

**Auditing and Assurance Standards pm summary**

**Total number of Questions- 164**

**Chapter 1, 2, 3, 5 & 8 majorly have questions on Standards**

**Chapter 1 PM Key notes**

Q	Question	Concept	Answer Summary
1	<i>"The auditors need not review accounting policies unless there is a change in the basis of accounting". Comment.</i>	SA 200	- basic objective of auditor - describe what is true and fair - consistency and appropriateness of accounting police both need to be examined - therefore the given statement is incorrect
2	<i>Briefly describe the auditor's responsibility regarding subsequent events.</i>	SA 560	- define subsequent events and relate with AS 4 - audit procedures for subsequent events- how mgmt identifies, as per AFRF, written representation etc.
3a	<i>Financial indications to be considered for evaluating the assumption of going concern</i>	SA 570	-ve networth, adverse financial ratio, short term loan for long term assets, negative cash flows, substantial operating losses etc.
3b	<i>Auditor's responsibilities regarding comparatives.</i>	SA 710	Audit procedures to be written- whether correctly brought fwd, proper presentation and disclosure, consistency in application of accounting policies, written representation, subsequent event for last year etc.
3c	<i>Sampling Risk</i>	SA 530	Possibility that Sampling result is significantly different from actual scenario. Give examples for test of controls and test of details
4	<i>Explain what is meant by "Written Representations" and indicate to what extent an auditor can place reliance on such representations.</i>	SA 580	1) Define WR- statement signed by mgmt & addressed to the auditor- give examples 2) WR cannot substitute verification and it is only a supporting evidence
5	<i>There should be sufficient liaison between a principal auditor and other auditors". Discuss the above statement and state in this context the reporting considerations, when the auditor uses the work performed by other auditor.</i>	SA 600	Co-ordinating with other auditor- advising him, discussing significant accounting and auditing requirements, co-ordinating audit procedures with him, considering significant observations of other auditor. If principal auditor relies upon other auditor then mention this in other matter para. If he does not rely and he is unable to obtain evidence for component then Q/D opinion
6a	<i>While commencing the statutory audit of B Company Limited, the auditor undertook the risk assessment and found that the detection risk relating to certain class of transactions cannot be reduced to acceptance level.</i>	SA 200 read with SA 315 and SA 330	-Explain components of audit risk -If detection risk cannot be reduced to an acceptable level means auditor is not satisfied with the evidence that is available, modify opinion (Q/D)
6b	<i>While auditing accounts of a public</i>	SA 240	SA 240- check whether misstatement is

	<i>limited company for the year ended 31st March 2015, an auditor found out an error in the valuation of inventory, which affects the financial statement materially. Comment as per standards on auditing.</i>	read with SA 320	intentional, consider possible effects of a suspected fraud, perform additional procedures SA 320- applying materiality, auditor can modify opinion if not rectified- Q/A opinion
7	<i>Enumerate the 'Basic Elements of Audit Report' as enshrined in SA 700.</i>	SA 700	Title-Addressee-Opinion-basis for opinion-going concern-key audit matters- report on other legal and regulatory requirements-signature,name,firm name, date, place
8	<i>Write a short note on Responsibility of Joint Auditors.</i>	SA 299	Joint and several responsibility - undivided scope of audit - common decisions taken - verify compliance with statutory disclosures in FS and audit report Distinct responsibility For divided and allotted scope of audit
9a	<i>G Ltd. is a mobile phone operating company. Barring the marketing function it had outsourced the entire operations like maintenance of mobile infrastructure, customer billing, payroll, accounting functions, etc. Assist the auditor of G Ltd. as to how he can obtain an understanding of how G Ltd. uses the services of the outsourced agency in its operations.</i>	SA 402	Understanding how user entity is using the services provided by service organisation means risk assessment procedure as per SA 402 - understanding functions outsourced and their significance for user entity - materiality of the transactions processed - contractual terms between UE and SO - degree of interaction between UE and SO
9b	<i>M/s Honest Limited has entered into a transaction on 5<sup>th</sup> March, 2016, near year-end, whereby it has agreed to pay ` 5 lakhs per month to Mr. Y as annual retainer-ship fee for "engineering consultation". No amount was actually paid, but ` 60 lakhs is provided in books of account as on March 31, 2016. Your inquiry elicits a response that need-based consultation was obtained round the year, but there is no documentary or other evidence of receipt of the service. As the auditor of M/s Honest Limited, what would be your approach?</i>	SA 240	- fraudulent financial reporting through mgmt override of controls by such fictitious entries at the year end to manipulate operating results of the entity - Sec 143 (12) - Clause X of CARO 2016 - Withdraw from the engagement after discussion with mgmt and TCWG and fulfilling legal obligations, if any.
10	<i>Mr. X was appointed as the auditor of M/s Easygo Ltd. and intends to apply the concept of materiality for the financial statements as a whole. Please guide him as to the factors that may affect the identification of an appropriate benchmark for this purpose.</i>	SA 320	Benchmark is a % of avg profit, turnover, total assets etc to determine materiality level as a startin point Factors affecting selection of appropriate benchmark are- elements of FS, FI on which users of FS tends to be focused, capital structure, industry and economic environment, life-cycle of the entity
11a	<i>In the course of audit of Z Ltd, its</i>	SA 330	Factors that may warrant a re-test of

	<i>auditor wants to rely on audit evidence obtained in previous audit in respect of effectiveness of internal controls instead of retesting the same during the current audit. As an advisor to the auditor kindly caution him about the factors that may warrant a re-test of controls.</i>		controls: 1. RoMM is high and deficient control environment. 2. Manual element to relevant controls 3. Changes in the application of controls.
11b	<i>In audit plan for T Ltd, as the audit partner you want to highlight the sources of misstatements, arising from other than fraud, to your audit team and caution them. Identify the sources of misstatements.</i>	SA 450	Sources of misstatements - inaccuracy in gathering or processing data - omission of an amount - incorrect accounting estimate - misjudgement in application of accounting policies
11c	<i>The auditor of H Ltd. wanted to obtain confirmation from its trade payables. But the management made a request to the auditor not to seek confirmation from certain trade payables citing disputes. Can the auditor of H Ltd. accede to this request?</i>	SA 505	Whether refusal by management is reasonable? Obtain documents regarding legal disputes. Reassess RoMM If reasons are valid then perform alternate audit procedures and if auditor is not satisfied then Q/D opinion
11d	<i>R &amp; Co, a firm of Chartered Accountants have not revised the terms of engagements and obtained confirmation from the clients, for last 5 years despite changes in business and professional environment. Please elucidate the circumstances that may warrant the revision in terms of engagement.</i>	SA 210	Revision is required in the foll circumstances 1. Changes in AFRF 2. Change in the applicable law 3. Clarity regarding the terms agreed upon earlier 4. Changes in constitution of Mgmt and TCWG 5. Significant changes in the terms
12	<i>Write a short note on Corresponding figures.</i>	SA 710	Explain corresponding figures and auditor's procedures in brief
13a	<i>A fire broke out on 15<sup>th</sup> May, 2015, in which material worth ` 50 lakhs which was lying in inventory since 1<sup>st</sup> March, 2015 was totally destroyed. The financial statements of the company have not been adopted till the date of fire. The management of the company argues that since the loss occurred in the year, 2015-16, no provision for the loss needs to be made in the financial statements for 2014-15.</i>	SA 560	Reference to SA 560 and AS 4 Explain adjusting events Relate with the facts of the case Although new event but it has an impact on going concern and hence it requires adjustment as per AS 4 If it is not adjusted, modify opinion Q/A opinion
13b	<i>While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was outside</i>	SA 250	Explain applicability of SA 250- how other laws which can materially impact the financial statements are important for the auditor. Auditor's responsibilities to investigate such suspected non-compliance

