

A COMPLETE GUIDE FOR ADVANCED AUDITING (CA FINAL)

Applicable for
CA Final
Nov., 2015
Exams onwards



Short
Notes for
Quick Revision

CA is now Easy with **Easy Ca™**

2nd Edition

Advanced Auditing and Professional Ethics

It Covers

- > ICAI Study Material
- > ICAI Practice Manual
- > Solved Question Papers of Last 35 Exams & Practice Manual
- > Upto date Amendments Including CARO 2015 & Format of New Audit Report Under Companies Act, 2013.

CA Sumit Aggarwal

Spiraa™

**A COMPLETE GUIDE FOR
ADVANCED AUDITING**

(CA FINAL)

CA SUMIT AGGARWAL

CA SUMIT AGGARWAL

Spiraa™

A Complete Guide For

ADVANCED AUDITING

(CA FINAL)

- With solved Question Papers for Last 34 Exams
- With Short Notes for Quick Revision

By

C.A. SUMIT AGGARWAL

Foreword by

C.A. AMARJIT CHOPRA

SPIRAA PUBLISHING INC.
NEW DELHI

Copyright © 2014 SUMIT KUMAR AGGARWAL (All right Reserved)

Printing & Publishing right with SUMIT KUMAR AGGARWAL

No part of this publication including Heading & Style may be reproduced or copied in any form (including graphic, electronic or mechanical form) or by any means (including photocopying, recording, scanning, taping or storing in any information retrieval system) or reproduced in any disc, tape, perforated media or any other information storage device, or translated in any other language without prior written permission of SUMIT KUMAR AGGARWAL. Any infringement shall result in criminal prosecution and civil claim for damages.

First Edition	:	December, 2014
Reprint Edition	:	February, 2015
Second Edition	:	July, 2015
ISBN	:	978-81-930580-0-8
Price	:	Rs. 599/-
Published by	:	<i>Spiraa Publishing Inc</i>
Regd. Office	:	B -8/232 1st Floor, Sector -5, Rohini -110085. Delhi -110085
Phone	:	011-45553634
Email	:	info.spiraa@gmail.com
Printed at	:	Raja Offset Printers, Delhi

Disclaimer:

Every effort has been made to present this publication in the most authentic form without any errors and omissions. In spite of this errors might have inadvertently erupt in, or there may be a difference of opinion on certain provisions, or some judicial ruling might have been lost sight of. Any mistake, error or discrepancy noted may be kindly brought to the notice of the Publisher, which shall be dealt with suitably. It is notified that neither the Author nor the Publisher guarantees the accuracy or completeness of any information published herein, and the Publisher, the Author or seller will not be responsible for any damage or loss, of any kind, in any manner, arising out of use of this information. This work is published with the understanding that the Publisher and the Author are supplying information but are not attempting to render any services. It is suggested that to avoid any doubt, the reader should cross check all the facts, law and contents of this publication with original Government Publications or Notifications.

For binding mistakes, misprints or for missing pages etc; the publisher's entire liability, and buyer's exclusive remedy, is replacement of this publication, within one month of purchase, subject to availability of copies. All expenses in this connection are to be borne by the purchaser.

All disputes are subject to Delhi Jurisdiction only.

***Dedicated to
All CA Students
&
My Family***

About the Author

Sumit Kumar Aggarwal is a commerce graduate from Bikaner University, having done his graduation from Seth G.L. Bihani S.D. (P.G.) College. He qualified Chartered Accountancy Course in 2005, simultaneously; he also completed his Master in Commerce in 2005. He has cleared various exams conducted by NSE. He also qualified certification course in International Financial Reporting Standard (IFRS) from ICAI in January 2010. He is currently teaching auditing to CA Students & functioning as a Practicing Chartered Accountant. He is also a member of Institute of Certified Management Accountant, USA.

Foreword

Financial Statements are important as these reveal the state of affairs of a particular entity on a particular date as well as the performance of the entity over the accounting period. These need to be transparent and give true and fair view of the state of affairs and of profit/loss for the period. Though the responsibility for preparation of financial statements lies with the managements, the responsibility, to ensure that sound accounting policies and the relevant accounting standards have been complied with, remains with the auditor.

With a view to enable auditor to discharge his duties effectively and efficiently, Standards on Auditing have been laid down. The same are in line with the Standards laid down by International Auditing and Assurance Standards Board (IAASB). The Institute of Chartered Accountants of India have pronounced Standards on Auditing. These Standards lay down the responsibilities of the auditors and the procedures to be followed by them. Any deviation from these Standards has to be explained by the auditor giving the reasons, impact etc. In certain cases he may be required to modify his report.

I am indeed glad to know that CA Sumit Kumar Aggarwal has authored "A Complete Guide For Advanced Auditing" for CA Final students. He has covered the various Standards and other topics meticulously. He has taken pains to include topics on Professional Ethics, Bank Audit, Cost Audit etc. He has also deftly handled the questions with answers from last 34 exams. The effort is laudable and I am sure that the students would be immensely benefitted by the book.

With best wishes

CA. Amarjit Chopra,
Fellow Member ICAI

Preface to Second Edition

Firstly, I would like to thank the reader for the response given to first edition. It gives me immense pleasure in presenting the second edition of the book “A Complete Guide for Advanced Auditing – CA Final”.

