

CA Final

(For May 2024 Exam & Onwards)

AUDIT QUESTION BANK

CA Shubham Keswani



**WI
CA
KE**

Practica

Having 3
variety of
Big 4s, h
with Pra
the over

Learn w

Fun-fille
not only
in retain
period.

Holistic

Books &
material
include
Examin

Mock T

Full sub
for real

Mento

Weekly
studen
right di

AUDIT QUESTION BANK

By CA Shubham Keswani

Edition : September 2023

Price : ₹ 500/-

© Publisher

All rights reserved. No part of this book should be copied, reproduced, stored in retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without obtaining prior permission in writing from the authors.

All disputes are subject to Delhi Jurisdiction only.

Published & Distributed by :

 *Make My Delivery*

8-9-10, Hans Bhawan Building, Wing-2,
IP Estate, New delhi 110002

Ph.: +91 9958000380, 9899632870

E- Mail : Contact@makemydelivery.com

Web : makemydelivery.com



Index

S No.	Topic	Page No.
1	Standards on Auditing	1-95
	SQC-1	1
	SA 200	4
	SA 210	6
	SA 220	7
	SA 230	10
	SA 240	11
	SA 250	16
	SA 260	20
	SA 265	21
	SA 299	22
	SA 315	26
	SA 320	29
	SA 330	30
	SA 402	32
	SA 450	35
	SA 500	36
	SA 501	38
	SA 505	43
	SA 510	45
	SA 520	47
	SA 530	48
	SA 540	49
	SA 550	53
	SA 560	57
	SA 570	61
	SA 580	69
	SA 600	71
	SA 610	73
	SA 620	76
	SA 700	78
	SA 701	80
	SA 705	84
	SA 706	91
	SA 710	92
	SA 720	93
2	Professional Ethics	96-146
3	Audit Planning	147-156
4	RAIC	157-166
5	Group Audits	167-178
6	Bank Audit	179-193
7	NBFC Audit	194-204
8	PSU Audit	205-211
9	Internal Audit & SA 610	212-220
10	Due diligence	221-224
11	Forensic Audit	225-228
12	Investigation	229-237
13	Specialised Areas	238-241

14	Audit Related Services	242-244
15	Review of financial Information	245-247
16	Prospective Financial Information	248-250
17	Digital Auditing	251-260
18	Emerging Areas	261-266
19	CARO 2020 & Company Audit	267-276
20	SAs Add Ons	277-312

SQC-1 "Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and Other Assurance & Related Services Engagements"

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

(Nov-19 New + RTP May 19)

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

- The identity and business **reputation of the client's principal owners**, key management, related parties and those charged with its governance.
- The **nature of the client's operations**, including its business practices.
- Information concerning the **attitude** of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- Whether the client is **aggressively** concerned with maintaining the firm's fees as low as possible.
- Indications of an **inappropriate** limitation in the scope of work.
- Indications that the client might be involved in **money laundering** or other criminal activities.
- The reasons for the **proposed** appointment of the firm and non-reappointment of the previous firm.

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

(Mar-21 MTP)

As per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements", review responsibilities are determined on the basis that more experienced team members, including the engagement partner, review work performed by less experienced team members.

In the given situation, Mr. Jay, engagement partner assigned review responsibilities to two of the engagement team members who were the most experienced team members. While reviewing the work performed by less experienced members of the engagement team, both the more experienced Reviewers should consider whether:

- (i) The work has been performed in accordance with **professional standards and regulatory and legal requirements**.
- (ii) **Significant matters** have been raised for further consideration.
- (iii) **Appropriate consultations** have taken place and the resulting conclusions have been documented and implemented.
- (iv) There is a **need to revise the nature, timing and extent of work performed**.
- (v) The **work performed supports the conclusions reached** and is appropriately documented.
- (vi) The **evidence obtained** is sufficient and appropriate to support the report; and
- (vii) The **objectives of the engagement procedures have been achieved**.

Ch-1 Standards on Auditing

Learn with Fun

3. M/s NK & Co., Chartered Accountants were appointed as Statutory Auditors of Fresh Juice Limited for the F.Y 2019-2020. The previous year's audit was conducted by M/s. LP & Associates. After the audit was completed and report submitted, it was found that closing balances of last financial year i.e., 2018-19 were incorrectly brought forward. It was found that M/s NK & Co. did not apply any audit procedures to ensure that correct opening balances have been brought forward to the current period. Accordingly, a complaint was filed against NK & Co. in relation to this matter. You are required to inform what policies are required to be implemented by NK & Co. for dealing with such complaints and allegations as required by Standard on Quality Control (SQC). (Jan-21 New)

Complaints and Allegations in a Firm:

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

- (a) Complaints and allegations that the **work performed by the firm** fails to comply with **professional standards and regulatory and legal requirements**; and
- (b) Allegations of **non-compliance with the firm's system of quality control**.