	<i>his scope of the financial audit to look into the compliance with other laws.</i>		Report it to TCWG and regulatory authorities, if reqd. Consider need of legal advice. Report it in audit report if it is not properly reflected in FS (Modify opinion- Q/A)
14	<i>While carrying out the statutory audit of a large entity, what are the substantive procedures to be performed to assess the risk of material misstatement?</i>	SA 330	Explain test of details (Vouching verification to verify A-Amount, C-Classification, P-Presentation and D-Disclosure) Explain Analytical procedures (ratios and comparisons as per SA 520)
15a	<i>ABC Company files a law suit against Unlucky Company for ` 5 crores. The Attorney of Unlucky Company feels that the suit is without merit, so Unlucky Company merely discloses the existence of the law suit in the notes accompanying its financial statements. As an auditor of Unlucky Company, how will you deal with the situation?</i>	SA 570	- relate with AS 29 and requires sufficient disclosures in FS - this case is a material uncertainty over going concern assumption - ask mgmt to perform prel assessment of going concern assumption - if management does not provide adequate disclosures- modify opinion
15b	<i>T &amp; Co. wants to issue a prospectus, to provide potential investors with information about future expectations of the Company. You are hired by T &amp; Co. to examine the projected financial statements and give report thereon. What things you will consider before accepting the audit engagement and what audit evidence will be obtained for reporting on projected financial statements?</i>	SAE 3400	1) Factors to be considered before accepting engagement- intended use of the information, whether it will be a general or limited distribution, the nature of assumptions, elements to be included in the information and the period covered. 2) audit evidence to be obtained- verify source of information, basis of forecast, assumptions made, management representation, whether expert's work is to be used etc.
15c	<i>In the course of audit of K Ltd., its auditor Mr. 'N' observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In absence of the special audit report, Mr. 'N' insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also, the management remained silent. Please guide Mr. 'N'.</i>	SA 240	-Reference to SA 240 - Reference to SA 580- if mgmt does not provide WR then it is an indicator of fraud, re-evaluate integrity of the mgmt, consider disclaimer of opinion. - discuss facts of the case - Sec 143 (12) - Clause X of CARO 2016
15d	<i>During the course of audit of Star Limited the auditor received some of the confirmation of the balances of trade payables outstanding in the</i>	SA 505	- explain positive confo -explain negative confo - compare positive vs negative and conclude that positive is better

	<i>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 ` 15 Lacs, of whom, no confirmation on the credit balance received. Comment with respect to Standard of Auditing.</i>		<ul style="list-style-type: none"> <li>- facts of the case</li> <li>- perform alternate audit procedure and if auditor is not satisfied then modify opinion (Q/D)</li> </ul>
16	<i>Elaborate how the Statutory Auditor can verify the existence of related parties for the purpose of reporting under Accounting Standard 18.</i>	SA 550	<ul style="list-style-type: none"> <li>- give examples of various records and documents</li> <li>- Related party register, investment register, suspicious contracts, minutes of board meeting and audit committee meeting, details of managerial remuneration, shareholders' register, income tax return etc.</li> </ul>
17	<i>In the course of audit of Q Ltd, its statutory auditor wants to be sure of the adequacy of related party disclosures? Kindly guide the auditor in identifying the possible source of related party information</i>	SA 550	<ul style="list-style-type: none"> <li>- similar to question 16</li> <li>- additional content on related party transaction appearing to be biased (outside the normal course of business)- whether it has been adequately disclosed</li> </ul>
18	<i>In the course of audit of A Ltd. you suspect the management has indulged in fraudulent financial reporting. State the possible source of such fraudulent financial reporting.</i>	SA 240	<p>Explain mgmt override of controls i.e. manipulation by mgmt to report fraudulent operating results.</p> <p>Examples of techniques of mgmt override of controls- fictitious entries, altering records, omitting transactions, concealing details etc.</p>
19	<i>The auditor of SS Ltd. accepted the gratuity liability valuation based on the certificate issued by a qualified actuary. However, the auditor noticed that the retirement age adopted is 65 years as against the existing retirement age of 60 years. The company is considering a proposal to increase the retirement age. Comment.</i>	SA 500	<p>It is a case of mgmt expert</p> <ul style="list-style-type: none"> <li>- evaluate competence, understand work performed, whether the work is appropriate</li> <li>- whether he complies with ethical requirements</li> <li>- relevance and reasonableness of the work performed, - reliability of source data, - whether his assumptions and methods are reasonable</li> </ul>
20	<i>State briefly the basic elements of Management Representation Letter.</i>	SA 580	<ul style="list-style-type: none"> <li>- it is written by mgmt</li> <li>- addressed to auditor</li> <li>- to confirm certain matters or to provide additional evidence</li> </ul>
21a	<i>While auditing Z Ltd., you observe certain material financial statement assertions have been based on estimates made by the management. As the auditor how do you measure the risk of material misstatements?</i>	SA 540	<p>Risk assessment procedures under SA 540</p> <ul style="list-style-type: none"> <li>- understand the business and need of estimates</li> <li>- inquire how mgmt recognises the estimates and measures them</li> <li>- method and model used by them, requirements of AFRF, relevant controls, whether expert has been used..</li> </ul>

21b	<i>The accountant of C Ltd. has requested you, not to send balance confirmations to a particular group of trade receivables since the said balances are under dispute and the matter is pending in the Court. As a Statutory Auditor, how would you deal?</i>	SA 505	Similar to 11c
22	<i>Y Ltd. engaged an actuary to ascertain its employee cost, gratuity and leave encashment liabilities. As the auditor of Y Ltd., you would like to use the report of the actuary as an audit evidence. How do you evaluate the work of the actuary?</i>	SA 500	Similar to Q19
23	<i>Write a short note on Frauds through supplier ledger.</i>	SA 240	-Inflating Suppliers Accountant with duplicate invoices - suppressing credit notes - inflating values of items purchased
24	<i>A Co. Ltd. has not included in the Balance Sheet as on 31-03-2016 a sum of ` 1.50 crores being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-04-2016. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2016. The auditor came to know the result of the negotiations on 15-05-2016. Comment.</i>	SA 560	- Reference to SA 560 and AS 4 and AS 29 - explain adjusting event as per AS 4 and requirement of provisions as per AS 29 - refer to the facts of the case - perform audit procedures to obtain audit evidence as per SA 560 - ask mgmt to adjust the sum and if they refuse then modify opinion- Q/A opinion
25	<i>While doing audit, Ram, the Auditor requires reports from experts for the purpose of Audit evidence. What types of reports/opinions he can obtain and to what extent he can rely upon the same?</i>	SA 620	1) Give examples of the matters where expert's work is required- valuation matters, legal opinion etc. 2) auditor can rely only if he reviews his work. However auditor himself remains responsible for expressing an opinion.
26	<i>S Ltd. issued Bonds to the tune of ` 100 lacs and provided security to the tune of ` 80 lacs for the same. It insists that it will disclose the Bonds as "Secured" in the Balance Sheet of the Company. Comment.</i>	Guidance note	the Bonds should be classified under 'Secured Loans' for the purpose of disclosure in the Balance Sheet. However the nature of security should be clearly specified.
27a	<i>In the course of audit of ABC Ltd. its management refuses to provide written representations. As an auditor what is your duty?</i>	SA 580	IF mgmt does not provide WR, then auditor should re-evaluate integrity of mgmt, evaluate the effect on other evidence, issue disclaimer of opinion
27b	<i>While planning the audit of S Ltd.</i>	SA 530	Sampling Risk as explained in Q3c