The distinctive features of the second edition are as follows:

- Addition of One New Chapter “CARO 2015”.
- Updation of Chapter 24 with (1) Example of Audit Engagement Letter as per SA 210; (2) Illustrative Format of Auditor’s Report under the Companies Act, 2013.
- Updation of Chapter 8 “Audit Committee and Corporate Governance (Clause 49 of Listing agreement)”.
- Incorporation of May, 2015 Question Paper.

I am thankful to my students and colleagues for their valuable suggestions while presenting this second edition of the book.

I also grateful to “**Spiraa Publishing Inc.**” for their efforts in publishing the second edition of the book.

Suggestions and criticism from all readers would be highly appreciated and acknowledged.

Finally, I hope that students will find this book beneficial from exam point of view. In case of any suggestion, please feel free in writing to me at **cacma.sumit@gmail.com**.

I look forward the views and suggestions from the readers which would help towards further improvement of the book.

Wishing every success to the readers.

CA Sumit Kumar Aggarwal

CA SUMIT AGGARWAL

Preface to First Edition

It gives me immense pleasure in presenting before the student of C.A. (Final), the first edition of the book on “Advanced Auditing and Professional Ethics”.

Auditing is one of the most dynamic subjects in the C.A. curriculum. The Ministry of Company Affairs has replaced the Old “Companies Act, 1956” with new “Companies Act, 2013”. The Institute of Chartered Accountants of India has revised most of the Standards on Auditing. The students of Chartered Accountancy are expected to have an expert knowledge of these SAs and other pronouncements.

The present book has been written keeping in view the requirements of C.A. (Final) examination of the Institute of Chartered Accountants of India. The features of this book are as follow:

Salient Features:

- Presentation of whole Syllabus in an easy language to understand the complex subject matter.
 - Tabular and graphic presentation to facilitate easy understanding and learning.
 - Inclusion of flowcharts on various topics, including Standards on Auditing.
 - Presentation of maximum topics in point-wise manner.
 - Upto date amendments including Companies Act, 2013, Clause 49 of Listing Agreement, Revised form 3CD – Tax Audit Report etc.
 - Illustration of all “Audit Report” as per SA 700, SA 705 & SA 706 at one place (See Chapter 24) for quick understanding of “Audit Report” in different situations with minimum time frame & fast understandability.
 - All Example of Engagement Letter as per SA 210, SA 2400, SRE 2410, SRS 4400, SRS 4410 at one place (See Chapter - 24) for quick understanding of Engagement Letter in different situations with minimum time frame & fast understandability.
 - All Illustration of Audit Report, Review Report & Certificate as per SA 800, SA 805, SRE 810, SRE 2400, SRE 2410, SAE 3400, SRS 4400, SRS 4410 at one place (See: Chapter - 24) for quick understanding of Audit Report, Review Report in different situations & their comparison with minimum time frame & fast understandability.
 - Full coverage of Questions appeared in past 34 exams has been arranged in following manners:
 - ◊ Chapter wise/topic wise
 - ◊ Standard of Auditing wise
 - ◊ Accounting Standard wise
-

- ◊ Clause wise & Schedule wise (Chapter – Professional Ethics)
- ◊ Clause wise (Chapter – Audit under Fiscal Law (Form 3CD))
- Graphs at the beginning of every chapter, showing marks allotment in last twenty examinations.
- List of questions including case study's appeared in past 34 examinations given at the end of each chapter. Suggested answer given after Questions, so that student could first try to recall the Law/points/SA/Section/Act related to that case study and try to solved out the case study before seeing the suggested answer. It will enhance their irretrievability power. It will also help students to have an idea of paper style.
- Short Notes of all Chapters given at the end of the book (See Chapter – 26) for Quick revision.
- Table Showing Importance of Chapter on the Basis of Marks Allotment in Past Examinations.
- 80 + practical Question on New Companies Act, 2013.

I am thankful to my students and colleagues for their valuable suggestions while presenting this first edition.

I, also grateful to "**Spiraa Publishing Inc.**" for their efforts in publishing the book.

Suggestions and criticism from all readers would be highly appreciated and acknowledged.

Finally, I hope that students will find this book beneficial from exam point of view. In case of any suggestions, please feel free in writing to me at cacma.sumit@gmail.com

Wishing every success to the readers.

CA Sumit Kumar Aggarwal

Syllabus

(Applicable for May 2015 Exams & Onwards)

[As per ICAI Notification dated May 20 2014]

Paper 3: Advanced Auditing and Professional Ethics

(One Paper - Three hours - 100 marks)

Level of Knowledge: Advanced knowledge

Objectives:

- (a) To gain expert knowledge of current auditing practices and procedures and apply them in auditing engagements.
- (b) To develop ability to solve cases relating to audit engagements.

Contents:

1. Auditing Standards, Statements and Guidance Notes

Auditing and Assurance Standards (AASs) ; Statements and Guidance Notes on Auditing issued by the ICAI; Significant differences between Auditing and Assurance Standards and International Standards on Auditing.

2. Audit strategy, planning and programming

Planning the flow of audit work; audit strategy, planning programme and importance of supervision: review of audit notes and working papers; drafting of reports; principal's ultimate responsibility; extent of delegation; control over quality of audit work; reliance on the work of other auditor, internal auditor or an expert.

3. Risk Assessment and Internal Control

Evaluation of internal control procedures; techniques including questionnaire, flowchart; internal audit and external audit, coordination between the two.

