CA IPC Audit
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Paper Analysis

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IPC Audit Paper summary is really short.

Standards on Auditing 69 / Company Audit 14

Vouching 12 / Special Audit 10

Basics of Auditing 9 / Internal Control 6

Verification 4

Total 124

So again king was SAs and then Company Audit as expected, questions were simple to medium. Nothing out of course or very difficult.

Question 1(a) Basics of Auditing **(5M)**

Question 1 was compulsory, students were suppose to solve any 5 out of 6

Advantages of independent audit

Answer (Hint)

Satisfaction of Owner, Partners, Shareholders / Moral Check on Employees / Independent review of clients Business / Detection of Internal Control Deficiency /Books of Accounts are updated / Early detection of fraud & error/ Reduces disputes in profit sharing by partners and employees / Easy availability of loan / Tax Computation / Goodwill valuation / Business Valuation / Compliance with legal requirement

Question 1(b) SA 705 / SA 706 **(5M)**

The auditor's report is considered to be modified under certain circumstances.

Answer (Hint)

-SA 705 is applicable. It explains types of opinion (Preferably first draw chart then explain)

-Explain Unmodified Opinion

-Explain Modified Opinion

(2 Reasons Material Misstatement or No Sufficient & Appropriate Evidence (Lack of Evidence)

-Explain Qualified / Adverse / Disclaimer

-Give Examples

-Explain Changes in Audit Report because of Modification

-Explain EMP & OMP as per SA 706 doesn't amount to modification

Question 1(c) SA 200 / 240 **(5M)**

Is detection of fraud and error duly of an auditor

Answers (Hint)

-Refer SA 200 / SA 240

-Primary objective is to give opinion on financial statement whether they give true and fair view, are they free from material misstatement

-If we get misstatement or suspicion of misstatement then it is secondary objective to determine whether it is due to fraud or error.

-It is primary responsibility of management to detect fraud & error in financial statement as they prepare financial statement.

-Explain auditor is not responsible because on INHERENT LIMITATIONS OF AUDIT

Question 1(c) SA 200 / SA 240 **(5M)**

Answers (Hint) Continued

-Explain detection risk in fraud is more than error, Further it is more in Management Fraud than Employee Fraud

-It depends on how deep fraud is perpetrated / concealment / frequency / level of employee involved / Collusion / Opportunities of doing fraud etc

-As auditor we should have professional skepticism, alertness and take suspicions seriously.

Hence -We cannot be held responsible for detection of all frauds & errors.

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Question 1(d) SA 220 **(5M)**

Mention any four information which assists the auditor in accepting and continuing of relationship with the client as per SA 220

Answers (Hint)

-Refer SA 220 & SQC1

-Both emphasis that we should obtain information & evaluate whether to accept new assignment & whether to continue old assignment

- The **integrity of the principal owners**, key management and those charged with governance of the entity;
- Whether the **engagement team is competent** to perform the audit engagement and has the necessary capabilities, including time and resources;
- Whether the firm and the engagement team **can comply with relevant ethical requirements**; and
- **Significant matters that have arisen during the current or previous audit engagement**, and their implications for continuing the relationship.

Question 1(d) SA 220 **(5M)**

Answers (Hint) Continued

-In case of certain entities, such as, Central/State governments and related government entities (for example, agencies, boards, commissions), auditors may be appointed in accordance with statutory procedures.

Accordingly, certain of the requirements and considerations regarding the acceptance and continuance of client relationships and audit engagements as set out in paragraphs 12, 13 and A7 may not be relevant. Nonetheless, information gathered as a result of the process described may be valuable to the auditors of such entities in performing risk assessments and in carrying out reporting responsibilities.

Question 2(i) Company Audit I **(2M)**

Question 2 was Correct or Incorrect, solve any 8 out of 10

C &AG orders to conduct test audit of the accounts of a Government company.