	<i>you want to apply sampling techniques. What are the risk factors you should keep in mind?</i>		
27c	<i>What are the auditor's responsibilities in respect of corresponding figures?</i>	SA 710	Similar to Q3b
27d	<i>IT systems also pose specific risks to an entity's internal control? What are those risks?</i>	SA 315	RoMM due to IT systems in an entity's Internal Control Examples of Specific Risks are - Unauthorised changes to data - unauthorised access to data - manual element - failure to upgrade systems and programs
28a	<i>'A' Limited has paid minimum alternate tax under Section 115 JB of the Income Tax Act, 1961, for the year ended 31st March, 2016. The company wants to disclose the same as an 'Asset' since the company is eligible to claim credit for the same.</i>	GN on MAT	MAT paid in a year in respect of which the credit is allowed during the specified period under the Income Tax Act is a resource controlled by the company as a result of past event, namely the payment of MAT. The MAT credit has expected future economic benefits in the form of its adjustment against the discharge of the normal tax liability if the same arises during the specified period. Accordingly, such credit is an asset. Thus, if the auditor is satisfied that the probability of the company to claim the said credit is high, it could recognise the same as an asset. In balance sheet it could be shown under the head "Loans and Advances" as MAT credit entitlement.
28b	<i>Moon Limited replaced its statutory auditor for the Financial year 2015-16. During the course of audit, the new auditor found a credit item of ` 5 lakhs. On enquiry, the company explained him that it is, a very old credit balance. The trade payable had</i>	SA 505	It may be a case of income hidden in the previous year where fake purchase entry was passed in prior period. If auditor is not satisfied by alternate procedures then modify opinion
29	<i>Explain briefly duties and responsibilities of an auditor in case of material misstatement resulting from Management Fraud.</i>	SA 240	Similar to 9b
30a	<i>While conducting statutory Audit of ABC Ltd., you come across I Owe you amounting to ` 2 crores as against a cash balance shown in books of ` 2.10 crores. You also observe that despite similar high balances throughout the year, small amounts of ` 50,000 are withdrawn from the bank to meet day-to-day expenses.</i>	SA 240	-reference to SA 240 - reference to Guidance note on audit of cash and bank balances
30b	<i>A Company's net worth is eroded and</i>	SA 570	- Material uncertainty over GC assumption

	<i>trade payables are unpaid due to liquidity constraints. The management represents to the statutory auditor that the promoter's wife is expected to give an unsecured loan to meet the liquidity constraints and that negotiations are underway to secure large export orders.</i>		<ul style="list-style-type: none"> <li>- mgmt does not have a sound plan</li> <li>- GC assumption is inappropriate</li> <li>- modify opinion if proper disclosures are not given in the FS</li> </ul>
31	<i>The audit report of P Ltd. for the year 2014-15 contained a qualification regarding non-provision of doubtful debts. As the statutory auditor of the company for the year 2015-16, how would you report, if: (i) The company does not make provision for doubtful debts in 2015-16? (ii) The company makes adequate provision for doubtful debts in 2015-16?</i>	SA 710	<ul style="list-style-type: none"> <li>- case belongs to corresponding figures and auditor's reporting responsibilities</li> <li>1) if company does not make a provision this year then auditor will modify opinion on CYFS referring to Previous year figures in basis for modified opinion paragraph</li> <li>2) if company makes adequate provision then there is no need to modify opinion on CYFS because material misstatement has been rectified</li> </ul>
32a	<i>You are the auditor of Easy Communications Ltd. for the year 2015-16. The inventory as at the end of the year i.e. 31.3.16 was ` 2.25 crores. Due to unavoideable 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?</i>	SA 501	<ul style="list-style-type: none"> <li>- perform physical verification of inventory as on cut-off date</li> <li>- if not possible then perform as on alternate date</li> <li>- give facts of the case</li> <li>- solution is that auditor should perform the counts as on alternate date, verify procedure adopted by mgmt, obtain WR from them</li> </ul>
32b	<i>You have been appointed as the auditor of Good Health Ltd. for 2015-16 which was audited by CA Trustworthy in 2014-15. As the Auditor of the company state the steps you would take to ensure that the Closing Balances of 2014-15 have been brought to account in 2015-16 as Opening Balances and the Opening Balances do not contain misstatements.</i>	SA 510	Verify brought forward, prior period items, accounting policies have been applied consistently, written representations from mgmt etc.
33	<i>Write a short note on Situations where external confirmations can be used.</i>	SA 505	Bank balance, debtor balance, creditor balance, inventories held by third party, loan from lenders, account payable balances etc.
34	<i>You notice a misstatement resulting from fraud or suspected fraud during the audit and conclude that it is not possible to continue the performance of audit. As a Statutory Auditor, how would you deal?</i>	SA 240	Similar to 9b

35	<i>“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.</i>	SA 260	Matters of governance interest to be communicated - auditor’s responsibility for the financial statements - significant findings of the auditor including significant difficulties encountered by the auditor - auditor’s views about significant accounting policies and practices adopted by the entity
36	<i>State the reporting responsibility of an auditor in the context of non-compliance of Law and Regulation in an audit of Financial Statement.</i>	SA 250	- reporting to TCWG - reporting to regulatory authority - reporting in audit report- when non-compliance is not disclosed in FS and when evidence is not obtained
37	<i>Write a short note on Reporting on a compilation engagements.</i>	SRS 4410	Elements of the report to be issued- title, addressee, assignment is as per srs 4410, description of mgmt and practitioner’s responsibility, identification of AFRF, statement that it is neither an audit nor a review.
38	<i>A Company gets its accounting data processed by a third party to achieve cost reduction. As a Statutory Auditor of such a company, what are the additional precautions/checks that you would consider for conduct of the audit?</i>	SA 402	Risk assessment procedures same as Q9a
39	<i>While examining the going concern assumption of an entity, what important indications should be evaluated and examined?</i>	SA 570	-Financial, operating and other indicators of material uncertainty - write last para on positive indicators mitigating material uncertainty
40	<i>The Managing Director of the Company has committed a “Teeming and Lading” Fraud. The amount involved has been however subsequently after the year end deposited in the company. As a Statutory Auditor, how would you deal?</i>	SA 240	SA 240 + Sec 143(12) + Clause X of CARO 2016
41	<i>Obtaining audit evidence in performing compliance and substantive procedures. Comment.</i>	SA 330	Write audit techniques- Inspection, Inquiry, observation, recalculation, reperformance, confirmation, ratios and comparisons etc.
42	<i>An auditor of Sagar Ltd. was not able to get the confirmation about the existence and value of certain machineries. However, the management gave him a certificate to prove the existence and value of the machinery as appearing in the books of account. The auditor accepted the same without any</i>	SA 580	- WR is not a SAAE - WR cannot substitute verification - WR acts as a supporting evidence - WR does not reduce auditor’s responsibility for performing his planned procedures - Auditor is incorrect in substituting verification by WR