4. Audit under Computerized Information System (CIS) environment

Special aspects of CIS Audit Environment, need for review of internal control especially procedure controls and facility controls. Approach to audit in CIS Environment, use of computers for internal and management audit purposes: audit tools, test packs, computerized audit programmes; Special Aspects in Audit of E-Commerce Transaction.

5. Special audit techniques

- (a) Selective verification; statistical sampling: Special audit procedures; physical verification of assets, direct confirmation of debtors and creditors
- (b) Analytical review procedures
- (c) Risk-based auditing.

6. Audit of limited companies

Relevant Provisions under the Companies Act, 2013 relating to Audit and Auditors and Rules made there under; Audit of branches joint audits; Dividends and divisible profits- financial, legal, and policy considerations.

7. Rights, duties, and liabilities of auditors; third party liability.

8. Audit reports; Qualifications, notes on accounts, distinction between notes and qualifications, detailed observations by the statutory auditor to the management vis-a-vis obligations of reporting to the members.

9. Audit Committee and Corporate Governance.
10. **Provisions under the Companies Act, 2013 in respect of Accounts of Companies and Rules made there under** : Audit of Consolidated Financial Statements, Audit Reports and Certificates for Special Purpose engagements; Certificates under the Payment of Bonus Act, import/ export control authorities, etc.; Specific services to non-audit clients; Certificate on Corporate Governance.
11. Special features of audit of banks, insurance companies, co-operative societies and Non banking financial companies.
12. Audit under Fiscal Laws, viz., Direct and Indirect Tax Laws.
13. Cost audit.
14. Special audit assignments like audit of bank borrowers, audit of stock and commodity exchange intermediaries and depositories; inspection of special entities like banks, financial institutions, mutual funds, stock brokers.
15. Special features in audit of public sector companies. Directions of Comptroller and Auditor General of India to statutory auditors Concepts of propriety and efficiency audit.
16. **Internal audit, management and operational audit** : Nature and purpose, organization, audit programme, behavioral problems; Internal Audit Standards issued by the ICAI; Specific areas of management and operational audit involving review of internal control, purchasing operations, manufacturing operations, selling and distribution, personnel policies, systems and procedures. Aspects relating to concurrent audit.
17. Investigation and Due Diligence.
18. Concept of peer review.
19. Salient features of Sarbanes - Oxley Act, 2002 with special reference to reporting on internal control.
20. **Professional Ethics**
Code of Ethics with special reference to the relevant provisions of The Chartered Accountants Act, 1949 and the Regulations there under.

Note:

- (I) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act, 2013 are enforced.
- (II) If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

CA (Final) May 2015

Examination

Paper 3: Advanced Auditing and Professional Ethics

Question No. 1 compulsory. Attempt any five questions from the remaining six questions.

No.	Questions	Marks	Hint
1	(a) 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.	5	SA 320: Refer point 2,5 & 6 of SA 320 .
	(b) The financial statements of TC & 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, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit ?	5	SA 800: Refer point 2,3,4 of SA 800
	(c) When a sub-service organization performs services for a service 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 ?	5	Refer SAE 3402
	(d) 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, 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 in drafting your audit report ?	5	SA 510: Refer Point No. 4.1 of SA 510
2	(a) 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 ?	6	Chapter # 3: Refer Point # 4 of Chapter # 3
	(b) A Ltd. holds the ownership of 10% of voting power and control over the composition of Board of Directors of B Ltd. While planning the statutory audit of A Ltd., what factors would be considered by you for audit of financial statements ?	6	Refer AS
	(c) Write short note on Corporate Responsibility under Sarbanes and Oxley Act.	4	Chapter # 4B: Refer Point # 1 of Chapter # 4B
3	(a) MG & Co. Ltd. seeks your advice while preparing financial statements the general instructions to be followed while preparing Balance Sheet under Companies Act, 2013 in respect of current assets and current liabilities.	4	Chapter # 7B: Refer "General Instruction for Preparation of Balance Sheet" of Chapter # 7B.

	(b)	C.A. Ashwin was appointed as auditor of Bristol Ltd. for the year 2013-14. Since he declined to accept the appointment, the Board of Directors appointed CA John as the Auditor in place of C.A. Ashwin and the appointment was accepted by C.A. John. Discuss.	4	Refer: Clause (9) of Part I of First Schedule. Chapter # 23
	(c)	During the bank audit AB & Co. a new Chartered Accountant firm, observed the sale/purchase of NPAs. Please help them by narrating the aspects, relating to sale/purchase of NPAs, to be considered.	4	Chapter # 12: Refer Point # 22 "Guidelines on Sale/Purchase of NPAs" of Chapter # 12.
	(d)	Draft an audit report under following circumstances : (i) Under the Payment of Bonus Act, 1965, a 'report' on the computation of bonus payable. (ii) Auditor's Report in accordance with Regulation 54 of the SEBI (Mutual Fund) Regulation, 1993.	4	Chapter # 1: Refer Guidance Note -3 "Guidance Note on Audit Reports and Certificates for Special Purposes.
4	(a)	R and M is an audit firm having partners CA R, CA M and CA G. Mr. S is the relative of CA R holding shares of STP Ltd. having a face value of Rs. 1,51,000. Whether CA R and CA M are qualified to be appointed as auditors of STP Co. ?	4	Chapter # 7C: Refer Point # 3 "Disqualifications of Auditors [Section 141(3)] of Chapter 7C.
	(b)	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 ?	6	Chapter # 4A: Refer Point # 5.1 of Chapter 4A.
	(c)	Parent Ltd, acquired 51% shares of Child Ltd, during the year ending 31-03-2014. During the financial year 2014-15 the 20% shares of Child Ltd, were sold by Parent Ltd, Parent Ltd, while preparing the financial statements for the year ending 31-3-2014 and 31-03- 2015 did not consider the financial statements of Child Ltd for consolidation. As a statutory auditor how would you deal with it ?	6	Refer Chapter # 9 (CFS)
5		Comment with respect to Chartered Accountant Act, 1949 ;		
	(a)	Mr. SP. a Chartered Accountant obtains registration as category IV Merchant Banker under the SEBI's Rules and Regulations and act as Advisor to a capital issue of MB Co. Ltd, He designates himself under the caption "Merchant Banker" in client offer documents and 'Advisor to issue' in his own letterheads, visiting cards and documents.	4	Chapter # 23: Refer Section 7 of CA Act, 1949 & Clause 7 of Part I of First Schedule to the CA Act, 1949.
	(b)	A Chartered Accountant having COP entered into partnership with persons, who are not the members of the institute, for the purpose of carrying on business. The share of the chartered account in the profit and losses was 25%. He was to take part in the business and was entitled to represent the firm before Govt. authorities etc. He was operating the bank account of the firm was receiving moneys from customers and was also looking after the affairs of the partnership.	4	Chapter # 23: Refer Clause 4 & 11 of Part I of First Schedule to the CA Act, 1949.

