IMPORTANT AREAS FOR MAY 2011 EXAM
FOR C.A. IPCC / PCC – AUDITING

Note: Reclassification of AAS into Standards on Auditing has been made applicable for the exam and therefore it is necessary for you to study SAs but most of the principles and procedures laid down in AAS still hold good and therefore you can study and understand such principles and procedures with new SA numbers easily. In second volume of IPCC material there is Notes on renumbering and reclassification at the beginning of the material for about 14 pages. You should study these notes carefully. You should download the revised SAs from the Institute web site *www.icai.org* under the heading "Resources". I have given the important standards for your study hereunder.

www.icai.org → Resources → Standards on Auditing

Important Revised Standards on Auditing

SA – 200, 210, 220, 230, 240, 250, 260, 300, 320, 500, 505, 510, 520, 530, 550, 560, 570, 580, 610, 620

Important New Standards on Auditing

SA – 265, 315 (Very important), 330(Very important), 450

Note: *SA 315 and SA 330 newly issued standards are very important for the exam.*

TOPICS IN INSTITUTE STUDY MATERIAL

(LATEST)

Chapter – 1

- Basic Principles Governing an Audit
- Auditor's Responsibility to consider Fraud and Error
- Inherent Limitations of an Audit
- Advantages of an Independent audit

Chapter – 2

- Testing assertions regarding transactions and balances (Very important)
- Reliability of Audit Evidence
- Methods of obtaining Audit Evidence
- Concept of Materiality
- AS – 1: *Disclosure of Accounting Policies*
- Fundamental Accounting Assumptions

Chapter – 3

- Auditor's Engagement
- Permanent and Current Audit File – Ownership and Custody of Working Papers
- Stratified random sampling, Advantages of statistical sampling
- Audit Risk- Components of Audit Risk- Relationship between components of Audit Relationship between Materiality and Audit Risk
- Quality control for Audit work
- Certificates from Management – Management Representations

Chapter – 4

- Internal control – Objectives, Inherent Limitations
- Review and Testing of Internal Control – Internal Control Questionnaire, Flow chart
- Examination in depth / Auditing in depth *(also known as Walk through Test)*
- Computer assisted audit techniques- Need and how it improves efficiency of audit procedures *(bulleted points in the study material)*
- General CIS Controls and CIS Application controls
- Approaches to EDP Audit- Audit around the Computer and Audit through the Computer

- General considerations in framing a system of Internal Check
- Statutory Audit and Internal Audit – CARO and Internal Audit

Chapter – 5
Vouching – Audit of Cash transactions
- General considerations regarding vouching
- Remuneration to Directors
- Payment for Acquisition of assets
- Payment of taxes
- Customs and Excise duties
- Assets acquired under Hire Purchase
- Preliminary expenses
- Advertisement expenses
- Payment of dividends
- Retirement Gratuity to Employees

Vouching – Audit of cash transactions
- Rental Receipts
- Insurance claims
- Interests and Dividends received
- Insurance claims
- Sale of junk materials (sale of scrap)
- Refund of general insurance premium paid

Vouching – Audit of Trading Transactions
- General considerations regarding audit of trading transactions
- Factors increasing or decreasing Gross Profit
- Purchase Return and Sales Return
- Consignment sale
- Cut-off Arrangement (also known as Cut-off Procedures) – Very important
- Outstanding assets
- Analytical Procedures- Extent of Reliance on Analytical Procedures

Chapter – 6
Verification of Assets
- Depreciation *(fully important)*
- Reserves and Provision-Capital Reserves and Specific reserves *(very important)*
- General principles regarding verification
- Auditor's Duty under CARO regarding Audit of Fixed Assets
- Know-how
- Goodwill
- Patents
- Trademark & Copyright
- Assets acquired under Hire-Purchase system
- Debts due from subsidiary companies
- Auditor's Duty under CARO regarding Audit of Inventories
- Attending Physical counting of inventories by Management (Attending Stock taking)

Verification of Liabilities
- Loans on mortgage of property
- Amount due to subsidiary companies
- Verification of Debentures

AS – 29, 4 and AS – 5 *(Practical Questions on AS – 4 & AS – 5 – End Of Chapter – 6)*
Contingent Liabilities, Provisions
- Events occurring after balance sheet date- Adjusting and Non-Adjusting Events
- Prior Period items, Extra-Ordinary items, Changes in Accounting estimates, Changes in Accounting Policies
  (attempt practical questions on Accounting Standards on the basis of previous years question papers)

Chapter – 7
(Very important chapter for compulsory question in exam)
- Disqualifications under *Section 226*
  Note: *If a relative or partner of the auditor holds substantial interest in the business of the client, the auditor should not accept the appointment as per the latest amendment to the Code of Ethics. Before the*

amendment the auditor was required to disclose the substantial interest in his report. After the amendment the auditor cannot make such disclosure. If the auditor of a company is a relative of the director, then the appointment of the auditor requires special resolution under Section 314 of the Companies Act, 1956

- Read the Notes under "Concept of Independence" in Chapter –2 in Institute study material.
- Ceiling on audit-Code of Ethics Council notification No. 53 / 2001 on ceiling
- Filling up of a casual vacancy
- Appointment of auditor by special resolution
- Re-appointment of Auditors
- Notes given regarding sections 8 and 20 of C.A. Act, 1949
- Appointment of auditor of a government company