	<i>further procedure and signed the audit report. Is he right in his approach?</i>		
43a	<i>What are 'Initial Audit Engagements'?</i>	SA 510	New auditor has been appointed because 1) PYFS was audited by another auditor 2) PYFS was unaudited i.e. FS are being audited for the first time.
43b	<i>In an initial audit engagement the auditor will have to satisfy about the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements, which may materially affect the current financial statements. Lay down the audit procedure, you will follow in cases (i) when the financial statements are audited for the preceding period by another auditor; and (ii) when financial statements are audited for the first time.</i>	SA 510	Similar to 32b
43c	<i>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 in two situations mentioned in (b) above?</i>	SA 510	-If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a Q/D of opinion, as appropriate. -If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's FS, the auditor shall express a Q/A opinion (is such error is not rectified)
44	<i>M/s LNK's group gratuity scheme's valuation by actuary shows wide variation compared to the previous year's figures. As a Statutory Auditor, how would you deal in this situation?</i>	SA 500	Similar to Q19
45a	<i>Discuss the impact of uncorrected misstatements identified during the audit and the auditor's response to the same</i>	SA 450	-Evaluate Materiality of misstatements, check its size and nature of misstatements, evaluate the effect of uncorrected misstatements while forming an opinion - Obtain WR from mgmt whether they believe that effect of uncorrected misstatements is immaterial
45b	<i>What are the roles and responsibilities of the statutory auditors in relation to compliance with the laws and regulations by the entity?</i>	SA 250	Q13b and Q36
46	<i>While commencing the statutory audit of ABC Company Limited, what should be the considerations of the auditor to assess Risk of Material Misstatement and his response to</i>	SA 315 and SA 330	Explain Risk assessment procedure - identify Risks through understanding the entity and its environment - assess the identified risks and how they can affect various assertions

	<i>such risks?</i>		<ul style="list-style-type: none"> <li>- evaluate relevant controls</li> <li>- consider the likelihood of misstatement</li> </ul> <p>Explain further audit procedures as per SA 330- obtain more persuasive audit evidence the higher the auditor's assessed risk</p>
47a	<i>What are the professional obligations of the auditor who has withdrawn from the audit before completion of his term due to non co-operation of the Management in completing certain audit procedures?</i>	SA 705	<ul style="list-style-type: none"> <li>-practicality of withdrawing from audit will depend upon the stage of completion of the engagement when mgmt has put the limitation</li> <li>- auditor should fulfil his professional and legal obligations e.g. Sec 140(2) of companies act, 2013.</li> </ul>
47b	<i>Discuss the Auditor's responsibility to provide access to his audit working papers to Regulators and third parties.</i>	SQC 1 SA 230	<ul style="list-style-type: none"> <li>- Working papers are property of auditor</li> <li>- auditor has discretionary powers over working papers</li> <li>- Client confidentiality as per CA Act, 1949</li> </ul>
48	<i>In the course of your audit you have come across a related party transaction which prima facie appears to be biased. How would you deal with this?</i>	SA 550	<ul style="list-style-type: none"> <li>- business rationale of the transaction</li> <li>- agreement between entity and related party</li> <li>- who authorized and approved the transaction</li> <li>- whether it was properly disclosed in FS</li> </ul>
49	<i>Write a short note on Intangible Asset vs. Intangible Item.</i>	AS 26	Intangible assets are shown in Balance Sheet whereas intangible items which are not intangible assets are provided as expenditure in Statement of Profit and Loss.
50a	<i>As an auditor of RST Ltd. Mr. P applied the concept of materiality for the financial statements as a whole. On the basis of obtaining additional information of significant contractual arrangements that draw attention to a particular aspect of a company's business, he wants to re-evaluate the materiality concept. Please, guide him.</i>	SA 320	<ul style="list-style-type: none"> <li>- explain the concept of materiality</li> <li>- explain materiality is a relative term</li> <li>- reevaluation required when he comes across new facts and circumstances</li> <li>- revision in materiality will also require revision of performance materiality level</li> </ul>
50b	<i>The financial statements of TC &amp; Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit?</i>	SA 800	<ul style="list-style-type: none"> <li>-Audit of SPFS</li> <li>- obtain an understanding of accounting policies</li> <li>- specific purpose and intended users of FS</li> <li>- re-evaluate the concept of materiality accordingly</li> <li>- whether AFRF is acceptable and as per GAAP</li> </ul>
50c	<i>When a sub-service organization performs services for a service</i>	SA 402 read	- explain inclusive and carve-out method used by Service organisation

	<i>organization, there are two alternative methods of presenting the description of controls. The service organization determines which method will be used. As a user auditor what information would you obtain about controls at a sub-service organization?</i>	with SAE 3402	- explain type1 and type 2 report - user auditor would prefer inclusive method and type 2 report
50d	<i>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 audit report?</i>	SA 510	Similar to Q32b
51	<i>You are engaged to review the system and the information generated from the financial statements. Discuss the elements of the practitioner's report for the Historical Financial Statements review engagement.</i>	SRE 2400	Elements of the report- title, addressee, intro paragraph, mgmt and practitioner's resp, purpose of report, reference to this standard, Conclusion paragraph
52	<i>CA. Ashutosh has been appointed as an auditor of Awesome Health Ltd. for the financial year 2015-16 which was audited by CA. Amrawati in 2014-15. As the Auditor of Awesome Health Ltd., state the steps that CA. Ashutosh would take to ensure that the Closing Balances of the financial year 2014-15 have been brought to account in 2015-16 as Opening Balances and the Opening Balances do not contain any misstatements.</i>	SA 510	Similar to Q32b
53	<i>KRP Ltd., at its annual general meeting, appointed Mr. X, Mr. Y and Mr. Z as joint auditors to conduct auditing for the financial year 2015-16. For the valuation of gratuity scheme of the company, Mr. X, Mr. Y and Mr. Z wanted to refer their own known Actuaries. Due to difference of opinion, all the joint auditors consulted their respective Actuaries. Subsequently, major difference was found in the actuary reports. However, Mr. X agreed to Mr.</i>	SA 299 and SA 620	- explain responsibilities of joint auditor as per Q8 - Mr. Z should issue separate report - Using the work of auditor's expert as per SA 620- whether expert's work is reasonable or not - Mr X and Mr Y will be held responsible but Mr.Z will not be held responsible if he had issued a separate report

	<p><i>Y's actuary report, though, Mr. Z did not. Mr. X contends that Mr. Y's actuary report shall be considered in audit report due to majority of votes. Now, Mr. Z is in dilemma.</i></p> <p><i>(a) You are required to briefly explain the responsibilities of auditors when they are jointly and severally responsible in respect of audit conducted by them and also guide Mr. Z in such situation.</i></p> <p><i>(b) Explain the responsibility of auditors, in case, report made by Mr. Y's actuary, later on, found faulty.</i></p>		
54	<p><i>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 &amp; Co. to conduct its audit for the financial year 2015-16. Mr. O, partner of M/s OPQ &amp; 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 &amp; Co.,</i></p> <p><i>(i) How sufficient appropriate audit evidence regarding the existence and condition of inventory may be obtained?</i></p> <p><i>(ii) How an auditor is supposed to deal when attendance at physical inventory counting is impracticable?</i></p>	SA 501	Full chart of physical verification of inventory as per SA 501
55a	<p><i>CA. Jack, a recently qualified practicing Chartered Accountant got his first audit assignment of Futura (P) Ltd. for the financial year 2015-16. He obtained all the relevant 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 ` 150 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year. CA. Jack, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that</i></p>	SA 510	Refer Q43