Answer (Hint)

Correct

Section 143(5)/ (6) / (7) deals with powers of C&AG with respect to government companies.

Section 143(6) says CAG can appoint anyone to perform Supplementary Audit.

Section 143(7) says CAG can issue order and himself perform Test Audit.

Extra

Test audit shall cover transactions entered into by the company with a view to examining their **regularity, propriety, probity, economy, efficiency and effectiveness** and report on cases of **failure of compliance with laws, rules and regulations, waste, mismanagement, other irregularities and frauds and corruption.** The scope of test audit may extend to more than one financial year.

Question 2(ii) SA 705 **(2M)**

The auditor shall not modify the opinion in the auditor's report

Answer (Hint)

Incorrect

SA 705 is applicable. It explains types of opinion (Preferably first draw chart then explain)

-Explain Unmodified Opinion

-Explain Modified Opinion

(2 Reasons Material Misstatement or No Sufficient & Appropriate Evidence (Lack of Evidence)

-Explain Qualified / Adverse / Disclaimer

-Section 143 (3) also says that auditor should qualify, put reservations, adverse when proper books are not maintained and there is misstatement or any thing have adverse impact on functioning of company

Question 2(iii) Company Audit I **(2M)**

The first auditor of a Government company was appointed by the Board in its meeting after 10 days from the date of registration.

Answer (Hint)

Incorrect

Refer Sec 143(7)

Question 2(iv) Company Audit I **(2M)**

As per section 138 of The Companies Act. 2013 private companies are not required to appoint internal auditor.

Answer (Hint)

Incorrect

Refer Sec 138

TYPE OF COMPANY	O/S LOANS / BORROWINGS (BANKS & FIs)	TURNOVER	DEPOSITS	PAID UP SHARE CAPITAL
Listed Company	Applicable to all listed companies.			
Private Company	100 Crores or more	200 Crores or more		
Public Company (Unlisted)	100 Crores or more	200 Cores or more	25 Crores or more	50 Crores or more

All conditions should be with respect to figures of preceding year.

Existing Company covered under above criteria shall comply within months from commencement (26th March 2014)

Question 2(v) SA 580 **(2M)**

Written representation by management as to the quality of inventory is substitute for verification.

Answer (Hint)

Incorrect

Refer SA 580

WR cannot substitute regular audit procedures. [taking WR from management is not enough, auditor has to perform audit procedures]

WR is not sufficient & appropriate alone. [WR is an additional evidence for auditor, it is use to complete audit evidences]

It is not a primary evidence, it is secondary / corroborative evidence

Question 2(vi) SA 265 **(2M)**

Letter of weakness is issued by the Management,

Answer (Hint)

Incorrect

Refer SA 265

It is **issued by statutory auditor to management** when he finds significant or other internal control deficiency while performing risk assessment under SA 315 or Test of controls under SA 330.

Question 2(vii) Basics of Audit **(2M)**

Scrutiny of Bank Reconciliation statement is one of the audit techniques.

Answer (Hint)

Correct

For collection and accumulation of audit evidence, certain methods and means are available and these are known as audit techniques

1. Posting checking, 2. Casting checking, 3. Physical examination and count

4. Confirmation, 5. Inquiry, 6. Year-end scrutiny, 7. Re-computation, 8. Tracing in subsequent period, <u>**9. Bank Reconciliation**</u>

The two terms, procedure and techniques, are often used interchangeably; in fact, however, a distinction does exist. Procedure may comprise a number of techniques and represents the broad frame of the manner of handling the audit work; techniques stand for the methods employed for carrying out the procedure.

Question 2(viii) Basics of Audit **(2M)**

The basic objective of audit does not change with reference to nature, or form of an entity.

Answer (Hint)

Correct

Refer SA 200

Where objective is same for all the type of entities.

Refer definition of Audit

An independent examination of financial information of any entity ,**weather profit oriented or not, and irrespective of its size or legal form,** When such an examination is conducted with a view to expressing an opinion thereon.