	(c)	CA SG a practicing CA agreed to select and recruit personnel, conduct training program for and on behalf of the client.	4	Chapter # 23: Refer Section 2 of CA Act, 1949. Refer Qst. # 11 of Chapter 23
	(d)	Mr. P a practicing chartered accountant acting as liquidator of AB & Co. charged his professional fees on percentage of the realization of assets.	4	Chapter # 23: Refer Clause 10 of Part I of First Schedule of CA Act, 1949. Refer Qst. # 37 of Chapter 23
6	(a)	The auditor report of company states that proper books of accounts as required by law have been maintained by the company. What is the role of statutory auditor of the company, when a company be said to have not maintained proper books of account ?	4	Refer point # 5.5 (Other Elements to be covered in Audit Report [Sec.143 (3)] of Chapter 7
	(b)	Comment with respect to computation of total sales, turnover or gross receipts in business exceeding the prescribed limit under Section 44 AB of Income Tax Act, 1961 and VAT law. (i) Discount allowed in the sales invoice (ii) Cash discount (iii) Price of goods returned related to earlier year (iv) Sale proceeds of fixed assets	4	Refer point 6.4 (a) [Analysis of Sales] of Chapter 16
	(c)	Explain the stepwise approach adopted by the Peer reviewer.	4	Refer Point # 9 of Chapter 22
	(d)	AB Pvt. Ltd. company having outstanding loans or borrowings from banks exceeding one hundred crore rupees wants to appoint internal auditor. Please guide him who can be appointed as internal auditor and what would be reviewed by him.	4	Refer Point # 11 of Chapter 7A
7		Write short notes/comment on any four of the following:	16	
	(a)	Core Investment Companies.	4	Refer Point # 3.5 of Chapter # 15 (Audit of NBFC)
	(b)	Investible funds as defined by IRDA.	4	Refer Chapter 13
	(c)	Areas in which due diligence can take place.	4	Refer Qst. # 10 on Page # 20.17 of Chapter # 20
	(d)	Operational auditing arose from the need of managers responsible for areas beyond their direct supervision.	4	Refer Chapter # 19
	(e)	"Review of the internal audit function has become statutory responsibility for the statutory auditor."	4	Refer Section 143 (3) of Co. Act, 2013 of Chapter # 7

STUDY PLAN – KEY TO EFFECTIVE LEARNING

While studying the subject of Auditing, students should also draw their knowledge from the other subjects (Accounting, Management Accounting, Company Law, Taxation and Other subjects) and adopt an integrated approach for the purpose as this is the subject which involves application of theoretical knowledge of other subjects.

For the purpose of its full coverage student should segregate the syllabus of this paper into seven parts for preparation.

Part 1:

- Auditing & Assurance Standard
- Guidance Note
- Accounting Standard

Part 2:

- Audit Strategy, Planning And Programming
- Risk Assessment, Internal Control & The Sarbane -Oxley Act Of 2002
- Audit Under Computerised Information System (CIS) Environment
- Special Audit Techniques

While doing preparation for this part, student may interlink it with Auditing Standards, specially the series of SA 300 – 499 i.e. Risk Assessment and Response to Assessed Risks and series of SA 500 – 599 Audit Evidence.

Part 3:

In this part, student should cover chapter related to Company Audit. For better understanding of this chapter, student must have good knowledge of the Companies Act, 2013 which is pre-requisite.

- Company Accounts
- Schedule III Of Companies Act, 2013
- Company Auditors
- Audit of Dividends
- Audit Committee and Corporate Governance (Clause 49 Of Listing Agreement)
- Audit of Consolidated Financial Statements
- Cost Audit
- Audit Report

While doing study of Audit Reports, student may interlink this with series of SA 700-799 i.e. Audit Conclusion and Reporting, and Statement on Reporting under The Companies Act, 2013. Students are also required to practice the drafting of qualifications. Student may also scan through the Annual Financial Statements of Companies to analyse the notes and qualifications, if any, incorporated by the Auditors in their Audit Report.