	<i>it pertains to the preceding year which was already audited by predecessor auditor. Comment.</i>		
55b	<i>M/s Sureshchandra &amp; Co. has been appointed as an auditor of SC Ltd. for the financial year 2015-16. CA. Suresh, one of the partners of M/s Sureshchandra &amp; Co., completed entire routine audit work by 29<sup>th</sup> May, 2016. Unfortunately, on the very next morning, while roving towards office of SC Ltd. to sign final audit report, he met with a road accident and died. CA. Chandra, another partner of M/s Sureshchandra &amp; Co., therefore, signed the accounts of SC Ltd., without reviewing the work performed by CA. Suresh. State with reasons whether CA. Chandra is right in expressing an opinion on financial statements the audit of which is performed by another auditor</i>	SA 220	<ul style="list-style-type: none"> <li>-work performed by one person should be reviewed by another person before audit report is signed.</li> <li>- CA Chandra should have reviewed the work before signing audit report in order to ensure that report is appropriate</li> </ul>
56	<i>CA. Amboj, a practicing chartered accountant 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. Kishor, the statutory auditor of the Company, for his view and reporting. Can CA. Kishor rely on such report?</i>	SA 610	<ul style="list-style-type: none"> <li>Using the work of internal auditor</li> <li>- extent upto which work can be used</li> <li>- level of competence of internal audit function</li> <li>- organizational status and relevant policies and procedures</li> <li>- final responsibility of expressing opinion is of the statutory auditor</li> </ul>
57a	<i>Mr. A, a practising Chartered Accountant, has been appointed as an auditor of True Pvt. Ltd. What factors would influence the amount of working papers required to be maintained for the purpose of his audit?</i>	SA 230	<ul style="list-style-type: none"> <li>Factors to be considered while maintaining working papers</li> <li>1. Size, nature and complexity of the organisation</li> <li>2. applicable laws</li> <li>3. significance of the evidence</li> <li>4. Methodology of the auditor</li> </ul>
57b	<i>M/s T K Projects Limited, a manufacturing company in the Steel industry was allegedly involved in some irregularity relating to allotment of coal blocks for which a complaint was lodged against the company by the government. The financial institutions stopped additional working capital finance which caused a financial crisis resulting in stoppage of production.</i>	SA 570	<ul style="list-style-type: none"> <li>- material uncertainty over going concern assumption</li> <li>- ask mgmt to perform prel assessment</li> <li>- mgmt doesnot have a sound action plan</li> <li>- going concern assumption is challenged and hence it needs to be disclosed</li> <li>- if mgmt does not disclose it properly then modify opinion- Q/A opinion</li> </ul>

	<i>The company incurred a massive loss during the year 2015-16. There were delays in salary and other payments. Certain key managerial personnel including GM Finance and certain other employees left the company. The company has no sound action plan to mitigate these situations. Guide the statutory auditor on how he should deal with this situation.</i>		
57c	<i>"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". Discuss.</i>	SA 501	Refer Q54
57d	<i>P Limited is a listed company and its business activities are divided into three regions. The company appointed PY &amp; Co., KL &amp; Co. and MK &amp; Co., Chartered Accountants to conduct a Joint Audit and report on the financial statements for the Financial Year 2015-16. Explain the relationship among the joint auditors for the audit of the financial statements for the year 2015-16.</i>	SA 299	Explain responsibilities of joint auditor as per Q8.
58	<i>JY &amp; Co. is appointed as auditor of Breeze Ltd. JY &amp; Co. seeks your guidance for reviewing the records and documentation of the company regarding 'related party transactions in the normal course of business'. Describe the steps to be followed.</i>	SA 550	Records for verifying related party transactions- refer Q16
59a	<i>You are appointed as an auditor of Global Ltd. Explain the risk factors relating to misstatements arising from misappropriation of assets.</i>	SA 240	Risk factors - incentive/pressure - opportunity - attitude/rationalization
59b	<i>While compiling the accounts of Hope Ltd., you observed that a few accounting standards have not been followed and there have been omission of some information which was required to be followed in the current situation. How would you deal with this?</i>	SRS 4410	- bring it to the attention of the mgmt and demand rectification - if not rectified then include it in notes to accounts and compilation report - if it is not allowed then withdraw from the engagement
60a	<i>Mr. Z who is appointed as auditor of Elite Co. Ltd. wants to use confirmation request as audit evidence during the course of audit.</i>	SA 505	Factors to be considered while designing a confirmation request - Nature of the matter - RoMM

	<i>What are the factors to be considered by Mr. Z when designing a confirmation request? Also state the effects of using positive external confirmation request by Mr. Z.</i>		<ul style="list-style-type: none"> <li>- past experience</li> <li>- method to be used</li> </ul> <p>Positive confo request gives more persuasive evidence than negative confo request</p>
60b	<i>R &amp; M Co. wants to be alert on the possibility of non-compliance with Laws and Regulations during the course of audit of SRS Ltd. R &amp; M Co. seeks your guidance for identifying the indications of non compliance with Laws and Regulations.</i>	SA 250	<ul style="list-style-type: none"> <li>☞ Investigations by regulatory organisations and government departments or payment of fines or penalties.</li> <li>☞ Payments for unspecified services or loans to consultants, related parties, employees or government employees.</li> <li>☞ Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.</li> <li>☞ Purchasing at prices significantly above or below market price.</li> <li>☞ Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts</li> </ul>
60c	<i>The management of CSITA Ltd. has prepared its summary financial statements for the year 2015-16 to be provided to its investors. Consequently the company wants to appoint you for conducting audit of summary financial statements. What are the procedures that you will perform and consider necessary as the basis for forming an opinion on the summary financial statements?</i>	SA 810	<ul style="list-style-type: none"> <li>- appropriateness of the applied criteria used for preparing summary</li> <li>- whether summary is at proper level of aggregation</li> <li>- whether summary FS tallies with the Main Set of FS</li> <li>- whether summary FS is a fair summary and discloses its summarized nature</li> </ul>
60d	<i>The financial statements of Ace Ltd. have been prepared by the management in accordance with special purpose frame work to meet the financial reporting provisions of a regulator. As an auditor, what considerations would be undertaken while planning and performing an audit in case of such special purpose frame work?</i>	SA 800	Similar to 50b
61	<i>KG Ltd. wants to provide prospective Financial Information to its investors with information about future expectations of the company. You are engaged by KG Ltd. to examine the Projected Financial Information and give report thereon. What will you consider in assessing the presentation and disclosure of the prospective Financial Information</i>	SAE 3400	<ul style="list-style-type: none"> <li>-presentation is not misleading</li> <li>- assumptions are disclosed and are reasonable</li> <li>- basis of establishing the range of results</li> <li>- whether there are changes in the accounting policy in historical information and its effect on prospective information</li> </ul>

	<i>and the underlying assumptions?</i>		
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## Chapter 2 PM Key notes

