor to change the terms of original engagement as the company has diversified its business and few new products have been introduced

by the company Can CA P agree to the request made by the management? Under which circumstances can the client make a request to the auditor for a change in terms of engagement?



Answer: Reasonable justification

Question 19:

A Chartered accountant is conducting audit of a client for last two years. Before proceeding to start audit for next year, he notices that there is substantial change in management. Besides, client has ventured into areas of business activity which were not present at time of accepting initial audit engagement. Discuss responsibility of auditor in this regard in context of SA 210



Answer: Recurring audit

Question 20:

CA PK Nair is offered appointment as auditor of a company engaged in providing tourism services. While making due diligence of the proposed client, he comes to know that there have been raids on premises of the company and residences of its directors by National Investigation Agency (NIA) on suspicion of links with terror outfits. It has been followed up with searches by Enforcement Directorate hunting for illicit money trail. There is a strong suspicion of tourism services provided by company being facade of terror funds. Should proposed offer be accepted by him?



Answer: Reasonable justification

Question 21:

The auditors of a company have only relied upon management representation letter regarding treatment of certain tax matters under appeal by the company. The auditors have not carried out any other audit procedures to justify management's treatment of the said tax matters under appeal in the financial statements. What is lacking on part of auditors in such a situation?



Answer:

Auditors have relied only upon management representation letter regarding treatment of certain tax matters under appeal by the company. No other audit procedures to verify management's treatment of such matters under appeal have been performed by auditors. It shows lack of “**professional skepticism**” on part of auditors.

Question 22:

How application of professional skepticism throughout audit is helpful in reducing audit risk?

 **Answer:** Benefits of professional ethics

Question 23:

The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statement to be materially misstated, Discuss any four examples of professional skepticism.

 **Answer:** When to apply

Question 24:

CA PK Nair is offered appointment as auditor of a company engaged in providing tourism services. While making due diligence of the proposed client, he comes to know that there have been raids on premises of the company and residences of its directors by National Investigation Agency (NIA) on suspicion of links with terror outfits. It has been followed up with searches by Enforcement Directorate hunting for illicit money trail. There is a strong suspicion of tourism services provided by company being façade of terror funds. Should proposed offer be accepted by him?

 **Answer:**

Integrity of principal owners has to be considered before accepting an audit engagement in accordance with SA 220 .

In the instant case, there have been raids of NIA on suspected links with terror outfits which is a criminal activity. Further, raids by Enforcement Directorate also point towards money laundering. Therefore, proposed offer should not be accepted.

Question 25:

CA Arpita has joined a mid-sized CA firm recently. She finds that partners remain too busy and the firm is proposing to accept audit work in areas in which it has no experience or capabilities. The firm is proposing to accept audit of some entities engaged in emerging “fin-tech” sector. Such audits may be requiring extensive use of technology and data analytics. However, the said firm has no such capabilities and trained personnel. Discuss, whether, firm should accept such audits with reason.

 **Answer:**

SQC 1 requires that before accepting an engagement, competence (including capabilities, time and resources) to perform engagement have to be considered. In the given case, the

proposed engagements involve use of technology and data analytics. The firm has no prior experience of audits in emerging “fin- tech” sector. The firm does not have trained personnel to carry out these audits. Hence, offer for these audits should not be accepted.

Question 26:

How does SQC 1 ensure that independence in engagements is not breached by an audit firm?

 **Answer:** Ethical requirements under “Elements of System of quality control” in SQC 1.

Question 27:

An engagement partner takes overall responsibility for maintaining audit quality in an audit engagement in accordance with SA 220. What are his objectives in taking and emphasizing such responsibility?

 **Answer:** “Leadership responsibilities for quality on audits” under SA 220.

Question 28:

The firm's system of quality control should include policies and procedures addressing each element

 **Answer:** “Only head points of SQC 1

Question 29:

As per SA 220, the engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. While taking responsibility for the overall quality on each audit engagement, analyse and explain the emphasis of the actions of the engagement partner and appropriate messages to the other members of the engagement team. Also define engagement partner.

 **Answer:** Leadership as per SA 220

Question 30:

The firm should establish policies and procedures designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements. Explain in the above context the purpose of monitoring compliance with quality control policies and procedures.

 **Answer:** Monitoring as per SQC 1