Part 4:

- Audits of Banks
- Audit of General Insurance Companies
- Audit of Co-Operative Societies
- Audit of Non Banking Financial Companies

Part 5:

In part five, student should include following miscellaneous chapter namely:

- Audit Under Fiscal Laws (Tax Audit & Vat Audit)
 - Audit of Public Sector Undertaking
 - Special Audit Assignments
 - ◊ Audit of Member Of Stock Exchanges
-

- ◇ Audit of Mutual Funds
- ◇ Audit of Depositories
- ◇ Environmental Auditing
- ◇ Energy Audit
- ◇ Audit of Accounts of Non Corporate Entities (Bank Borrowers)

For the preparation of part five, deep knowledge of statutory requirements is a pre-requisite for validation of adherence to the business with applicable laws. For this student should follow a check-list approach ensuring completeness of compliance validations. Further, student should update yourself with latest notification, circulars etc. Student may also interlink the above part with guidance notes already covered in part one.

Part 6:

In part six, student should cover following chapters namely:

- Internal Audit, Management & Operational Audit
- Investigation and Due Diligence
- Liabilities of Auditor
- Peer Review

Part 7:

in the seventh part student may prepare **Professional Ethics**. Generally it has been observed that there is one question i.e. case studies based question of 16 marks in the examination paper.

General Approach to Preparation:

- As in all other subjects of CA course, to excel in Audit, proper preparation and planning is very much important to avoid failure. Further Audit is a paper which requires a practical approach towards actual Audit work.
- Student should in the first instance focus on studying Auditing concepts, procedures and techniques (Part 1 & Part 2). The knowledge being so derived may be related by the students to the practical work in the field of Auditing which they do as part of their Articles training.
- Students are advised not to count the total number of pages before preparing for the paper/chapter.
- While reading the chapters, student should try to highlight the important lines or make appropriate headings and sub-headings. It will help you a lot in the last few days of the exams to have a quick view.
- After reading each chapter student should try to solve the case studies. While answering the case study based question, answer should be split in to two parts, first one is facts of the case and second one is the relevant concept and finally give your own conclusion. In this manner, the case study and application oriented theory questions can be answered.
- It is also advisable to mention applicable Engagement Quality Control Standards or Accounting Standards or Sections in audit paper wherever required. Answers should be crisp, precise and to the point to secure good marks.
- Student should also practice well the latest case laws and amendments. Do not add anything new near the exams.
- Audit is a subject which requires a lot of quick and logical application of mind to answer practical problems. Finally student should not forget to revise as revision is also very important to crack the examination.
- My personal view is that while studying audit paper student should consider yourself as an auditor and analyze and comment on the situation as an auditor. Be practical and think like a CA.

Some Other Important Points:

Exam strategy: At the time of taking exam student should try to attempt all the questions and start attempting the easy and short questions first and then devote time to the tough questions. Do not answer the questions in essay type presentation make precise points headings and sub-headings while writing the exam.

Preparation and Application of SA and AS in Audit: Special attention to SA and AS is required to be given. Along with good knowledge of SA and AS the technique to apply SA and AS in audit practical problems should also be clear to you all. It is also advisable to mention SA in audit paper wherever required just like sections. For example if some where going concern word is used in the context of Audit, you may mention

the relevant SA/AS no. where “going concern” is defined and explain the same if you have time.

Answering Practical Questions: Practical questions play an important role in audit paper. These Practical questions mostly based on Accounting Standards and Standard of Auditing. Always remember good command over Accounting standards and Standard of Auditing and its application to practical questions are the real key to score in audit. Further Accounting Standards are also mandatory to prepare for Financial Reporting paper or Accounting paper. So give special attention to AS.

Timely revision: Another basic study point is to give ample emphasis to a good revision plan. There is nothing in this world which can substitute a good revision plan. To succeed revision is must. It is important to have good materials (notes) for last minutes revisions to secure maximum marks. Short Notes have been given at the end of this book.

Good presentation of theory: Lack of good presentation especially in theory paper is one of the major drawbacks for most of the students. In theory subjects good presentation of theory is must along with mentioning case laws and sections etc. So I’d request you all to take note of the same.

Some Important Topics for Exams

- Standard of Auditing & Guidance Notes
- Accounting Standards
- Company Audit
- Audit Report
- Professional Ethics
- Peer Review

Happy Reading and Best Wishes!

How to prepare for Theory Subjects

Time may change, technology may change, methodology of teaching and training and many other aspects of CA curriculum may change but as far as human brain is concerned, it follows some basic fundamental principles for remembering and recalling the things that has been learnt by an individual. As per my observations, I noticed some terrible mistakes that are being done by many students which I feel should be avoided.

The basic mistake I observed in those students who have the habit of not revising and not trying to recapitulate the things that they have just learnt. For example, you study Audit for the full day and will feed your brain the whole day about Audit. Now, you need to analyse how much you are able to recollect, isn't it? Or else what is the use of reading for 12 hours if you are not able to recall even the simplest of the things being read by you.

I want to give a simple example here, if you are using computer regularly, you will easily correlate this example with what I want to convey about human brain. Take an example where you are working on a file lets say this file 'Study Plan – Key to Effective Learning' and you saved it on some folder in your computer. Let's say C:\Users\Administrator\Dropbox\ Study Plan – Key to Effective Learning. Now you want to access that file and refer to this file, let's say after 3-4 months. In this case, it might be possible that you may have forgotten where you have kept this particular file unless you have accessed the file for at least 2-3 times. When you access it often, it becomes well printed in your brain where you have kept this file.