Question 2(ix) Company Audit I **(2M)**

Director's relative can act as an auditor of the company.

Answer (Hint)

Incorrect

Refer Sec 141(3) for Disqualification

"(f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;" is disqualified to conduct audit.

Question 2(x) Company Audit I **(2M)**

If an LLP (Limited Liability Partnership Firm) is appointed as an auditor of a company, every partner of a firm shall be authorized to act as an auditor.

Answer (Hint)

Incorrect

Refer Sec 141(1) for Qualifications

Partnership Firm (Including LLP)

i. Majority of partners should be CA + COP

ii. Only partners who are CA + COP can perform audit and sign financial statement and audit report.

Sec 141 (2) & 2(17)

Question 3(a) Vouching **(4M)**

Rental Receipt

Answer (Hint) “You can many other relevant points”

(i) Check copies of bills or rent receipt issued to the tenant with reference to tenancy
agreement and bills of charges paid by the landlord on behalf of tenants.
(ii) The entries in the rental register in respect of rent accrued should be traced with reference to copies of rental bills.
(iii) Scrutinize the account of collecting agent when the rent is collected by such agent.
(iv) Vouch the entries for rent received in advance and ensure proper adjustment is made.
(v) Investigate into abnormal rent outstanding.
(vi) Reconcile the outstanding rent and see that proper provision is made if unrecoverable.
(vii) If rent is received net of TDS, see that rent income is shown at gross and TDS is shown in Balance Sheet as advance Tax.

Question 3(b) Vouching **(4M)**

Repair to Assets

Answer (Hint) "You can many other relevant points"

Since the line demarcating repairs from renewals is slender, usually it is not a simple matter to determine the amount of the expenditure, if any, included as charges for repairs, which should be considered as that incurred for renewal of an asset and added to its cost. It may sometimes be possible to determine this on a consideration of the nature of repairs carried out. The proportion of the charges which had the effect of increasing. (**As per Module)**

Question 3(c) Verification **(4M)**

Work in progress

Answer (Hint) "You can many other relevant points"

(a) Ascertain that the cost sheets are duly attested by the Works Engineer and Works Manager.

(b) Test the correctness of the cost as disclosed by the cost records by verification of quantities and cost of materials, wages and other charges included in the cost-sheets by reference to the records maintained in respect of issues of materials, payment of wages and its classification and original evidence in respect of all expenditure included in the cost-sheets.

(c) Compare the unit cost or job cost as shown by the cost sheet with the standard cost or the estimate of cost expected to be maintained under actual operating conditions during a limited future period (wherever these have been developed).

(d) Ensure that the allocation of overhead expenses has been made on reasonable basis and that total of the overhead expenses does not include any amount in respect of selling distribution and office expenses.

(e) Compare the cost-sheet in detail with that of the previous year both in regard to the composition of cost and the value placed on various components. If they vary materially, investigate the causes thereof. (**As per Module)**

Question 3(d) Vouching **(4M)**

Insurance claims

Answer (Hint) "You can many other relevant points"

Insurance claims may be in respect of fixed assets or current assets. While vouching the receipts of insurance claims, the auditor should examine a copy of the insurance claim lodged with the insurance company. Correspondence with the insurance company and the insurance agent should also be seen. Counterfoils of the receipts issued to the insurance company should also be seen. The auditor should also determine the adjustment of the amount received in excess or short of the value of the actual loss as per the insurance policy. The copy of certificate/report containing full particulars of the amount of loss should also be verified. The accounting treatment of the amount received should be seen particularly to ensure that revenue is credited with the appropriate amount and that in respect of claim against an asset, the Statement of Profit and Loss is debited with the shortfall of the claim admitted against the book value. If the claim was lodged in the previous year but no entries were passed, entries in the Statement of Profit and Loss should be appropriately described.