  Que.: *Auditor appointed in AGM failing or refusing to accept appointment. Who can appoint another auditor?*

  Ans.: *In such case only members can appoint another auditor and not the Central Government since Section 224(3) is not attracted in such case.*
- Auditor's remuneration
- Removal of Auditor
- Notes (Points 1 and 2) after removal of auditor and before powers of auditors
- Inquiry under *Section 227(1A)*
- Matters to be reported – *Section 227(3)* – except clauses *(e)* and *(g)* – clause *(f)* regarding disqualification of directors under *Section 274(1) (g)* is very important
- Auditor's Report on Financial Statements
- Basic elements of an Auditor's Report
- Opening or Introductory paragraph
- Scope paragraph
- Emphasis of Matter
- Opinion paragraph - Types of Opinions
- Branch Audit (Exemption) Rules, 1961
- Special audit under *Section 233A*

CARO, 2003

(Latest Amendments in Nov., 2004)

- Applicability and Exemption (Conditions for exemption of a Private Ltd Co.)
- Explanation of certain terms – Paid-up capital and Reserves, Loan outstanding, Turnover (in the Institute study material)
- CARO Reporting requirements- clauses *i, ii, iv, vi, vii, ix, x, xii, xiv, xv, xvi, xvii, xix, xxi* – Study these clauses from the CARO

Chapter – 8

- *Sections 209, 211, 217 (Very Important)*
- Shares issued for consideration other than cash

  (Newton vs. Burmingham case very important for Terms of an Engagement cannot restrict the scope of an audit when the auditor's duties are determined by statute or by pronouncements of the Institute)
- Option on share capital
- Buy-back
- Sweat Equity shares
- Audit of Debentures *(only points regarding verification of issue of debentures)*
- Audit of Dividend and Interim dividends *(Very Important)*
- Requirements of *Schedule VI – Part-I, Part-II and Part-III*

Chapter – 9

- Duties of C&AG
- Audit against Rules and Orders
- Propriety audit
- Performance audit
- Audit of Government Companies- Powers of C&AG under *Section 619(3)* & *(4)*
- *Section 217(3)* requirements- Practical question can be asked

Chapter – 10

SPECIAL AUDITS

- Audit of Non-Governmental Organisations – *Provisions relating to Audit*
- Audit of a Partnership Firm – *Special Steps -7 points*

- ➪ Audit of Charitable Institutions
- ➪ Audit of Educational Institutions
- ➪ Audit of Hospital
- ➪ Audit of Club

Note: *Question in the exam- combination of two special audits- e.g., Canteen in a hostel or hospital or charitable institution running an educational institution or a dispensary- in such questions you should combine the points from both the special audits.*

APPENDIX

CASE LAWS

Kingston Cotton Mills case – Decision paragraphs are very important for auditor's responsibility to consider fraud and error

ACCOUNTING STANDARDS

AS 1, 4, 5, 9, 10, 12, 13, 16, 18, 26, 29 *(Very Important)*

IMPORTANT SHORT NOTES QUESTIONS

- ➪ Audit Risk, Inherent Risk, Control Risk, Detection Risk
- ➪ Materiality and Audit Risk
- ➪ Disclosure of Accounting Policies
- ➪ Reliability of Audit Evidence
- ➪ Fundamental Accounting Assumptions
- ➪ Stratified Random sampling, Systematic sampling, Tolerable error, Expected error
- ➪ Management Representations
- ➪ Extent of reliance on Analytical Procedures
- ➪ Review and Testing of Internal Control
- ➪ Purposes of providing Depreciation
- ➪ Examination in depth / Auditing in depth
- ➪ Provision and Reserve
- ➪ Cut-off Arrangement / Cut-off Procedures
- ➪ Capital Reserve
- ➪ Outstanding assets
- ➪ Events Occurring After Balance Sheet Date
- ➪ Prior Period Items, Extra-ordinary Items, Changes in Accounting Policies
- ➪ Qualified Opinion, Adverse Opinion, Disclaimer of Opinion
- ➪ Sweat Equity shares
- ➪ Propriety audit
- ➪ Buy-back
- ➪ Performance audit
- ➪ Interim Dividend
- ➪ External confirmation

General Notes for Exams:

- ∗ Do not answer Question 1 *(Practical Questions)* at the beginning of the exam. *(Very Important)*. Answer the question only after first hour.
- ∗ Present the answers point-wise and avoid paragraph-wise presentation
- ∗ The Code of Ethics provisions in Company Audit- I at the end of Removal of Auditor are very important *(2 points just before Powers of Auditors)*
- ∗ Foot Note under Ceiling on Audits – ***Chapter – 7***: Wrong Note – *Do not study*
- ∗ Decisions in important case laws in ***Chapter – 1*** should be quoted wherever applicable
- ∗ Answer the practical questions on Accounting Standards on the basis of previous year exams
- ∗ Regarding Ceiling on audits under *Section 224(1B)* the company auditor should comply with both *Section 224 (1B)* and the Council Notification simultaneously