Similar to above example, our brain is also such that it can stores whatever you want to store in it; however, the retrieval power differs from person to person. The timely retrieval of information and knowledge depends on how much recalling practice you have. I was reading somewhere about human brain capacity of storage. The article revealed that human brain can store videos of around 300 years. Now, imagine what the sizes of our CA books are as compared to capacity we have got. You will wonder that human brain may be capable to even store all the existing books on this earth, you never know.

Now, the crux of the matter I want to convey you is that retrievability power. Retrievability power is our capacity to recall the stored data and knowledge as per our wish, on the day and time we want it.

Now let us analyse what our brain does when we are writing our exams? Our brain encounters a question and the answer is based on the vast amount of knowledge stored in our brain. Just like Google/Yahoo, our brain starts searching for the answer from the existing database and information bank inside itself. The more practice we have for recalling, the easier it becomes to reproduce it when required. Just stuffing the books in the storage (brain) does not help.

I want readers to do is to practice retrieval of data and information from brain. I want them to practice those things which actually matters in exams, the things that they actually do in exams. It will be much beneficial for you if you practice what you are really going to do in exams. For theory subjects, what you are going to do in exams is to face a question and retrieve relevant section or text/point from your brain in order to present your answer. It requires practice to do this in smooth manner. Retrieval practice is most important part of your preparation. Just evaluate, how much time you are dedicating for recalling and how much time you are spending in dumping the data and information in your brain. Make your own choice and chose your own result.

To put it in a summary, you are going to retrieve your knowledge based on the questions you face in exams. So, how can you imagine doing it directly in examination hall without practicing the same, without trying to get hang of the recall process and recall practice.

Below mentioned are some simple steps which everyone should follow in order to remember more and

more. (What I mean by remembering is the power of retrievability and the power to recall the things when required).

Step 1: Read and Recall every hour: Take any theory subject you want to prepare, read it for an hour or so and then ask yourself what you can recall from last one hour reading. Initially it will take more time to recall but as you practice this method, it will become easier. So, don't worry and keep trying. No effort goes waste; every try of recollecting makes your brain stronger with each passing moment.

Note: Please note that those people who doesn't have any practice of this method will find it frustrating because they have never asked themselves these questions about how much they can recall. I personally have felt this frustration because I couldn't recall even the smallest of the matter in the beginning, but gradually, it became very easy with each passing day. If there is a will, there is a way. So keep trying and trying.

Step 2: Note down important points in your own words: Try to jot down those points on a page in your own words. This practice is required because what we do in exam is to write something in our own language and express. This practice will be very very useful for effective writing in exams. It's also required for efficient brain and hand synchronization while writing. Our brain can think much faster than our writing speed, so we tend to skip a word or sentences while writing. You may have experienced this while re-reading your own answers. I am sure all must have experienced this some time in their student life.

Note: Please note that jotting down points after each hour may not be feasible because of time constraints, hence, points should be noted only when you come across some important parts of your chapter or after the full reading of each chapter.

Step 3: Repeat the process of Recalling and its importance: Every hour or after two hours, repeat the process of recalling. This will make your brain super active while reading. The neurons and cells of your brain that are employed for recalling process become more and more efficient with each passing hour(s) and with each additional practice. If you keep on asking your brain what it has remembered, it will certainly understand that whatever being read is important and it will apply all its possible energy in storing and retrieving.

Table Showing Importance of Chapter on the Basis of Marks Allotment in Past Examinations

No.	Chapter	N10	M11	N11	M12	N12	M13	N13	M14	N14	M15	Total	Avg.
1	Auditing & Assurance Standard and Guidance Note	17	32	11	32	29	20	27	19	50	24	269	26.9
2	Accounting Standards	20	4	16	5	5	15	14	5	9	6	99	9.9
3	Audit Strategy, Planning and Programming	0	8	8	0	0	0	0	0	0	6	22	2.2
4	Risk Assessment, Internal Control & The Sarbane -Oxley Act Of 2002	5	0	9	0	0	8	4	8	4	10	44	4.4
5	Audit under Computerised Information System (CIS) Enviroment	8	4	5	6	8	4	4	4	4	0	47	4.7
6	Company Audit	12	16	13	8	24	16	0	18	8	20	138	13.8
7	Audit Committee and Corporate Governance	0	0	0	4	0	0	8	4	0	0	16	1.6
8	Audit of Consolidated Financial Statements	0	0	0	0	4	4	9	6	0	6	29	2.9
9	Cost Audit	4	0	0	4	0	0	4	0	4	0	16	1.6
10	Audits of Banks	4	8	5	10		8	4	10	0	4	53	5.3
11	Audit of General Insurance Companies	4	4	4	4	0	5	4	6	6	4	41	4.1
12	Audit of Co-Operative Societies	6	4	0	0	0	4	4	0	4	0	22	2.2
13	Audit of Non Banking Financial Companies (NBFC)	0	0	0	0	6	0	0	4	0	4	14	1.4
14	Audit under Fiscal Laws (Tax Audit & Vat Audit)	5	4	15	6	4	4	4	0	4	4	50	5.0
15	Audit of Public Sector Undertaking	0	4	4	0	8	0	0	6	0	0	22	2.2
16	Special Audit Assignments	4	4	9	8	8	4	4	0	4	0	45	4.5
17	Internal Audit, Management & Operational Audit	10	4	0	4	0	4	4	3	0	4	33	3.3
18	Investigation and Due Diligence	5	4	0	8	8	4	4	4	0	4	41	4.1
19	Liabilities of Auditor	0	0	0	0	0	0	4	4	0	0	8	8.0
20	Peer Review	0	0	4	4	0	4	4	3	0	4	23	2.3
21	Professional Ethics	16	16	16	16	16	16	16	16	23	20	164	16.4