Question 4(a) SA 260 **(6M)**

State the significant difficulties encountered during audit with reference to SA-260 (communication with those charged with governance)

Answer (Hint)

Refer SA 260 "Communication with those charged with Governance"

Significant difficulties encountered during the audit may include such matters as:

1. **Significant delays** in management providing required information.
2. An unnecessarily **brief time** within which to complete the audit.
3. Extensive **unexpected effort required to obtain sufficient appropriate audit evidence.**
4. The **unavailability of expected information.**
5. **Restrictions** imposed on the auditor by management.
6. Management's **unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.**
7. In some circumstances, such difficulties **may constitute a scope limitation that leads to a modification of the auditor's opinion.**

Question 4(b) SA 315 **(6M)**

The auditor may exercise his judgement to identify which risks are significant risks, Explain the above in context of SA-315.

Answer (Hint)

Refer SA 315

In exercising judgment as to which risks are significant risks, the auditor shall consider at least the following:

(a) Whether the risk is a **risk of fraud;**

(b) Whether the risk is related to recent significant economic, accounting, or other developments like **changes in regulatory environment, etc.**, and, therefore, requires specific attention;

(c) The **complexity of transactions;**

(d) Whether the **risk involves significant transactions with related parties;**

(e) The **degree of subjectivity** in the measurement of financial information related to the risk,

Question 4(c) Company Audit **(4M)**

State the manner of rota; ion of auditors on expiry of their term.

Answer (Hint)

Refer Section 139(2) & CAAR Rules 2014

Explain Rotation Requirement for individual CA & Firm

Explain cooling requirement

"Manner of Rotation"

(1)The Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm who may replace the incumbent auditor on expiry of the term of such incumbent.

(2)Where a company is required to constitute an Audit Committee, the Board shall consider the recommendation of such committee, and in other cases, the Board shall itself consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.

<u>Explain concept of Consecutive Years / Common partner firm / New firm by signing partner / Same network / Counting of years before company act 2013 / Transition period of 3 years / Internal Rotation</u>

Question 5(a) SA 230 (6M)

Audit documentation serves a number of purposes. Explain with reference SA 230

Answer (Hint)

Assist in Planning

Delegation of WORK

Accountability Improves

Supervision

Review

For Quality Control Reviews (SA 220)

Report Finalization

Standardization

Evidence of Proper Planning & Execution

Evidence in COURT

Peer Review

Reference in future Audit

Question 5(a) SA 230 **(6M)**

Audit documentation serves a number of purposes. Explain with reference SA 230

Answer (Hint)

Assist in Planning

Delegation of WORK

Accountability Improves

Supervision

Review

For Quality Control Reviews (SA 220)

Report Finalization

Standardization

Evidence of Proper Planning & Execution

Evidence in COURT

Peer Review

Reference in future Audit

Question 5(b) Internal Control System **(6M)**

Explain the inherent limitations of Internal Control-

Answer (Hint)

This is because it suffers from some inherent limitations, such as:-

(i) Management's consideration that cost of an internal control does not exceeds the expected benefits.

(ii) Most controls do not tend to be directed at unusual transactions.

(iii) The potential of human error due to carelessness, misjudgment and misunderstanding of instructions.

(iv) The possibility that control may be circumvented through collusion with employees or outsiders.

(v) The possibility that a person responsible for exercising control may abuse that authority.

(vi) Compliance with procedures may deteriorate because the procedures becoming inadequate due to change in condition.

(vii) Manipulation by management with respect to transactions or estimates and judgements required in the preparation of financial statements.

(viii) Inherent limitations of Audit.

Question 5(c) SA 505 **(4M)**

Point Out any eight areas where external confirmation used as an audit procedure.

Answer

1. **Debtor balances;**
2. **Creditor balances;**
3. **Terms of agreement or transactions with third parties;**
4. **Bank Balance and other information from bankers;**
5. **Stock held by third parties;**
6. **Property title deeds held by third parties;**
7. **Investments purchased but delivery not taken;**
8. **Bank loans.**

Question 6(a) Special Audit **(6M)**

What are the advantages of the audit of the accounts of a partnership firm ?

