Important Topics

Important Instructions

1. Students are advised to study the entire syllabus thoroughly from ICAI Study Material and Class Notes issued. **This paper should not be used as a short-cut or selective preparation of Examination.**
2. There is very little choice in the question paper and most of the questions are practical case oriented rather than straight theory questions. Students should read the question carefully,
3. Students must refer the previous year's examination questions through ICAI compilers available on the Institute website at www.icai.org. **This is a must-do and should not be omitted in any case**.
4. Questions in Audit paper are based on fundamentals of accounting treatment of various items such as depreciations, investments, contingent liabilities, retirement benefits etc. Therefore, students must be thoroughly familiar with Accounting Standards applicable particularly, AS 1, 4, 5, 9, 10, 12, 13, 16, 18, 26, 29.

Revised SA Applicable

Students should quote SA wherever applicable. We have already provided Handbook on SA to all our students and students can refer to the brief summary of each SA from the same. The SA applicable for Nov-2010 exams with important ones marked are as follows"-

1. Basic Principles & Overall Objectives of an Audit (SA 200) **– Very Important**
2. Agreeing the Terms of Audit Engagements (SA 210) (Revised) **– Very Important**
3. Quality Control for Audit Work (SA 220) **– Very Important**
4. Audit Documentation (SA 230) (Revised) **– Very Important**
5. The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (SA 240)(Revised) **– Very Important**
6. Consideration of Laws and Regulations in an Audit of Financial Statements (SA 250) (Revised)
7. Communication with Those Charged with Governance (SA 260) (Revised) **– Very Important**
8. Communicating Deficiencies in Internal Control to Those Charged With Governance and Management (SA 265) (Newly Issued) **– Very Important**
9. Responsibility of Joint Auditors (SA 299)
10. Planning an Audit of Financial Statements (SA 300) (Revised) **– Very Important**
11. Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment (SA 315) (Newly Issued) **– Very Important**
12. Materiality in Planning and Performing an Audit (SA 320) (Revised) **– Very Important**
13. The Auditor's Responses to Assessed Risks (SA 330) (Newly issued) **– Very Important**
14. Audit Considerations Relating to Entities Using Service Organizations (SA 402) (Revised)
15. Evaluation of Misstatements identified During the Audit (SA 450) (Newly Issued) **– Very Important**
16. Audit Evidence (SA 500) (Revised) **– Very Important**
17. Audit Evidence – Additional Considerations for Specific items (SA 501)
18. External Confirmations (SA 505) **– Very Important**
19. Initial Audit Engagements – Opening Balances (SA 510) (Revised)
20. Analytical Procedures (SA 520) **– Very Important**
21. Audit Sampling (SA 530) (Revised) **– Very Important**

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22. Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures (SA 540)(Revised)
23. Related Parties (SA 550) (Revised) **– Very Important**
24. Subsequent Events (SA 560) (Revised) **– Very Important**
25. Going Concern (SA 570) (Revised) **– Very Important**
26. Written Representations (SA 580) (Revised) **– Very Important**
27. Using the Work of another Auditor (SA 600)
28. Using the Work of an Internal Auditor (SA 610) (Revised) **– Very Important**
29. Using the Work of an Expert (SA 620) **– Very Important**
30. The Auditor's Report on Financial Statements (SA 700)
31. Comparatives (SA 710)
32. The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (SA 720) (Newly Issued)

Chapter-wise Important Topics – PCC/IPCC

Chapter 1 – Nature of Auditing

- Qualities of an Auditor
- Basic Principles Governing an Audit & Objectives – Refer SA200
- Auditor's Responsibility to consider Fraud and Error – refer SA240
- Inherent Limitations of an Audit
- Advantages of an Independent audit – Users of financial statements

Chapter 2 – Audit Evidence

- Sufficient and Appropriate Audit Evidence – Refer SA 500
- Audit Procedures for obtaining Audit Evidence
- Materiality – Refer SA 320
- External Confirmations – Refer SA 505
- Analytical Procedures – Refer SA 520
- Disclosure of Accounting Policies- AS-1
- Fundamental Accounting Assumptions

Chapter 3 – Preparation for an Audit

- Audit Engagement – Refer SA 210
- Understanding Entity and its Environment – Refer SA 315
- Audit Sampling, Statistical Sampling, Methods – Refer SA 530
- Audit Documentation – Refer SA 230
- Permanent and Current Audit File- Ownership and Custody of Working Papers
- Quality control for Audit work – Refer SA 220
- Management Representations – Refer SA 580

Chapter 4 – Internal Control

- Definition, Components, Objectives of Internal control – Refer SA 315
- Inherent Limitations of Internal Control
- Audit Risk – Inherent Risks, Control Risk, Detection Risk
- Review and Testing of Internal Control- Internal Control Questionnaire, Flow chart

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- Examination in depth / Auditing in depth
- Communicating weakness in Internal Control – Refer SA 315
- Internal Check Vs. Internal Audit
- Requirements of CARO relating to Internal Audit
- Relying on work of Internal Audit – Refer SA 610
- Internal Controls in CIS Environment
- Audit Trail
- Audit Approach in CIS Environment – Audit around computer, Audit through computer
- Computer assisted audit techniques

Chapter 5 – Vouching

- Audit of Cash transactions
- Purchase of Assets
- Salaries and Wages & Retirement Benefits
- Payment of Taxes, Excise duty
- Payments to Directors – Remuneration to Directors
- Preliminary expenses
- Advertisement expenses
- Payment of dividends
- Retirement Gratuity to Employees
- Sale of Investments
- Insurance claims
- Interests and Dividends received
- Frauds by ledger keepers
- Cut-off Procedures
- Analytical Procedures- Extent of Reliance on Analytical Procedures
- Procedure to obtain External Confirmations