Q	Question	Concept	Answer Summary
1	<i>You have been appointed as the statutory auditor of a private limited company for the first time. Apart from adopting the conventional audit procedures such as posting, casting and vouching, what other auditing techniques would you employ for conducting the statutory audit?</i>	SA 315 and SA 330	<ul style="list-style-type: none"> <li>- refer SA 315 and SA 330</li> <li>- advantages of understanding the business and using this information appropriately</li> <li>- assessing risks, planning and performing audit, evaluating audit evidence</li> <li>- further audit procedures depend upon risk assessment procedures</li> </ul>
2a	<i>Walk through Tests</i>	SA 315 and SA 330	<ul style="list-style-type: none"> <li>- understanding the business process from beginning to end</li> <li>- walk through provides evidence for process flow of transactions, design of controls</li> <li>- auditor should walk through encompasses the complete process, inquire about each key stage of the process, whether there are any exceptions to the process, evaluate the quality of evidence and documents</li> </ul>
2b	<i>Cut-off Procedures.</i>		<ul style="list-style-type: none"> <li>- separation of transactions at the end of one year from those in the commencement of next year</li> <li>- principal areas of cut-off procedures- recording of inventory debtors and creditors</li> </ul>
3	<i>Designing an Audit Strategy is the backbone of the "Audit Planning" process. Discuss</i>	SA 300	<ul style="list-style-type: none"> <li>- audit strategy sets the direction of the overall audit plan.</li> <li>Audit strategy includes <ul style="list-style-type: none"> <li>- obtain knowledge of business</li> <li>- performing analytical procedures</li> <li>- evaluating inherent risk</li> <li>- evaluating internal control</li> </ul> </li> </ul>
4	<i>X Ltd., paid ` 25 lakhs as advance to Y Ltd. towards the purchase of a printing machinery on 15.1.15 with delivery instructions to deliver the same in the last week of June, 15. Further, on 2.2.15 X Ltd. purchased two diesel generator sets from Y Ltd. for ` 30 lakhs on 90 days Credit term. In the accounts for 2015-16, X Ltd. intends to adjust the advance paid against Credit purchase and show the net amount of ` 5 lakhs as due from them. As the statutory auditor,</i>	Sch III	<ul style="list-style-type: none"> <li>- such advance amount should be grouped under the head 'Capital Work in Progress'.</li> <li>- If the advance is for purchase of other machinery, it should be grouped under a separate head – say 'Advance Payment for Capital Expenditure' and should be disclosed as next item to Fixed Assets in the Balance Sheet.</li> <li>- to show the net balance in the personal account of Y Ltd., is not correct.</li> <li>- advise X Ltd., to show these two items separately</li> </ul>

	<i>how would you deal with this?</i>		
5a	<i>What are the considerations to be kept in mind while performing analytical procedures on data prepared by the client?</i>	SA 520	- determine suitability of analytical procedure - evaluate reliability of the data - develop a trend or expectation of amount - decide the amount upto which deviations are acceptable
5b	<i>You have been appointed as the auditor of a Multiplex Cinema House. Draw an audit programme in respect of its Revenue and Expenditure.</i>	SA 300	- Read MOA/AOA, - verify income from sale of tickets, verify internal controls, system of collection of parking charges, verify payment done to distributors, verify repairs and maintenance charges
6	<i>What are the points to be considered while evaluating the "Knowledge of the Business" in the conduct of an audit?</i>	SA 315	- understand industry and regulatory environment, - understand applicable laws, - understand AFRF, whether accounting policies are as per the business, operations and organisation structure of the entity etc.
7	<i>A &amp; Co. was appointed as auditor of Great Airways Ltd. As the audit partner what factors shall be considered in the development of overall audit plan?</i>	SA 300	- terms of engagement, - applicable laws, - reporting objectives, - past experience, - RoMM, - Nature of accounting policies, - operations and internal controls, - team planning and work allocation
8	<i>XY Ltd. is a manufacturing company, provided following details of wastages of raw materials in percentage, for various months. You have been asked to enquire into causes of abnormal wastage of raw materials. Draw out an audit plan. Wastage percentage are July 2016 1.5% Aug 2016 1.7% Sep 2016 1.4% Oct 2016 4.1%</i>	General concept	- check list of raw materials - compare standard vs actual - obtain details of normal loss in the production process - whether labours properly trained and efficient? - check the basis of calculating wastage - quality control measures of the entity - examine laboratory reports, - machine break down, power failure etc
9a	<i>What are general matters to be considered by an auditor while taking up an engagement?</i>	SA 220	a) General matters to be considered while taking up a new engagement- general economic factors, information about the entity, applicable laws, financial performance...
9b	<i>What are the major sources of obtaining information about the client's business?</i>	SA 315	b) Information about client's business- read annual report, minutes of meeting, publications of the ICAI, visit to client's premises etc.
10	<i>As an internal auditor of a Cement Manufacturing Company, draft an audit programme for verification of transportation charges for dispatches from the factory.</i>	Check-list	Procedure for audit of transportation charges - check rates, - check whether rates tally as per contract and invoice, - appropriate sanctioning authority etc.
11	<i>As an internal auditor for a large manufacturing concern, you are asked to verify whether there are adequate records for identification</i>	Check-list	- internal control aspects: separate registers for hired, leased and owned assets; authorization for purchase, sale and disposal; periodic inspection; proper recording;

	<i>and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above</i>		<ul style="list-style-type: none"> <li>- assets register</li> <li>- cost report and journal register</li> <li>- movement register</li> <li>- spare parts register</li> </ul>
12	<i>As an auditor of garment manufacturing company for the last five years you have observed that new venture of online shopping has been added by the company during current year. As an auditor what factors would be considered by you in formulating the audit strategy of the company?</i>	SA 300	<p>General factors- characteristics of engagement, reporting objectives, applicable laws, engagement team, determining materiality etc.</p> <p>Specific factors for online shopping- classes of transactions, manual and IT systems, related accounting records, controls over journal entries</p>
13	<i>ME Ltd. is a manufacturing company of Bars and Rods. The turnover of the company for financial year 2015-16 was ` 870 crores. The audit committee has appointed MK Associates, Chartered Accountants as an internal auditor of the company for the financial year 2016-17. As an auditor of ME Ltd., draw out the internal audit plan specifying the coverage of area.</i>	Plan	Similar to Q7

Chapter 3 PM Key notes

Q	Question	Concept	Answer Summary
1	<i>Briefly discuss the compliance procedures and their use in evaluation of internal controls.</i>	SA 315 SA 330	Explain SA 330 Compliance procedure as a response to RoMM identified as per SA 315
2	<i>In the audit planning process of X Ltd., you would like to consider audit risk at the financial statement level. What are the factors can influence your decision?</i>	SA 315	<ul style="list-style-type: none"> <li>(i) Integrity of Management;</li> <li>(ii) Management experience, knowledge and changes during the period;</li> <li>(iii) Unusual pressures on the Management;</li> <li>(iv) Nature of entity's business;</li> <li>(v) Factors affecting the Industry</li> </ul>
3	<i>The Auditor of S Limited has just commenced the statutory audit. What should be considerations for the effectiveness of a system of internal check?</i>	Internal control concept	<p>Internal check – work of one person is automatically checked by another person</p> <ul style="list-style-type: none"> <li>- no single person should have multiple authorities</li> <li>- segregation of duties</li> <li>- different persons for custody of BOA and assets</li> <li>- dividing financial and administrative powers</li> </ul>
4	<i>As the auditor of a large multi</i>	SA 315	- assertions about transactions- occurrence,