Answer

Advantages of audit of accounts of a partnership firm: Advantages are as follows :

(i) Audited accounts provide a convenient and reliable means of settling accounts between the partners and thereby possibility of dispute among them is mitigated.

(ii) On the retirement/death of a partner, audited accounts constitutes a reliable evidence for computing the amount due to the retiring partner or representative of deceased partner.

(iii) Audited accounts are generally accepted by the Income tax authorities for computing the assessable income.

(iv) Audited accounts are relied upon by banks for advancing loan.

(v) Audited accounts can be helpful in the negotiation for sale or admission of a new partner.

(vi) It is an effective safeguard against any undue advantage being taken by a working partner as against the non working partners.

Question 6(b) SA Intro **(6M)**

What are the objective and functions of Auditing & Assurance Standards Board (AASB) ? Explain.

Answer

Objectives and Functions of the Auditing and Assurance Standards Board

(i) To review the existing and emerging auditing practices worldwide and identify areas in which Standards on Quality Control, Engagement Standards and Statements on Auditing need to be developed.

(ii) To formulate Engagement Standards, Standards on Quality Control and Statements on Auditing so that these may be issued under the authority of the Council of the Institute.

(iii) To review the existing Standards and Statements on Auditing to assess their relevance in the changed conditions and to undertake their revision, if necessary.

(iv) To develop Guidance Notes on issues arising out of any Standard, auditing issues pertaining to any specific industry or on generic issues, so that those may be issued under the authority of the Council of the Institute.

(v) To review the existing Guidance Notes to assess their relevance in the changed circumstances and to undertake their revision, if necessary.

Question 6(b) SA Intro **(6M)**

Answer

(vi) To formulate General Clarifications, where necessary, on issues arising from Standards.

(vii) To formulate and issue Technical Guides, Practice Manuals, Studies and other papers under its own authority for guidance of professional accountants in the cases felt appropriate by the Board.

Question 7(a) Basics of Audit **(4M)**

Fundamental Accounting Assumptions

AS 1 states that certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. The following have been generally accepted as fundamental accounting assumptions:

(i) Going Concern

(ii) Consistency

(iii) Accrual

Question 7(b) SA 500 **(4M)**

Methods to obtain audit evidence ?

1. Inspection: Examining records or document or physical examination of assets.
2. Observation: Looking at process or procedure
3. Recalculation: Checking mathematical accuracy
4. Re-performance: Execution of procedures or controls
5. Inquiry: Inquiry consists of seeking information of knowledgeable persons, financial and non- financial, within the entity or outside the entity. Inquiry is used extensively throughout the audit in addition to other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.
6. External confirmation: Acknowledgement from third party
7. Written Representation: Acknowledgement from MGMT
8. Analytical Procedures: Evaluation financial information using ratio, trend, graph etc.

Question 7(c) SA 230 **(4M)**

Importance of working paper ?

Answer (Hint)

(i) It provides guidance to the audit staff with regard to the manner of checking the schedules.

(ii) The auditor is able to fix responsibility on the staff member who signs each schedule checked by him.

(iii) It acts as evidence in the court of law when a charge of negligence is brought against the auditor.

(iv) It acts as the process of planning for the auditor so that he can estimate the time that may be required for checking the schedules.

The auditor should adopt reasonable procedures for custody and confidentiality of his working papers and should retain them for a period of time sufficient to meet the needs of his practice and satisfy any pertinent legal or professional requirements of record retention.

Question 7(d) SA 500 **(4M)**

Random sampling ?

Random Sampling: Random selection ensures that all items in the population or within each stratum have a known chance of selection. It may involve use of random number tables.

Random sampling includes two very popular methods which are discussed below:–

(i) Simple random sampling (ii) Stratified Sampling