(ii) Complaints and allegations (which do not include those that are clearly frivolous) **may originate from within or outside the firm**. They may be made by firm personnel, clients or other third parties. They may be received by engagement team members or other firm personnel.

(iii) As part of this process, the firm establishes **clearly defined channels** for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.

(iv) The firm **investigates such complaints and allegations** in accordance with established policies and procedures. The investigation is **supervised by a partner with sufficient and appropriate experience** and authority within the firm but who is not otherwise involved in the engagement, and includes **involving legal counsel** as necessary. Small firms and sole practitioners may use the services of a suitably qualified external person or another firm to carry out the investigation. **Complaints, allegations and the responses to them are documented**.

(v) Where the **results of the investigations indicate deficiencies in the design or operation of the firm's quality control policies** and procedures, or non-compliance with the firm's system of quality control by an individual or individuals, **the firm takes appropriate action**.

4. HK & Co. Chartered Accountants have been auditors of SAT Ltd (a listed entity) for the last 8 financial years. CA. H, partner of the firm, has been handling the audit assignment very well since the appointment. The audit work of CA. H and her team is reviewed by a senior partner CA. K to assure that audit is performed in accordance with professional standards and regulatory and legal requirements. CA. K was out of India for some personal reasons, so this year CA. G has been asked to review the audit work. In your opinion, what areas CA. G should consider at the time of review. List any four areas and also comment whether firm is complying with Standard on Quality Control or not. (July-21)

Compliance with Standard on Quality Control on review of audit work - As per SQC 1, reviewer should consider following:

- (i) The work has been performed in accordance with **professional standards and regulatory and legal requirements**;
- (ii) **Significant matters** have been raised for further consideration;
- (iii) Appropriate **consultations** have taken place and the resulting conclusions have been documented and implemented;
- (iv) There is a need to revise the **nature, timing and extent of work performed**;
- (v) The work performed supports the conclusions reached and is appropriately **documented**;
- (vi) The **evidence obtained is sufficient and appropriate** to support the report; and

(vii) The **objectives** of the engagement procedures have been **achieved**.

The firm should establish policies and procedures:

- (i) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
- (ii) For all audits of financial statements of listed entities, requiring the rotation of the engagement partner after a specified period in compliance with the Code.

The familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the **engagement partner should be rotated after a predefined period, normally not more than seven years**.

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

5. PQR & Associates, Chartered Accountants, is a partnership firm having 3 partners CA P, CA Q and CA R. PQR & Associates are appointed as Statutory Auditors of ABC Limited, a listed entity for the financial year 2021-22 and CA P is appointed as Engagement Partner for the audit of ABC Limited. Before issuing the Audit Report of ABC Limited, CA P asked CA R to perform Engagement Quality Control Review and is of the view that his responsibility will be reduced after review by CA R. Whether the contention of CA P is correct? What are the aspects that need to be considered by CA R while performing Engagement Quality Control Review for audit of financial statements of ABC Limited?

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

However, CA. R needs to consider the following aspect while performing Engagement

Quality Control Review for audit of financial statements of a listed entity ABC Ltd.:

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

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

6. AP & Associates, Chartered Accountants, are Statutory Auditors of XP Limited for the last four years. XP Limited is engaged in the manufacture and marketing of FMCG Goods in India. During 2021-22, the Company has diversified and commenced providing software solutions in the area of "e-commerce" in India as well as in certain European countries. AP & Associates, while carrying out the audit for the current financial year, came to know that the

Ch-1 Standards on Auditing

company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise and infrastructure to carry out the audit of this diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw. [Nov-22]

Acceptance and Continuance of Client Relationships and Specific Engagements: As per **SQC 1**, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements", the firm should establish **policies and procedures for the acceptance and continuance of client relationships and specific engagements**, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it is competent to perform the engagement and has the capabilities, time and resources to do so.

In the given case, AP & Associates, Chartered Accountants, statutory auditors of XP Limited for the last four years, came to know that the company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise for the same, therefore, AP & Associates wish to withdraw from the engagement and client relationship.

Policies and procedures on withdrawal from an engagement or from both the engagement and the client relationship address issues that include the following:

- **Discussing** with the appropriate level of the client's management and those charged with its governance regarding the **appropriate action that the firm might take based on the relevant facts and circumstances**.
- If the firm determines that it is appropriate to withdraw, discussing with the appropriate level of the client's management and those charged with its governance **withdrawal** from the engagement or from both the engagement and the client relationship, and the **reasons for the withdrawal**.
- Considering whether there is a **professional, regulatory or legal requirement** for the firm to remain in place, or for the firm to **report the withdrawal** from the engagement, or from both the engagement and the client relationship, **together with the reasons for the withdrawal, to regulatory authorities**.
- **Documenting** significant issues, consultations, conclusions and the basis for the conclusions.