	<i>locational company, in the planning process, you are requested to identify the inherent audit risk at the account balance and class of transaction level.</i>		<p>completeness, accuracy, presentation and disclosure, classification, cut-off</p> <ul style="list-style-type: none"> <li>- assertions about balances- valuation, existence, completeness, presentation and disclosure, classification, rights and obligations etc..</li> <li>- factors to be considered to assess inherent risk- quality of accounting system, complexity of transactions, degree of judgment involved etc.</li> </ul>
5	Y Co. Ltd. has five entertainment centers to provide recreational facilities for public especially for children and youngsters at 5 different locations in the peripheral of 200 kilometers. Collections are made in cash. Specify the adequate system towards collection of money.	Internal Control	<ul style="list-style-type: none"> <li>- serially printed tickets, - sale of tickets through machines with password, - daily cash reco, - daily deposits into bank, - authorization for discounts and free pass, surprise checks.</li> </ul>
6	<i>"Corporate accountability and civil and criminal penalties for white collar crimes." Comment on the major provisions of Sarbanes Oxley Act.</i>	SOX	<ul style="list-style-type: none"> <li>- SOX Act of 2002 is US LAW to bring transparency.</li> <li>- Audit committee, managerial remn limits, independent director concept is a part of SOX Act, 2002</li> </ul>
7	<i>As auditor of Z Ltd., you would like to limit your examination of account balance tests. What are the control objectives you would like the accounting control system to achieve to suit your purpose?</i>	Internal Control	Control objectives- whether transactions are properly recorded, authorised, correctly reported, valued and disclosed properly.
8	<i>State briefly eight provisions of the Sarbanes-Oxley Act of 2002, which shall, if enacted in India to Indian Corporates, get fruitful results.</i>	SOX	<ul style="list-style-type: none"> <li>(i) More independence be given to Audit Committee and auditor.</li> <li>(ii) Ban on personal loan to Directors / Executive Officers of a Company.</li> <li>(iii) Strict reporting by an auditor on insider trading.</li> <li>(iv) Additional disclosures imposed on financial reporting.</li> </ul>
9	<i>Explain briefly the Flow Chart technique for evaluation of the Internal Control system.</i>	Internal Control	<ul style="list-style-type: none"> <li>- graphic presentation for evaluation of internal control system.</li> <li>- provides concise explanation.</li> </ul>
10	<i>Highlight the provisions relating to corporate responsibility under Sarbanes Oxley Act of 2002</i>	SOX	Q6 and Q8
11	<i>Explain the concept of Audit risk at the level of financial statements.</i>	SA 315	<ul style="list-style-type: none"> <li>-Explain Inherent risk and control risk.</li> <li>-RoMM exist at FS and assertion level either due to fraud or error.</li> <li>-Auditor's understanding of internal control may help in evaluating e.g. concerns about integrity of entity's management, concerns about condition and reliability of an entity's</li> </ul>

			records
12	<i>Write a short note on Sampling Risk.</i>	SA 530	-Covered in Chapter 1 Q3c
13	<i>Write a short note on Factors relevant in evaluation of Inherent Risk.</i>	SA 315	Refer Q4
14a	<i>While commencing the statutory audit of ABC Company Limited, what should be the considerations of the auditor to assess Risk of Material Misstatement and his response to such risks?</i>	SA 315	Refer Q46 Chapter 1
14b	<i>Describe how you would identify the inherent risk at the account balance and class of transaction level in the planning process of the audit of a large multi-locational company.</i>	SA 315	Refer Q4 Last Para
15	<i>As an auditor, during your interim visit at Marathon Ltd. you observed that internal controls were not in use throughout the period covered under audit. What are the controls objectives you would like to consider to achieve your purpose?</i>	SA 315 and SA 330	Refer Q7 Chap 3 PM
16	<i>New Life Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. According to you, which basis system of control has been violated? Also list down the other general conditions pertaining to such system which needs to be maintained and checked by the management.</i>	Internal check	Refer Q3
17	<i>During the course of his audit, the auditor noticed material weaknesses in the internal control system and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in the mind while drafting the letter of weaknesses in internal control system.</i>	SA 265	Letter of Weaknesses 1) a description of deficiencies. 2) why it is significant. 3) recommendations for improvement. 4) helps management revising and implementing the system.
18	<i>State the key requirements of</i>	PCAOB	PCAOB has following requirements

	<i>auditing standards of Public Company Accounting over sight board.</i>		<ul style="list-style-type: none"> <li>- design of controls</li> <li>- how transactions are initiated, authorised, supported, processed and reported</li> <li>- controls over period- end financial reporting process</li> <li>- controls over safe-guarding assets</li> </ul>
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Chapter 5 PM Key notes

Q	Question	Concpt	Answer Summary
1	<i>"An auditor while analysing the errors in a sample need not consider the qualitative aspects of errors detected." Please comment.</i>	SA 530	Quality of the error is important Quality means whether the error is intentional or unintentional, repetitive pattern of error, non-compliance with laws and regulations etc.
2	<i>The auditor should take into account the aggregate of all uncorrected misstatements including those involving estimates in his assessment of materiality in audit.</i>	SA 320	-Materiality is a relative term - individual may be immaterial but aggregate may be material - explain material but not pervasive, material and pervasive (QUALIFIED/ADVERSE OPINIO
3	<i>"Obtaining audit evidence in performing compliance and substantive procedures." Comment</i>	SA 500	Same as Chapter 1 Q41
4	<i>What is Haphazard Sampling?</i>	SA 530	Based upon auditor's professional judgement and experience—no structured technique—possibility of a biased selection.
5	<i>Write a short note on - Audit Risk.</i>	SA 200	Explain components of audit risk
6	<i>"Surprise Checks" help the auditors to ascertain whether the internal control system is operating effectively in a Company or not. Discuss.</i>	SA 315 and SA 330	-reference to SA 315 and SA 330 - surprise checks helps auditor in verifying continuity of the application of controls - whether records are prepared concurrently and kept up-to date - moral check on client's staff - should be made atleast once in the course of audit
7a	<i>Factors relevant in evaluation of Inherent Risk</i>	SA 315	Factors - use professional judgment - past experience - controls established by mgmt to compensate for inherent risk - integrity of mgmt - turnover of key mgmt personnel -
7b	<i>Inquiry.</i>	SA 500	- method of collecting audit evidence - reponses to inquiries are an integral part - inquiry can range from formal written inquiries to informal oral inquiries
8	<i>In the audit of Hotel Great Stay Ltd.,</i>	SA 520	- comparison of payroll cost to total number

	<i>its auditor wants to use the analytical procedure as substantive procedure in respect of room rental income as well as payroll costs. Guide him as to how it can be done.</i>		of employees - comparing payroll cost of current year with previous year - comparing number of rooms and rental income - comparing rental income of current year with previous year
9	<i>M Ltd. intends to intensify its advertisement strategy of hoarding advertisements to increase its sale during the impending festival season. You have been appointed as the special auditor to examine the expenditure under this head. What will be usual evidence you will look for in this case to justify the expenditure?</i>	Check-list	Hoarding advertisement expenses- who authorised, copy of resolution, permission letter from municipal authorities, properly recorded?, receipts issued, copies of contract etc.
10	<i>Write short notes on Statistical and Non-Statistical Sampling.</i>	SA 530	Check notes of SA 530
11	<i>Describe the principal methods of selection of samples.</i>	SA 530	Check notes of SA 530
12	<i>The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, what are the relevant criteria which determine whether the data is reliable for the purposes of designing substantive analytical procedures?</i>	SA 520	- analysis by external sources is more reliable than internal evidence - effective internal controls makes internal evidence more reliable - information should be comparable for reliable conclusion
13	<i>What are the General Steps in the conduct of Risk based audit?</i>	Concept	- understand auditee operations to identify and prioritize risks - assess auditee management strategies and controls to determine residual audit risk - manage residual risk to reduce it to acceptable level - inform auditee of audit results through appropriate report

Chapter 8 PM Key notes

Q	Question	Concpt	Answer Summary
1	<i>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?</i>	SA 705	Qualified/Adverse/Disclaimer
2	<i>X Ltd closed its manufacturing operations and sold all its manufacturing fixed assets during</i>	SA 570 read with	Material uncertainty needs to be disclosed in FS Disclosure in Clause (i) of CARO 2016 in audit