Contents at a Glance

	INDEX	Page
»	About the Author	6
»	Preface to Second Edition	7
»	Preface to First Edition	9-10
»	Syllabus (May 2015 Exams & Onwards)	11 - 12
»	CA Final May 2015 Examination	13 - 15
»	Study Plan - Key to Effective Learning	16 - 18
»	How to Prepare for Theory Subject	19 - 20
»	Table Showing Importance of Chapter on the Basis of Marks Allotment in Past Examinations	21
»	List of Abbreviations	24
Chapter	Part - 1	
1	AUDITING & ASSURANCE STANDARD AND GUIDANCE NOTE	1.1 - 1.137
1A	AUDITING AND ASSURANCE STANDARD	
1B	GUIDANCE NOTE	
2	ACCOUNTING STANDARDS	2.1 - 2.24
Chapter	Part - 2	
3	AUDIT STRATEGY, PLANNING AND PROGRAMMING	3.1 - 3.9
4	RISK ASSESSMENT, INTERNAL CONTROL & THE SARBANE -OXLEY ACT OF 2002	4.1 - 4.15
4A	RISK ASSESSMENT & INTERNAL CONTROL	
4B	THE SARBANE -OXLEY ACT OF 2002	
5	AUDIT UNDER COMPUTERISED INFORMATION SYSTEM (CIS) ENVIROMENT	5.1 - 5.16
6	SPECIAL AUDIT TECHNIQUES	6.1
Chapter	Part - 3	
7	COMPANY AUDIT	7.1 - 7.59
7A	COMPANY ACCOUNTS (SECTION 128 to 138)	
7B	SCHEDULE III OF COMPANIES ACT, 2013	
7C	COMPANY AUDIT AND AUDITORS (Sections 139 to 148)	
7D	COMPANIES (AUDITOR'S REPORT) ORDER, 2015	
7E	AUDIT OF DIVIDENDS	

8	AUDIT COMMITTEE AND CORPORATE GOVERNANCE (CLAUSE 49 OF LISTING AGREEMENT)	8.1 - 8.8
9	AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS (CFS)	9.1 - 9.6
10	COST AUDIT	10.1 - 10.7
11	AUDIT REPORT	11.1
Chapter	Part - 4	
12	AUDITS OF BANKS	12.1 - 12.32
13	AUDIT OF GENERAL INSURANCE COMPANIES	13.1 - 13.12
14	AUDIT OF CO-OPERATIVE SOCIETIES	14.1 - 14.8
15	AUDIT OF NON BANKING FINANCIAL COMPANIES (NBFC)	15.1 - 15.8
Chapter	Part - 5	
16	AUDIT UNDER FISCAL LAWS (TAX AUDIT & VAT AUDIT)	16.1 - 16.29
17	AUDIT OF PUBLIC SECTOR UNDERTAKING	17.1 - 17.6
18	SPECIAL AUDIT ASSIGNMENTS	18.1 - 18.15
18 A	AUDIT OF MEMBER OF STOCK EXCHANGES	
18 B	AUDIT OF DEPOSITORIES	
18 C	AUDIT OF MUTUAL FUNDS	
18 D	ENVIRONMENTAL AUDIT & ENERGY AUDIT	
18 E	AUDIT OF ACCOUNTS OF NON CORPORATE ENTITIES (BANK BORROWERS)	
Chapter	Part - 6	
19	INTERNAL AUDIT, MANAGEMENT & OPERATIONAL AUDIT	19.1 - 19.12
20	INVESTIGATION AND DUE DILIGENCE	20.1 - 20.19
21	LIABILITIES OF AUDITOR	21.1 - 21.7
22	PEER REVIEW	22.1 - 22.6
Chapter	Part - 7	
23	PROFESSIONAL ETHICS	23.1 - 23.60
23 A	THE CHARTERED ACCOUNTANT ACT, 1949	
23 B	FIRST SCHEDULE TO THE CHARTERED ACCOUNTANT ACT, 1949	
23 C	SECOND SCHEDULE TO THE CHARTERED ACCOUNTANT ACT, 1949	
Chapter	Part - 8	
24	EXAMPLE OF AN ENGAGEMENT LETTER, MANAGEMENT REPRESENTATION LETTER, AUDIT REPORT & CERTIFICATION ETC. AS PER STANDARDS OF AUDITING	24.1 - 24.36
25	QUESTION BANK WITH ANSWER OF PAST 35 EXAMS	25.1
26	SHORT NOTES FOR CHAPTER 1 TO 23 FOR QUICK REVISION	26.1 - 26.81