AP & Associates should address the above issues before deciding to withdraw.

SA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

1. M/s SG & Co. Chartered Accountants were appointed as Statutory Auditors of XYZ Limited for the F.Y 2020-2021. The Company implemented internal controls for prevention and early detection of any fraudulent activity. Auditors carried out test of controls and found out no major observations. After the completion of audit, audit report was submitted by the auditors and audited results were issued. Fraud pertaining to the area of inventory came to light subsequently for the period covered by audit and auditors were asked to make submission as to why audit failed to identify such fraud. Auditors submitted that because of inherent limitations of audit, it is not possible to get persuasive evidence of certain matters like fraud. Do you think auditor made correct statement?

Also discuss certain subject matters or assertions where it is difficult to detect material misstatements due to potential effects of inherent limitations. (July-21 New)

Certain assertions or subject matters where it is difficult to detect material misstatements due to potential effects of inherent limitations -

As per **SA 200 - "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing"** and as per **SQC 1** because of the **inherent limitations of an audit**, there is an unavoidable risk

Ch-1 Standards on Auditing

that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with SAs.

Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with SAs. However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence.

Whether the auditor has performed an audit in accordance with SAs is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence in the light of the overall objectives of the auditor.

In view of above, it can be concluded that auditors did not give correct statement.

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

Such assertions or subject matters include:

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

2. Yupee (P) Ltd. got incorporated on 15th May 2021 and Mr. Harsh, the director of Yupee (P) Ltd. proposed to Kamal & Co. on 24th May 2021, for being appointed as its statutory auditor. Mr. Kamal, the sole proprietor of Kamal & Co., after checking the compliance with all the statutory requirements, accepted the said offer and issued an audit engagement letter vide email to Yupee (P) Ltd.

Mr. Harsh found all terms of audit engagement to be proper but in the paragraph relating to auditor's responsibility in the engagement letter, as produced below:-

"We will conduct our audit in accordance with Standards on Auditing (SAs), issued by the Institute of Chartered Accountants of India (ICAI). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement."

Certain queries raised in his mind that what does reasonable assurance meant? Which Standard on Auditing requires the auditor to obtain such reasonable assurance? Is it possible to give absolute assurance on such financial statements?

Assuming that you are Mr. Kamal, the newly appointed statutory auditor of Yupee (P) Ltd. Please address to the queries of Mr. Harsh as stated above. [MTP Apr-22]

As per SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", the auditor is required:- "To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework."

Reasonable assurance is a high level of assurance and is less than absolute assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

Ch-1 Standards on Auditing

The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting;
- The nature of audit procedures; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

SA 210: Agreeing the Terms of Audit Engagement

1. T & Co, a firm of Chartered Accountants has 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. (Nov-19 Old)

Circumstances that may Warrant the Revision in Terms of Engagement : As per SA 210 on "Agreeing the Terms of Audit Engagements", auditor may decide not to send a new audit engagement letter or other written agreement each period. However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- (i) Any indication that the entity misunderstands the objective and scope of the audit.
- (ii) Any revised or special terms of the audit engagement.
- (iii) A recent change of senior management.
- (iv) A significant change in ownership.
- (v) A significant change in nature or size of the entity's business.
- (vi) A change in legal or regulatory requirements.
- (vii) A change in the financial reporting framework adopted in the preparation of the financial statements.
- (viii) A change in other reporting requirements.

2. Mr. Ram Kapoor, Chartered Accountant, has been appointed as the statutory auditor by XYZ Private Limited for the audit of their financial statements for the year 2018-19. The company has mentioned in the audit terms that they will not be able to provide internal audit reports to Mr. Ram during the course of audit. Further, company also imposed some limitation on scope of Mr. Ram. What are the preconditions Mr. Ram should ensure before accepting/ refusing the proposal? Also advise, whether Mr. Ram should accept the proposed audit engagement? (RTP Nov-19)

As per SA 210 "Agreeing the Terms of Audit Engagements", in order to establish whether the preconditions for an audit are present, the auditor shall:

- (a) Determine whether the FRF to be applied in the preparation of the financial statements is acceptable; and
- (b) Obtain the agreement of management that it acknowledges and understands its responsibility
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (iii) To provide the auditor with:
 - a) Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b) Additional information that the auditor may request from management for the purpose of the audit; and
 - c) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.