Chapter 6 – Verification

- Vouching Vs. Verification
- Depreciation
- Reserves and Provision
- General principles regarding verification
- Buildings
- Intangible Assets
- Investments
- Requirements of Auditor for Attendance at stock taking including CARO Requirements
- Debtors
- Bank Balances
- Sinking fund/Endowment Policies
- Bank Borrowings
- Proposed Dividend
- Contingent Liabilities and Provisions
- Events occurring after balance sheet date
- Prior Period and Extra-Ordinary items
- Changes in Accounting estimates and Accounting Policies

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Chapter 7 – Company Audit (Part I)

- Qualifications and Disqualifications of Auditor – Section 226
- When an auditor is considered to be indebted to company
- Ceiling on number of audits – Section 224(1B)
- Appointment of Auditor
- Appointment by Special Resolution
- Special Audit
- Auditor's Remuneration – Section 224(8)
- Removal of Auditor, Appointment of new auditor in place of retiring auditor – Section 225
- Rights and Duties of Auditor
- Gist of important circulars issued by Company Law Deptt./ICAI
- Branch Audit
- Elements of Audit Report – Refer SA 700
- CARO 2003 – Applicability, Clause No. i, ii, iii, iv, vii, ix, x, xi, xii, xiv, xv, xvi, xvii, xix, xxi

Chapter 8 – Company Audit (Part II)

- Verification of shares issued for cash
- Sweat Equity shares
- Buy-back
- Option on share capital
- Bonus Shares
- Audit of Transfer of Shares
- Audit of Debentures – Issue and Allotment
- Depreciations

Chapter 9 – Special Audits

- Government Audit, Duties of C&AG, Propriety audit, Performance audit
- Duties of C&AG
- Audit of NGO
- Audit of a Partnership Firm
- Audit of Educational Institutions
- Audit of Hospital
- Audit of Hotel

Important Questions

1. Discuss the concept of auditors' independence in brief. Also explain any 4 advantages of independent audit.
2. Explain inherent limitations of audit. Also explain the duty of auditor with respect to such limitations.
3. What is the audit evidence? Mention the method of obtaining audit evidence. Also name the procedure which is used to obtain audit evidence.
4. Mention any 5 basic principles in brief which governs audit.
5. What are audit working papers and what is its importance?
6. What do you mean by audit risk? Also explain its components briefly.
7. What do you mean by statistical sampling? Name the methods of such sampling. Also mention advantages of statistical sampling in auditing.

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8. State the inherent limitation of internal control.
9. Can the statutory auditor rely upon the work of an internal auditor?
10. What do you mean by vouching? Explain in brief the role of internal control in the audit of cash transaction.
11. Mention any 6 factors which increase the gross profit.
12. Explain the steps involved in vouching of the following items:-
    a) Bills discounted
    b) Recovery of bad debts written off
    c) Sale proceeds of junk materials
    d) Custom and excise duties
    e) Remuneration paid to directors
    f) Travelling expenses
    g) Research and Development Expenditure
    h) Refund of general insurance premium
13. What do you mean by verification? Explain any 3 points of distinction between verification and vouching.
14. What is auditors' duty with respect to Depreciation? Also explain disclosure requirements of depreciation in Balance Sheet and Profit & Loss Account.
15. Write down steps involved in verification of the following:-
    a) Goodwill
    b) Leasehold property
    c) Investment
    d) Patent rights
    e) Bills receivables
16. Creditors
17. Contingent liabilities
18. Borrowing from banks
19. Bills payable
20. How is cost auditor of a company appointed?
21. Mention the situations under which the Central Govt. can order a special audit.
22. When is the appointment of an auditor required by special resolution?
23. An auditor stands automatically reappointed at the Annual General Meeting. Comment.
24. Explain the points to be considered by company while declaring an interim dividend.
25. What are the aspects to be examined by an Auditor in 'Share Transfer Audit'?
26. An audit of expenditure is one of the major components of Government Audit. Comment.
27. Explain the duties of Comptroller and Auditor General of India.
28. Mention the important items to be examined by the auditor in the audit of an NGO.
29. Write a short note on audit of educational institution.
30. Distinguish between the following:-
    a) Internal and External auditor
    b) Internal and External evidence
    c) Internal Check and Internal Audit
    d) Fraud and Error
    e) Auditing around the computer and auditing with the computer
    f) Reserve and provision
    g) Capital and Revenue Expenditure
    h) Reserve Capital and Capital Reserve
    i) Qualified Opinion, Adverse Opinion and Disclaimer of Opinion

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31. Write a short note on:-
    a) Error of commission
    b) Audit engagement
    c) Audit Risk
    d) Materiality
    e) Fundamental Accounting Assumptions
    f) Analytical review (Analytical procedures)
    g) Scope of audit
    h) Knowledge of client business
    i) Audit note book
    j) Surprise check
    k) Test check
    l) Audit planning
    m) Examination in Depth or Audit in Depth
    n) CIS Environment
    o) Internal Control Environment
    p) Direct confirmation from third parties
    q) Cut off Arrangements
    r) Remuneration of auditor
    s) Observations to be made in auditor's report
    t) Signing of auditor report
    u) Performance Audit
    v) Audi Trail
    w) Concurrent Audit

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