List of Abbreviations

A/c	Accounts	GTD	Good till Days/Date Order
AAS	Auditing & Assurance Standard	HC	Historical Cost
AFS	Audited Financial Statement	I.Act	Insurance Act
AGM	Annual General Meeting	IC	Insurance Company
AO	Assessing Officer	IFI	Interim Financial Information
AOA	Article of Association	IOC	Immediate or Cancel Order
AON	All or None order	IR	Inherent Risk
AOP	Association of Person	IT	Income Tax
AP	Accounting Principle	LLP	Limited Liability Partnership
AR	Audit Report	MD	Managing Director
ARP	Analytical Review Procedures	MF	Minimum fill Order
AS	Accounting Standard	MOA	Memorandum of Association
B&P	Business & Profession	MR	Management Representation
BS	Balance Sheet	MRL	Management Representation Letter
BM	Board Meeting	MSCOS	Multi State Co-operative Societies Act
BOD	Board of Directors	MWCB	Market Wide Circuit Breakers
BOLT	BSE on Line Trading System	NA	Not Applicable
BSE	Bombay Stock Exchange	NEAT	National Exch. for Automated Trading system
C&AG	Comptroller and Auditor General of India	NFRA	National Financial Reporting Authority
CAAT	Computer Assisted Audit Technique	NI	Necessary Information
CEO	Chief Executive Officer	NSE	National Stock Exchange
CF	Circuit Filters	NTE	Nature, Timing & Extent
CFO	Chief Financial Officer	OLRT	On Line Real Time
CFS	Consolidate Financial Statement	OM	Other Matter Paragraph
CG	Central Government	OP	Outstanding Premium
CIS	Computer Information System	OPC	One Person Company
CLB	Company Law Board	OR	Ordinary Resolution
CN	Contract Notes	OS	Other Source
Co	Company	PM	Practice Manual
COP	Certificate of Practice	PR	Peer Review
CoR	Certificate of Registration	PRB	Peer Review Board
CR	Control Risk	PU	Practice Unit
CSR	Corporate Social Responsibility	PY	Previous Year
CY	Current Year	QC	Quality Control
DQ	Disclosed Quantity Order	R&P	Receipts & Payments
DR	Detection Risk	ROC	Registrar of Companies
DRR	Debenture Redemption Reserve	RSS	Rolling Settlement System
DTA	Deferred Tax Assets	SFS	Summary Financial Statement
DTL	Deferred Tax Liabilities	SG	State Government
EOM	Emphasis of Matter Paragraph	SLM	Straight Line Method
FV	Fair Value	SM	Solvency Margin
FA	Fixed Assets	SOA	Statement of Accounts
FRF	Financial Reporting Framework	SPF	Special Purpose Framework
FRS	Financial Reporting Standard	SR	Special Resolution
FS	Financial Statements	STT	Security Transaction Tax
FY	Financial Year	TB	Trial Balance
GC	Government Company	TCWG	Those Charged with Governance
GIC	General Insurance Companies	WDV	Written Down Value
GM	General Meeting	w.e.f.	With Effect from
GMCS	General Management & Communication Skills	WR	Written Representation
GOI	Government of India	w.r.t.	With Respect to
GTC	Good till Cancelled Order	WTD	Whole time Director

A COMPLETE GUIDE FOR ADVANCED AUDITING

(CA FINAL)

Salient Features

- Presentation of whole Syllabus in an easy language to understand the complex subject matter.
- Tabular and graphic presentation to facilitate easy understanding and learning.
- Inclusion of flowcharts on various topics, including Standards on Auditing.
- Presentation of maximum topics in point-wise manner.
- Upto date Amendments Including CARO 2015 & Format of New Audit Report Under Companies Act, 2013.
- Illustration of all "Audit Report" as per SA 700, SA 705 & SA 706 at one place (See Chapter 24) for quick understanding of "Audit Report" in different situations with minimum time frame & fast understandability.
- All Example of Engagement Letter as per SA 210, SA 2400, SRE 2410, SRS 4400, SRS 4410 at one place (See Chapter - 24) for quick understanding of Engagement Letter in different situations with minimum time frame & fast understandability.
- All Illustration of Audit Report, Review Report & Certificate as per SA 800, SA 805, SRE 810, SRE 2400, SRE 2410, SAE 3400, SRS 4400, SRS 4410 at one place (See: Chapter - 24) for quick understanding of Audit Report, Review Report in different situations & their comparison with minimum time frame & fast understandability.
- Full coverage of Questions appeared in past 35 exams & Practice Manual has been arranged in following manners:
 - « Chapter wise/topic wise
 - « Standard of Auditing wise
 - « Accounting Standard wise
 - « Clause wise & Schedule wise (Chapter – Professional Ethics)
 - « Clause wise (Chapter – Audit under Fiscal Law (Form 3CD))
- Graphs at the beginning of every chapter, showing marks allotment in last twenty examinations.
- List of questions including case study's appeared in past 34 examinations given at the end of each chapter. Suggested answer given after Questions, so that student could first try to recall the Law/points/SA/Section/Act related to that case study and try to solved out the case study before seeing the suggested answer. It will enhance their irretrievability power. It will also help students to have an idea of paper style.
- Short Notes of all Chapters given at the end of the book (See Chapter – 26) for Quick revision.
- Table Showing Importance of Chapter on the Basis of Marks Allotment in Past Examinations.
- 100 + practical Question on New Companies Act, 2013 & CARO 2015.

Available at Leading Bookshops all over India, or write to:

SpiraaTM Publishing Inc.

Phone: 011-45553634 Email: info.spiraa@gmail.com

Also Available on amazon.in and flipkart.com

ISBN 819305800-3