	<i>the financial year ended 31st March, 2016. 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 31st March, 2016 and found a material discrepancy to the tune of ` 1 lac, which was written off and is disclosed separately in the Statement of Profit and Loss. Kindly incorporate the above in your audit report.</i>	CARO 2016	report
3	<i>XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-3-16 for audit. The audit assistant observes and brings to your notice that the company's records show following dues: Income Tax relating to Assessment Year 2012-13 ` 125 lacs - Appeal is pending before Hon'ble ITAT since 30-9-14. Customs duty ` 85 lakhs - Demand notice received on 15-9-15 but no action has been taken to pay or appeal. As an auditor, how would you bring this fact to the members?</i>	SA 250	- Auditor's responsibility for verifying compliance with laws and regulations - if non-compliance is not properly reflected in FS then issue Qualified or Adverse opinion - Clause (vii) of CARO 2016
4a	<i>OK Ltd. has taken a term loan from a nationalized bank in 2011 for ` 200 lakhs repayable in five equal instalments of ` 40 lakhs from 31st March, 2012 onwards. It had repaid the loans due in 2012 &amp; 2013, but defaulted in 2014, 2015 &amp; 2016. As the auditor of OK Ltd. what is your responsibility assuming that company has sought reschedulement of loan?</i>	CARO 2016	- Auditor needs to comment under Clause (viii) of CARO 2016. -
4b	<i>Big and Small Ltd. received a show cause notice from central excise department intending to levy a demand of ` 25 lakhs in December 2015. The company replied to the above notice in January 2016 contending that it is not liable for the levy. No further action was initiated by the central excise department upto the finalization of the audit for the year ended on 31st March, 2016. As the auditor of the company, what is your role in this?</i>	SA 250 and CARO 2016	- Auditor's responsibility to verify compliance with laws and regulations - consider the need of legal advice - report to TCWG - AS 29- check whether provision is required or not - comment under Clause (vii) of CARO 2016
4c	<i>Director of T Ltd. draws an advance of US\$ 200 per day in connection</i>	Sec 143 (1)	- whether Personal expense charged in the revenue account of the company

	<i>with the foreign trip undertaken on behalf of the company. On his return he files a declaration stating that entire advance was expended without any supporting or evidence. T Ltd. books the entire expenses on the basis of such declaration. As the auditor of T Ltd. how do you deal with this?</i>	(e)	- proof of expenditure is required for “re-imbursment” and not for “allowance”. - if expense appears to be reasonable for business trip then no comment is required in audit report
5	<i>PQR Ltd., a listed company and having an average annual turnover of more than ` 5 crores has no Internal Audit System. Give your views.</i>	Sec 138	Refer internal audit applicability It is mandatory for listed co
6a	<i>PQR Ltd. has not deposited Provident Fund contribution of ` 10 lakhs with the authorities till the year-end.</i>	SA 250 CARO 2016	- Auditor’s responsibility to verify compliance with laws and regulations - consider the need of legal advice - report to TCWG - comment under Clause (vii) of CARO 2016
6b	<i>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 short term deposits.</i>	CARO 2016	Clause (ix) of CARO 2016- whether funds were utilized for the stated purpose? Report the fact
7	<i>Write a short note on Emphasis of matter paragraph in Audit Reports</i>	SA 706	Refer audit report notes
8	<i>What are the features of a qualified Audit Report?</i>	SA 705	- clarity, - quantification, -except for, - placement, - reference to notes to accounts
9	<i>Discuss the various aspects to be considered by the Statutory Auditor before qualifying his report.</i>	SA 705	1) SAAE obtained- Material Misstatements- Material but not pervasive 2) SAAE not obtained- Probable effect- Material but not pervasive
10	<i>Write a short note on Certificate for Special Purpose vs. Audit Report.</i>	SA 700	Certificate- statement of facts Report- Expression of an opinion
11i	<i>Reporting to Shareholders vs. Reporting to those Charged with Governance</i>	SA 700 vs SA 260	Reporting to shareholder- audit report as per SA 700 Reporting to TCWG- matters to be communicated as per SA 260
11ii	<i>Audit Qualification vs. Emphasis of Matter.</i>	SA 705 vs SA 706	Refer audit report notes
12	<i>C Limited has defaulted in repayments of dues to a financial institution during the financial year 2015-16 and the same remained outstanding as at March 31, 2016. However, the Company settled the total outstanding dues including interest in April, 2016 subsequent to</i>	Sch III read with CARO 2016	- separate disclosure as per Schedule III - report under Clause (viii) of CARO 2016 all the facts as given in the question

	<i>the year end and before completion of the audit. Discuss how you would deal with this matter and draft a suitable Auditor's Report.</i>		
13	<i>XYZ Ltd. Co. gave a donation of ` 50,000 each to a Charitable Society running a school and a trust set up for the service of Blind during financial year ending on 31st March, 2016. The average net profits of the company for the last three years were 15 lakhs. Comment.</i>	Sec 181	Refer company law- the Board of Directors of a company may contribute to bona fide charitable and other funds with prior permission of the company in general meeting for such contribution in case any amount the aggregate of which, in any financial year, exceed five per cent of its average net profits for the three immediately preceding financial years
14	<i>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, 2016 is not applicable. You are required to state the list of companies to which CARO is not applicable and state how would you deal with the given situation as an auditor of the company.</i>	CARO 2016	-refer CARO 2016 applicability - Compare it with facts of the case - CARO not applicable to E-tech Pvt Ltd
15a	<i>Astha Pvt. Ltd. has fully paid capital of ` 140 lakh. During the year, the company had borrowed ` 15 lakh each from a bank and a financial institution independently. It has the turnover (Net of excise ` 50 lakh which is credited to a separate account) of ` 475 lakh. Will Companies (Auditor's Report) Order, 2016 be applicable to Astha Pvt. Ltd.?</i>	CARO 2016	- Refer CARO 2016 applicability - compare it with the facts of the case - CARO applicable to Astha Pvt Ltd (PSC- 140 Lakhs which exceeds 1cr)
15b	<i>Under CARO, 2016, as a statutory auditor, how would you report on the following: (i) A Term Loan was obtained from a bank for ` 80 lakh for acquiring R&amp;D equipment, out of which ` 15 lakh was used to buy a car for use of the concerned director who was overlooking the R&amp;D activities. (ii) Physical verification of only 50% 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.</i>	CARO 2016	(1)- CLAUSE (ix) of CARO 2016 (2)- CLAUSE (ii) of CARO 2016
16	<i>T Pvt. Ltd.'s paid up Capital &amp;</i>	CARO	- Refer CARO 2016 applicability

	<i>Reserves are less than ` 50 lakhs and it has no outstanding loan exceeding ` 25 lakhs from any bank or financial institution. Its sales are ` 6 crores before deducting Trade discount ` 10 lakhs and Sales returns ` 95 lakhs. The services rendered by the company amounted to ` 10 lakhs. The company contends that reporting under Companies Auditor's Reports Order (CARO) is not applicable. Discuss.</i>	2016	<ul style="list-style-type: none"> <li>- compare it with the facts of the case</li> <li>- CARO not applicable to T Pvt Ltd</li> </ul>
17	<i>Write a short note on Obligation of the Statutory Auditor to report frauds to the Central Government during the audit carried out under the Companies Act, 2013</i>	Sec 143 (12)	Manner of reporting
18	<i>During the course of audit of CT Ltd. for the financial year 2015-16, it has noticed that ` 2.00 lakhs of employee contribution and ` 9.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that ` 4.00 lakhs only has been deposited with ESIC department during the year ended 31<sup>st</sup> March, 2016. The Finance Manager informed the 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 position improves. Comment as a statutory auditor.</i>	SA 250 read with CARO 2016	<ul style="list-style-type: none"> <li>- Auditor's responsibility to verify compliance with laws and regulations</li> <li>- consider the need of legal advice</li> <li>- report to TCWG</li> <li>- comment under Clause (vii) of CARO 2016</li> </ul>